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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2020 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED ANNUAL REPORT

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Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UAB Capitalica Baltic Real Estate Fund I

Opinion

We have audited the accompanying consolidated financial statements of UAB Capitalica Baltic Real Estate Fund I and its subsidiaries (hereinafter the Group), which comprise the consolidated statement of financial position as of 31 December 2020, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

Other information

Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asta Štreimikienė
Auditor's licence
No. 000382

9 July 2021

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
ASSETS				
Non-current assets				
Intangible assets	0	26	10	6
Investment property	4	61,167	58,982	49,829
Right-of-use assets	0	99	103	-
Total non-current assets		**61,292**	**59,095**	**49,835**
Current assets				
Rent receivables	0	193	178	161
Other receivables	6	128	11	7
Prepaid income tax		24	-	-
Prepayments		119	178	21
Cash	7	6,963	5,707	1,333
Total current assets		**7,427**	**6,074**	**1,522**
Total assets		**68,719**	**65,169**	**51,357**

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(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (continued)

	Notes	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
EQUITY AND LIABILITIES				
Equity				
Share capital	8	18,362	18,362	18,362
Share premium		1,375	1,375	1,375
Legal reserve	9	604	382	-
Retained earnings		8,852	7,328	3,386
Total equity		**29,193**	**27,447**	**23,123**
Non-current liabilities				
Long-term loans	10	25,180	23,309	22,227
Bonds issued	11	7,999	4,999	-
Lease liabilities	0	95	99	-
Deferred tax liability	0	3,722	3,336	2,438
Other non-current liabilities	12	155	526	184
Total non-current liabilities		**37,151**	**32,269**	**24,849**
Current liabilities				
Current portion of long-term loans	10	1,104	4,079	989
Bonds issued	11	53	20	-
Lease liabilities	0	4	4	-
Trade payables	0	343	430	1,631
Rent deposits from tenants		768	750	657
Current income tax payable		-	10	35
Other short-term liabilities	0	103	160	73
Total current liabilities		**2,375**	**5,453**	**3,385**
Total equity and liabilities		**68,719**	**65,169**	**51,357**

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

Director of management company CAPITALICA ASSET MANAGEMENT UAB	Andrius Barštys		9 July 2021
Senior Accountant of SBA Competence and Service Center UAB	Milda Kiaušinytė		9 July 2021

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2020	2019
Revenue	16	4,824	4,371
Cost of sales	0	(1,156)	(1,151)
Gross profit		**3,668**	**3,220**
Operating expenses	18	(699)	(1,217)
(Loss) gain on investment property at fair value		(49)	3,773
Operating profit		**2,920**	**5,776**
Finance income			
Overdue interest income		42	3
Finance expenses			
Interest expenses		(828)	(530)
Other finance costs		(2)	(3)
Profit before tax		**2,132**	**5,246**
Income Tax	0	(386)	(922)
Net profit		**1,746**	**4,324**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income after tax		**1,746**	**4,324**

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

Director of management company CAPITALICA ASSET MANAGEMENT UAB	Andrius Barštys		9 July 2021
Senior Accountant of SBA Competence and Service Center UAB	Milda Kiaušinytė		9 July 2021

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of changes in equity

	Equity	Share premium	Legal reserve	Retained earnings	Equity In total
Balance as at 1 January 2019	**18,362**	**1,375**	**-**	**3,386**	**23,123**
Net profit for the year	-	-	-	4,324	4,324
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	4,324	**4,324**
Transfer to reserves	-	-	382	(382)	-
Balance as at 31 December 2019	**18,362**	**1,375**	**382**	**7,328**	**27,447**
Net profit for the year	-	-	-	1,746	1,746
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	1,746	1,746
Transfer to reserves	-	-	222	(222)	-
Balance as at 31 December 2020	**18,362**	**1,375**	**604**	**8,852**	**29,193**

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

Director of management company CAPITALICA ASSET MANAGEMENT UAB	Andrius Barštys		9 July 2021
Senior Accountant of SBA Competence and Service Center UAB	Milda Kiaušinytė		9 July 2021

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2020	2019
Cash flows from operating activities			
Net profit		1,746	4,324
Adjustments to non-cash items and financing and investing activities:			
Income tax expense	0	386	922
Depreciation and amortisation	0, 0	9	7
Allowance for doubtful receivables		-	13
Non-current assets write-off	0, 4	61	-
Interest expense		828	530
Change in accrued expenses		(126)	358
Change in fair value	4	49	(3,773)
Elimination of other financing activity results		(40)	-
		2,913	2,381
Working capital changes:			
(Increase) in trade and other receivables		(165)	(161)
(Increase) in prepayments		(231)	(141)
Increase (decrease) in trade payables		95	(231)
Increase in rent deposits		31	152
Income tax (paid)		(34)	(35)
Net cash flows from operating activities		**2,609**	**1,965**
Cash flows used in investing activities			
(Acquisition) of non-current assets		(2,450)	(6,248)
Net cash flows used in investing activities		**(2,450)**	**(6,248)**
Cash flows from/used in financing activities			
Loans received	0	-	5,128
(Repayment) of loans	0	(1,104)	(956)
Bonds issued	0	3,000	4,999
Lease (payments)	0	(4)	(4)
Interest (paid)	0	(795)	(510)
Net cash flow from/used in financing activities		**1,097**	**8,657**
Net increase (decrease) in cash flows		**1,256**	**4,374**
Cash and cash equivalents at the beginning of the period		**5,707**	**1,333**
Cash and cash equivalents at the end of the period		**6,963**	**5,707**

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Consolidated statement of cash flows (continued)

	2020	**2019**
Additional information on cash flows:		
Non-cash investing activities:		
Acquisition of non-current assets not paid for in cash	143	240
Capitalized borrowing costs	-	121

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

Director of management company CAPITALICA ASSET MANAGEMENT UAB	Andrius Barštys		9 July 2021
Senior Accountant of SBA Competence and Service Center UAB	Milda Kiaušinytė		9 July 2021

Notes to the consolidated financial statements

1 General

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

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

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

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

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

As at 31 December 2020 and 2019, the shareholders of the Company were:

Shareholder	Ownership interest as at 31 December 2020, %	Ownership interest as at 31 December 2019, %
SBA Grupė UAB (former Koncernas SBA UAB)	21.64	29.61
Minority shareholders	78.36	70.39
In total:	**100.00**	**100.00**

As at 31 December 2020 and 2019, the shared capital amounted to EUR 18,362,432, split into 18,362,432 units of ordinary registered shares, the nominal value of each was EUR 1. All the shares were fully paid.

The securities accounts of the investment company are managed by AB Swedbank, company code 112029651, registered office address Konstitucijos Ave. 20A, Vilnius, which is a direct participant of the Lithuanian Central Securities Depository, code No. 962, and AB SEB bankas, company code 112021238, registered office address Gedimino Ave. 12, Vilnius.

The structure of the Group

As at 31 December 2020 and 2019, the Group of Closed-End Investment Undertaking Intended For Informed Investors CAPITALICA BALTIC REAL ESTATE FUND I UAB consisted of the Company and the following directly controlled subsidiaries (hereinafter "the Group"):

Company	Country	Part of shares held by the Group (%) 31 December 2020	Part of shares held by the Group (%) 31 December 2019	Main activities
PC Luizė UAB	Lithuania	100	100	Lease of real estate
Žaliakalnio Parkas UAB	Lithuania	100	100	Development and lease of real estate
Verslo Centras 135 UAB	Lithuania	100	100	Lease of real estate
SIA Hanza 14	Latvia	100	100	Development and lease of real estate

In 2020 and 2019, there was 1 employee (Director) working in all the Group companies.

1 General information (continued)

The Group management approved these financial statements on 9 July 2021. The shareholders of the Group have the right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2 Summary of accounting principles

2.1. Basis for Preparing Financial Statements

These financial statements of the Group for the year ended 31 December 2020 are the first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Until that date, individual financial statements of the Company's subsidiaries were prepared in accordance with IFRS. Separate financial statements of the Company were prepared in accordance with Business Accounting Standards (BAS).

For the purpose of financial statements, the Group prepared the opening statement of financial position as at 1 January 2019, i.e. the date of transition to IFRS. The Company did not identify any significant differences resulting from the transition from BAS to IFRS that should be disclosed in the financial statements.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter EU).

The Group has prepared these financial statements according to IFRS which are applicable to the periods starting from or after 1 January 2020.

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

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group has no investments in associates or joint ventures, therefore, the adoption of these amendments will not impact the Group's financial statements.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the COVID-19 pandemic, the IASB has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current.

The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of this amendment.

2 Summary of Accounting Policies (continued)

2.1. Basis of preparation (continued)

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

The amendment applies to annual reporting periods beginning on or after 01 January 2022. Earlier application is permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020 make minor amendments** to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

Management has not yet evaluated the impact of the implementation of these amendments.

- **IFRS 16 Leases-COVID-19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

In February 2021 the IASB issued a proposal to extend the relief period by another year, i.e. to apply the practical expedient on rent concessions to a change in lease payments originally due on or before 30 June 2022 from 30 June 2021. The amendment effective for reporting periods beginning on or after 1 April 2021. Earlier application is permitted. The amendment has not yet been endorsed by the EU.

The Group has no such rent concessions, therefore the application of these amendments will not have a significant impact on the Company's financial statements.

- **Interest Rate Benchmark Reform– Phase 2– IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

On 27 August 2020, the IASB published "Interest Rate Benchmark Reform – Phase 2– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendment applies to annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted. While application is retrospective, an entity is not required to restate prior periods. Management has not yet evaluated the impact of the implementation of these amendments.

2 Summary of Accounting Policies (continued)

2.1. Basis of preparation (continued)

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

The amendments effective for reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

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

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

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

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted. The amendments clarify that the initial recognition exemption in IAS 12 does not apply to transactions that, at the time of the transaction, give rise to equal and offsetting amounts of taxable and deductible temporary differences. The Amendments have not yet been endorsed by the EU. Management has not yet evaluated the impact of the implementation of these amendments.

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

2.2. Reporting currency

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

2.3. Principles of consolidation

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

Control is obtained when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

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

2 Summary of Accounting Policies (continued)

2.4. Intangible assets

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

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

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

Other intangible fixed assets	4 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The Group does not own any intangible assets with an indefinite useful life.

2.5. Borrowing costs

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

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

During 2019, EUR 121 thousand of borrowing costs meeting capitalization criteria were incurred. During 2020, no borrowing costs were capitalised.

2.6. Investment property

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

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

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

2.7. Financial instruments

Financial instrument: a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset

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

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

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

2 Summary of Accounting Policies (continued)

2.7. Financial instruments (continued)

The Group's business model for managing financial assets refers to how the Group manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

After initial recognition, The Group measures a financial asset at:
(a) Amortised cost (debt instruments);
(b) Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Group did not have such items as at 31 December 2020 and 2019.
(c) Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Group did not significant balance of such instruments as at 31 December 2020 and 2019.
(d) Fair value through profit or loss. The Group did not have such items as at 31 December 2020 and 2019.

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

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

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

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

Impairment of financial assets

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

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

Estimation of the impairment of trade receivables

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

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

2 Summary of Accounting Policies (continued)

2.7. Financial instruments (continued)

Financial liabilities

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

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

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

After initial recognition, loans and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income, when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Offsetting of financial instruments

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

2.8. Derecognition of financial assets and liabilities

<u>Financial asset</u>

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

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

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

<u>Financial liabilities</u>

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

2.9. Cash and cash equivalents

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

In the statement of cash flows, cash and cash equivalents are considered to be cash in the current bank accounts and deposits the terms of which on the day of signing the contract are no less than 3 months.

2 Summary of Accounting Policies (continued)

2.10. Leases

A. Group as a lessee

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

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

Right-of-use assets

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

• Land lease rights – from 23 to 99 years.

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

2.11. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the most accurate recent assessments. When the impact of time value of money is significant, the amount of provision represents the present value of costs expected to be incurred for the settlement of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

2 Summary of Accounting Policies (continued)

2.12. Income Tax

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

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania and foreign countries where subsidiaries of the Group operate. The standard income tax rate in Lithuania was 15% in 2020 and 2019. The company operating in Latvia is subject to 0% income tax rate, unless the profit is distributed in the form of dividends, then 20% income tax rate applies.

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the entity changes its activities due to which these losses incurred except when the entity does not continue its activities due to reasons which do not depend on the entity itself. Losses incurred due to the transfer of securities and (or) derivatives can be carried forward for 5 years and covered with the profit of similar transactions. Starting from 1 January 2014, tax losses may be set off against not more than 70% of the current year's taxable profit.

In Latvia, the procedure for loss carry forward do not apply as from 2018.

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

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

2.13. Revenue recognition

The Group is engaged in rent and development of investment property. The major part of revenue is received from rental activities. All rental agreements are long-term and for the majority of lessees the rent is indexed on January 1 of each year based on the Harmonised Indices of Consumer Prices (HICP) or the Consumer Price Index (CPI).

The Group's key sources of income include:

- Rental income;
- Revenue from contracts with customers - services to tenants including management charges and other expenses recoverable from tenants.

The accounting for each of these elements is discussed below.

Rental income

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. In addition, the Group subleases investment property acquired under head leases with lease terms exceeding 12 months at commencement. Subleases are classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying investment property. All the Group's subleases are classified as operating leases.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Lease incentives that are paid or payable to the lessee are deducted from lease payments. Accordingly, tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Group is reasonably certain that the tenant will exercise that option. For more information on the judgement involved, please see Note 2.19.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the statement of profit or loss when the right to receive them arises.

2 Summary of Accounting Policies (continued)

2.13. Revenue from contracts with customers (continued)

Revenue from services to tenants

For investment property held primarily to earn rental income, the Group enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants (i.e., customers) including common area maintenance services (such as cleaning, security, landscaping and snow removal of common areas), as well as other support services. The consideration charged to tenants for these services includes fees charged based on a percentage of the rental income and reimbursement of certain expenses incurred. These services are specified in the lease agreements and separately invoiced.

The Group has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15. The Group allocates the consideration in the contract to the separate lease and revenue (non-lease) components on a relative stand-alone selling price basis.

Service charge income is recognised on a gross basis in profit or loss when the Group is not acting as an agent on behalf of third parties and charging commissions for the collections. Revenue is presented on a gross basis as the Group makes a contract with third party service providers and carries the risks associated with such contracts. Service charge income is recognised in the accounting period in which the service is rendered. The transaction prices include fixed or variable fees that are specified in contractual terms with each customer. Invoices for service charges are issued on a monthly basis and the normal credit term is 30 days. When the Group is acting as an agent on behalf of the third parties, amounts collected from the tenants for the goods or services provided by the third party are recognised in accordance with IFRS 15 on a net basis in profit or loss and recharge revenue is recognised in the amount of commissions earned, if any.

2.14. Foreign currencies

Transactions expressed in foreign currencies are accounted according to the official currency exchange rates valid on the day of the transaction. Gains and losses resulting from such transactions and from the translation of balances of assets and liabilities denominated in foreign currencies at the reporting date are recognised in the statement of comprehensive income. These balances are translated using the closing rate.

2.15. Estimating the fair value

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

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

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

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

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

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

2 Summary of Accounting Policies (continued)

2.15. Estimating the fair value (continued)

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

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

2.16. Impairment of Assets

<u>Financial asset</u>
Financial assets are reviewed for impairment at each balance sheet date.

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

<u>Other assets</u>

The impairment of other assets is evaluated when events and circumstances prove, that the value of the assets cannot be recovered. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

2.17. Contingencies

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

Contingent assets are not recognized in financial statements, however they are described in financial statements when it is likely that income or economic benefits will be received.

2.18. Events after the reporting period

Events after the end of the reporting period that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when material.

2.19. Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Leases

The Group applied the following judgements that significantly affect the determination of the amount and timing of income from lease contracts:

<u>Determination of the lease term</u>

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2 Summary of Accounting Policies (continued)

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

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

As a lessee, the Group has a lease contract for the use of office space that includes an extension and a termination option. The Group applies judgement in evaluating whether or not it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise, or not to exercise, the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Property lease classification – the Group as lessor

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

Revenue from contracts with customers

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

Determination of performance obligations

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

Principal versus agent considerations – services to tenants

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

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

2 Summary of Accounting Policies (continued)

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

Investment company and Consolidation

The management of the Group has assessed its activities to meet the definition of an investment company and considers that Capitalica Baltic Real Estate Fund I UAB does not meet the definition of an investment company as it has the characteristics of a real estate company rather than a pure investment company. Although investors in the Company expect both capital appreciation and operating profit from their capital investment, Company also carries a significant amount of development risk in its investments, which is typical of a typical real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. For the parent company of Capitalica Baltic Real Estate Fund I, fair value measurement is indirect - the fair value is the value of assets held in subsidiaries, resulting in the fair value of the subsidiary not necessarily being the ultimate market price of the subsidiary. The Group also estimates its financial performance on the basis of rental income, profit margins, volume of assets and other financial indicators of the real estate business, which cannot be measured solely by the fair value of the subsidiary.

Other significant areas of estimation used in the preparation of the accompanying financial statements relate to determination of the fair value of investment property (Note 4, assessment of off-balance sheet liabilities and contingencies (Note 20) and assessment of the potential impact of the COVID-19 pandemic situation, as disclosed in Note 2.21. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20. Offsetting

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

2.21. Going Concern

As at 31 December 2020, the Company's current assets exceeded its short-term liabilities by EUR 5,052 thousand (as at 31 December 2019 – by EUR 621 thousand). The management plans to continue earning profit in 2021 and believes that the Group will earn sufficient income and cash flows in order to carry out its activities and cover its liabilities, therefore these financial statements were prepared based on the assumption of going concern.

The Government of the Republic of Lithuania declared a national level emergency in throughout the country due to the threat of the spread of the COVID-19 virus (the resolution No 152 on the Declaration of a National Level Emergency was adopted in 26 February 2020). Quarantine on national level was introduced on March 16 to slow down the spread of the virus. Temporary restrictions apply to non-essential stores, and restaurant activities; many companies are forced to operate remotely.

A second quarantine on national level was introduced from 7 November 2020 by Resolution No 1226 of the Government of the Republic of Lithuania of 4 November 2020 On Declaration of Quarantine in the Territory of the Republic of Lithuania.

As the situation did not have a significant impact on the Group's financial results for 2020, this is expected to have the same minor impact on the results for 2021.

3 Intangible assets

	Other intangible assets	In total
Cost:		
Balance as at 1 January 2019	8	8
Additions	7	7
Balance as at 31 December 2019	15	15
Additions	26	26
Write-offs	(7)	(7)
Balance as at 31 December 2020	34	34
Amortisation:		
Balance as at 1 January 2019	2	2
Amortisation during the year	3	3
Balance as at 31 December 2019	5	5
Amortisation during the year	5	5
Write-offs	(2)	(2)
Balance as at 31 December 2020	8	8
Net book value as at 31 December 2020	26	26
Carrying amount as of 31 December 2019	10	10
Net book value as of 1 January 2019	6	6

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

The Group did not have any intangible assets, the acquisition value of which as of 31 December 2020 and 2019 was fully amortized but the assets were still in use.

4 Investment property

	Land	Buildings	Investment property under construction	In total
Cost:				
Balance as at 1 January 2019	5,371	37,415	7,043	49,829
Additions	-	127	5,253	5,380
Reclassifications	-	9,520	(9,520)	-
Gain arising from changes in fair value	327	3,446	-	3,773
Balance as at 31 December 2019	5,698	50,508	2,776	58,982
Additions	-	79	2,211	2,290
Reclassifications	-	1,537	(1,537)	-
Write-offs	-	(56)	-	(56)
Gain (loss) arising from changes in fair value	(638)	589	-	(49)
Balance as at 31 December 2020	5,060	52,657	3,450	61,167

In 2020, the Group's revenue related to investment property amounted to EUR 4,824 thousand (in 2019: EUR 4,371 thousand).

4 Investment property (continued)

The fair value of investment property (shopping centre PC Luizė) estimated by independent appraiser Newsec Valuations UAB as at 31 December 2020 amounted to EUR 5,950 thousand (Level 3 in fair value hierarchy). The fair value of investment property estimated by independent appraiser Newsec Valuations UAB as at 31 December 2019 amounted to EUR 6,240 thousand (Level 3 in fair value hierarchy). The value of assets as at 31 December 2020 and 2019 was estimated using the income method, assessing revenue from lease agreements, expecting annual revenue increase of 1.28–2.0% (depending on the type of lessee) due to indexation (as at 31 December 2019, 1.26–2.0%). Occupancy rate applied was 97% in the first year, 95% in subsequent years – (in 2019: 92% in the first year, 95% in the second and 97% in subsequent year). As at 31 December 2020 and 2019, capitalization rate used in valuation was 8.0%, and discount rate – 9.75% and 9.1%, respectively. Evaluating the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2020 the fair value of the investment property would decrease by EUR 190 thousand (as at 31 December 2019 – impaired by EUR 200 thousand). Applying 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property would be impaired by EUR 300 thousand as at 31 December 2020 and 2019.

The fair value of investment property (business centre 135) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 18,050 thousand as at 31 December 2020 (Level 3 in fair value hierarchy). The fair value of investment property (business centre 135) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 17,480 thousand as at 31 December 2019 (Level 3 in fair value hierarchy). The value of assets was estimated using the income method, assessing revenue from lease agreements, expecting annual revenue increase of 1.52–2.5% (depending on the type of lessee) due to indexation (as at 31 December 2019 – 1.5 – 2.8%). In 2020 and 2019, actual occupation of the object was 95% in the first year and subsequently. As at 31 December 2020 and 2019, capitalization rate used in valuation was 7% and discount rate was 8.1%. Applying 0.5% increase of the discount rate leaving the rest of the assumptions used for estimating discounted cash flows unchanged, value of investment property as at 31 December 2020 and 2019 would decrease by EUR 620 thousand and EUR 600 thousand, respectively. Applying 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property would be impaired by EUR 890 thousand as at 31 December 2020 and 2019.

The fair value of investment property (business centre Kauno Dokas) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 29,520 thousand as at 31 December 2020 (Level 3 in fair value hierarchy). The fair value of investment property (business centre Kauno Dokas) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 29,060 thousand as at 31 December 2019 (Level 3 in fair value hierarchy). The value of assets was estimated using the income method, assessing revenue receivable from the lease agreements with annual growth of 1.3–2.0% (as at 31 December 2019 – 1.8–2.5%) due to indexation. Occupancy rate applied was 95%. In 2020 and 2019, capitalization rate used in valuation was 7.25% and discount rate of 8.1% discount rate was applied (in 2019: 8.2%). Evaluating the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2020 the fair value of the investment property would decrease by EUR 1,040 thousand (as at 31 December 2019 – impaired by EUR 970 thousand). Applying 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property would be impaired by EUR 1,700 thousand as at 31 December 2020 and 2019.

The fair value of investment property (land located at Roberta Hirša iela 1, Riga, Latvia, in which the business centre will be developed) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 8,020 thousand as at 31 December 2020 (as at 31 December 2019 – EUR 6.440 thousand) (Level 3 in fair value hierarchy) The value of assets was estimated using the income method, assessing revenue receivable from the lease agreements of the developed business centre, expecting annual revenue increase of 1.85–2.0% (in 2019: 2.2%) due to indexation. The occupancy rate applied was 0% in the first year, 75% in the second year for the first building and 37.5% for the second building, 95% for the third and subsequent year for the first building, 88% and 95% for the second building, respectively. As at 31 December 2019, occupancy rate applied was 0% in the first year, 37.5% in the second year, 68.8% in the third year, 90% in the fourth year and subsequently – 95%. As at 31 December 2020 and 2019, capitalization rate used in valuation was 6.5%, and discount rate – 8.2% and 8.1%, respectively. Evaluating the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2020 the fair value of the investment property would be impaired by EUR 1,580 thousand (as at 31 December 2019 – impaired by EUR 1,700 thousand). Applying 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property as at 31 December 2020 would be impaired by EUR 4,080 thousand (as at 31 December 2019 – EUR 2.960 thousand).

As disclosed in the Note 10, the entire investment property was pledged to banks for loans received.

5 Rent receivables

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Rent receivables, gross	214	199	169
Less: Impairment of doubtful amounts receivable	(21)	(21)	(8)
	193	178	161

In 2020 and 2019, changes in allowance for doubtful receivables have been included in operating expenses in the statement of comprehensive income.

Movement of impairment of the Group's receivables:

	Individually Impaired
Balance as at 1 January 2019	8
Impairment for the year	13
Balance as at 31 December 2019	21
Impairment for the year	-
Balance as at 31 December 2020	21

The ageing analysis of the Group's rent receivables

		Rent receivables past due but not impaired					
	Rent receivables neither past due nor impaired	Less than 30 days	30–60 days	60–180 days	180–360 days	More than 360 days	In total
01/01/2019	78	37	24	20	2	-	161
31/12/2019	131	21	7	13	6	-	178
31/12/2020	73	56	23	25	1	15	193

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

6 Other receivables

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Taxes receivable, except for prepaid income tax	128	-	7
Other trade receivables, gross	-	11	-
	128	11	7
Less: impairment of doubtful other receivables	-	-	-
	128	11	7

The ageing analysis of the Group's other receivables (except for receivable taxes) is as follows:

		Other receivables past due but not impaired					
	Other receivables neither past due, nor impaired	Less than 30 days	30–60 days	60–180 days	180–360 days	More than 360 days	In total
01/01/2019	-	-	-	-	-	-	-
31/12/2019	11	-	-	-	-	-	11
31/12/2020	-	-	-	-	-	-	-

7 Cash

As at 31 December 2020 and 2019, cash comprised cash at banks.

As explained in Note 10, accounts at banks are pledged to banks as collateral for loans. As of 31 December 2020 and 2019, the Group did not have any restricted cash.

8 Share capital

All 18,362 thousand of shares with the par value of EUR 1 each are ordinary and as at 31 December 2020 and 2019 were fully paid. There were no changes in the issued capital during 2020 and 2019.

9 Reserves

Legal reserve

The legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are required until the reserve reaches 10% of the issued capital. As at 31 December 2020 and 2019, not all the Group companies complied with this requirement. During 2020, EUR 222 thousand were transferred to the legal reserve (during 2019: EUR 382 thousand).

10 Loans

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Long-term loans:			
Bank loans	26,284	27,388	23,216
Current portion of long-term loans	(1,104)	(4,079)	(989)
	25,180	23,309	22,227

All borrowings of the Group are denominated in euros.

All borrowings of the Group are with variable interest rate which depends on EURIBOR. In 2020 and 2019, the period of repricing of variable interest rate of majority of the loans was every 3 months.

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

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Long-term loans	2.10	2.09	2.00

Terms of repayment of long-term borrowings are as follows:	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Within one year	1,104	4,079	989
After one but no later than five years	25,180	23,309	22,227
	26,284	27,388	23,216

In order to secure repayment of loans, the Group has pledged to banks 100% of shares of the Company's subsidiaries PC Luizė UAB, Žaliakalnio parkas UAB. Investment property of PC Luizė UAB, Žaliakalnio parkas UAB and Verslo centras 135 UAB (Note 4), claim to trade receivables and cash at bank accounts (Note 0). Also, land lease rights of the Group companies' Žaliakalnio Parkas UAB and Verslo Centras 135 UAB are pledged to banks.

Compliance with covenants

According to loan agreements, during all loan periods, the Group has to comply with financial debts to EBITDA ratio, debt service coverage ratio and debt to total assets ratio, calculated based on the Group's consolidated financial statements. As at 31 December 2020 and 2019, the Group complied with these covenants.

10 Loans (continued)

As at 2020 and 2019, the Group companies were in compliance with the covenant requiring to execute certain volume of cash transactions through the bank accounts.

As at 31 December 2020, the Group had a total unused loan amount of EUR 5,000 thousand, which mature on 29 June 2021. The latest term of the loan repayment is 28 February 2022. The Group complied with all the conditions set to be able to receive these credits.

11 Bonds issued

On 2 May 2019, a bond distribution agreement was signed between the Company and Šiaulių Bankas AB, company code 112025254, registered office address Tilžės st. 149, Šiauliai. On the basis of this agreement, it was decided to issue 49,990 bonds at a rate of 5% annual interest and held for 3 years, each with a nominal value of EUR 100.

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

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Long-term bonds:			
Bonds	8,052	5,019	-
Current portion of long-term bonds	(53)	(20)	-
	7,999	4,999	-

The Company is committed that the total amount of the Group's borrowings will not exceed 75–85%. As at 31 December 2020 and 2019, the Company was in compliance with this requirement.

During 2020 and 2019 the Company did not grant loans to third parties, did not provide guarantee or warranty for the fulfilment of the obligations of third parties, nor did it provide assurance for the fulfilment of the obligations of third parties by pledging or mortgaging the Company's assets, except for securing the fulfilment of obligations of legal entities controlled by the Company.

12 Other non-current liabilities

A success fee is paid to CAPITALICA ASSET MANAGEMEN, the management company, if the annual return of the Company's investments exceeds 10%. In such case, 15% of the amount by which the minimum Company's investment return exceeds minimum threshold is paid as a fee. The success fee is paid after the life of the Company comes to the end or 50% of accrued success fee can be paid in advance. On 15 January 2020, EUR 263,093 accrued success fee was paid in advance.

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Accrued success fee	155	526	184
	155	526	184

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

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

	Land	In total
As at 1 January 2019	107	107
Depreciation expenses	(4)	(4)
As at 31 December 2019	103	103
Depreciation expenses	(4)	(4)
As at 31 December 2020	**99**	**99**

EUR 4 thousand of depreciation of the right-of-use assets was recognised in the cost of sales.

13 Right-of-use assets, lease and lease liabilities (continued)

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

	2020	2019
Balance as at 1 January	**103**	**107**
Increase in interest	3	3
Payments	(7)	(7)
Balance as at 31 December	**99**	**103**
Current	4	4
Non-current	95	99

The maturity analysis of lease liabilities is disclosed in Note 0 .

The following amounts are recognised in profit (loss):

	2020	2019
Depreciation expenses of right-of-use assets	4	4
Lease liability interest expenses	3	3
Total recognized in profit (loss)	**7**	**7**

The Group’s lease payments totalled EUR 7 thousand both in 2020 and 2019.

14 Trade payables

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

15 Other short-term liabilities

	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
Taxes payable (except for income tax)	87	125	55
Other payables and current liabilities	16	35	18
	103	160	73

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

16 Revenue

Rental income and revenue from contracts with customers are, as follows:

	2020	2019
Rental income	3,588	3,084
Total rental income	3,588	3,084
Income from resale of utility services	1,011	954
Income from conference arranging services	71	170
Income from parking services	56	50
Income from marketing services	49	36
Income from other services	49	77
Revenue from contracts with customers	1,236	1,287
Total rental income and revenue from contracts with customers	4,824	4,371

17 Cost of sales

	2020	2019
Utilities	551	549
Assets operating expenses	227	198
Stationery, office equipment and other administrative expenses	156	133
Tax expenses	132	124
Conference arranging expenses	56	115
Marketing expenses	30	28
Depreciation expenses	4	4
	1,156	1,151

18 Operating expenses

	2020	2019
Services from other companies	453	799
Marketing, representation expenses	68	126
Services of financial institutions	67	28
Audit services	24	15
Consultation services	19	30
Intermediary services	18	28
Costs of premises rent	13	48
Insurance (except for car insurance)	12	-
Communications and information technologies	7	15
Depreciation and amortisation	5	3
Non-current assets write-offs	4	-
Taxes (other than income tax)	3	89
Wages and social security	2	2
Impairment of receivables	-	13
Other	4	21
	699	1,217

19 Income Tax

	2020	2019
Income tax expenses comprised as follows:		
Current income tax expenses	-	23
Deferred income tax expenses	386	899
Income tax expenses charged to statement of comprehensive income	386	922

19 Income Tax (continued)

	As at 31 December 2020	As at 31 December 2019
Deferred tax assets		
Tax losses	581	283
Deferred income tax asset before valuation allowance	581	283
Less: valuation allowance	-	-
Deferred tax asset, net	581	283
Deferred tax liability		
Revaluation of investment propertyat fair value	(4,303)	(3,619)
Deferred tax liability	(4,303)	(3,619)
Deferred income tax, net	(3,722)	(3,336)

Deferred income tax assets and liability, related to the entities of the Group operating in Lithuania, were accounted at 15% rate as at 31 December 2020 and 2019. The deferred income tax of the companies operating in Latvia are subject to 0% tax rate, because income tax is levied only when dividends are paid to shareholders. Subsidiary in Latvia had negative retained earnings as of 31 December 2020 thus no distributable profit available and therefore no deferred tax liability recognized.

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

	2020	2019
Income tax expenses using the tax rate of 15%	320	787
Permanent differences	66	135
Income tax expenses charged to statement of comprehensive income	386	922

20 Commitments and contingencies

Operating lease liabilities – Group as a lessor

The Group has leased premises (investment property) under non-cancellable operating lease agreements. As at 31 December 2020, the remaining lease periods under effective agreements are 1–8 years. Receivable lease fees are either variable depending on the lease term or are revised annually depending on the consumer price index change.

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

	2020	2019
Within one year	3,713	3,713
From one to five years	6,605	9,087
After five years	233	1,289
	10,551	14,089

21 Financial assets and liabilities and risk management

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

Interest rate risk.

The Group's loans consist of loans received with a variable interest rate, which is linked to EURIBOR and creates interest rate risk (Note 10). The Group did not have any financial instruments with the purpose to manage interest rate risk.

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

	Increase/decrease in basis points	Impact on profit before tax
2020		
(EUR)	+50	(131)
(EUR)	-10	26
2019		
(EUR)	+50	(137)
(EUR)	-10	27

Foreign exchange risk

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

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its obligations at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ratios ((current assets – inventory) / current liabilities) as at 31 December 2020 were 3.13 and 3.13 (1.11 and 1.11 as at 31 December 2019, respectively).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments:

	On demand	Less than 3 months	From 3 to 12 months	From one to five years	After 5 years	In total
Lease liabilities	-	4	95	-	-	99
Interest bearing loans	-	413	1,239	25,528	-	27,180
Long-term bonds issued	-	110	335	8,481	-	8,926
Trade payable	66	276	1	-	-	343
Other current liabilities	-	3	12	-	-	15
Balance as at 31 December 2020	**66**	**806**	**1,682**	**34,009**	**-**	**36,563**
Lease liabilities	-	-	4	99	-	103
Interest bearing loans	-	421	4,246	18,901	-	23,568
Long-term bonds issued	-	43	221	8,925	-	9,189
Trade payable	15	415	-	-	-	430
Other current liabilities	-	18	-	-	-	18
Balance as at 31 December 2019	**15**	**901**	**4,566**	**27,826**	**-**	**33,308**

21 Financial assets and liabilities and risk management (continued)

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

Changes in financial liabilities:

	As at 1 January 2020	Received	Interest charged	Payments	As at 31 December 2020
Loans	27,388	-	541	(1,645)	26,284
Bonds issued	5,019	3,000	284	(251)	8,052
Leases	103	-	3	(7)	99
Total	**32,510**	**3,000**	**828**	**(1,903)**	**34,435**

	As at 1 January 2019	Received	Interest charged	Payments	As at 31 December 2019
Loans	23,216	5,128	407	(1,363)	27,388
Bonds issued	-	4,999	120	(100)	5,019
Leases	107	-	3	(7)	103
Total	**23,323**	**10,127**	**530**	**(1,470)**	**32,510**

Fair value of financial assets and liabilities

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

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

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

(a) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with fixed interest rates approximates their carrying amounts (estimated based on Level 3 of fair value hierarchy). Fair value of non-current financial assets was measured by discounting the estimated cash flows using the prevailing market interest rate;

The fair value of the Group's financial assets and liabilities as at 31 December 2020 and 2019 was close to their book value.

22 Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes of capital management as at 31 December 2020 and 2019.

The Company is obliged to keep its equity at not less than 50% of its share capital, as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2020 and 2019, all the Group companies operating in Lithuania complied with the aforementioned requirement for equity.

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

22 Capital management (continued)

	As at 30 December 2020	As at 31 December 2019
Non-current liabilities	37,151	32,269
Current liabilities	2,375	5,453
Total liabilities	**39,526**	**37,722**
Equity	**29,193**	**27,447**
Liabilities to equity ratio	**1.35**	**1.37**

23 Related party transactions

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

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

Transactions with related parties during 2020 and 2019, and balances as of 31 December 2020 and 2019:

2020	**Purchases**	**Sales**	**Receivables**	**Payables**
SBA Grupė UAB	10	3	5	10
Other companies managed by SBA Group	805	1	-	375
	815	4	5	385

2019	**Purchases**	**Sales**	**Receivables**	**Payables**
SBA Grupė UAB	2	8	9	-
Other companies managed by SBA Group	862	2	-	62
	864	10	9	62

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

Remuneration to management and other benefits

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

The Group’s management remuneration amounted to EUR 2 thousand in 2020 (in 2019: EUR 2 thousand).

In 2020 and 2019, the management of the Group did not receive any loans, guarantees, no other significant payments made or accrued, no property transfers were made.

24 Events after the reporting period

On 6 January 2021, the Group company Žaliakalnio parkas UAB signed an agreement on termination of the lease agreement with Burger Kaunas UAB, on the basis of which the Group company undertook to pay a fine of EUR 206 thousand provided for in the lease agreement.

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

ANNUAL REPORT FOR 2020 OF CLOSED-END INVESTMENT UNDERTAKING INTENDED FOR INFORMED INVESTORS CAPITALICA BALTIC REAL ESTATE FUND I UAB

GENERAL INFORMATION

Closed-end investment undertaking intended for informed investors CAPITALICA BALTIC REAL ESTATE FUND I UAB (hereinafter – the Company) was incorporated on 5 October 2016. The Company's issued capital as of 31 December 2019 amounted to EUR 18.362.432, split into 18.362.432 units of ordinary registered shares, the nominal value of each was EUR 1. 21.64% of the Company was controlled by SBA Koncernas UAB. The remaining shares are controlled by minority shareholders, each holding less than 10% of all shares.

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

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

As at 31 December 2020, the Company had control over the following subsidiaries: PC Luizė UAB, Žaliakalnio parkas UAB, Verslo centras 135 UAB and SIA Hanza 14.

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

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

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

The Group's consolidated sales in 2020 amounted to EUR 4,824 thousand, consolidated gross profit was EUR 3,668 thousand. Having assessed the operating expenses and loss from investment activities, consolidated profit before tax amounted to EUR 2,132 thousand.

In 2019, the Group earned EUR 1,746 thousand of net profit.

As at 31 December 2020, the Group's consolidated assets amounted to EUR 68,719 thousand.

In 2020, the Group had 1 employee.

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

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

IV. The Company and the Group companies did not hold any shares of the Company in 2020.

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

No significant events took place after the end of the financial year, except those, that are described in Note 24 of the explanatory notes.

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

VII. As at 31 December 2020, the Company had no derivatives.

VIII. Plans and forecasts of operations of the Group.

In 2021, the Group will continue to develop the controlled businesses, pursuing sustainable and profitable growth.

The Group company SIA Hanza 14 intends to complete the first building stage of business centre Verde in the second half of 2022, and the second building stage is planned to be completed in the first half of 2023. The business centre is being built in an effort to meet the BREEAM Excellent standard.

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

The head of the Company Andrius Barštys is the chairman of Investment committee of Koinvesticinis Fondas KŪB, company code 304537659, address: Konstitucijos ave. 7, Vilnius. He also holds managerial positions in the following companies: Fox Holdings UAB, company code 303016870, address Šiaulių st. 97, Bajorų village. Vilnius city municipality, PC Luizė UAB, company code 302761548, address Šiaurės ave. 15-1, Klaipėda, Žaliaklanio parkas UAB, company code 304287223, address K. Donelaičio st. 62-1, Kaunas, Verslo Centras 135 UAB, company code 301733282, address: Žalgirio st. 135, Vilnius, SIA Hanza 14, company code 40203157541, address Valdemara st. 33-19, Riga.

The member of the Board Jolanta Grašienė is also the member of the Boards of SBA Baldų Kompanija UAB, company code 242131620, address Joniškės st. 21, Klaipėda, SBA Urban UAB (former Urban Inventors UAB), company code 302675889, address Upės st. 21-1, Vilnius, SBA Modular UAB, company code 305283904, address Upės st. 23, Vilnius, and the chair of Board of SBA Competence and Service Center UAB, company code 304960328, address Upės st. 23, Vilnius. The main position of Jolanta Grašienė is the vice-president of SBA Grupė UAB (former Koncernas SBA UAB), company code 132206739, address Upės st. 21-1, Vilnius.

The chair of the Board Ignas Mačeika also is also the member of the Board of SBA Urban UAB (former Urban Inventors UAB), company code 302675889, address Upės st. 21-1, Vilnius.

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

Director of management company CAPITALICA ASSET MANAGEMENT UAB Andrius Barštys

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