

Mainor Ülemiste AS

CONSOLIDATED ANNUAL REPORT 2017

Beginning of financial year	01.01.2017
End of financial year	31.12.2017
Registry code	10348595
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Phone	+372 53 046992
Main business activity	Leased or owned real estate rent and operation
Auditor	Deloitte Audit Eesti AS
E-mail	info@mainorulemiste.ee
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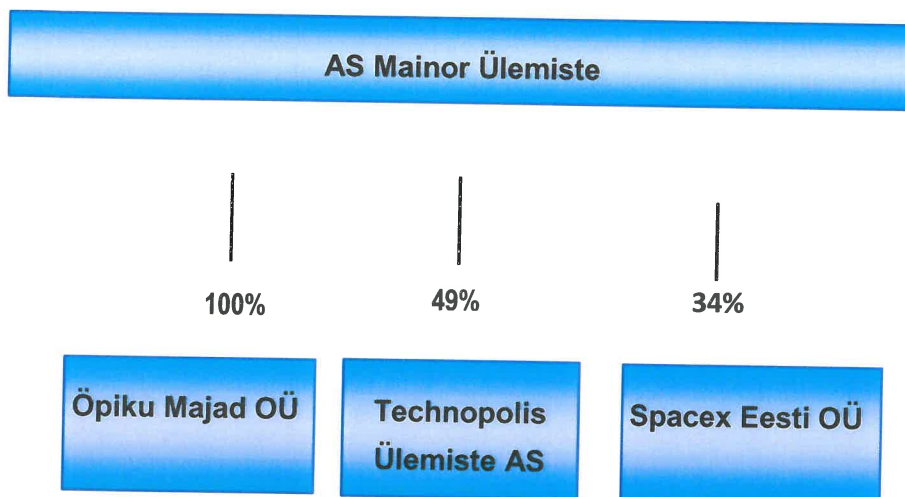
TABLE OF CONTENTS

Management report.....	3
Management confirmation and signatures.....	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Comprehensive Income	9
Consolidated Statement of Cash Flows.....	10
Consolidated Statement of Changes in Equity.....	11
Notes to the consolidated financial statements	12
Note 1. Reporting entity.....	12
Note 2. Application of International Financial Reporting Standards (IFRS)	12
Note 3. Significant accounting and reporting principles.....	16
Note 4. Significant management assessments and estimates, fair value measurement principles....	30
Note 5. Financial instruments and risk management	31
Note 6. Investment property.....	36
Note 7. Property, plant and equipment.....	37
Note 8. Intangible assets	38
Note 9. Trade and other receivables.....	39
Note 10. Trade receivables.....	40
Note 11. Prepaid taxes and taxes payable	40
Note 12. Shares in subsidiaries	40
Note 13. Shares in associate companies	43
Note 14. Cash and cash equivalents.....	44
Note 15. Share capital	44
Note 16. Borrowings	45
Note 17. Payables and prepayments	46
Note 18. Provisions	47
Note 19. Sales revenue.....	47
Note 20. Other operating income	47
Note 21. Cost of Sales.....	48
Note 22. Marketing expense	48
Note 23. Administration expenses.....	48
Note 24. Salary expenses	49

Note 25. Other operating expenses	49
Note 26. Interest expenses	49
Note 27. Other financial income and expense.....	50
Note 28. Operating lease	50
Note 29. Income tax	51
Note 30. Related party transactions	51
Note 31. Events after the balance sheet date.....	53
Note 32. Unconsolidated Statement of Financial Position	53
Note 33. Unconsolidated Statement of Comprehensive Income	54
Note 34. Unconsolidated Statement of Cash Flows.....	55
Note 35. Unconsolidated Statement of Changes in Equity.....	56
Independent auditor's report	57
Profit allocation proposal	60
Mainor Ülemiste AS sales revenue according to EMTAK 2008	61

Management report

Structure of consolidation group



In 2017, 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.

Pair towers A building of Öpiku Majad, where is 14 755 m² of rental surface, was rented out completely. Building has a LEED Gold certificate and is in accordance with B-energy class. Largest tenants of the building are ABB AS and Ericsson Eesti AS. In 2017 the construction of Öpik B building was started. The office building will be built according to B-energy class and LEED Platinum certificate requirements. Öpik B office tower will be completed in the second half of 2018 and after that Öpik pair towers, which are linked with the gallery, will become biggest office building in Estonia. 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 will be Tele 2 Eesti AS, with who the contract was signed and according to that the entity will move their headquarters to Öpik B office tower in autumn 2018. There also will be established International House in Öpik B office tower, which objective is to offer foreign specialists necessary information and services from one place to help them adapt smoother in Estonia. International House project will be developed in collaboration with EAS foreign specialist involvement program Work in Estonia. Opening of International House is planned for autumn 2018. New rooms for e-Estonia showroom and two conference rooms equipped with modern technology will be set up in the gallery connecting Öpik towers. After completion there will be well equipped conference centre with up to 7 different sized rooms in the Öpik building.

Construction of five-storey parking house was started on Sepise 8 property, where will be 428 parking spots and a gallery connecting it with Öpiku II building. This is first stage of parking house, during which historical Dvigatel production building will be expanded to 14 000 m² parking lot. Construction work is scheduled to be finished right before completion of Öpik B tower in the summer of 2018. Renovation of old brick building at the same address, which belonged to Dvigatel production complex was started to turn it into modern IT-house. Nearly 860 square metre building will be renovated specially for IT-

companies. To the first floor there will be established two new restaurants, which will be completed in the autumn of 2018.

The biggest sport clubs chain of Baltics MyFitness with new representative sports club and with the most modern sound and lightning equipment is located in the old factory building of Ülemiste City campus, at the address Sepise 10. There is pool in the sports club, where is 25 m swimming pool with 3 swimming trails. To open the sports club, the old limestone industrial building, which is under the protection of heritage was reconstructed. The historic reinforced concrete saw roof, which reminds saw blades, was restored in full. Examples of this kind of roofs are little preserved in Estonia. High, 8,5m ceilings and natural light from transparent roof give the club unique interior.

Top restaurant Juur with surface 350 m² and 85 seats was opened in a renovated building located on Valukoja 10 property. Goal is to shape Ülemiste City to an area, where would be more hustle and bustle also after working days and on the weekends.

Old production building on Valukoja 25 property, which was not used so far was customized to a complex of small warehouses. CityStock OÜ offers safe sea containers storage service to entrepreneurs and civilians. Warehouses are conveniently accessible with car.

Building permit issued to the building complex on Valukoja 10 property, where will be 13-storey accommodation building and 8-storey office building. The construction of this building complex is planned to start in 2018. Till the construction works the building is used as a temporary parking lot. Hostel with 80 seats was designed to the building located at Suur-Sõjamäe 10, which should mainly secure the needs for students of Ettevõtluskõrgkool Mainor. Classrooms for general education private schools Emili Kool and Tallinn International School were prepared in the Mainor university building at Suur-Sõjamäe 10a. Property Sepise 7 was bought, which is initially planned to be used as a parking lot. For the future, construction of 13-storey office building is planned for which a detailed plan will be initiated.

Tramway passing through Ülemiste City, which goes to the Tallinn Airport was completed. It allows people to travel conveniently and by saving time. Tram goes through the 150 meters long tunnel beneath Suur-Sõjamäe street, gets back to the ground on Keevise street and ends at the airport. The reconstruction of the road network of Ülemiste City was continued.

The share capital of 100% subsidiary Öpiku Majad OÜ was increased with a non-cash equity payment by 1 675 thousand euros in 2017. The non-cash instrument was property on Sepise 8.

In 2017, a total of 15 835 thousand euros was invested into the construction of buildings and improvement of equipment. A total of 26 696 thousand euros was taken as a loan in 2017 and 9 569 thousand euros of loan was repayed. To raise capital for the further development of Ülemiste City commercial district, the first phase of a new bond issue of 10 000 thousand euros was carried out in the amount of 2650 thousand euros. As of 31.12.2017 2620 thousand euros was realized. Second phase of emission took place in April 2018.

The average rental price for commercial premises increased by 10% in 2017. The fair value of real estate investments of Mainor Ülemiste AS is 102 070 thousand euros and it has increased compared to previous year by 17 260 thousand euros. The value of the 49% stake of Mainor Ülemiste AS in Technopolis Ülemiste AS is worth 33 517 thousand euros and it increased by 5 888 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 properties located at Suur-Sõjamäe 6a, 8a, 10, next to Rail Baltic terminal that is being built in the future, was started, which shall consist of multifunctional building of about 55 000 m² of on surface gross area. Zoning plan for Valukoja 7 property is started, 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.

The architectural design for Sepapaja 10 building was started, where is planned to build a triple tower with nearly 50 000 m² of gross area.

In May 2016, cooperation contract was signed between Tallinna Tehnikaülikool, Ettevõtluskõrgkool Mainor, Tallinna Teaduspark Tehnopol, Technopolis Ülemiste AS and Mainor Ülemiste AS, which united forces in the organization to raise Estonia's international recognition as a technology nation, bring international companies to the country and raise cooperation between Estonian universities and companies. Cooperation between Estonian and foreign universities is developed to bring knowledge of universities of Ülemiste City (cooperation projects, scientific innovations, cooperation networks etc) campus closer to companies. Cooperation is being done with smart parking and energy saving.

In 2017, the further implementation of the Ülemiste City identity continued. Focus was on piloting and rooting Smart City solutions to get more smart talents to the campus. Ülemiste City new web is being developed, smart parking solutions pilot project is ongoing.

Shareholders were paid dividends in amount of 840 thousand euros.

As of 31.12.2017 a total of 18 people were employed by Mainor Ülemiste AS, with a total salary of 594 thousand euros (2016: 441 thousand euros), of which salary expenses to members of the board and management consisted of 191 thousand euros (2016: 124 thousand euros). Also see notes 24 and 30.

Mainor Ülemiste AS consolidated turnover in 2017 amounted to 7 686 thousand euros (2016: 5 729 thousand euros), other operating income amounted to 1 456 thousand euros (2016: 1 765 thousand euros) and net income amounted to 8 522 thousand euros (2016: 6 417 thousand euros). The total equity of the company is 91 937 thousand euros and in the previous year 84 255 thousand euros.

Key financial ratios	31.12.2017	31.12.2016
Return on equity – ROE (%)	9,7%	7,9%
Return on assets – ROA (%)	6,0%	5,4%
Operating margin (%)	136,4%	125,1%
Net profit margin (%)	110,9%	112,0%
Dividend payout ratio (%)	13,1%	14,4%
Increase in revenue (%)	34,2%	12,7%

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

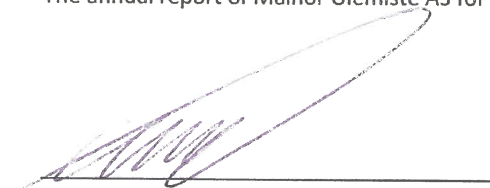
Increase in revenue (%) = (revenue for the reporting period / revenue for the previous year – 1) x 100

Management confirmation and signatures

The Management Board confirms the correctness and completeness of the consolidated financial statements as of 31.12.2017 disclosed on pages 8-56 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 (04.05.2018) 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 2017 is signed on 04.05.2018:




Member of the board

Margus Nõlvák



Member of the board

Rein Suurväli



Member of the board

Ursel Velve

tekk

Consolidated Financial Statements

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

	Notes	31.12.2017	31.12.2016
ASSETS			
Investment property	6	102 070	84 810
Tangible assets	7	78	97
Intangible assets	8	5	14
Trade and other receivables	9	10 593	10 913
Inventories			
Financial investments	13	33 517	27 629
Cash and cash equivalents	14	9 400	6 989
TOTAL ASSETS		155 663	130 452
EQUITY			
Share capital at par value	15	19 200	19 200
Statutory capital reserve		1 920	1 920
Retained earnings		62 295	56 718
Profit for the financial year		8 522	6 417
TOTAL EQUITY		91 937	84 255
LIABILITIES			
Provisions	18	247	250
Borrowings	16	59 823	42 693
Trade and other payables	17	3 656	3 254
TOTAL LIABILITIES		63 726	46 197
TOTAL LIABILITIES AND EQUITY		155 663	130 452

Notes on pages 12 - 56 are an integral part of this financial statement.

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

	Note	2017	2016
Revenue	19	7 686	5 729
Cost of sales	21	-2 442	-1 932
Gross profit		5 244	3 797
Marketing expenses	22	-149	-208
Administration expenses	23	-1 941	-1 683
Revenues from financial investments	13	5 888	3 502
Other operating income	20	1 456	1 765
Other operating expenses	25	-9	-9
Operating profit		10 489	7 164
<i>Financial income and expenses</i>			
Interest expense	26	-2 010	-1 392
Other financial income and expenses	27	233	645
Total financial income and expenses		-1 777	-747
Profit before tax		8 712	6 417
Income tax expense	29	-190	0
Net profit for the year		8 522	6 417
Total comprehensive income for the year		8 522	6 417
Attributable to the owners of the company		8 522	6 417

Notes on pages 12 - 56 are an integral part of this financial statement.

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Consolidated Statement of Cash Flows

(in thousands of euros)

	Note	2017	2016
<i>Cash flows from operating activities</i>			
Net profit for the year		8 712	6 417
Adjustments:			
Depreciation and amortisation of non-current assets	7,8	59	54
Profit (loss) from fixed asset sales and write-offs	7	2	0
Change in fair value of investment property	6	-1 426	-1 758
Profit (loss) from financial investments	13	-5 888	-3 502
Other adjustments		253	103
Other financial income and expenses		-233	-645
Interest paid and other financial expenses		2 010	1 392
Corporate income tax paid	29	-190	0
Changes in receivables from operating activities		37	-741
Changes in payables from operating activities		176	1 571
Net cash generated by operating activities		3 512	2 891
<i>Cash flows from investing activities</i>			
Sales of property, plant and equipment	7	1	153
Payments for property, plant and equipment	7	-14	-207
Payments for investment property	6	-15 571	-15 922
Loans granted	9	-9	-36
Repayment of loans granted		441	490
Interest received		0	72
Dividends received	13,30	0	868
Net cash used in investing activities		-15 152	-14 582
<i>Cash flows from financing activities</i>			
Proceeds from borrowings	16	24 076	20 628
Repayment of borrowings	16	-9 569	-6 571
Capital lease payments	16	2 620	849
Issuance of bonds		-28	0
Interest paid		-2 208	-1 314
Dividends paid	15	-840	-790
Net cash from financing activities		14 051	12 802
Total cash flows		2 411	1 111
Cash and cash equivalents at the beginning of the financial year	14	6 989	5 878
Net change in cash and cash equivalents		2 411	1 111
Cash and cash equivalents at the end of the year	14	9 400	6 989

Notes on pages 12 - 56 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 31.12.2015	19 200	1 920	57 508	78 628
Dividends declared	0	0	-790	-790
<i>Total comprehensive income for the year</i>	0	0	6 417	6 417
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

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

Notes on pages 12 - 56 are an integral part of this financial statement.

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 01.01.2017 to 31.12.2017, the comparison period is from 01.01.2016 to 31.12.2016.

The consolidated financial statements of the entity for the financial year ended on 31 December 2017 were signed by the Management Board on 04.05.2018.

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

The group's consolidated financial statements for 2017 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 2017. 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:

- IAS 7 Statement of Cash Flows – adopted by the EU on 6 November 2017, effective for annual periods beginning on or after 1 January 2017;
- IAS 12 Income tax - Changes to specify deferred tax accounting for unrealized losses arising from an equity instrument recognized at fair value. Adopted by the EU on 6 November 2017, effective for annual periods beginning on or after 1 January 2017.

The first implementation of these changes did not have important affect to group's financial statements.

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

- IFRS 9 “Financial Instruments”. Adopted by the EU on 22 November 2016, effective for annual periods beginning on or after 1 January 2018. IFRS 9 “Financial Instruments” replaces IAS 39

“Financial Instruments: Recognition and Measurement”. IFRS 9 includes requirements for recognition and measurement, impairment, write-downs and hedge accounting.

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. The new model will also lead to an impairment model applied to all financial instruments. 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.

Impairment - IFRS 9 introduces a new model of expected loan loss that requires timely recognition of expected credit losses. 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 and found that there is no significant effect that could result in the need to adjust the financial statements.

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.

- IFRS 15 “Revenue from Contracts with Customers” and further amendments. Adopted by the EU on 22 September 2016, effective for annual periods beginning on or after 1 January 2018.

IFRS 15 clarifies in which amount and when it is necessary to reflect sales revenue, as well as requirements for disclosure of useful and material 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. According to the new basic principle, sales revenue should be recognized when the goods or services are transferred to the client and at the transaction price that the company expects to receive for the delivery of goods or services. The new standard also brings increased disclosure requirements for sales revenue, provides guidance on transactions that have not been addressed extensively beforehand (for example, revenue from service provision and contract changes) and complements guidance in multi-element agreements.

The management has analyzed the potential effects of the changes but has not recognized significant impact on the Group's financial statements.

- IFRS 16 “Leases”. Adopted by the EU on 31 October 2017, effective for annual periods beginning on or after 1 January 2019.

According to IFRS 16, the lessee recognizes the leased asset in the statement of financial position as an asset and a lease obligation. The right to use property is subject to similar principles as other tangible assets and depreciation is taken into account. The lease obligation is initially recognized over the present value of all lease payments over the lease term, using the discount rate of the lease interest rate if it is easy to find. If the interest rate is not easy to find, then the lessee can use an alternative loan interest rate. Similar to the earlier applicable standard (IAS 17), the lessor must continue to classify the leases as operating and finance leases. A lease contract is considered a finance lease if all significant risks and rewards of ownership of the property are transferred to the lessee. In other cases, lease contracts are classified as operating leases. In the event of a finance lease, the lessor's financial income is distributed over the lease term using an interest rate that would be the same for each period of the net investment for the remainder of the lease term. Lease income from operating lease is recognized as a revenue in the period of lease in a straight line or using another systematic method if it reflects a better decrease in the asset's benefits over time.

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.

The Group has decided to apply IFRS 9, IFRS 15 and IFRS 16 not earlier than the date on which they are effective. It is planned to use a retrospective view in the modified accounting policies (with corrections on initial recognition and without conversion in 2017).

- IFRS 2 “Share-based Payment”. The amendments clarify the framework for classification and measurement of share-based payment transactions; adopted by the EU on 27 February 2018, 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.
- Amendments to 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.
- 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.

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.

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 9 "Financial Instruments" – features of prepayments with negative benefits – amendments are effective for annual periods beginning on or after 1 January 2019;
- 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);
- IFRS 19 "Benefits to employees" – defined benefit plans: deposits of employees, amendments are effective for annual periods beginning on or after 1 February 2019;
- IAS 28 "Investments in a joint venture Long-term participation in associates and joint ventures" – amendments are effective for annual periods beginning on or after 1 January 2019;
- IAS 40 "Investment Property" - effective for annual periods beginning on or after 1 January 2018. The amendments provide more stringent bases for transferring a property to, or from, investment property;
- 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;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – interpretation is effective for annual periods beginning on or after 1 January 2018;
- IFRIC 23 "Recognition of tax risks" – amendment is effective for annual periods beginning on or after 1 January 2019.

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 during their initial implementation period.

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. Historical cost is generally based on the fair value of the consideration at the moment of exchange for assets.

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 (its subsidiary OÜ Õpiku Majad). 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 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.

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 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.4 above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergy of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the profit and loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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



3.6 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.

3.7 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.

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3.8 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;
- fixtures 20-33% per annum.

3.9 Intangible assets (excluding goodwill)

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 amortisation and impairment losses. Amortisation is recognised on a straight-line basis. The amortisation rate for intangible assets is 10% per annum, excluded the usage rights and intangible assets with indefinite useful lives. Usage rights are amortised on a straight-line basis and the maximum length of the amortisation 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 amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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.



3.10 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 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.

3.11 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, amortisation and possible write-downs arising from the acquisition and recognition of negative goodwill.

3.12 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 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.

3.13 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.

3.14 Financial assets

Financial assets are classified into the following specified categories: (i) financial assets at fair value through the profit and loss (FVTPL), (ii) held-to-maturity investments, (iii) available-for-sale (AFS) financial assets and (iv) loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designed as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.
- a financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
 - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
 - it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

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 amortised cost using the effective interest method less any impairment loss.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables; (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Also AFS equity instruments 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 AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS 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 AFS 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 amortised 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

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

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

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 amortised 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 AFS 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 amortised 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 amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 collateralised borrowing for the proceeds received.

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.

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

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities". All the Company's financial liabilities belong to the category "other financial liabilities".

Other financial liabilities

Other financial liabilities (including borrowings and trade and other current and non-current payables) are subsequently measured at amortised cost using the effective interest method. The amortised cost of current financial liabilities normally equals their nominal value; therefore, current financial liabilities are stated in the statement of financial position at their redemption value.

The effective interest method is method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums and discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

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

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intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.16 Provisions

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

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

3.17 Contingent liabilities

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

3.18 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.

3.19 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.

Net sales

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.

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.

3.20 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 amortisation charges.

Other expenses

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

Finance cost

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

3.21 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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.

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.

3.22 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. The tax rate applicable starting from 1 January 2015 is 20/80 from taxable amount.

As a result of such taxation principles, the notion of "tax base of assets and liabilities" has lost its economic meaning and deferred income tax and assets cannot be calculated in accordance with IAS 12 "Income Taxes". Contingent income tax liability from the retained earnings, which could otherwise be distributed as dividends, is not recorded in the Statement of Financial Position. Income tax expense to be incurred at the payment of dividends is recognized in the income statement as expense at announcement of dividends or any other distribution of equity.

3.23 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 of the Parent.

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

Note 4. 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.

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

For material financial assets, potential decrease in value is evaluated separately. Receivables overdue are evaluated on individual basis in respect to their collectability.

The Group may have overdue receivables that are not provided for. Such receivables are assessed by the management of the Group on individual bases and found them to be collectable. More information about the worth of receivables in Note 9.

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

<i>thousands of euros</i>			31.12.2016	
Class of financial instruments	Note	Category	Residual value	Fair value
FINANCIAL ASSETS				
Trade receivables	10	Financial assets at amortised cost	518	518
Other receivables	9	Financial assets at amortised cost	10 395	10 395
Cash and cash equivalents	14	Financial assets at amortised cost	6 989	6 989
Total financial assets			17 902	17 902
FINANCIAL LIABILITIES				
Trade payables	17	Financial assets at amortised cost	2 353	2 353
Loans and borrowings	16	Financial assets at amortised cost	42 693	42 693
Other payables		Financial assets at amortised cost	706	706
Total financial liabilities			45 752	45 752

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 24% of loans are hedged with SWAP contracts, the fair values of financial assets and liabilities do not differ from their amortized cost. The basis of fair value is disclosed in Note 4.

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	31.12.2017	31.12.2016
Current accounts	14	9 395	6 989
Trade receivables	10	1 023	518
Other receivables	9	9 570	10 395
Total		19 988	17 902

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 31.12.2017 the company has received deposits in the amount of 376 thousand euros (31.12.2016: 344 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:

	31.12.2017	31.12.2016
Not expired receivables	444	267
Overdue 1-30 days	162	76
Overdue 31-90 days	84	28
Overdue more than 91 days	333	147
Total	1 023	518

To reduce the credit risk in 2017, the entity qualified receivables as doubtful in the amount of 325 thousand euros (31.12.2016: 103 thousand euros), of which 42 thousand euros are interest receivables and 9 thousand euros is recognized as unrecoverable receivable from 2017. From receivables that were qualified as doubtful in previous years, the entity did not receive any and 137 thousand euros of receivables were qualified as unrecoverable. Each material receivable is evaluated separately supported by evidence of potential impairment due to bankruptcy, significant financial difficulties or inability to meet payment terms. The fair values of financial assets are not materially different from their carrying amount, all receivables are denominated in euros.

Liquidity Risk

The entity's liquidity or solvency reflect its ability to fulfil its financial obligations to creditors in timely manner. In 2017 the company's liquidity was most affected by additional signed loan agreements with OP Corporate Bank plc Estonian branch in the amount of 8 100 thousand euros, LHV Pank AS in the amount of 1 740 thousand euros, Coop Bank AS in the amount of 2 773 thousand euros, Nordea Bank AS in the amount of 6 494 thousand euros, Luminor Bank AS in the amount of 969 thousand euros, Merko Eesti AS in the amount of 4 000 thousand euros and also affected by new bonds in the amount

of 2 620 thousand euros to ensure the completion of the new office buildings on Sepise 9/Valukoja 8 and payment of construction costs for Sepise 8 and Valukoja 10, payment for improving existing office and industrial buildings and repayment of previously signed loans in the amount of 9 569 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 1.1 and the loan collateral value (LTV) cannot at any time exceed 70%. As at 31.12.2017, 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 2017 SEB Pank AS loans were refinanced in the amount of 5 464 thousand euros. Additional loan agreements are signed with Coop Bank AS and Nordea Bank AB in the amount of 6 046 thousand euros to finance our developments. As of 31.12.2017 these loans are not used.

Financial liabilities based on their contractual redemption deadlines:

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

31.12.2016	Note	Within 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Secured borrowings	16	229	498	182	38 456	1 019	42 025
Bonds		0	88	262	5 350	0	5 700
Finance lease liability	16	2	7	17	110	0	136
Trade payables	17	2 353	0	0	0	0	2 353
Other accruals		297	195	70	144	0	706
Total		2 881	788	2 172	44 060	1 019	50 920

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 31.12.2017, the company had interest-bearing liabilities in the amount of 59 823 (31.12.2016: 42 693 euros) thousand euros, of which approximately 85% 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 17 455 (2016: 16 125) of which as of 31.12.2017 has taken into use 16 541 (2016: 11 525) 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 -575 thousand euros (to 2016 profit -300 thousand euros).

As at 31 December 2017, the breakdown of interest-bearing financial debt was as follows:

	31.12.2017	31.12.2016
Fixed rate liabilities (12+ months)	6 620	16 525
Fixed rate liabilities (1-12 months)	5 000	0
Variable rate liabilities (1-12 months)	1 551	1 458
Variable rate liabilities (12+ months)	46 652	24 710
Fixed rate liabilities (1-12 months)	6 940	211
Fixed rate liabilities (12+ months)	0	312
Variable rate liabilities (1-12 months)	0	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.

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.

	31.12.2017	31.12.2016
Equity to total assets	59%	65%
Debt to total assets	41%	35%

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 31.12.2017 the share capital of Mainor Ülemiste AS was 19 200 thousand euros and net assets were 91 937 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 (31.12.2017: 59,1% and 31.12.2016: 64,6%).

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 31.12.2017 is 98,5 thousand m² (31.12.2016: 96 thousand m²).

	Note	Investment property
Balance at 31.12.2015		67 130
Additions		15 922
Gain/(loss) on property revaluation	20	1 758
Balance at 31.12.2016		84 810
Additions		15 821
Reclassification of fixed assets	7	13
Gain/(loss) on property revaluation	20	1 426
Balance at 31.12.2017		102 070

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 102 070 thousand euros as at 31.12.2017 (31.12.2016: 84 810 thousand euros), split as follows: the value of actively rented out property is 76 390 thousand euros (2016: 58 510 thousand euros) and the value of property developed in the future is 25 680 thousand euros (2016: 26 300 thousand euros).

Actively rented out property has the following characteristics: total rentable area 98,5 thousand m², based on current rental fees of 1,5 – 18,0 EUR/m², vacancy up to 5% , discount rate of 8,9-10,4%, 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 288 thousand m² with a development timeline of 2018 – 2033. Construction costs vary from 200 euros/m² for the construction of a parking garage, 520 euros/m² for the construction of industrial premises, to 820 euros/m² for the construction of office spaces. Corresponding rental rates are 5.1 euros/ m² and 10.5 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.

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 capitalisation rate	
		5%	-5%	5%	-5%
Valuated through rental cash flows	76 390	80 576	72 204	73 877	79 167
Valuated through building rights	25 680	33 435	17 945	21 425	30 410
TOTAL	102 070	114 011	90 149	95 302	109 577

The Group earned rental income during the accounting period from existing property investments in the amount of 5 483 thousand euros (Note 19) and on the previous accounting period in the amount of 4 047 thousand euros (Note 19). Direct management cost of investment property was 2 442 thousand euros on reporting period and 1 932 thousand euros on the previous accounting period (Note 21).

In the beginning of 2017 construction contract with Merko Ehitus Eesti AS was signed for Öpiku second tower and neighbouring property Sepise 7 of Öpiku quarter was bought.

In May 2017 renovating of buildings in Valukoja 10 and Sepise 10 was finished, where Gourmet Coffee OÜ and MY Fitness AS started working as tenants.

15 821 thousand euros (including capitalized loan interests in the amount of 250 thousand euros, which is 11% of interest expenses) were invested into the improvement of existing property investments in 2017. In the previous period the respective amount was 15 922 thousand euros (including capitalized loan interests in the amount of 408 thousand euros, which is 23% 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)

	Note	Machinery and equipment	Equipment and fixtures	Total
01.01.2016-31.12.2016				
Carrying amount at 01.01.2016		5	82	87
Acquisition and improvements		19	188	207
Disposals		0	-7	-7
Sales		-2	-151	-153
Depreciation of sold and disposed assets		0	7	7
Depreciation		-2	-42	-77
Carrying amount at 31.12.2016		20	77	97
incl. acquisition cost		35	140	175
incl. accumulated depreciation		-15	-63	-78

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	Note	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	6	-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

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

Carrying amounts	Note	Computer software	Other intangible assets	Total
01.01.2016-31.12.2016				
Balance at 01.01.2016		0	19	19
Purchase of intangible assets		5	0	5
Amortisation		0	-10	-10
Balance at 31.12.2016		5	9	14
incl. acquisition cost		0	79	84
incl. accumulated amortisation		0	-70	-70
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
Amortisation		0	-9	-9
Balance at 31.12.2017		5	0	5
incl. acquisition cost		5	0	5
incl. accumulated amortisation		0	0	0

Intangible assets represent computer software SharePoint.

Note 9. Trade and other receivables*(in thousands of euros)*

	Note	31.12.2017	Due within 1 year	Due in over 1 year
Trade receivables	10	1 339	1 339	0
Allowance for doubtful receivables	10	-316	-316	0
Receivables from other entities in Mainor AS group	30	9 347	9 347	0
Prepaid taxes and tax liabilities	11	201	201	0
Other receivables and prepayments		22	22	0
Total		10 593	10 593	0

	Note	31.12.2016	Due within 1 year	Due in over 1 year
Trade receivables	10	655	655	0
Allowance for doubtful receivables	10	-137	-137	0
Receivables from other entities in Mainor AS group	30	9 720	9 720	0
Prepaid taxes and tax liabilities	11	561	561	0
Other receivables and prepayments		114	32	82
Total		10 913	10 831	82

Receivables from related parties includes a claim, plus interest, from parent company Smart City Group AS in the amount of 8 909 thousand euros (31.12.2016: 8 701 thousand euros). In 2017 the interest for the claim was 208 thousand euros (the interest on the claim is 3%).

As of balance sheet date the management board of Mainor AS has started preparatory activities for the restructuring of the group, as a result of which Mainor Ülemiste AS's claim against Smart City Group AS will be satisfied during financial year 2018.

Additional information in Note 30.

In 2017 Mainor AS repaid two loans in the total amount of 441 thousand euros. Loans had interest income in amount of 9 thousand euros.

Mainor Ülemiste AS has granted a long-term loan to its subsidiary SpaceX OÜ in the amount of 91 thousand euros of which 9 thousand euros was paid out in 2017, due date is 30.05.2018 and annual interest is 8%. As a result of unprofitable activity of the company and the expiry of the rental contract in May 2018, the management of Mainor Ülemiste AS considers the repayment of the loan unlikely and as of 31.12.2017 the loan and accrued interest have been incurred as expense in total amount of 96 thousand euros.

Risks related with financial instruments are disclosed in Note 5.

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

	Note	31.12.2017	31.12.2016
Trade receivables	9	1 339	655
Doubtful receivables	9	-316	-137
Total		1 023	518
Doubtful receivables			
Doubtful receivables at the beginning of the period		-137	-40
Collected doubtful receivables			0
Receivables classified as doubtful		-325	-103
Doubtful receivables classified as uncollectible		146	6
Doubtful receivables at the end of period	9	-316	-137

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)*

		31.12.2017		31.12.2016	
	Note	Prepayment	Payable	Prepayment	Payable
Value added tax		201	29	561	39
Personal income tax		0	21	0	17
Social tax		0	37	0	31
Other taxes		0	6	0	4
Total	9,17	201	93	561	91

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.

Subsidiary registry code	Company	Core business	Ownership interest (%) 31.12.2017	Ownership interest (%) 31.12.2016
12804904	Öpiku Majad OÜ	Real estate activities	100%	100%

Shares in subsidiaries at cost value

Company	31.12.2016	Acquisition	Other changes	31.12.2017
Öpiku Majad OÜ	8 575	1 675	0	10 250
Total	8 575	1 675	0	10 250

Shares in subsidiaries by equity method

Company	31.12.2016	Acquisition	Profit by equity method	31.12.2017
Öpiku Majad OÜ	11 720	1 675	2 205	15 600
Total	11 720	1 675	2 205	15 600

In 2017, equity share in subsidiary Öpiku Majad OÜ was increased by a non cash payment of 1 675 (2016: 2 575) thousand euros. Instrument for the payment in 2017 was property located on Sepise 8 and in 2016 were properties located on Valukoja 10 and Sepiste 10 with their important parts and fixtures.

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The statement of financial position of the subsidiary Öpiku Majad OÜ

<i>in thousands of euros</i>	31.12.2017	24.02.2016
ASSETS		
Investment property	51 440	33 570
Property, plant and equipment	3	14
Trade and other receivables	563	698
Cash and cash equivalents	378	0
TOTAL ASSETS	52 384	34 282
EQUITY		
Share capital at par value	3	3
Share premium	10 247	8 572
Retained earnings	3 145	121
Profit (loss) for the financial year	2 205	3 024
TOTAL EQUITY	15 600	11 720
LIABILITIES		
Borrowings	32 500	19 557
Trade and other payables	4 284	3 005
TOTAL LIABILITIES	36 784	22 562
TOTAL LIABILITIES AND EQUITY	52 384	34 282

The income statement of the subsidiary Öpiku Majad OÜ

<i>in thousands of euros</i>	31.12.2017	24.02.2016
Revenue	2 640	536
Cost of sales	-654	-186
Gross Profit	1 986	350
Marketing expenses	-10	-25
Administration expenses	-129	-73
Other operating income	1 641	3 416
Other operating expenses	0	-2
Operating profit (loss)	3 488	3 666
Interest expense	-1 283	-642
Profit before tax	2 205	3 024
Net profit for the period	2 205	3 024

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 (%) 31.12.2017	Participation rate (%) 31.12.2016
11978111	Technopolis Ülemiste AS	Real Estate activities	49 %	49 %

Shares in associate companies, detail information

Company	31.12.2016	Dividends	Profit (loss) from equity method	31.12.2017
Technopolis Ülemiste AS	27 629	0	5 888	33 517
TOTAL	27 629	0	5 888	33 517

As of 31.12.2017 the capital of Technopolis Ülemiste AS is 68 403 thousand euros and Mainor Ülemiste AS holds 33 517 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 31.12.2017:

<i>in thousands of euros</i>	Technopolis Ülemiste AS
Current assets	2 355
Non-current assets	143 078
Liabilities	77 030
Equity	68 403
Revenue	15 559
Operating profit	13 092
Profit (loss) before tax	12 016
Total comprehensive income	12 016



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

	31.12.2017	31.12.2016
Bank accounts	9 395	6 988
Cash on hand	5	1
Total	9 400	6 989

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

	31.12.2017	31.12.2016
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 29.

In 2017 the shareholders were paid dividends in the amount of 840 thousand euros (in 2016 790 thousand euros) out of 2016 years' net profit, which means that dividend per share was 2,6 eurocents (in 2016 it was 2,5 eurocents per share).

During the reporting period there have been no changes to the share capital.

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 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)*

	31.12.2017	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

	31.12.2016	Breakdown by residual maturity		
		Within 12 months	Within 1-5 years	Over 5 years
Bank loans	37 564	1 443	35 127	994
Bonds	5 000	0	5 000	0
Finance lease liabilities	129	24	105	0
Total	42 693	1 467	40 232	994

The following claims are included in long-term borrowings:

- Luminor Bank AS (with previous name Nordea Pank Finland Plc Estonian branch) 969 thousand euros (2016: 18 883 thousand euros), of which the short-term part is 0 thousand euros (2016: 777 thousand euros);
- Coop Bank AS (with previous name Krediidipank AS) 2 696 thousand euros (2016: 2 917 thousand euros), of which the short-term part is 151 thousand euros (2016: 256 thousand euros);
- Nordea Bank AB 24 600 thousand euros (2016: 0 thousand euros), of which the short-term part is 912 thousand euros (2016: 0 thousand euros);
- AS LHV Bank 12 040 thousand euros (2016: 10 300 thousand euros) long-term loan;
- OP Bank Estonian branch 7 766 thousand euros (2016: 0 thousand euros), of which the short-term part is 456 thousand euros.

The average interest of the bank loans is 3,31%.

In 2017 Mainor Ülemiste AS and subsidiary Öpiku Majad OÜ received loans in the sum of 20 076 (2016: 20 627) thousand euros and 9 569 (2016: 6 571) thousand euros worth of loans was paid back.

In November 2017, Mainor Ülemiste AS carried out a first phase of 10 000 thousand euros bond issue in the amount of 2 650 thousand euros, of which 2 620 thousand euros was realised as of 31.12.2017. The second phase of the issue, in the amount of 7 350, 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 700 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. The interest rate is 7%.

Loans are secured by Mainor Ülemiste AS, OÜ Öpiku Majad OÜ properties with carrying value of 102 070 thousand euros (31.12.2016 84 810 thousand euros) and Technopolis Ülemiste AS shares with carrying value of 33 517 thousand euros (31.12.2016: 27 629 thousand euros). The total carrying amount of guarantees is 135 587 thousand euros (31.12.2016: 112 439 thousand euros).

Note 17. Payables and prepayments

(in thousands of euros)

Note	31.12.2017	Breakdown by residual maturity	
		12 months	1-5 years
Trade payables	2 597	2 597	0
Payables to employees	40	40	0
Taxes payable	11 93	93	0
Other payables	222	222	0
<i>incl. interest payable</i>	81	81	0
<i>incl. accrued expenses</i>	141	141	0
Prepayments received	409	62	347
Future expenses	133	133	0
Liabilities to companies in Mainor AS group	162	162	0
Total	3 656	3 309	347

Note	31.12.2016	Breakdown by residual maturity	
		12 months	1-5 years
Trade payables	2 353	2 353	0
Payables to employees	70	70	0
Taxes payable	11 91	91	0
Other payables	228	228	0
<i>incl. interest payable</i>	33	33	0
<i>incl. accrued expenses</i>	195	195	0
Prepayments received	344	166	178
Liabilities to companies in Mainor AS group	168	168	0
Total	3 254	3 076	178

Risks related to financial instruments are disclosed in Note 5.

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Note 18. Provisions*(in thousands of euros)*

	31.12.2016	Formation/ Adjustments	31.12.2017
Compensation for loss of ability to work	250	-1	247
incl. short-term	46	1	47
Incl. long-term	204	-4	200

Provisions have been recognised for former employees of AS Dvigatel for incapacitation benefits and personal pension payment obligations. The balance as of 31.12.2017 includes a short-term portion in the amount of 47 thousand euros and a long-term portion in the amount of 200 thousand euros (as of 31.12.2016 it was 46 and 204 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)*

	Note	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Rental income	28	5 483	4 047
Other sales revenue		407	79
Sales revenue from administrative services provided		1 796	1 603
Total		7 686	5 729

All revenue was earned in Estonia.

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

	Note	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Gain/loss from change in fair value from investments in properties	6	1 426	1 758
Other income		30	7
Total		1 456	1 765

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

	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Electricity	-1 358	-1 261
Heating	- 182	-106
Water- and sewage expense	-171	-105
Security costs	-71	-39
Property maintenance	-510	-281
Other	-150	-143
Total	-2 442	-1 932

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

	Note	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Personnel expenses	24	-58	-71
Advertisement, PR		-91	-137
Total		-149	-208

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

	Note	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Various office expenses		-26	-47
Investigatory and development expenses		-20	-22
Business trip expenses		-15	-14
Training expenses		-27	-20
State and local taxes		-71	-71
Expenses from doubtful claims		-283	-103
Personnel expenses	24	-744	-546
Amortisation and depreciation	7,8	-59	-54
Legal expenses		-68	-82
Insurance expenses		-34	-31
Management expenses		-120	-77
Consultation expenses		-84	-147
Compensation expense for incapacitation		-37	0
Bank fees expense		-51	-32
Software maintenance and membership fees		-43	-24
Other		-259	-377
Total		-1 941	-1 683

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

	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Salary expense	-594	-441
Social- and unemployment tax expense	-199	-152
Pension expense	-14	-13
Social tax on pensions	-4	-4
Vacation reserve	9	-7
Total	-802	-617
Average number of full-time employees	18	17

Paid fees for board members are brought out in the Note 30.

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

	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Loss on disposal of fixed assets	-2	0
Local taxes	0	-2
Other operating expenses	-7	-7
Total	-9	-9

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

	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
Interest expenses from loans	-1 672	-1 030
Interest expenses from deposits	0	-1
Interest expenses from other liabilities	0	-15
Interest expenses from bonds	- 338	-346
Total	-2 010	-1 392

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Note 27. Other financial income and expense*(in thousands of euros)*

	Note	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Other interest expenses		515	688
Doubtful interests		-42	0
Other finance income/expense		-194	3
Risk fee		-46	-46
Total		233	645

Other financial expenses include doubtful loan to SpaceX Eesti AS in amount of 91 thousand euros.

See also Notes 9,30.

Note 28. Operating lease*(in thousands of euros)*Entity as a lessee

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

	2017	2016
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	1	6

Entity as a lessor

The entity has leased office and production premises. On the reporting period rental income is reflected in the Income Statement in the amount of 4 047 thousand euros (2016: 4 047 thousand euros), see in Note 6 and 19.

	Note	2017	2016
Income from operating lease	19	5 483	4 047
Succeeding periods operating lease profit from active contracts:			
Within 12 months		6 050	5 070
1 to 5 years		18 993	14 548
Over 5 years		9 430	10 447
Carrying amount of assets leased	6	102 070	84 810

Mainor Ülemiste AS has leased office and production premises.

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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 last calendar years' consumer price index, which is published by the Statistics Estonia.

Note 29. Income tax

In the Republic of Estonia the Income Tax Act applies, which says that net profit is not taxed, but paid dividends and other distribution of profits are taxed. Due to the difference in the concept of taxation, the concept of "tax base for assets and liabilities" does not have its economic substance, and deferred tax liability or property can not arise in the sense of IAS 12, "Income Tax".

<i>(in thousands of euros)</i>	2017	2016
Profit before tax	8 712	6 417
Income tax (20%)	-1 742	-1 283
Adjustment of income tax:		
Tax free income and tax benefits	1 552	1 283
Income tax expense	-190	0
Effective income tax rate	2,2%	0%

The company's retained earnings as of 31.12.2017 amounted to 70 817 thousand euros (31.12.2016: 63 135 thousand euros). Payment of dividends to holders is accompanied with an income tax expense of 20/80 net dividend paid on the amount. The maximum income tax liability that would arise if all of the undistributed profits were distributed would be 14 163 thousand euros (31.12.2016: 12 627 thousand euros), therefore the net dividend that could be paid out is 56 654 thousand euros (31.12.2016: 50 508 thousand euros). AS Mainor Ülemiste paid income tax in 2017 on dividends in amount of 190 thousand euros.

Note 30. 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 31.12.2017	Liabilities 31.12.2017	Receivables 31.12.2016	Liabilities 31.12.2016
Parent company	8 909	0	8 701	0
Other companies in Mainor AS consolidation group	438	165	1 019	167
Affiliated companies	3	4	95	7
Members of the management board and council, their family members and significant shareholders	3	6	36	4

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

Transactions with related parties in 2016	Purchases	Sales	Granted loans	Loan repayments
Affiliated companies	99	18	35	490
Other companies in Mainor AS consolidation group	1 594	373	211	0
Members of the management board and council, their family members and significant shareholders	114	73	0	0

Companies, who belongs to Mainor AS consolidation group, and with whom has made transactions in 2017, are follows: Eesti Ettevõtluskõrgkool Mainor AS, Dvigatel-Energeetika AS, Dvigatel Regital OÜ, 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 2017, are follows: Kristosten AS, Nets OÜ, RVVE Grupp OÜ, Disain Pluss OÜ, Nordic Financial Group 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%.

Affiliated companies, with whom has made transactions in 2017, are Technopolis Ülemiste AS and Spacex Eesti OÜ. In 2017 Mainor Ülemiste recorded loan and accrued interest to Spacex Eesti OÜ as doubtful debt in total of 97 thousand euros.

The services included in the real estate investment were purchased from consolidation group companies in the amount of 342 thousand euros and in the previous financial year 302 thousand euros.

The parent company of the group Mainor AS paid their loan debt in amount of 441 thousand euros in the beginning of 2017. Accrued interest income for the grant of guarantees to the ultimate parent company's and receivable from immediate parent company was 350 thousand euros (2016: 610 thousand euros).

Remuneration for the members of the board during the reporting year was in the amount of 191 thousand euros and in 2016 124 thousand euros.

Note 31. Events after the balance sheet date

In January 2018 Mainor Ülemiste AS increased their loan from LHV Pank AS by the amount of 1 755 thousand euros and signed additional loan agreement with LHV Pank AS in the amount of 2 300 thousand euros.

Mainor Ülemiste AS refinanced their loan from Nordea Bank AB, which they received 26.03.2018, in total amount of 971 thousand euros.

Note 32. Unconsolidated Statement of Financial Position

(in thousands of euros)

	31.12.2017	31.12.2016
ASSETS		
Investment properties	50 630	51 240
Property, plant and equipment	75	83
Intangible assets	5	14
Trade and other receivables	25 477	18 806
Financial investments into subsidiaries	10 250	8 575
Financial investments in equity method	33 517	27 629
Cash and cash equivalents	9 022	6 979
TOTAL ASSETS	128 976	113 326
EQUITY		
Share capital	19 200	19 200
Statutory reserve	1 920	1 920
Retained earnings	59 150	56 597
Profit (loss) for the financial year	6 317	3 393
TOTAL EQUITY	86 587	81 110
LIABILITIES		
Provisions	247	250
Borrowings	41 284	31 039
Trade and other payables	858	927
TOTAL LIABILITIES	42 389	32 216
TOTAL LIABILITIES AND EQUITY	128 976	113 326

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Note 33. Unconsolidated Statement of Comprehensive Income*(in thousands of euros)*

	2017	2016
Revenue	5 237	5 241
Cost of sales	-1 895	-1 781
Gross profit	3 342	3 460
Marketing expenses	-139	-183
Administrative expenses	-1 896	-1 623
Revenues from financial investments	5 888	3 502
Other revenues	30	-1 651
Other costs	-224	-7
Operating profit	7 001	3 498
<i>Financial income and expenses</i>		
Interest expense	-1 538	-1 294
Other financial income and expenses	1 044	1 189
Total financial income and expenses	-494	-105
Profit before tax	6 507	3 393
Income tax expense	-190	0
Net profit for the year	6 317	3 393
Total comprehensive income for the year	6 317	3 393

Note 34. Unconsolidated Statement of Cash Flows

	2017	2016
<i>Cash flows from operating activities</i>		
Net profit for the year	6 507	3 393
Adjustments:		
Depreciation and amortisation of non-current assets	59	53
Profit (loss) from fixed asset sales and write-offs	2	0
Change in fair value of investment property	215	1 658
Profit (loss) from financial investments	-5 888	-3 502
Other financial income and expenses	-1 044	-1 189
Interest paid and other financial expenses	1 538	1 294
Other adjustments	313	103
Income tax on dividends	-190	0
Changes in receivables from operating activities	-374	-190
Changes in payables from operating activities	-69	24
Net cash from operating activities	1 069	1 644
<i>Cash flows from investing activities</i>		
Sales of property, plant and equipment	1	0
Payments for property, plant and equipment	-12	-39
Payments for investment property	-1 280	-738
Loans granted	-6 207	2 399
Repayment of loans	591	490
Interest received	0	72
Dividends received	0	868
Net cash used in investing activities	-6 907	-1 746
<i>Cash flows from financing activities</i>		
Proceeds from borrowings	16 613	9 103
Repayment of borrowings	-9 016	-6 571
Issuance of bonds	2 620	849
Principal payments of finance lease	-2	0
Interest paid	-1 494	-1 216
Dividends paid	-840	-790
Net cash used in financing activities	7 881	1 375
Total cash flows	2 043	1 273
Cash and cash equivalents at the beginning of the financial year	6 979	5 706
Net change in cash and cash equivalents	2 043	1 273
Cash and cash equivalents at the end of the year	9 022	6 979

Note 35. Unconsolidated Statement of Changes in Equity

	Share capital	Statutory reserve	Retained earnings	Total
Balance 31.12.2015	19 200	1 920	57 387	78 507
Dividends declared	0	0	-790	-790
Comprehensive income for the year	0	0	3 393	3 393
Balance 31.12.2016	19 200	1 920	59 990	81 110
Value of interests under control and significant influence under the equity method	0	0	11 720	11 720
Carrying amount of interests under control and significant influence	0	0	-8 575	-8 575
Adjusted unconsolidated equity at 31.12.2016	19 200	1 920	63 135	84 225
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

[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mainor Ülemiste AS:

Opinion

We have audited the consolidated financial statements (pages 8 to 56) of Mainor Ülemiste AS and its subsidiary (hereinafter „the Group”), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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.

Emphasis of Matter

We draw attention to Note 9 to the financial statements which describes the circumstances justifying the value of receivable of 8,909 thousand euros from Smart City Group AS. Our opinion is not modified in respect of this matter.

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 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.

4 May 2018



Erki Usin
Certified Auditor, No. 496

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Profit allocation proposal

Mainor Ülemiste AS Board of Directors will propose during the general meeting of shareholders to allocate the 2017 net profit in the amount of 8 522 thousand euros as follows:

1. Dividends	1 200
2. Retained earnings	7 322
TOTAL	8 522

Mainor Ülemiste AS sales revenue according to EMTAK 2008

EMTAK	Field of activity	01.01.2017- 31.12.2017
68201	Leased or owned real estate renting and operating	3 722
68329	Other activities related to real estate management	1 515
	Total sales revenue	5 237