QUARTIERS PROPERTIES

ANNUAL REPORT JANUARY TO DECEMBER 2019

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Contents

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PROPERTIES

QUARTIERS PROPERTIES IN BRIEF

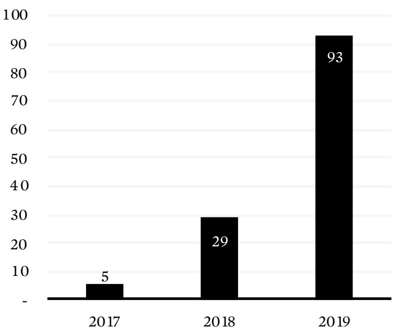
Quartiers Properties is a Swedish-owned property company listed on Nasdaq First North in Stockholm. The company's business is geographically focused on Spain. Quartiers mainly invests in hotels and residential properties aimed at an affluent international target group.

Quartiers is the only publicly listed property company in Sweden whose entire business is geographically focused on Spain. The company is active in two main segments: property refinement and property development.

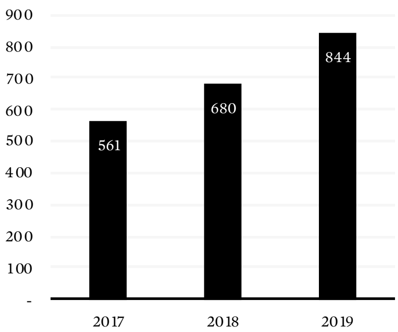
The company benefits from its Nordic background, with expertise in design and customer service that generates value in its property portfolio. Its products are created with a focus on a discerning Scandinavian target group, which contributes to the high quality of projects and ensures an attractiveness that also appeals to numerous nationalities, including the local Spanish population.

In the area of property development, the company invests in underperforming properties with the aim of increasing the property's operating income and stabilising the property's cash flow – thus increasing its value. The company also runs an operator business comprising hotel and restaurant management, primarily aimed at supporting the creation of value in the two main segments: property development and property refinement.

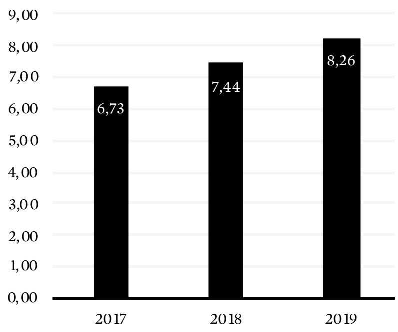
SALES (SEK MILLION)



PROPERTY VALUE (SEK MILLION)



NET ASSET VALUE PER ORDINARY SHARE (SEK)



Key performance indicators (SEK thousand)	31/12/2019 (Full year)	30/6/2019 (Half-year)	31/12/2018 (Full year)	31/12/2017 (Full year)
Sales revenues	93,377	56,389	29,098	5,232
Operating profit/loss, EBITDA*	-14,823	212	-22,312	-10,679
Property values**	843,999	721,881	680,460	560,500
Interest-bearing liabilities	292,657	208,988	207,139	171,064
Loan to value (LTV)	34.68%	28.95%	30.44%	30.52%
Equity/assets ratio – carrying amount	48%	53%	57%	61%
Equity/assets ratio – property market value	69%	67%	70%	72%
Number of employees (Group)	105	65	8	3
Net asset value per ordinary share***	8.20	7.56	7.44	6.73
Equity per share	6.91	9.88	9.51	8.43
Share price per ordinary share	5.10	5.60	6.54	6.65
Market capitalisation – ordinary shares	246,977	271,392	316,947	322,278

*Excluding unrealised changes in value
**According to the valuation report from CBRE Spain.
***Equity adjusted for market valuation of the property portfolio after tax, and taking into account preferential shareholders' share of equity.

MESSAGE FROM THE CEO

The 2019 financial year was eventful, and began with us obtaining financing for Boho Club. This was followed by the start of extensive work to carry out the renovation, employ staff and open the business, all of which we successfully achieved over the autumn and winter. The restaurant opened at the beginning of September and the hotel welcomed its first guests in mid-December. Boho Club has already established itself as one of the most popular restaurants in Marbella, and the hotel recently kicked off the new year in a positive fashion with plenty of satisfied customers – which generally translates into repeat customers. The outbreak of Covid-19 resulted in us having to halt all business from March to May 2020, which obviously has had an adverse effect on revenues. However, we responded quickly and the management team carried out sterling work to cut costs and overall has succeeded in mitigating the negative impact, mainly by significantly reducing the workforce, with some 88% either being furloughed or having their employment terminated permanently, in line with the business support measures launched by the Spanish government. At the end of May we were able to reopen the restaurant, albeit with limited capacity, and this has been well received.

CONTINUED EFFICIENCY IMPROVEMENTS
In Benahavís, management of our apartment hotel has been streamlined and we have clearly demonstrated that our in-house management capabilities have exceeded those of our formerly contracted operator, resulting in a rise in both revenues and profit. We are performing at a high level in relation to comparable facilities. Over the past year we succeeded in particular in increasing the occupancy rate during the off-season, which contributed to creating a secure, vibrant apartment area all year round. This was a key piece of the puzzle in our refinement work and an important factor in the continued appreciation in value in the area and the ability to sell apartments.

The principal purpose of our rental business has been to contribute to the value generation taking place in the apartment hotel and, indirectly, in the associated projects 22byQuartiers and Ocean View. As a result of this, we successfully completed the sale of the entire 22byQuartiers project in 2019. The significant demand resulted in us continuing to sell a number of apartments in our existing holdings in the apartment hotel. This confirmed our value creation of 110% in the holdings since the acquisition.

In 2020 we will continue enhancing the business and making further efficiency improvements. We are also doing this at Boho Club as the operation beds in following the opening in late 2019.

STRONG NET ASSET VALUE PER ORDINARY SHARE IN 2019
Although we don't yet fully know the impact that Covid-19 will have on property prices in Spain, we once again note that 2019 saw the continued strengthening of our net asset value, which was SEK 8.26 at 31 December 2019, representing growth of 11.0% compared with year-end 2018. The ongoing positive development of net asset value per ordinary share confirms that the measures we introduced during the year have continued to help create value for our shareholders.

The increase in net asset value has been spurred by a combination of measures. In particular, a strong working relationship with our financiers in Spain and our highly capable and motivated team contributed greatly to the year's successes, including the opening of Boho Club, the sale of all apartments in the 22byQuartiers project, along with improved profit in our apartment hotel in Benahavís.

PROACTIVE STRATEGY IN A CHALLENGING MARKET
Despite the drastic short-term measures taken in the face of the coronavirus pandemic, during which we were forced to close the business, lay off personnel and take additional action, while the Board had to propose to the AGM that no dividend be paid on our preference shares, we intend to maintain a proactive strategy during this economic downturn. The previously planned refinancing has been postponed and we are now working on alternative financing, which will involve higher costs, but we believe will enable us to cope with the situation without having to sell assets too hastily. Unfortunately, in the prevailing market climate new financiers are potentially requiring us to cancel the dividend on our preference shares until further notice in order to obtain financing.

With regard to sales, we are already seeing that demand for our apartments in Benahavís has returned and we are currently providing digital viewings. We believe the fact that these apartments are finished and ready to move into will help sales in the autumn and winter, which leads us to believe we can maintain a good price level when we come to sell. Once these measures are complete, we will be keeping our eyes open for new, attractive acquisition opportunities. That's how the company originally started in the wake of the 2008 financial crisis. At that time we had no organisation to speak of or anything like the experience and network of contacts that we have now. This suggests that Quartiers can also emerge stronger from this crisis.


Marcus Johansson Prakt
CEO, Quartiers Properties

Summary of projects

QUARTIERS APARTMENT HOTEL IN BENAHAVÍS

THE PROPERTY IN BRIEF

- Status: Operational apartment hotel, and individual apartments can also be purchased.
- Municipality: Benahavís.
- Market value at 31/12/2019: EUR 36,534 THOUSAND.
- Average value per apartment: EUR 368 thousand.
- Taken over and paid for in full.
- Purchase price: EUR 17,200 thousand.
- Purchase price per apartment: EUR 170 thousand.

THE BUSINESS

Quartiers has been running short- and long-term rental operations at the company's apartment complex in Benahavís since 2016. Following the acquisition of the apartments in two phases in 2015 and 2016, the average valuation per apartment in local currency has increased by 110% from EUR 174 thousand to EUR 368 thousand per apartment in accordance with the market valuation performed at 31 December 2019. The carrying amount totals EUR 335 thousand per apartment on average, which is lower than the valuation because as of 2019, and in line with IFRS, Quartiers no longer recognises the apartments at market value in its accounts.

The company's success in running rental operations and transforming the apartment complex into an attractive resort has contributed to the positive development in value of the apartment portfolio.

Source: Google maps

QUARTIERS APARTMENT HOTEL IN BENAHAVÍS

Quartiers took over the operating business from an external operator from 1 January 2019. The decision to bring the business in house has had a positive effect, and as a result of this it has proved possible to reduce costs associated with the business at the same time as increasing income.

LEGAL STRUCTURE AND FINANCIAL COMMENTS

The apartments in the complex are owned by Flexshare Espana SL (wholly owned by Quartiers Properties), which in turn rents the apartments to Quartiers' wholly owned subsidiary Quartiers Management SL. Quartiers Management SL pays a fixed, profit-based rent to Flexshare Espana SL.

The financial table summarises the business as a consolidated whole. The comparison figures refer to income and costs from hiring to an external operator.

The company's net sales for 2019 amounted to SEK 18,890 thousand, which was generated from the short- and long-term rental of apartments. Sales costs totalled SEK 1,860 thousand and principally comprise commission to booking agents including booking.com and Expedia.

Operating costs comprise, for example, costs for the joint association for maintenance (SEK 4,870 thousand), staff costs (SEK 4,609 thousand), electricity and water (SEK 1,782 thousand), property tax (SEK 1,124 thousand), and other operating costs (SEK 3,314 thousand).

Comparable EBITDA for the business in 2019 totalled SEK 1,330 thousand, which is an improvement of SEK 6,445 thousand compared with 2018, when the property was leased to an external operator and the comparable EBITDA totalled SEK -5,115 thousand.

Interest expenses on loans (not preference shares) directly related to the business amounted to SEK 2,259 thousand in 2019, while repayments linked to the current business totalled SEK 9,956 thousand.

In all, cash flow related to leasing operations before investments amounted to SEK -10,885 thousand for 2019, which constitutes an improvement of SEK 6,114 thousand (36%) compared to 2018, when the corresponding cash flow totalled SEK -16,999 thousand.

VALUATION AND YIELD

At 31 December 2019, the company owned 100 apartments for rent in the apartment complex. These were valued according to the comparable sales method as if they were to have been sold separately, one by one. The valuation at 31 December 2019 amounted to the equivalent of SEK 385,466 thousand, representing a 7.7% increase on year-end 2018.

For the full year 2019, direct yield on allocated capital to the business, measured as EBITDA over current market value, amounted to 0.35%, while the corresponding figure for 2018 was -1.46%.

FINANCIAL SUMMARY

	2019	2018*
Net sales	18,890	5,188
Sales expenses	-1,861	0
Gross earnings	17,029	5,188
Other operating expenses	-15,699	-10,303
EBITDA	**1,330**	**-5,115**
Interest expenses	-2,259	-1,897
Depreciation/amortisation	-10,750	-1,846
Profit/loss before tax	**-11,679**	**-8,858**
Repayments	-9,956	-9,987
Operating cash flow	**-10,885**	**-16,999**
Investments	-3,758	-1,287
Property valuation	385,466	349,313
EBITDA yield	**0.35%**	**-1.46%**

*The figures for 2018 refer to income and costs from the leasing of the property to an external operator.

FUTURE PLANS

At the same time as the value of the apartments has risen by SEK 197 million – corresponding to 110% – since acquisition, the company is aware that the apartment hotel generates only low yield in relation to the market value. Income and profits have improved considerably in 2019, and it is anticipated that they will continue to increase gradually. In addition to this, the Board of Directors is assessing possible business models and opportunities for optimising allocated capital and as part of this has begun selling apartments.

BOHO CLUB

THE PROPERTY IN BRIEF

- Status: Operational hotel & restaurant
- Municipality: Marbella.
- Buildable area: awaiting new local development plan.
- Area of existing buildings: 4,954 square metres.
- Plot area: 23,231 square metres.
- Purchase price: EUR 9,582 thousand.
- Valuation: EUR 23,600 THOUSAND.
- Number of units: Two restaurants and approximately 30 rooms.
- Taken over and paid for in full.

THE BUSINESS

In 2017, Quartiers purchased the Centro Forestal Sueco property complex on the Golden Mile in Marbella, consisting of a plot area of 36,894 square metres and associated buildings. Sections of the plot corresponding to 23,231 square metres of land and 4,182 square metres of building area were renovated and developed into Boho Club in 2019. Additionally, the company has an option agreement to acquire an adjacent undeveloped plot of 3,781 square metres (see page 10, 'Boho Club plot for further development'). Quartiers intends to build more hotel rooms on this plot in the future.

Boho Club currently comprises two restaurants, two pools and 30 rooms and bungalows. The restaurants opened in September 2019 and the hotel welcomed its first guests on 15 December of the same year.

The business was closed in March 2020 because of the coronavirus pandemic, along with the closure of the majority of business operations throughout Spain. The restaurant gradually reopened from 29 May 2020.

Source: Google maps

BOHO CLUB

LEGAL STRUCTURE AND FINANCIAL COMMENTS

The property is owned in full by Quartiers Properties via the wholly owned subsidiary CFS Marbella Hotel Property SL. The property owner then rents the building to the operating company The Boho Club SL, of which Quartiers owns 80%. The operating company is required to pay rent to the property-owning company, consisting of a fixed guaranteed minimum rent or a variable part comprising sales-based rent. The higher of the two is to be paid annually to the property owner.

While the business was only active for a short portion of 2019, the financial year was nevertheless affected by costs related to renovation, concept development and so on.

Net sales for the year totalled SEK 6,356 thousand, of which SEK 6,020 thousand was attributable to the restaurant and SEK 336 thousand to the hotel, which was only open for 15 days in 2019. The restaurant opened in September, serving only dinners during the period. As from 2020, both the hotel and the restaurant will be fully operational, with the restaurant serving breakfast, lunch and dinner.

The interest costs and repayments reported are directly linked to loans related to the project (not preference shares).

FUTURE PLANS

The company plans to expand the hotel by a further 20 rooms, increasing it from 30 to 50 rooms. The company initially planned to do this in 2020, but as a result of the coronavirus pandemic this investment will be postponed and the company has not yet decided on the precise date for when this will take place. In addition, the Municipality of Marbella is working on a project intended to implement a new local development plan. The company estimates there is a potential upside to receiving around 12,000 square metres more construction rights in the project, which should allow further development of facilities and up to approximately 150 new hotel rooms, which will correspondingly increase the value of the property.

FINANCIAL SUMMARY *The Boho Club SL*

	2019
Net sales	6,356
Sales expenses	-2,640
Gross earnings	3,716
Other operating expenses	-17,847
EBITDA	**-14,131**
Interest expenses	-135
Depreciation/amortisation	-738
Profit/loss before tax	**-15,004**
Repayments	-274
Investments	-65,864
Cash flow	**-80,404**

FINANCIAL SUMMARY *CFS Marbella Hotel Property SL*

	2019
Rental income	0
Property expenses	-1,235
EBITDA	**-1,235**
Interest expenses	-507
Depreciation/amortisation	-102
Profit/loss before tax	**-1,844**
Repayments	-1,161
Investments	-12,912
Cash flow	**-15,816**
Property valuation	249,157
EBITDA – yield	**neg.**

BOHO CLUB – PLOT FOR FURTHER DEVELOPMENT

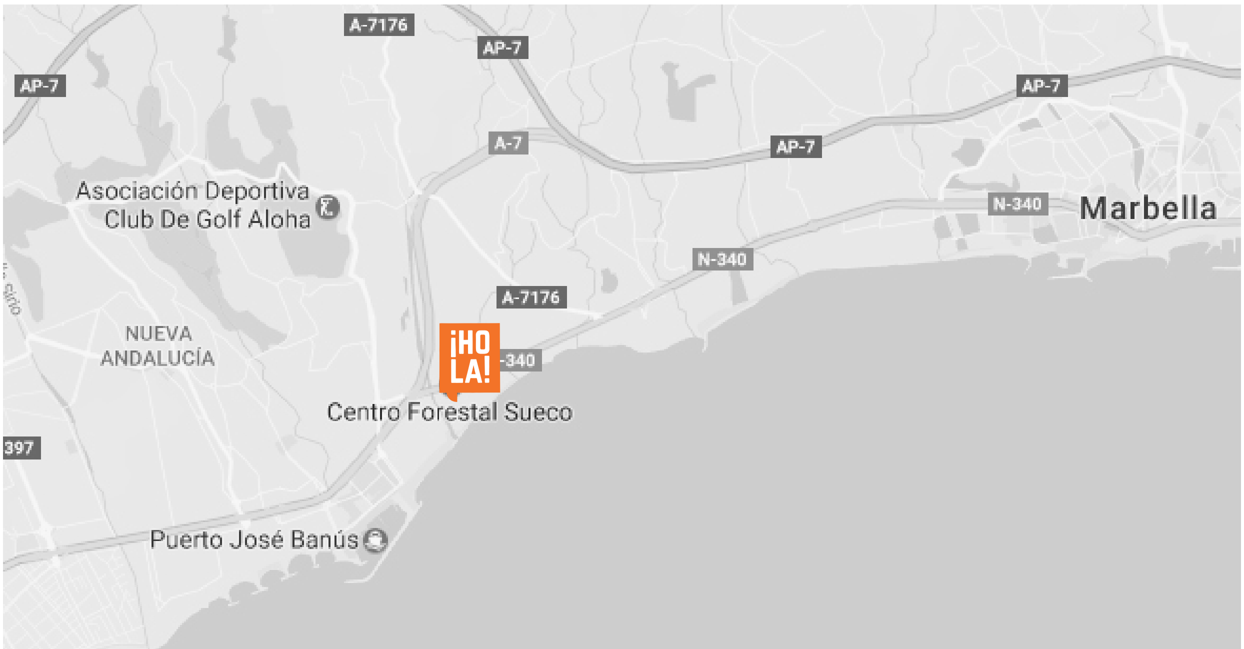
THE PROPERTY IN BRIEF

- Status: Plot without local development plan acquired for future expansion with more hotel rooms.
- Municipality: Marbella.
- Buildable area: awaiting new local development plan.
- Area of existing buildings: 0 square metres.
- Plot area: 3,781 square metres.
- Purchase price: EUR 1,839 thousand (adjusted based on extended payment schedule).
- Valuation: EUR 1,900 THOUSAND.
- Option agreement with planned handover in January 2021. So far EUR 603 thousand of the total purchase price of EUR 1,839 thousand has been paid.

PROPERTY DESCRIPTION

Right next to the property where Boho Club is being developed, Quartiers has acquired a 3,781 square-metre plot through an option agreement. So far the company has paid EUR 603 thousand for the option and the plan is to take over the property in January 2021. The purpose of the property is to expand the Boho Club hotel with more rooms once a local development plan comes into effect in Marbella. For this reason, the company has negotiated a favourable instalment payment plan which means the purchase price will be paid for with annual payments until 2023. Until a new local development plan is in place the company will use the plot as a car park for hotel and restaurant guests.

The plot is located right next to Boho Club and is therefore suitable for the development of more hotel rooms once a new local development plan is in place.



Source: Google maps

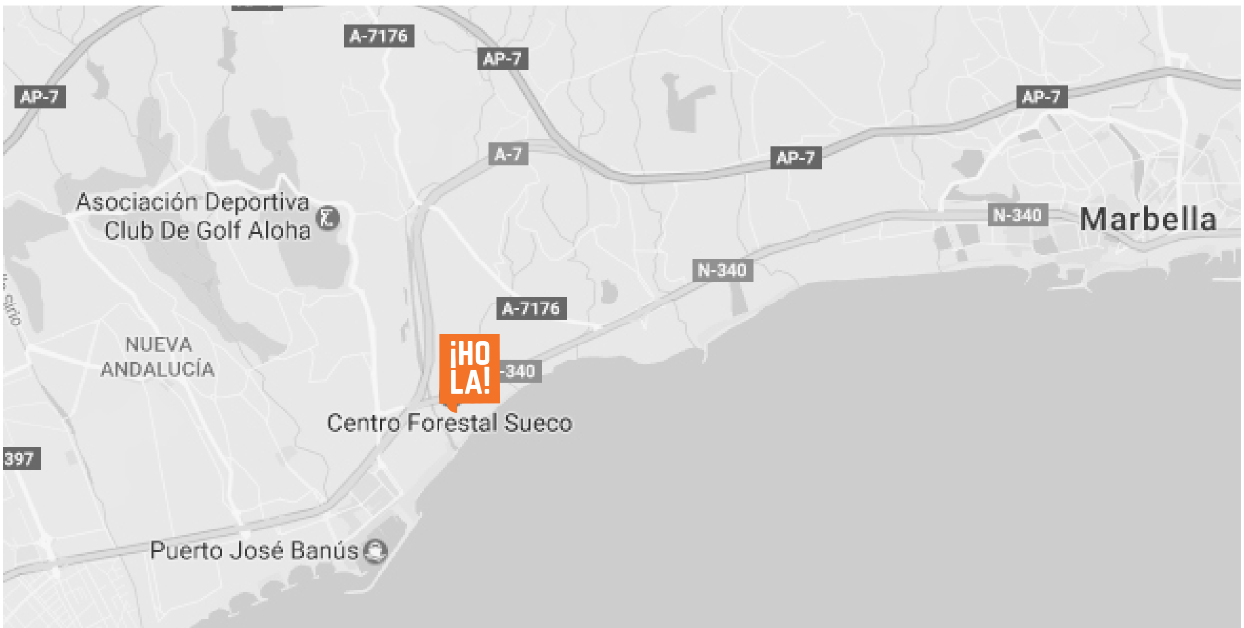
FORESTAL RESIDENTIAL

THE PROPERTY IN BRIEF

- Status: Work under way on plan changes.
- Municipality: Marbella.
- Buildable area: Awaiting new local development plan.
- Area of existing buildings: 2,329 square metres.
- Plot area: 13,730 square metres.
- Purchase price: EUR 4,195 thousand.
- Valuation: EUR 6,300 thousand.
- Taken over and paid for in full.

PROPERTY DESCRIPTION

This 13,730 square-metre property is located next to Boho Club and is less than two minutes' walk from the beach in Marbella. Quartiers is planning to develop this plot into an exclusive gated community with villas and/or apartments. This new residential complex will be able to benefit from all the services that Boho Club will offer, creating clear synergies between both projects. For Quartiers this unique aspect of the project is expected to lead to a higher selling price per square metre than other projects in equivalent locations. Development of the property requires special approval of the change to the plan from Marbella municipality or completion of the new local development plan. Work is underway on the new local development plan and a decision on a new local development plan in Marbella is expected within the next few years. It is therefore expected that CFS Residential will be able to be developed after the Ocean View project (see page 13) has been launched and sold.



Source: Google maps

22BYQUARTIERS

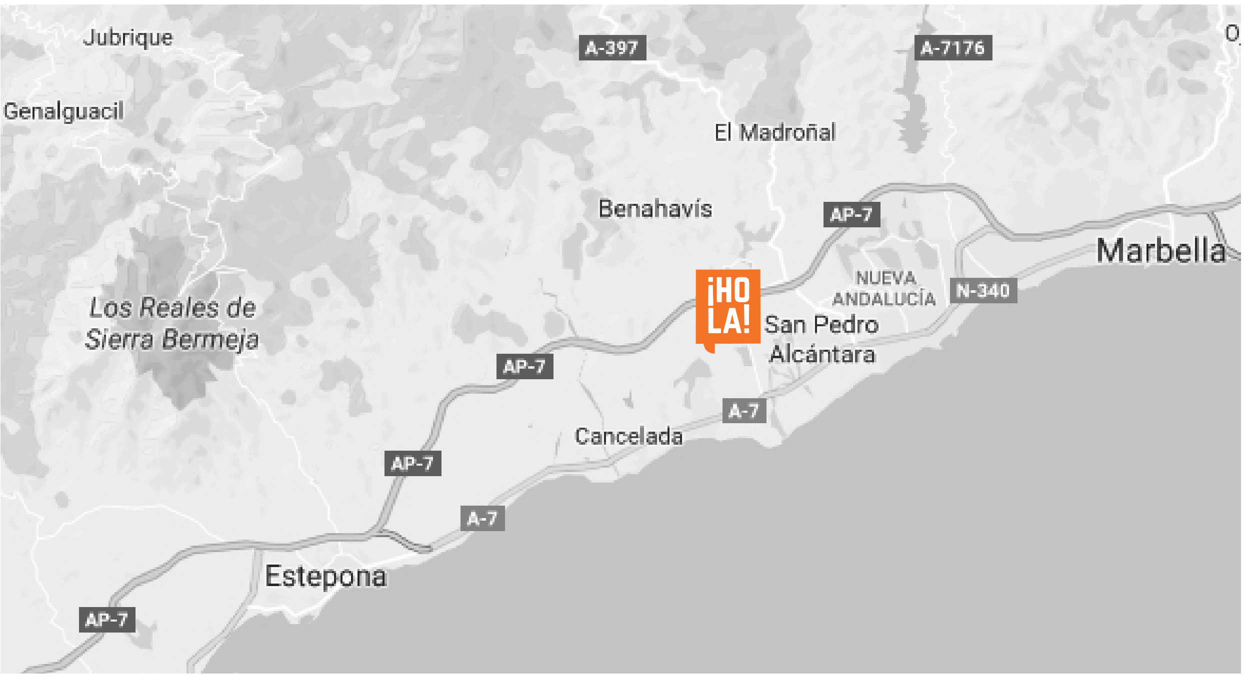
THE PROPERTY IN BRIEF

- Status: Sold and ownership transferred.
- Municipality: Benahavís.
- Number of apartments in the project: 22.
- Number of apartments sold: 22 (all sold).

Project description

22byQuartiers was launched for sale in 2018, and the project was concluded in 2019 with the sale of all the apartments. Total sales revenues amounted to SEK 88,294 thousand, and production costs, including capital costs, totalled SEK 56,958 thousand. Profit on operations before selling costs amounted to SEK 31,793 thousand, corresponding to an operating profit margin of 36%. Selling costs totalled SEK 7,755 thousand.

The apartments are part of the Hacienda del Señorío de Cifuentes apartment complex, so buyers have access to the complex's full range of services, including pool restaurant with heated pool. Most buyers in the 22by-Quartiers project have chosen to sign up to Quartiers' concierge programme, which provides assistance with everything from contact with the local authorities to help with letting.



Source: Google maps

OCEAN VIEW

THE PROPERTY IN BRIEF

- Status: Under development.
- Municipality: Benahavís.
- Buildable area: 8,064 square metres.
- Number of units: 60 to be sold.
- Purchase price: EUR 2,760 THOUSAND.
- Valuation: EUR 8,400 THOUSAND.
- Taken over and paid for in full.

Project description

Project Ocean View comprises 60 apartments in the same area as the 22byQuartiers project, which recently saw the last of its properties sold. The apartments to be developed and sold will be included in the same cooperative association as 22byQuartiers and the company's apartment hotel in Benahavís. This association also includes other private owners whose approval was required to make changes to the design and layout of the project. This approval was successfully obtained at an extraordinary association meeting in December 2018.

Prior to the coronavirus pandemic, the sale and start of construction were planned for 2020, but the company is currently assessing when it is most suitable to start sales. The company will initially prioritise the sale of completed apartments in Hacienda del Señorío de Cifuentes (see pages 6–7) as no additional financing or construction are required to realise a profit through the sale of these, which is required for Ocean View.

Source: Google maps

AMAPURA

THE PROPERTY IN BRIEF

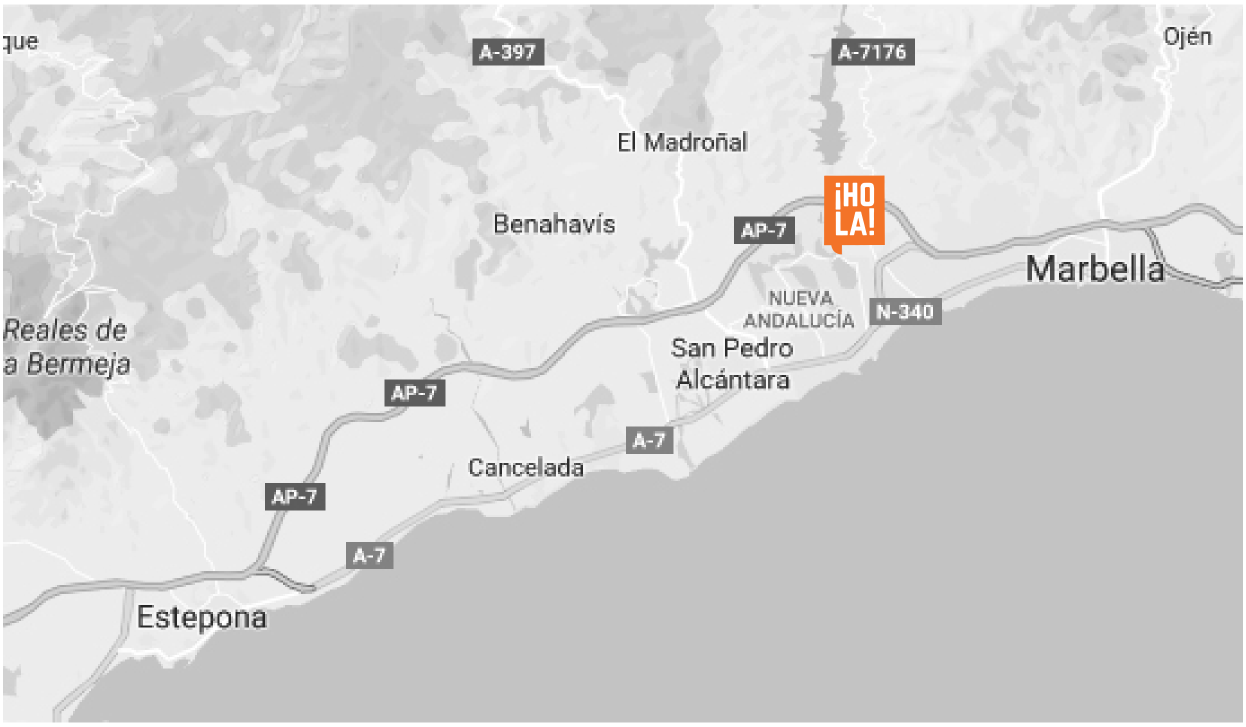
- Project type: Detached villa, turnkey project.
- Municipality: Marbella.
- Plot: 831 sqm, acquired with deeds.
- Construction volume: 365 square metres.
- Number of units: 1.
- Acquisition price (plot plus project): EUR 550 thousand.
- Est. selling price: EUR 1,800 thousand.
- Plot taken over and paid for in full.

PROPERTY DESCRIPTION

Quartiers Properties is developing a turnkey villa in the popular Nueva Andalucía area, boasting views of the Mediterranean and Marbella.

Villa Amapura remains under construction, with 70 percent of the building work having been completed. The company intends to sell the villa once it has been completed, as this is considered to generate a higher price for the villa, which explains the postponement of the sale. Financing for the construction work was secured in 2019.

It is anticipated that the villa will be completed in the 2020 financial year.



Source: Google maps

LOS FLAMINGOS VILLAS

THE PROPERTY IN BRIEF

- Project type: Two free-standing villas.
- Municipality: Benahavís.
- Plot: 2,950 sqm.
- Construction volume: 1,255 square metres.
- Number of units: 1.
- Purchase price: EUR 1,600 thousand.
- Est. selling price: EUR 5,000 thousand.
- Acquired through companies and paid for in full.

PROJECT DESCRIPTION

These two villas are located in the attractive villa area of Los Flamingos in the Municipality of Benahavís, a stone's throw from the five-star Villa Padierna Hotel with two 18-hole golf courses. Both villas have views of the sea and golf courses and will be designed with a combination of classic Andalusian style and modern luxury.

The total building area for both the villas is 1,255 square metres, with a further 400 square-metre terrace and 1,600 square metres of gardens.

Work has not yet commenced on the construction as the company gave higher priority to the work on Boho Club.

Source: Google maps

Subsidiaries and synergies

QUARTIERS ESTATES

COMPANY DESCRIPTION
Quartiers Estates is Quartiers Properties' estate agent company. The company markets and sells Quartiers' own projects, as well as external projects and projects sold and developed by the Otero Group. The company is 50% owned by Quartiers Properties, with the other 50% owned by Ruben Villaverde Otero through companies.

The company began operating in 2018. In 2019 the business focused on launching and selling Quartiers' 22ByQuartiers project. At 31 December 2019 the company had seven employees of various nationalities, which is important for addressing the large target group of international buyers in the market. The company's sales in 2019 totalled SEK 7.5 million and the company posted EBITDA of SEK 0.9 million.

BACKGROUND TO QUARTIERS' OWNERSHIP
Quartiers has chosen to co-own a sales company to give it greater influence and control over the sales process for the company's property development projects. When 22ByQuartiers was originally launched Quartiers Properties' only had a small organisation to manage it. So Quartiers' management assessed various options for optimising sales at the lowest possible cost. The collaboration with Ruben Otero enabled the company to bring in key know-how to start the business. Since 2018 Quartiers Properties' organisation has grown considerably, and the company now has resources to manage sales in house, as well as generating synergies with other projects such as Boho Club. The company is therefore in discussions with its partner about closing the sales office and managing sales of the company's projects in house.

COMPETITION AND MARKET
The estate agent sector on Spain's Costa del Sol differs in many ways from the Swedish model, in which estate agents have a significant responsibility to buyers purchasing residential property. In Spain, there is no formal requirement to register as an estate agent, which means anyone can arrange property sales. In practice this, along with high commission, has led to a sharp increase in the number of full- and part-time estate agents on the Costa del Sol as interest in properties in the region has grown. As the number of relatively active agents rises considerably, and in the absence of formal requirements for expertise and registration, the number of irresponsible agents is also on the increase. The impact of the coronavirus crisis, at least in the short term, is expected to lead to a reduction in the number of estate agents on the Costa del Sol as the number of property transactions is anticipated to decline.

THE COMPANY IN BRIEF

- Founded in March 2018.
- Quartiers owns 50%. The other 50% is owned by Grupo Imobilario Ruben Otero SL.
- Chief Executive Officer: Ruben Villaverde Otero.
- The company's business comprises property brokerage on Spain's Costa del Sol with a focus on Marbella, Benahavís and Estepona.
- Website: www.quartiersestates.com

QUARTIERS MANAGEMENT

COMPANY DESCRIPTION
Quartiers Management operates the Quartiers Apartment Hotel & Resort in Benahavís, and offers concierge and letting services to buyers of apartments in Quartiers Properties projects. The company began operating in 2019, which is why no historical figures are reported.

BACKGROUND TO QUARTIERS' OWNERSHIP
Quartiers' ownership of the operating company that runs the company's apartment hotel in Benahavís is an extension of the company's Property Refinement business segment. By having in-house operating know-how, Quartiers has created a competitive advantage over other property owners. The value of hotel properties is created through profitable hotel operations, which in turn have to generate sufficient income to pay the market rent to the property owner. Quartiers' business model is based on investing in underperforming properties and improving them to create growth in value. This is done by investing and optimising operations. It is therefore important that Quartiers also has control over operations in the business development phase.

MARKET AND COMPETITION
Both the short- and long-term apartment rental markets are highly fragmented and dominated by private property owners with one or a few apartments to let. Interest in building and developing rental properties has increased in Spain in recent years, with development mainly driven by domestic and international funds.

THE COMPANY IN BRIEF

- Operations started in January 2019.
- Wholly owned by Quartiers Properties.
- Chief Executive Officer: Henric Persson.
- The company conducts hotel and property service operations.
- The company took over operation of Quartiers Properties' approximately 100 apartments in Hacienda del Señorío de Cifuentes in Benahavís as of 1 January 2019, and now operates the facility under the Quartiers Apartment Hotel & Resort brand.
- Website: www.quartiersmarbella.com

It is believed that the ongoing coronavirus pandemic is driving technological development, with a large percentage of the population now able to work remotely. This trend is believed to benefit the short- to medium-term rental of apartments (up to several months) as it's possible to work just as well from a large open-plan apartment from Spain's Costa del Sol as from an office in a major European city.

BOHO CLUB

COMPANY DESCRIPTION

Boho Club is Quartiers' operating company for the hotel and restaurant project in the Golden Mile area of Marbella, where Quartiers is currently developing part of the Centro Forestal Sueco property. The company Boho Club was founded in 2018 and is 20% owned by Raouf Amer Lotfi, who has extensive experience of the hotel and restaurant industry. Within Quartiers' management team, Henric Persson also took over responsibility as Chief Executive Officer of Boho Club at the start of 2020 as the company was entering the operating phase. Raouf Amer Lotfi remains active in the company as a Board member and co-owner.

Quartiers will convert borrowed capital in Boho Club into equity, which means Quartiers Properties' ownership interest will increase in 2020.

The restaurant opened in September 2019 and the hotel welcomed its first guests in December 2019. Both the hotel and the restaurant had to temporarily close in March 2020 owing to the Spanish government's decision to ban all non-essential business following the outbreak of Covid-19. The restaurant reopened gradually from 29 May 2020. The hotel will open later in 2020 as soon as it is deemed possible from a legal and profitability point of view.

BACKGROUND TO QUARTIERS' OWNERSHIP

Ownership of Boho Club comes under the company's Property Refinement segment. The property where the business is being developed is unusual with regard to planning, as a new local development plan is expected for Marbella in the next three years. The new local development plan is expected to have good opportunities for Quartiers to regain the same construction rights as in the 2010 local development plan, which was previously scrapped. Being the controlling shareholder of the operating company gives Quartiers greater control over the project, increasing the flexibility as property owner to fully leverage the potential value of the property in the short and long term. In addition, the current partnership and extensive experience of key personnel mean the operating company has the necessary experience to meet the requirements for an exclusive five-star design hotel.

MARKET AND COMPETITION

The Marbella hotel market is highly international, with international guests accounting for over 80 percent of guest nights. Compared with other European destinations, Marbella is especially focused on the luxury segment and ranks number two in Spain for sales of exclusive products and services, with around one-third of total sales in Spain. Within walking distance of the planned hotel is Puerto Banús, which has one of the world's highest concentrations of luxury goods shops per square metre.

THE COMPANY IN BRIEF

- The company was founded in May 2018.
- Quartiers Properties owns 80%. The remaining 20% is owned by Raouf Amer Lotfi.
- Chief Executive Officer: Henric Persson.
- The company's business comprises hotel and restaurant operations.
- The company has a tenancy agreement with Quartiers' subsidiary CFS Marbella Hotel Property SL regarding the operation of part of the Centro Forestal Sueco property complex.
- As stated in its annual accounts, the company has four employees.
- Website: www.bohoclub.com

Digitalisation has given affluent international consumers greater flexibility to travel, which has helped reduce seasonal variations in the higher Marbella segment. This is particularly reflected in the majority of all luxury hotels in Marbella being open all year round, and through established brands such as W Hotel, Club Med and Four Seasons working on extensive hotel projects that are due to open within the next few years.

The Covid-19 pandemic is expected to have a negative impact on international travel in the short term, although the company believes that demand for long-stay accommodation could rise owing to remote working becoming more common. With its large gardens, no corridors or lifts, Boho Club is considered well suited to social distancing for people who want a change of scene and to work from Spain's Costa del Sol.

CORPORATE GOVERNANCE

Quartiers Properties AB (publ) is a Swedish public property company, with registered offices in Stockholm, whose shares are listed on Nasdaq First North in Stockholm. The external framework for corporate governance is the Swedish Companies Act, the Articles of Association and Nasdaq's rules for issuers on First North. Prior to the listing on First North, which took place in June 2017, the company complied with NGM Nordic MTF's rules for issuers. The company complies with internal regulations issued by the Board, the most important of which include the Board's rules of procedure, the CEO instructions and the company's inside information policy. The company is not obliged to apply the Swedish Corporate Governance Code, but does so insofar as it is financially viable given the size and nature of the business.

Principles of corporate governance within Quartiers Properties
Corporate governance within Quartiers Properties aims to support the Board of Directors and management in ensuring that all operations create long-term value for shareholders and other stakeholders.

Governance involves upholding:

- an efficient organisational structure;
- risk management and internal control systems; and
- transparent internal and external reporting.

Shareholders and the Annual General Meeting
Shareholders' influence in the company is exercised at the AGM, which is the company's highest decision-making body. At the AGM, each shareholder votes by right of the number of votes associated with the share type held. Quartiers Properties has two classes of share: ordinary shares carrying ten votes, and preference shares carrying one vote. At the date of publication of this annual report, the company had 48,462,896 ordinary shares, each carrying 10 votes, corresponding to 484,628,960 votes, and 10,061,492 preference shares, each carrying one vote, corresponding to 10,061,492 votes. There are consequently a total of 58,524,388 shares and a total of 494,690,452 votes in the company.

Board of Directors
The company's Articles of Association state that the Board of Directors shall comprise a minimum of three and maximum of nine members, including the Chairman. The Board currently consists of four ordinary members, including two members who are independent in relation to both the company and company management, as well as the company's major shareholders. Two Board members are independent of the company and the company management. The company's Board of Directors is elected at the AGM. The election of the Board relates to the period extending up to and including the next AGM. The company does not appoint any special committees for auditing or remuneration issues, as the entire Board is engaged in these matters. The Board shall monitor operations and actively support the development of the company. The Board is composed of individuals with expertise and experience in business development, marketing, property and project development, financing and capital market issues.

The Chairman of the Board ensures that the Board performs its duties. The Chairman also monitors operations in consultation with the CEO and is responsible for ensuring that other Board members receive the information required in order to facilitate discussion and decisions of high quality. The Chairman is also responsible for evaluating the work of both the Board and the CEO.

Composition of the Board of Directors in 2019

Name	Role	Independent of largest shareholder	Independent of management
Jörgen Cederholm	Chair	No	Yes
Sten Andersen	Mgmt	Yes	Yes
Jimmie Hall	Mgmt	Yes	Yes
Andreas Bonnier	Mgmt	No	Yes

Board of Directors


Jörgen Cederholm


Sten Andersen


Jimmie Hall


Andreas Bonnier

CORPORATE GOVERNANCE

Annual General Meeting 2019
Quartiers Properties' 2019 AGM was held on 29 May at the offices of law firm Advokatfirman Wåhlins AB at Engelbrektsgatan 7 in Stockholm, Sweden. In addition to the mandatory agenda items stipulated in the Articles of Association, decisions were made regarding the following matters:

- The AGM re-elected members Jörgen Cederholm, Sten Andersen and Jimmie Hall and elected Andreas Bonnier to the Board for the period up until the end of the next AGM. Jörgen Cederholm was re-elected as Chairman of the Board. Moreover, the AGM re-elected registered audit firm Öhrlings PricewaterhouseCoopers AB with principal auditor Henrik Boman for the period up until the end of the next AGM. The AGM resolved that Board fees of SEK 160,000 shall be paid to the Chairman and SEK 80,000 to each of the other Board members elected by the AGM. The AGM resolved that fees for the auditor would be paid on an ongoing basis according to invoices approved by the company.
- The AGM unanimously resolved to authorise the Board of Directors, up until the next AGM and within the scope of the Articles of Association, on one or more occasions, with or without deviation from shareholders' preferential rights, to decide on the issue of shares (ordinary shares and/or preference shares). When issuing preference shares, the company shall ensure that the company is able to fulfil its commitments relating to dividends for preference shares, in accordance with the decision regarding the distribution of profit as detailed under item 9 b of the agenda for the meeting of the shareholders. Such issue shall take place in exchange for cash payment, issue in kind and/or through offsetting, or otherwise associated with terms and conditions. Decisions on share issues based on this authority may result in an increase in the company's share capital by a maximum of 15 percent. For private cash issues the subscription price must be set on a market basis.
- Decision that the Nomination Committee shall consist of representatives of the two largest shareholders in the company in terms of voting rights.

Nomination Committee
The 2019 AGM resolved that the Nomination Committee's members prior to the 2020 AGM shall consist of Andreas Bonnier and Mats Lundberg.

CORPORATE GOVERNANCE

Duties of the Nomination Committee:
The Nomination Committee shall prepare proposals for the following resolutions prior to the 2020 AGM:

1. Proposal for the election of chairman of the meeting.
2. Proposal regarding the number of Board members, and deputies where appropriate.
3. Proposal regarding the number of auditors, and deputies where appropriate.
4. Proposal regarding Board fees and any remuneration for committee work.
5. Proposal regarding remuneration for the company's auditors.
6. Proposal for the election of Board members.
7. Proposal for the election of Chair of the Board.
8. Proposal for the election of auditors.
9. Proposal for decision on the Nomination Committee.

Proposals for Board members and auditors prior to the 2020 AGM.
The Nomination Committee has proposed the re-election ofJörgen Cederholm, Sten Andersen, Jimmie Hall and Andreas Bonnier as Board members for the period up until the end of the next AGM. It is proposed that Jörgen Cederholm continue as Chairman of the Board.

The Nomination Committee has proposed the re-election of the registered audit firm Öhrlings PricewaterhouseCoopers AB with principal auditor Henrik Boman for the period up until the end of the next AGM.

The Nomination Committee's proposal on Board and auditor fees
The Nomination Committee proposes that Board fees of SEK 290,000 be paid to the Chair and SEK 150,000 to each of the other Board members elected by the AGM.

In addition, the Board shall be entitled to make decisions on paying Board members (personally or via companies) market-based, reasonable compensation for consulting work carried out that is not part of the usual Board-related work.

The Nomination Committee proposes that fees to auditors shall be paid on an ongoing basis in accordance with invoices approved by the company.

Company management
Quartiers Properties is primarily managed by the CEO, who continued to strengthen the organisation in Spain in 2019. With regard to management of accounting and compliance, the CEO has appointed a CFO who, together with advisers on tax, accounting and HR, ensures that the company adheres to all rules and standards in these areas in both Spain and Sweden.

Internal controls
Based on policy documents adopted by the Board of Directors, the CEO and company management are responsible for designing and documenting, as well as maintaining and testing the systems and processes required in order to minimise risk in operating activities and financial reporting. In addition to policy documents there are also delegation rules, process descriptions, checklists and job descriptions for each employee detailing their responsibilities and level of authority, as well as standardised reporting procedures.

Information and communication
The annual report, year-end report, interim reports and other regular information are produced according to Swedish law and practice. The disclosure of information is characterised by transparency and reliability. In order to ensure that external information for the equity market is issued correctly, the company has an inside information policy that regulates how information is to be disclosed. The aim is to create understanding and confidence in the business among shareholders, investors, analysts and other stakeholders. Quartiers Properties discloses information to shareholders and other stakeholders via public press releases, year-end and interim reports, annual reports and the company's website. In order to keep Quartiers Properties' shareholders and stakeholders updated about the business and its performance, current information is published regularly on the website. Events deemed to be price sensitive are disclosed by means of press releases. Quartiers Properties also uses other marketing channels such as Mynewsdesk for non price-sensitive information.

FINANCING

Quartiers is financing the operation with a combination of sales revenues, bank loans, alternative loan financing, preference shares and ordinary share capital. At 31 December 2019 the company's interest-bearing loans amounted to SEK 292.7 million (SEK 209.0 million), of which SEK 168.5 million (SEK 169.9 million) consisted of bank loans, and the remainder of alternative loan financing. The market value of the company's preference shares was SEK 70.6 million (SEK 65.0 million), and the company's redemption value (the amount for which Quartiers can repurchase the preference shares following the necessary decision from the General Meeting) was SEK 87.3 million (SEK 87.3 million).

The average cost of capital for the company's bank borrowings amounted to 1.88 percent at 31 December 2019, while for the company's alternative financing it was 11.98 percent. The cost of the company's preference shares, based on its market value, was 12.37 percent after taking account of corporation tax of 20 percent. In all, this results in a weighted average cost of capital for the company's interest-bearing liabilities, including preference shares, of 7.25 percent.

In 2019, the company has amortised/repaid loans corresponding to SEK 50.9 million (SEK 14.8 million) to credit institutions. Exchange rate effects have increased recognised debt by SEK 1.0 million.

At 31 December 2019, the Group's equity totalled SEK 334.7 million (SEK 373.2 million) and its equity/assets ratio was 48 percent (57). Converted to market value, the equity/assets ratio was 69 (70) percent. The difference between recognised equity and equity based on market value is due to IFRS accounting restrictions that do not allow Quartiers to recognise property assets at market value in the balance sheet.

Total assets amounted to SEK 700.1 million (657.5), which corresponds to an increase of 6.5 percent. The debt/equity ratio was 45 percent (34).

In 2019, the company raised new loans equivalent to SEK 123.4 million (47.7). The company raised loans totalling SEK 72.4 million.

The company had intended to refinance part of its liabilities in 2020 with a view to freeing up cash flow for continued investments. As a part of this process, the company commissioned JLL Real Estate Advisors in London as consultants in December 2019. This work was interrupted because of the Covid-19 outbreak in Europe.

Quartiers currently has a relatively low loan-to-value ratio in the company, particularly for the Boho Club property and for the apartments in Benahavís. To ensure that assets, mainly in the form of apartments in Hacienda del Señorio de Cifuentes, can continue to be sold under controlled forms and without the need for significant discounts to sell quickly in the more cautious market that is expected to follow the Covid-19 pandemic, Quartiers is working on an alternative financing solution. As with

Quartiers Properties was one of the co-organisers of the Interbourse football tournament in Marbella in 2019. The event was held on 13–14 September, attracting around 100 players divided into six different teams. The participating teams represented their countries and came from the UK (London), Norway, Spain, Sweden, Switzerland and the United States (Chicago). The Swedish team, most of whose players came from the Stockholm financial market, took the title on penalties, beating a Swiss team that largely comprised representatives of the Swiss banking sector. All players stayed at the Quartiers apartment hotel in Benahavís, and the tournament concluded with dinner at the newly opened Boho Club in Marbella.

the work with JLL, the company intends to raise loan financing with the Boho Club property as collateral. As a result of the Covid-19 pandemic, however, the cost of funding is expected to be higher than the purpose that JLL intended to assist with. The market for this type of financing is still active and the management team is in discussions with both Frux Capital, with which the company is already working, and with other operators that have indicated an interest in financing the company for the abovementioned purposes. Several of the financing solutions being discussed require Quartiers not to pay a dividend to shareholders, irrespective of the class of shares.

The Board therefore chose to propose that the AGM resolve not to pay a dividend on the company's preference shares until the next AGM. Where the dividend is consistent with the Swedish Companies Act, Chapter 17, and the shareholders meeting resolves regarding a dividend next time, the preference shareholders take precedence ahead of ordinary shareholders to receive the accumulated dividend that would have been determined at the 2020 AGM (which is adjusted upwards by a factor of 12%) and a dividend totalling SEK 0.96 per preference share for the forthcoming year. In connection with this, the Board proposed an exchange offer, which the Board believes strategically strengthens the Company's balance sheet and is favourable for both preference shareholders and ordinary shareholders, given current market conditions. The offer means that preference shareholders will be offered an exchange of each preference share for one ordinary share, as well as one Series 1, 2020/2021 share warrant and one Series 2, 2020/2022 share warrant. The registration period for the exchange offer is expected to run from 28 July 2020 through 28 August 2020.

Each share warrant in the exchange offer entitles the holder to subscribe for one newly issued ordinary share in the company. The share warrants can be used to subscribe for ordinary shares during the period from 17 August 2021 through 31 August 2021 (for Series 1 share warrants) and from 17 March 2022 through 31 March 2022 (for Series 2 share warrants). The share warrants entitle holders to subscribe for new ordinary shares at whichever is higher of the value of (i) 75 percent of the volume-weighted average price according to Nasdaq First North's official list of prices for the shares for a period of 10 trading days immediately prior to (and excluding) 13 August 2021 and 15 March 2022, respectively, and (ii) SEK 3.50.

LIQUIDITY

At 31 December 2019, the Group's cash and cash equivalents amounted to SEK 6.9 million (SEK 8.4 million). In January 2020, share issue proceeds were deposited in the amount of approx. SEK 25 million after share issue expenses.

The company is currently experiencing an expansive period, focusing on development and investments in both existing and new property projects. This means that the company's liquidity position may vary over time. Quartiers Properties is of the opinion that the company's healthy equity/assets ratio enables it to take out short-term loan financing as needed to guarantee meeting working capital requirements for the forthcoming 12-month period. Moreover, the company holds liquid assets in the form of land and apartments, which can be divested within the framework of the company's operating activities should a financing need arise that cannot be met via borrowings.

MARKET SECTION

MARKET

Overview
Spain is one of the countries that has been most affected by the ongoing coronavirus pandemic. The tourism industry and the housing market on the Costa del Sol are closely linked. This analysis aims to provide a summary of current market conditions, with a focus on Quartiers' business.

Apartments market
The Spanish housing market is better equipped today than it was before the 2008 financial crisis, when it was characterised by overleveraging and inflation in property values. Both of these aspects have been strictly governed through new regulatory measures since that crisis. Both valuations and rules on borrowing are now tightly controlled, resulting in many property owners, both corporate and private, being more solvent than before the crisis. It is still too early to assess the precise impact on property values, but a number of commentators expect there to be a slowdown in the number of transactions while values remain relatively stable, with modest declines in comparison with the financial crisis. Particularly in more exclusive areas such as the Costa del Sol, where many international buyers have purchased housing with only 0–60% bank financing. This makes the market more resilient to declines in value, since fewer operators have to sell at a significant discount, although individual cases of this are expected.

The pandemic has resulted in many new-build developments having to close both sales offices and construction sites. This has, of course, adversely affected both sales and construction processes. In the medium to long term, construction is expected to take longer as a result of new safety procedures to minimise the risk of infection.

Metrovacesa, one of the largest Spanish property developers with a significant percentage of projects on the Costa del Sol, recently announced it intends to maintain construction at 70–75% of the normal pace. This pace is anticipated to continue for some time to come. Metrovacesa also announced that the company will take a more conservative approach to the construction startup of new projects in order to ensure a better balance of risk in its projects. Specifically, the list of requirements that have to be met before construction begins is being increased. The company previously began construction using its own liquid assets before the bank's 30% sales requirement to release construction loans had been achieved. Metrovacesa will not start production of a project until 30% of a project's apartments have been sold with binding contracts. Neinor Homes announced the same shortly after, stating that in future it will not commence construction using equity and will instead wait until loan financing is available. For Neinor Homes, this therefore means when 30% of a project has been pre-sold with signed binding purchase agreements.

This indicates that requirements for pre-sold apartments for when some of the largest property developers in the region resume construction are now higher than before the coronavirus outbreak. It also means that there is a risk of some projects having to be postponed if demand in specific areas declines temporarily. Overall, longer construction times and higher requirements before a project can start are expected to adversely affect the supply of new projects.

It will probably be some months before the impact of the Covid-19 situation is fully felt in the market, but even before the pandemic there were a number of notable market trends that are now believed to be strengthening. One of these was the trend among buyers of turning away from uniform white-washed building projects and returning to the secondary market and more traditional designs, often with the aim of remodelling the property's interior with extensive or minor renovation, depending on taste and budget. Quartiers believes this trend will be further reinforced during and after the pandemic, which it expects to boost demand for the company's portfolio of completed apartments in Benahavís.

In addition, there have been some positive signs from the banking sector, which could take measures to ease requirements on banks and promote various forms of lending to individuals to purchase properties. One such example is Banco Santander, which is working with the Spanish government to offer up to 95% financing for young people who would otherwise have been unable to purchase housing. Whether these incentives will be extended to a wider target group remains to be seen.

Tourism and the hotel and restaurant market
The hotel and restaurant sector is one of the cornerstones of the Spanish economy, accounting for two to three times as much of total GDP as in other comparable economies such as Germany (2.7%), the UK (2.8%) and the US (3.1%). The tourist industry is particularly vulnerable to economic shocks such as the Covid-19 pandemic, as it consists of lots of small businesses. Around 70% of the sector's approximately 314,000 businesses have fewer than three employees and continually work on low margins. Equity in the industry, measured in terms of the equity/assets ratio, amounts to 34% compared with the Spanish average of around 50%. In addition, studies show that 50% of businesses only have cash liquidity to cover one month of operating costs without making any sales.

The impact of Covid-19 on the tourist sector in Spain is expected to play out in four phases. The first phase, which has now passed, is a complete shutdown of the economy. During this phase revenues ceased completely for many companies. Phase two is the current phase, consisting of a gradual easing of restrictions so that businesses can slowly reopen. The third stage is expected to see restrictions lifted completely, but with limited demand as a result of many people still being concerned about the spread of infection. The final phase of recovery is expected to see levels of activity return almost to normal, but with continued limited demand for some services that pose a greater risk of infection, and with changes in consumer behaviour. The ability to adapt to new consumption patterns will therefore be key for businesses as economic activity resumes. (S*ource: Bain Consulting & EY, Impacto de Covid 19 en hosteléria en Espana*)

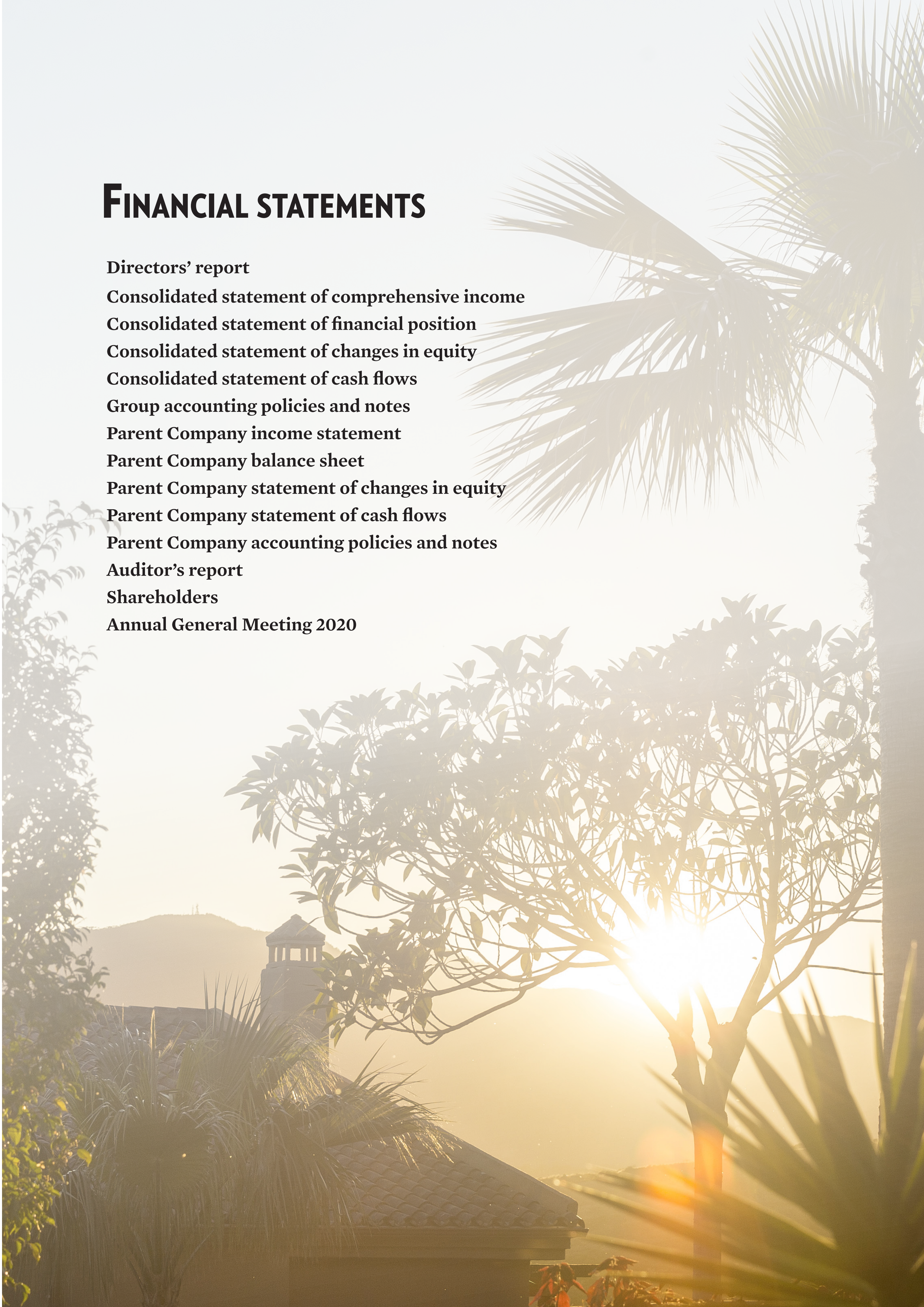
Countries like Spain have clearly been significantly impacted, since the tourism sector accounts for around 12.5 percent of GDP, and with a number of other industries such as food production, beverage producers, distribution and wholesalers also substantially indirectly dependent on the tourism market. The impact of reduced tourism will consequently be felt in a number of areas of the Spanish economy. (*CBRE: Spanish Market Outlook - Covid 19, April 2019*).

Historically, it is areas such as Marbella with significant international demand that have returned to normal sales levels quickest after crises. As the ongoing crisis has brought international travel to almost a complete standstill and had an adverse impact on numerous airlines, there is uncertainty over when and how travel will return to normal levels. The hotel industry therefore needs to adapt to lower demand, with tourists likely to look for brands that they trust. Given ongoing bankruptcies and staff cuts in the airline industry, there is also a risk of the number of flights to and from Malaga airport being reduced and, consequently, of airline tickets becoming more expensive. A need for safe accommodation and more expensive flights could severely impact those businesses that focus on a price-sensitive target group and that do not have the know-how or ability to maintain the necessary hygiene requirements.

Business opportunities

The pressure that the market is under in the face of Covid-19 is expected to create business opportunities for those operators with the financial resources and organisation to take action and invest. Particularly within the hotel and restaurant segment, which has a fragmented market with lots of small and medium-sized companies without financial resources and with few or non-existent liquidity reserves. Quartiers has a strong organisation that, with an experienced core staff, could scale up its operations as new opportunities arise. The company is working on a financial structure with aim of taking advantage of the opportunities that are expected to occur in the market.

Financial statements



The Board of Directors and Chief Executive Officer of Quartiers Properties AB (publ) hereby submit the annual accounts and consolidated accounts for the 2019 financial year.

DIRECTORS' REPORT

THE COMPANY IN BRIEF

Quartiers Properties AB (publ) is a Swedish limited company that, via Spanish subsidiaries, owns, develops and manages properties on the Costa del Sol in southern Spain. The company was established in July 2014. In October 2014, the Spanish subsidiary Flexshare España SL was formed. Operations began in July 2015. Today the Group consists of a number of wholly and partly owned companies in Spain, with operations in property development, property management, hotel management and property sales.

BUSINESS CONCEPT

Quartiers' business concept is to develop residential properties and holiday properties on the Spanish Costa del Sol. The target group for the company's operations is tourists and people looking for a second home.

BUSINESS OBJECTIVES

Quartiers' objective is to actively identify properties with development potential and build up a property portfolio on the Spanish Costa del Sol, in order to become an established regional operator. In the long term, Quartiers aims to achieve high profitability and manage a broad project portfolio on an ongoing basis.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Quartiers took over operation of the apartment hotel in Benahavís on 1 January. The apartment complex comprises 101 apartments that were previously leased to an external operator.

In March, the majority of shares were acquired in the operating company Boho Club, which will operate a hotel and restaurant on part of the Centro Forestal Sueco property. The company's operating partner remains an owner, with 20% of the shares. Quartiers thus owns the remaining 80%, and 100% of the property where the business will be operated.

In May Quartiers entered into a financing agreement with Strandängens Bostäder i Bunkeflostrand to finance the construction of Amapura. In July a loan of EUR 1.5 million from Frux Capital was refinanced, and an agreement for a EUR 1.5 million line of credit was entered into.

Late August saw the opening of the Boho Club restaurant at the Centro Forestal Sueco property.

In December an agreement was entered into with London-based JLL Real Restate Advisors with the aim of refinancing part of the company's debt and freeing up cash flow, reducing the company's cost of capital and putting in place an appropriate repayment structure.

During the year the sale of project 22ByQuartiers was completed.

The decision was taken in December to carry out a new issue of preference shares. The issue was completed in January 2020.

NET SALES

Quartiers' net sales totalled SEK 93,377 thousand (SEK 29,098 thousand), of which the divestment of properties accounted for SEK 68,132 thousand (SEK 23,910 thousand) and the operating business accounted for SEK 25,245 thousand (SEK 5,188 thousand). The rise in revenues was due to increased activity in the company. As of 1 January, the company took over operation of the apartment hotel in Benahavís from an external operator, and on 1 September 2019 the restaurant at Boho Club opened as the first part of the project. Phase 1 of the hotel itself then opened on 15 December 2019, making 30 hotel rooms available.

COST OF PROPERTIES SOLD

The cost of properties sold totalled SEK 55,704 thousand (SEK 19,479 thousand), comprising construction and financing costs of SEK 38,663 thousand (SEK 15,167 thousand), selling costs of SEK 6,219 thousand (SEK 1,536 thousand) and the previously reported change in value of properties of SEK 7,348 thousand (SEK 2,775 thousand). The profit margin on the company's completed property sales was approximately 25%. Excluding selling costs, the margin averaged around 35% of the selling price.

OPERATING EXPENSES

Operating expenses totalled SEK 56,253 thousand (SEK 14,067 thousand). The increase on the previous year was due to the takeover of operation of the apartment hotel in Benahavís (see Revenues above), as well as the start-up and initial operation of Boho Club, which cost SEK 20,487 thousand. For the first time, following reclassification of previously market-valued investment properties as operating properties and completion of the Boho Club restaurant, property expenses also included depreciation of operating properties of SEK 9,575 thousand. The biggest single costs comprised personnel costs and consulting expenses totalling SEK 22,363 thousand (40%), depreciation of SEK 11,625 thousand (21%), repair and maintenance costs of SEK 6,714 thousand (12%), and association fees for the joint property association in the company's apartment hotel of SEK 4,870 thousand (9%).

GROSS EARNINGS

Gross earnings totalled SEK -18,580 thousand (SEK -4,448 thousand).

EARNINGS FROM INTERESTS IN JOINT VENTURES

Income for the year included earnings from interest in joint ventures of SEK 2,677 thousand (SEK -1,165 thousand). As a result of the acquisition of a majority of the shares in Boho Club in March 2019, this holding has been recognised as a subsidiary since April. In connection with this transaction accounting income was generated in the amount of SEK 2,226 thousand, which has been included in profit/loss.

OTHER SIGNIFICANT OPERATING ITEMS
Central administration costs were SEK 10,546 thousand (SEK 16,699 thousand), representing a decrease of 36.8% on 2018.

CHANGES IN THE VALUE OF INVESTMENT PROPERTIES
As of 31 December 2018, the company's investment properties were reclassified as operating properties. From 1 January 2019 no changes in value are therefore recognised for investment properties.

INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS
The company's interest expenses and similar income statement items for the period totalled SEK -13,140 thousand (SEK -2,291 thousand). Capitalised interest expenses for the period totalled SEK 624 thousand (SEK 2,919 thousand), resulting in total interest expenses over the year of SEK 13,764 thousand (SEK 5,210 thousand)

INCOME TAX
Tax on recognised surplus property values is recognised as income tax. Deferred tax for the period was SEK +2,146 thousand (SEK -10,807 thousand). This positive tax expense results from the dissolution of deferred tax on previous unrealised changes in value.

PROFIT/LOSS AFTER TAX
Income for the year totalled SEK -37,443 thousand (SEK 10,158 thousand).

CASH FLOW AND FINANCIAL POSITION
Cash flow from operating activities amounted to SEK 19,702 thousand (SEK -44,696 thousand). Cash and cash equivalents at the end of the year totalled SEK 6,874 thousand (SEK 8,422 thousand).

In January the company raised approximately SEK 25 million from a share issue. Quartiers is dependent on additional capital contributions to finance investments and repayments of existing loans. In December 2019 Quartiers entered into an agreement with JLL Real Estate Advisors and began a process of refinancing existing debt and improving the Group's financial cash flow.

The coronavirus pandemic has had a major impact on both the conditions for operating activities and the capital market.

It has required the company to implement a raft of measures to mitigate the negative consequences on the company's operational activities and ensure financing. The company's Board has proposed that the AGM resolve not to pay any dividend.

See also 'Events after the end of the financial year'.

INVESTMENTS
Investments and purchases of project and operating properties and other property, plant and equipment amounted to SEK 98,325 thousand (54,806). Divestments totalled SEK 64,875 thousand (SEK 20,893 thousand).

OPERATING PROPERTIES
Operating properties consisted of a hotel property and 98 apartments that, as of 1 January 2019, are being rented out under the company's own management as an apartment hotel. One apartment was sold during the year at a price corresponding to the recognised market value at 31 December 2018. Investments in operating properties, including the accounting effect of acquisitions, amounted to SEK 81,301 thousand (SEK 6 thousand) for the period. The investment mainly relates to the Boho Club project.

PROJECT PROPERTIES
During the period, gross investments in project properties amounted to SEK 6,954 thousand (SEK 54,140 thousand). The divestment of project properties for the period totalled SEK 61,853 thousand (SEK 20,893 thousand) and related to the 22byQuartiers project.

FINANCING
During the year, the company raised loans and other non-current liabilities totalling SEK 123,399 thousand (SEK 47,748 thousand). Repayments amounted to SEK 50,960 thousand (SEK 14,797 thousand). In December the decision was taken to carry out a new share issue totalling SEK 25,000 thousand, which was completed in January 2020.

See also the Financing section above, Notes 24 and 28, and 'Events after the end of the financial year'.

ORGANISATION
The company is gradually developing an organisation in Spain, which is also where the company's CEO is based. At 31 December 2019, besides the CEO, the management team consisted of the CFO and three other employees.

RISK
Quartiers is continually exposed to various risks that may have a significant impact on the company's earnings and financial position. The risk factors below have not been detailed in order of importance and are by no means comprehensive. See also description of financial risk factors under Note 28.

Risk in operating activities
Revenues mainly consist of variable revenues from the rental and restaurant business. Costs primarily comprise consulting and personnel costs, repairs and maintenance, expenses for heating, electricity, water and cleaning, and mandatory fees to associations.

Since the end of the financial year the risk in the business has increased as a result of Covid-19 forcing the company to shut down all operating activities. However, the impact has been addressed by the management being able to furlough most of the personnel, allowing it to significantly cut costs.

Risk in property acquisitions
Acquiring properties is part of the company's strategy. Property acquisitions are associated with a certain degree of inherent risk and uncertainty, including the risk that company management's time and other resources will be used to attempt to bring about acquisitions that are not completed, the risk of paying too much for assets, the risk of erroneous measures with regard to future operating income for the acquired property, and the risk of taking over rental/cooperation agreements that are unfavourable for the company, as well as the risk that company management's focus is diverted from current operations.

In order to reduce the risk when making property acquisitions, the company carries out individual analyses of each acquisition, examining legal, financial and commercial aspects.

Organisational risk
The company has a relatively small organisation, which means it is dependent on the performance of individual employees and the company's ability going forward to identify, recruit and retain qualified and experienced management personnel. Quartiers' ability to recruit and retain such individuals depends on a number of factors, some of which are to some extent beyond the company's control, including competition on the labour market.

The loss of one senior or key individual due to that person resigning or retiring, for example, may mean the loss of a key area of expertise, that it is not possible to achieve established objectives or that the implementation of the company's business strategy is negatively affected. If current key individuals leave, or if the company is unable to recruit or retain qualified and experienced senior individuals, this may have a significant negative impact on the company's operations, financial position and position in general.

Refinancing
Refinancing risk refers to the risk that it is not possible to obtain financing at all, or only at significantly increased cost. A low loan-to-value ratio and long credit commitments limit this risk while reducing the company's interest sensitivity. The borrowing requirement may refer to refinancing of existing loans or new borrowing. To minimise the risk of it not being possible to refinance existing loans, Quartiers works proactively to maintain good relationships with banks and other capital providers. The company's operations are capital intensive, which means that issues relating to refinancing are given high priority and are continually followed up by the company's management team. There is a risk that future refinancing on reasonable terms may not be possible at all, or may be only partly possible, which would have a significant negative impact on the company's operations, financial position and earnings.

Legal risk
Property operations are highly dependent on laws and other regulations, as well as decisions by authorities with regard to the environment, safety and renting. New laws or regulations, or changes to the application of existing laws or regulations that are relevant to the company's operations or customers' operations may have an adverse effect on the company's operations, financial position and earnings.

Exchange rate fluctuations
The company conducts operations in Spain and is therefore exposed to the risk of exchange rate fluctuations having a negative impact on Quartiers' income statement, balance sheet and/or cash flow. The company's reporting currency is SEK and its most important operating currency is EUR. Foreign currency exposure arises every time the company's operating subsidiary participates in a transaction in which it uses a currency other than the one the company normally uses in its operations. At present, the single largest exposure is EUR/SEK. In addition, exchange rate fluctuations occur when the earnings and financial position of the foreign subsidiary are translated from EUR to SEK. See also Note 28.

Price risk
There is a risk that in the event of a sale of properties the fair value may fall short of the carrying amount.

The carrying amount comprises the purchase cost. However, the carrying amount includes value adjustments from previous periods when part of the portfolio was recognised at fair value. This value was verified at the end of 2019 through the sale of an apartment.

PARENT COMPANY
The Parent Company's operations mainly consist of managing the company's investments in subsidiaries. The Parent Company's earnings for the financial year amounted to SEK -1,983 thousand (SEK -1,828 thousand). At the balance sheet date, equity totalled SEK 257,368 thousand (SEK 266,335 thousand). The company's equity/assets ratio was 90 percent (95).

EVENTS AFTER THE END OF THE FINANCIAL YEAR
In January, the company completed a new issue of preference shares, generating proceeds of around SEK 25 million after share issue expenses.

The coronavirus has led to dramatic changes in the operating business. The company's hotel and restaurant business closed in compliance with the Spanish government's lockdown decision to prevent the spread of the virus. This has, of course, had a negative impact on revenues. However, it has been possible to mitigate the loss of income in the personnel-intensive part of the business by furloughing staff. The company has made use of this possibility and furloughed 64% of its workforce, while 24% of personnel have had their employment terminated permanently.

As the restaurant and hotel business in the newly opened Boho Club were in the start-up phase, the lost revenues and reduced costs had a relatively neutral effect on the company's cash flow.

The Boho Club restaurant reopened at the end of May for dinner bookings with a restricted number of places.

The sale of apartments also stopped during the ongoing lockdown.

The company had intended to refinance part of its liabilities in 2020 with a view to freeing up cash flow for continued investments. As a part of this process, the company commissioned JLL Real Estate Advisors in London as consultants in December 2019. This work was interrupted because of the Covid-19 outbreak in Europe.

As a result of the Covid-19 pandemic and its impact Quartiers is in need of additional financing, through the sale of assets that are also part of the company's day-to-day business operations, or the raising of new loans, to finance operating activities and free up capital for further investments.

At the time of publication of the annual report, the management is in discussions with both Frux Capital, with which the company is already working, and other operators that have indicated an interest in financing the company for the above-stated purpose. In the event that loan financing cannot be obtained from any of the operators with which discussions are currently ongoing, the company could instead need to sell properties more quickly. There is then a risk that they have to be sold at lower prices than desired. In the worst case, this could lead to losses if sales have to be made at less than the carrying amount.

The company generally assesses that the Spanish housing market is better equipped today than it was before the 2008 financial crisis, when it was characterised by overleveraging and property value inflation. Both of these aspects have been strictly governed through new regulatory measures since that crisis. Both valuations and rules on borrowing are now tightly controlled, resulting in many property owners, both corporate and private, being more solvent than before the crisis. It is still too early to assess the precise impact on property values, but a number of assessments, including Quartiers', expect there to be a slowdown in the number of transactions while values remain relatively stable, with modest declines in comparison with the financial crisis. Particularly in more exclusive areas such as the Costa del Sol, where many international buyers have purchased housing with only 0–60% bank financing. This makes the market more resilient to declines in value, since fewer property owners have to sell at a significant discount, although individual cases of this are expected to occur.

Several of the financing solutions being discussed require Quartiers not to pay a dividend to shareholders, irrespective of the class of shares. The Board therefore chose to propose that the AGM resolve not to pay a dividend on the company's preference shares until the next AGM. In connection with this, the Board proposed an exchange offer, which the Board believes strategically strengthens the Company's balance sheet and is favourable for both preference shareholders and ordinary shareholders, given current market conditions.

The offer means that preference shareholders will be offered an exchange of each preference share for one ordinary share, as well as one Series 1, 2020/2021 share warrant and one Series 2, 2020/2022 share warrant. The registration period for the exchange offer is expected to run from 28 July 2020 through 28 August 2020.

Each share warrant in the exchange offer entitles the holder to subscribe for one newly issued ordinary share in the company. The share warrants can be used to subscribe for ordinary shares during the period from 17 August 2021 through 31 August 2021 (for Series 1 share warrants) and from 17 March 2022 through 31 March 2022 (for Series 2 share warrants). The share warrants entitle holders to subscribe for new ordinary shares at whichever is higher of the value of (i) 75 percent of the volume-weighted average price according to Nasdaq First North's official list of prices for the shares for a period of 10 trading days immediately prior to (and excluding) 13 August 2021 and 15 March 2022, respectively, and (ii) SEK 3.50.

DIVIDEND

Proposed distribution of profits

The following funds are at the disposal of the AGM:

Share premium reserve	291,672,718
Retained earnings	-33,715,038
Profit/loss for 2019	-1,983,371
Total available funds	**255,974,309**

The Board proposes that the AGM does not approve a dividend and that the AGM resolve instead that the available profit in the Parent Company of SEK 255,974,309 be carried forward.

CONSOLIDATED INCOME STATEMENT

Amounts are stated in SEK thousand	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Divestment of properties	3	68,132	23,910
Revenue, operator business	4	25,245	5,188
Total net sales		**93,377**	**29,098**
Cost of properties sold	5	-55,704	-19,479
Operating expenses	6.7	-56,253	-14,067
Total operating expenses		**-111,957**	**-33,546**
Gross earnings		**-18,580**	**-4,448**
- of which profit/loss from operator business		-31,008	-8,879
- of which profit/loss from divestment of properties		12,428	4,431
Central administration	6.7	-10,546	-16,699
Earnings from interests in joint ventures/associates	8	2,677	-1,165
Unrealised change in value of investment properties	9	0	45,567
Operating profit/loss		**-26,449**	**23,255**
- of which operating profit/loss before depreciation/amortisation and unrealised changes in value (EBITDA)		-14,823	-20,411
Finance income	10	732	421
Finance costs	10	-13,872	-2,711
Profit/loss from financial items		**-13,140**	**-2,291**
Profit/loss before tax		**-39,589**	**20,965**
Income tax	11	2,146	-10,807
PROFIT/LOSS FOR THE YEAR		**-37,443**	**10,158**
Attributable to:			
Parent Company's shareholders		**-32,778**	**10,158**
Non-controlling interests		-4,665	0
		-37,443	**10,158**

Earnings per ordinary share, SEK (no dilution)	22	-0.82	0.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts are stated in SEK thousand	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Profit/loss for the year		**-37,443**	**10,158**
Other comprehensive income			
Items that have been or may be transferred to profit/loss for the year			–
Translation differences regarding foreign operations		5,966	13,322
Comprehensive income for the year		**-31,477**	**23,480**
Attributable to:			
Parent Company shareholders		-26,812	23,480
Non-controlling interests		-4,665	0
		-31,477	23,480

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts are stated in SEK thousand	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment			
Operating properties	12	532,617	455,369
Equipment, tools and fixtures and fittings	13	16,846	5,806
Other non-current assets			
Interests in joint ventures/associates	8	478	7,295
Other securities held as non-current assets	14	12	1,194
Other non-current receivables		30	38
Total non-current assets		**549,983**	**469,702**
Current assets			
Project properties	15	111,938	153,150
Inventories	16	783	0
Receivables from joint ventures/associates	17	1,280	1,705
Trade receivables	18	1,645	2,372
Other receivables	19	5,174	1,801
Prepaid expenses and accrued income	20	22,412	20,371
Cash and cash equivalents	21	**6,874**	**8,422**
Total current assets		**150,106**	**187,821**
Total assets		**700,089**	**657,523**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts are stated in SEK thousand	Note	31/12/2019	31/12/2018
SHAREHOLDERS' EQUITY	22		
Share capital		1,393	1,393
Other contributed capital		291,673	291,673
Reserves, translation differences		25,773	19,807
Retained earnings incl. profit/loss for the period		16,979	60,299
Shareholders' equity attributable to Parent Company shareholders		**335,818**	**373,172**
Non-controlling interests		**-1,106**	**0**
Total shareholders' equity		**334,712**	**373,172**
LIABILITIES			
Non-current liabilities			
Other provisions	23	0	0
Deferred tax liabilities	11	45,443	46,782
Interest-bearing liabilities	24.28	253,893	154,171
Other non-current liabilities	25	14,103	13,872
Total non-current liabilities		**313,439**	**214,825**
Current liabilities			
Interest-bearing liabilities	24.28	24,661	47,522
Trade payables		9,306	6,669
Other current liabilities	26	16,777	13,676
Accrued expenses and deferred income	27	1,194	1,659
Total current liabilities		**51,938**	**69,526**
TOTAL EQUITY AND LIABILITIES		**700,089**	**657,523**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts are stated in SEK thousand	Share capital	Other contri-buted capital	Reser-ves, trans-lation diffe-rences	Retained earnings incl. pro-fit/loss for the period	Share-holders' equity att-ributable to Parent Company owners	Non-con-trolling interests	Total share-holders' equity
Opening balance, 01/01/2018	**1,363**	**279,852**	**6,485**	**56,458**	**344,158**	**0**	**344,158**
Comprehensive income							
Profit/loss for the period				10,158	10,158		10,158
Translation differences			13,322		13,322		13,322
Total comprehensive income			**13,322**	**10,158**	**23,480**		**23,480**
Transactions with shareholders							
New share issue	30	11,915			11,945		11,945
Dividend paid, preference shares	–	–	–	-3,685	-3,685		-3,685
Change in expensed unpaid dividend, preference shares	–	–	–	-2,632	-2,632		-2,632
Share issue expenses	–	-94			-94		-94
Total transactions with shareholders	30	11,821	–	-6,317	5,534		5,534
Closing balance, 31/12/2018	**1,393**	**291,673**	**19,807**	**60,299**	**373,172**	**0**	**373,172**
Opening balance, 01/01/2019	**1,393**	**291,673**	**19,807**	**60,299**	**373,172**	**0**	**373,172**
Comprehensive income							
Profit/loss for the period			–	-32,778	-32,778	-4,665	-37,443
Translation differences			5,966		5,966		5,966
Total comprehensive income			**5,966**	**-32,778**	**-26,812**	**-4,665**	**-31,477**
Transactions with shareholders							
Transactions with minority shareholders				-3,559	-3,559	3,559	0
Dividend, preference shares				-6,983	-6,983		-6,983
Total transactions with shareholders	–	–	–	-10,542	-4,757		-6,983
Closing balance, 31/12/2019	**1,393**	**291,673**	**25,773**	**16,979**	**335,818**	**-1,106**	**334,712**

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts are stated in SEK thousand	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Cash flow from operating activities			
Operating profit/loss		-26,449	23,255
Of which profit/loss from divestment of properties		-12,428	-4,431
Of which attributable to minority		4,665	0
Depreciation, amortisation and impairment		11,464	1,901
Share in earnings of associates		-2,677	1,165
Unrealised changes in value		0	-45,568
Interest income and similar profit/loss items		732	421
Interest paid (attributable to financing activities)		-13,872	-2,711
Cash flow from operating activities before changes in working capital		**-38,565**	**-21,537**
Changes in working capital			
Sale of project properties	15	61,855	20,893
Investments in project properties	15	-6,954	-54,140
Change in other inventories		-783	0
Change in operating receivables		-1,584	1,967
Change in operating liabilities		5,733	8,121
Total change in working capital		**58,267**	**-23,159**
Cash flow from operating activities		**19,702**	**-44,696**
Cash flow from investing activities			
Divestment of operating properties		2,932	0
Reduction in non-current financial assets		511	3,990
Investments in non-current financial assets		0	-8,459
Acquisitions and investments in operating properties	12	-74,006	-1,294
Investments in plant and equipment		-17,364	628
Cash flow from investing activities		**-87,927**	**-5,135**
Cash flow from financing activities			
New share issue		0	24,750
Borrowings raised	24	123,399	47,748
Loan repayments	24	-50,960	-14,797
Dividend paid, preference shareholders		-6,983	-5,643
Cash flow from financing activities		**65,456**	**52,058**
Cash flow for the period		-2,769	-2,226
Cash and cash equivalents at start of period	**12**	**8,422**	**6,131**
Acquisitions and investments in operating properties	12	1,221	65
Cash and cash equivalents at end of period		**6,874**	**8,422**

GROUP ACCOUNTING POLICIES AND NOTES

NOTE 1.

GROUP ACCOUNTING POLICIES

1. GENERAL INFORMATION

Quartiers Properties AB (publ) (Parent Company) and its subsidiaries, referred to below as "Quartiers Properties" or "the Group", acquire and carry out property projects in southern Spain. The Parent Company is a public limited company registered in Sweden, with registered offices in Stockholm. The head office address is Strandvägen 7A, 114 56 Stockholm, Sweden.

The annual accounts and consolidated financial statements were approved by the Board of Directors on 5 June 2020 and submitted for adoption at the Annual General Meeting on 26 June 2020.

All amounts are recognised in SEK thousand, unless stated otherwise.

2. BASIS FOR PREPARATION OF THE COMPANY'S ACCOUNTS

The consolidated accounts for Quartiers Properties AB (publ) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) approved by the EU at 31 December 2019.

The consolidated accounts have been prepared according to the cost method, with the exception of other securities held as non-current assets, which are recognised at fair value. The most important accounting policies applied in the preparation of these consolidated accounts are detailed below. These policies have been applied consistently for all the periods presented, unless otherwise stated.

The Parent Company accounts have been prepared according to RFR 2 Accounting for Legal Entities, and the Swedish Annual Accounts Act. See differing accounting policies for the Parent Company.

3. CONSOLIDATED ACCOUNTS AND CONSOLIDATION PRINCIPLES

The consolidated accounts cover the Parent Company and all companies in which the Parent Company, either directly or indirectly, controls more than 50% of the votes or in some other way has a controlling influence.

The Group controls a company when it is exposed to, or is entitled to a variable return from its holding in the company, and has the opportunity to affect such return via its influence in the company. Subsidiaries are included in the consolidated accounts as of the date that the controlling influence is transferred to the Group. They are excluded from the consolidated accounts from and including the date that the controlling influence ceases.

The Group's acquisitions are recognised in accordance with the purchase method. The purchase consideration for the acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and the shares issued by the Group. The purchase consideration also includes the fair value of all assets or liabilities resulting from a contingent consideration arrangement and supplementary payments. Acquisition-related costs are expensed as they arise. Any changes to contingent consideration and supplementary payments are recognised in subsequent periods in the consolidated income statement.

Intra-Group transactions and balance sheet items, as well as unrealised gains and losses on transactions between Group companies, are eliminated on consolidation. The accounting policies for subsidiaries have been amended, where appropriate, to ensure consistent application of the Group's policies.

Non-controlling interests are recognised in Group equity for minority owners' share of consolidated values of those net assets owned by minority owners.

Associates are recognised in accordance with the equity method. A company is deemed an associate when Quartiers holds at least 20 percent but no more than 50 percent of the votes or in some other way has significant influence over operational and financial governance.

The equity method means that the consolidated carrying amount of the shares in associates corresponds to the Group's share in associates' equity and consolidated goodwill and any other remaining consolidated surplus and deficit values. The Group's share in associates' profits is recognised as 'Share in earnings of associates', adjusted for any depreciation/amortisation, impairment losses and dissolution of acquired surplus and deficit values. These participations in profits, less dividends received from associates, constitute the main change in the carrying amount of investments in associates. The Group's share of other comprehensive income in associates is recognised on a separate line in the Group's other comprehensive income.

At the balance sheet date, Quartiers owned no shares in companies classified as jointly owned companies.

4. CHANGES TO REGULATIONS

Changes to accounting policies and disclosures

IFRS 16 Leases
On 1 January 2019 the Group started applying the new standard on leasing, IFRS 16 Leases, which replaces the previous IAS 17 Leases. For lessees this resulted in the removal of classification as operating or financial leases under IAS 17 and was replaced with a model in which right-of-use assets and lease liabilities for all leases are recognised in the balance sheet.

The new standard has resulted in increased disclosure requirements, set out in Note 13 'Plant and equipment' and Note 28 'Interest-bearing liabilities'.

Quartiers has chosen to apply the amended retrospective transition method, which involves application without restatement of comparative figures.

Under the new standard, a lease liability comprising the net present value of future payments and a right of use is recognised at corresponding value. The value of the right of use is depreciated/amortised over the useful life. The lease liability increases in line with interest expenses and decreases in line with paid lease payments. For Quartiers Properties the transition has not resulted in any change to right-of-use assets or lease liabilities at 01/01/2019. All of the Group's leased assets and lease liabilities are already recognised in the balance sheet at the net present value of future payments. Leases contain no variable fees, index clauses or extension options that are expected to be used, or restoration expenses to take into account that change the carrying amount at 1 January 2019.

Revisions of existing standards and, in general, approved new standards and interpretative statements from the IFRS Interpretations Committee that first come into effect next financial year are not deemed to have any material impact on Quartiers' earnings or financial position.

5. FOREIGN CURRENCY TRANSLATION

The various divisions in the Group use the local currency as their functional currency, as the local currency has been defined as the currency that is used in the primary financial environment in which the respective division chiefly operates. The Swedish krona (SEK), which is the Parent Company's functional currency and the Group's reporting currency, is the currency used in the consolidated accounts.

The Group's foreign operations are converted to the Group's functional currency, SEK, by converting the balance sheets at the exchange rate on the balance sheet date, with the exception of equity, which is converted at the historical rate. The income statement is recalculated monthly at the average exchange rate for the month. Any translation differences that arise are recognised in other comprehensive income. Accumulated translation differences are included in consolidated equity under 'Reserves, translation differences'.

Transactions in foreign currency are translated using the exchange rate at the point of transaction.

6. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions about the future. By definition, the resulting accounting estimates will rarely correspond to the actual outcome. The estimates and assumptions that represent a significant risk of material adjustments to the carrying amounts of assets and liabilities during the coming financial period are presented below.

Classification of properties

When a property is acquired, an assessment is made of whether the property will be retained, sold or developed for the company's own operations. The analysis considers such issues as market development, the company's organisational resources and consolidated cash flow. The assessment has an impact on the Group's earnings and financial position, as the various types of property are treated differently in accounting terms.

Investment properties are properties that are held for the purposes of generating rental income and an appreciation in value. Investment properties are recognised at fair value. At the balance sheet date, no properties met the criteria to be classified as investment properties.

Properties acquired for the purposes of running a business, primarily hotel operations, are classified as operating properties and recognised at cost.

Properties acquired for the purposes of selling once they have been developed (project properties) are recognised as inventory at cost, or net realisable value, if the latter is lower.

Gains or losses from property sales

Revenue from property sales is usually recognised at the completion date, unless control passed to the buyer at an earlier date. The assessment of the point of revenue recognition takes account of what is agreed between the parties regarding risks and benefits and involvement in ongoing management.

Property valuations

The company continually assesses the carrying amount of its properties. An independent valuation of all properties is carried out every December, which forms the basis of the properties' values for the preparation of the year-end accounts.

The valuation at 31 December 2019 was carried out by CBRE, which principally used the comparable sales method to establish market value. This method involves the assessment being made on the basis of prices paid for similar properties on an unregulated open market.

Credit risk in receivables

The Group has receivables from tenants and property buyers.

Claims arising via invoicing after property acquisition contracts have been entered into are recognised in the balance sheet at nominal value and as prepaid income until such time as control passes to the buyer. No other assessment is carried out. There was no contract liability at 31 December 2019.

See also Note 18 'Accounting policy'.

NOTE 2. SEGMENT REPORTING

ACCOUNTING POLICY

The Group's business is divided into operating segments based on how the company's chief operating decision-maker monitors performance. The chief operating decision-maker is the company's chief executive officer. A change to internal reporting was implemented on 1 January 2019. Reporting now takes place in two segments: property management, which mainly includes operation of hotels, and property development, which mainly comprises project development. Comparative figures have been adjusted in line with the new division of segments. All revenue and non-current assets are attributable to Spain.

In 2018, 100 percent of property management revenues were from one operator. Since this cooperation was ended on 31 December 2018 no customer accounts for more than 10% of revenues.

	Property Management	Property Development	Group items and eliminations	Total	Property Management	Property Development	Group items and eliminations	Total
	01/01/2019 to 31/12/2019				01/01/2018 to 31/12/2018			
Operating revenue								
Sale of properties	3,187	64,945		68,132		23,910		23,910
Operator revenues	25,245			25,245	5,188			5,188
Net sales	**28,432**	**64,945**		**93,377**	**5,188**	**23,910**		**29,098**
Operating expenses								
Cost of properties sold	-3,474	-52,230		-55,704		-19,479		-19,479
Depreciation/amortisation	-11,625	0		-11,625	-1,846	0		-1,846
Other operating expenses	-39,280	-5,348		-44,628	-10,303	-1,918		-12,221
Total operating expenses	**-54,379**	**-57,578**		**-111,957**	**-12,149**	**-21,397**		**-33,546**
Gross earnings	**-25,947**	**7,367**		**-18,580**	**-6,961**	**2,513**		**-4,448**
Central administration			-10,546	-10,546			-16,699	-16,699
Operating profit/loss				-29,126				-21,147
Assets								
Properties	532,617	111,938		644,555	455,369	153,150		608,519

NOTE 3. DIVESTMENT OF PROPERTIES

ACCOUNTING POLICY

Revenue from the divestment of properties is recognised in accordance with IFRS 15. Revenue is usually recognised on the completion date, unless control passed to the buyer at an earlier date. The assessment of the point of revenue recognition takes account of what is agreed between the parties regarding risks and benefits and involvement in ongoing management. With regard to sales made in 2019, the point that control passes to the buyer is the completion of final inspection and acceptance of ownership of the property. Claims arising via invoicing after property acquisition contracts have been entered into are recognised in the balance sheet at nominal value and as prepaid income until such time as control passes to the buyer. No other assessment is carried out.

CREDIT RISK

Income is only recognised once payment has been made; consequently, no credit risk arises.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Sales of 22by Quartiers apartments	64,945	23,910
Sales of Hacienda Cifuentes apartments	3,187	0
Total	**68,132**	**23,910**

The company made a total of 17 sales in 2019, of which 22byQuartiers accounted for 16, which means all of the project's apartments have been sold.

Operating profit before sales costs in 22byQuartiers totalled SEK 31,793 thousand, of which SEK 23,051 thousand was recognised in 2019. The average operating profit margin for the project was 36%. Selling costs totalled SEK 7,755 thousand.

Hacienda Cifuentes comprises a large apartment complex in Benahavís. The holding was previously classified as an investment property and recognised at market value with a total value adjustment of SEK 1,250 thousand. One apartment was sold in 2019. The selling price was equivalent to SEK 3,187 thousand, which corresponds to a 61.9% increase in value. Purchase cost including capitalisation over the period of retention amounted to SEK 1,969 thousand. Profit before selling costs was SEK 1,218 thousand, which corresponds to 97.4% of the value assigned to the apartment in the most recent market valuation at 31 December 2018.

NOTE 4. REVENUE, OPERATOR BUSINESS

ACCOUNTING POLICY

Revenues from the operator business relate to the management of a hotel, restaurant and a concierge service. The revenues mainly come from accommodation, food and drink, and a conference business. Revenues from the operator business are recognised in the period when the services were provided. Advances received are recognised as accrued income. Income is recognised exclusive of VAT and discounts, and after elimination of intra-Group sales. Rental income and significant rental discounts are recognised on an accrual basis during the year.

CREDIT RISK

Around 80% of revenues are paid in advance to a booking agency or at the point that the service is used. The remaining 20% relates to receivables from long-stay guests who are invoiced monthly.

Revenues in 2018 refer to revenues from the operator at that time. The collaboration was ended early on 31 December 2018, whereupon a preliminary lease discount of SEK 2,577 thousand was provisioned for. The final discount was SEK 3,290 thousand. The difference was recognised as a bad debt loss in 2019.

LEASE INCOME

At 31 December 2019 the company had 13 apartments that are rented long term with remaining terms of 1–3 years. Income from existing rental agreements amounts to SEK 1,854 thousand for 2020, SEK 367 thousand for 2021, SEK 116 thousand for 2022 and SEK 83 thousand for 2023. Payment is made on a monthly basis. All other rental income relates to rental as part of the hotel business.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Hacienda Apartment Hotel		
Operator rental income	0	5,188
Long-term rental income	3,485	0
Short-term rental income	14,090	0
Other income	1,315	0
Total Hacienda Apartment Hotel income	**18,890**	**5,188**
Boho Club		
Restaurant	6,020	0
Hotel	335	0
Total Boho Club income	**6,355**	**0**
Total	**25,245**	**5,188**

NOTE 5. COST OF PROPERTIES SOLD

ACCOUNTING POLICY

Quartiers' cost of sold properties comprises costs arising in connection with the sale of a property, and includes production and selling expenses. The costs are recognised in the same period that revenue from the sold properties is recognised. The cost of properties sold also includes previously recognised unrealised appreciation in accordance with IAS 40 Investment Properties.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
22ByQuartiers		
Production expense including cost of capital and initial acquisition of the project	38,663	15,167
Increase in value previously recognised but unrealised	7,348	2,775
Selling cost	6,219	1,536
Recognised production expense	**52,230**	**19,479**
Hacienta Cifuentes		
Purchase cost	1,969	0
Increase in value previously recognised but unrealised	1,250	0
Selling cost	255	0
Recognised production expense	**3,474**	**0**
Total		
Purchase cost	40,632	15,167
Increase in value previously recognised but unrealised	8,598	2,775
Selling cost	6,474	1,536
Recognised production expense	**55,704**	**19,479**

NOTE 6. OPERATING EXPENSES AND CENTRAL ADMINISTRATION

ACCOUNTING POLICY

Operating expenses
Quartiers' operating expenses comprise costs arising in connection with the operation and leasing of property. Significant recurring cost items are made up of fees to Spanish owner associations (the equivalent of cooperative associations), repair and maintenance costs, electricity and lighting and consultancy and employee expenses. Property expenses are recognised in the period to which they relate. See Note 11 regarding accounting policies for depreciation/amortisation

Central administration
Quartiers' central administration costs include the Group's administrative expenses, such as personnel costs, travel expenses, consultancy fees, marketing costs and costs relating to financial and other administration. These costs are recognised in the period to which they relate.

OPERATING EXPENSES	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Consultancy and personnel costs	22,363	3,957
Depreciation/amortisation	11,625	1,901
Repairs and maintenance	6,714	1,101
Association fees (apartment complex in Benahavís)	4,870	4,615
Electricity and lighting	2,383	692
Other	8,298	1,801
Total	**56,253**	**14,067**

CENTRAL ADMINISTRATION	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Wages and salaries	4,773	3,290
Consultancy fees	1,710	3,701
Bank and financing costs	3,186	3,913
Advertising & PR	427	3,006
Other	450	2,789
Total	**10,546**	**16,699**

AUDIT COSTS

Audit assignment relates to the review of the annual accounts and accounting records, and the Board of Directors and CEO's management, and other tasks that the company's auditor is obliged to perform.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
PwC		
Audit assignment	976	664
Audit activities in addition to the audit assignment	85	80
Total	**1,061**	**744**

NOTE 7. EMPLOYEE BENEFITS

ACCOUNTING POLICY

Employee benefits
Employee benefits are recognised at the rate at which employees have performed services in exchange for remuneration. Benefits include a fixed salary, holiday pay, variable salary and, where applicable, other benefits.

Pension obligations
Besides monthly remuneration in the form of a salary, the Group also pays fees for defined contribution pension schemes to publicly or privately managed pension insurance schemes on a compulsory, contractual or voluntary basis. The Group has no other payment obligations once such fees have been paid. The fees are recognised as employee expenses when they fall due for payment.

Termination benefits
Termination benefits are paid when an employee's contract is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for such benefits.

Average no. of employees	01/01/2019 31/12/2019	Percentage who are women	01/01/2018 31/12/2018	Percentage who are women
Men	28	56	3	75
Women	22	44	1	25
Total	**50**	**100**	**4**	**100**

All employees were based in Spain in 2018 and 2019.

Gender balance in the company management	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Percentage who are women		
Board of Directors	0%	0%
Other senior executives	20%	33%

Salaries, other remuneration and social security contributions	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Chairman of the Board	160	160
Board members	207	160
Total Board fees	**367**	**320**
Chief Executive Officer	1,136	1,012
Former CEO of the Parent Company	0	780
Other senior executives	3,209	185
Other employees	16,608	722
Total salaries and other remuneration	**20,953**	**2,699**
Social security contributions		
Pension costs	180	184
Other social security charges according to law and agreements	4,887	849
Total social security contributions	5,067	**1,033**
Total salaries, remuneration, social security contributions and pension costs	**26,020**	**4,052**

REMUNERATION

Remuneration corresponding to SEK 1,136 thousand has been paid to the CEO. Remuneration is made up of a fixed salary of EUR 8,000 per month and accommodation.

In accordance with a decision by the AGM, for the period from June 2019 up until the ordinary 2020 AGM, the Board of Directors received fees of SEK 367 thousand (SEK 320 thousand), of which SEK 160 thousand (SEK 160 thousand) was paid to Chairman of the Board Jörgen Cederholm, and SEK 80 thousand (SEK 80 thousand) each to Board members Sten Andersen and Jimmie Hall, and SEK 47 thousand (0) to Board member Andreas Bonnier.

PENSIONS AND SEVERANCE PAY

A pension insurance premium is paid for the CEO. The premium amounts to (I) 4.5 percent of salary up to SEK 31,813 and (II) 20 percent of monthly salary exceeding SEK 31,813, corresponding to a premium cost totalling SEK 132 thousand per year. There is a mutual notice period of six months on termination of the employment contract.

SHARE-BASED PAYMENTS

There are no outstanding option programmes or other share-based payments.

NOTE 8. EARNINGS FROM, AND INTERESTS IN JOINT VENTURES/ASSOCIATES

ACCOUNTING POLICY

A company is recognised as an associate when Quartiers holds between 20% and 50% of the votes or in some other way has significant influence over operational and financial governance. Such holdings are recognised in the consolidated accounts in accordance with the equity method. Interests are recognised in the balance sheet at cost, adjusted for changes in the Group's share of the company's earnings.

Earnings from interests in joint ventures/associates

Recognised income amounted to SEK 2,677 thousand (SEK -1,165 thousand). The income includes profit of SEK 2,226 thousand from the divestment of shares.

Changes in interests in joint ventures/associates

In 2019 the company increased its ownership of Boho Club SL from 50% to 80% of capital and votes. Since 1 April 2019 the holding in Boho Club SL is therefore no longer recognised as an associate and is instead recognised as a subsidiary according to the acquisition method. The increased ownership took place via a two-stage transaction. The first stage involved the acquisition of all outstanding shares, after which 20% were divested to the current partner. These transactions resulted in an accounting profit of SEK 2,226 thousand.

	31/12/2019	31/12/2018
Share in earnings	451	-1,165
Reclassification	2,226	0
Recognised profit/loss	**2,677**	**-1,165**

	31/12/2019	31/12/2018
Opening balance	7,295	0
Capital contribution	531	49
Share of the companies' earnings	451	-1,628
Reclassification	-7,780	0
Exchange rate adjustment	-19	2
Closing balance	**478**	**7,295**

	Country	Share of equity, %	Carrying amount
Quartiers Estate SL	Spain	50%	438

NOTE 9. UNREALISED CHANGE IN VALUE OF INVESTMENT PROPERTIES

Unrealised changes in fair value related to the increase in value until the properties were reclassified as operating properties.

NOTE 10. FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Finance income and costs refer to interest income from bank deposits, receivables, financial investments, positive exchange rate differences on financial items and gains from the divestment of financial investments. Such income is recognised in the period to which it relates.

Finance costs include interest expenses on loans, exchange rate differences on financial items and losses and impairment of financial investments. These costs are recognised in the period to which they relate.

FINANCE INCOME	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Earnings from short-term investments (exchange rate fluctuations)	309	202
Interest income	423	159
Other	0	60
Total	**732**	**421**

FINANCE COSTS	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Impairment of non-current financial assets	0	44
Interest expenses	13,872	2,668
Total	**13,872**	**2,711**

NOTE 11. INCOME TAX/TAX ON EARNINGS FOR THE PERIOD

ACCOUNTING POLICY

The tax expense for the period includes current and deferred tax. Current tax is calculated on the basis of the tax rules enacted or substantively enacted at the balance sheet date in those countries in which the Parent Company and its subsidiaries operate and generate taxable revenue.

Deferred tax is recognised according to the balance sheet method on all temporary differences arising between the taxable value of the assets and liabilities and their carrying amounts in the consolidated accounts. If the temporary difference arises on initial recognition of an asset acquisition, however, deferred tax is not recognised. Deferred income tax is calculated using the tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply when the deferred tax claim in question is realised, or the deferred tax liability is settled.

Deferred tax claims relating to loss carry-forwards or other tax deductions are recognised to the extent it is likely that future profits will be available, against which the loss carry-forwards can be offset.

Group	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Tax on earnings for the period		
Deferred income tax relating to temporary differences	2,146	-10,807
Total recognised tax	**2,146**	**-10,807**
Reconciliation of effective tax		
Recognised profit/loss before tax	-39,589	20,965
Tax according to current tax rate of 21.4% (22.0)	8,472	-4,612
Non-deductible costs	-68	-52
Tax losses for which no deferred tax asset is recognised	-6,180	-5,822
Effect of foreign tax rate, 25% (25%)	-77	-320
Recognised effective tax of 5.4% (51.6)	2,146	-10,807

Deferred tax on temporary differences

Temporary differences	Deferred tax assets		Deferred tax liabilities			Net
	01/01/2019 31/12/2019	01/01/2018 31/12/2018	01/01/2019 31/12/2019	01/01/2018 31/12/2018	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Surplus values, properties	0	0	-45,443	-46,782	-45,443	-46,782
	0	**0**	-45,443	-46,782	-45,443	-46,782

Change in deferred tax	Recognised in income statement	Amount at end of period
Deductible temporary differences	2,462	-45,443

Surplus values in properties relates to properties in Spain. The prevailing tax rate is 25% (25). An income tax rate of 25% has therefore been used in the Group. The Group has loss carry-forwards of SEK 92,940 thousand (SEK 54,907 thousand), of which SEK 20,486 thousand (SEK 18,537 thousand) is attributable to the Parent Company. Deficits can be offset against future revenues with no time limit. No deferred tax asset for loss carry-forwards is recognised as it is uncertain when taxable surpluses will be available against which a tax asset can be used.

NOTE 12. OPERATING PROPERTIES

ACCOUNTING POLICY

The Group's property holdings that are classed as operating properties are properties for which Quartiers is also an operator. Operating properties are recognised at cost less any depreciation and potential impairment losses. Impairment requirements are tested by comparing the carrying amount with a third-party market valuation at the balance sheet date. The market valuation is made using the comparable sales method.

The operating properties consist of several components with varying useful lives. The primary classification is buildings and land. There is no depreciation on land components that are deemed to have an unlimited useful life. The buildings comprise several components with varying useful lives. Additional expenses are added to the cost only if it is likely that the future economic benefits associated with the asset will be received by the company, and the cost can be reliably determined. All other additional expenses are recognised as a cost in the period in which they arise.

BOHO CLUB

Quartiers is in the process of refurbishing a hotel property that was acquired in 2017 as part of a package of properties under the name Centro Forestal Sueco (CFS). The restaurant was the first subproject to open, in September 2019, and the first hotel rooms also opened in December. The restaurant and lifestyle hotel are operated under the name Boho Club. The part of the hotel property that is complete has been subject to depreciation since 1 September 2019.

QUARTIERS APARTMENT HOTEL & RESORT

Quartiers has been running short- and long-term rental operations at the company's apartment complex in Benahavís since 2016. In 2019 one apartment was sold, and at the balance sheet date the holding amounted to 101 apartments.

Leasing has been managed in house by the company since 1 January 2019. Reclassification from investment property to operating property was made on 31 December 2018. Depreciation has been applied to the properties since 1 January 2019.

DEPRECIATION

The purchase cost of operating properties is divided across components and depreciated over between 20 and 100 years. Depreciation is recognised as property expenses.

Component	Number of years
Interior surfaces	20
Fixtures and fittings	25
Land improvements	33

Component	Number of years
Structure	100
Roof	50
Facade	50

	01/01/2019 31/12/2019	**01/01/2018 31/12/2018**
Opening carrying amount	**455,369**	94,502
Divestments	-3,219	0
Investments	81,301	6
Depreciation/amortisation	-9,595	0
Exchange rate differences	4,513	3,848
Reclassification	4,248	357,013
Closing carrying amount	**532,617**	**455,369**
Details about operating properties		
Cost	363,618	284,300
Accumulated depreciation	-9,595	0
Unrealised adjustments in value	168,999	171,069

The reclassification in 2019 relates to the reclassification from project properties because of the change to the purpose of the holding. The carrying amount at 1 January 2019 includes previously unrealised adjustments in value regarding Quartiers Apartment Hotel & Resort. Cost refers to initial acquisition and investments. Unrealised adjustments to value relate to adjustments in value to investment properties before being reclassified as operating properties.

NOTE 13. EQUIPMENT, TOOLS AND MACHINERY

ACCOUNTING POLICY

All property, plant and equipment is recognised at cost less depreciation. Cost includes expenditure that can be directly attributed to the acquisition of the asset.

Depreciation to reduce the asset's cost down to its estimated residual value over its useful life is carried out on a straight-line basis as follows: Equipment, tools and fixtures and fittings – 5 years.

The recoverable amount and useful life of an asset is reviewed on each balance sheet date and adjusted as required. The carrying amount of an asset is immediately written down to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less selling costs and its value in use.

Gains and losses on divestment are established via a comparison between the sales revenue and the carrying amount, less selling costs, and recognised in profit or loss under 'Other operating income' and 'Other operating expenses'.

	31/12/2019	31/12/2018
Accumulated purchase costs		
At the start of the year	9,465	9,345
New acquisitions	17,363	11
Reclassification	-4,247	0
Exchange rate differences	-196	109
Total	**22,385**	**9,465**
Accumulated scheduled depreciation		
At the start of the year	-3,658	1,765
Depreciation for the year	-1,869	-1,901
Exchange rate differences	-12	8
Total	**-5,538**	**-3,658**
Carrying amount at end of period	**16,846**	**5,807**

Leases

Of the closing carrying amount, SEK 6,256 thousand (SEK 2,319 thousand) relates to leased assets. Apart from leases for plant and equipment, the Group has no rights of use for rented premises or other rights of use that occasioned a restatement of assets upon transition to IFRS 16. All of the Group's leased assets and lease liabilities were already recognised in the balance sheet at 31 December 2018 at the net present value of future payments. Leases contain no variable fees, index clauses or extension options that are expected to be used, or restoration expenses to take into account that change the carrying amount at 1 January 2019.

Lease expenses

	2019
Depreciation/amortisation of right-of-use assets	**1,778**
Interest on lease liabilities	258
Lease expenses	**2,036**

Depreciation is recognised in profit or loss as property expenses. See Note 28 regarding maturity structure for lease liabilities.

NOTE 14. OTHER SECURITIES HELD AS NON-CURRENT ASSETS

ACCOUNTING POLICY

Other securities held as non-current assets relate to publicly listed shares and are recognised at fair value.

The item other securities held as non-current assets consists entirely of publicly listed shares. During the year remaining compensation bonds in Banco Popular were sold.

NOTE 15. PROJECT PROPERTIES

ACCOUNTING POLICY

The portion of the Group's property holdings that relates to project properties is recognised as inventories, as the intention is to sell the properties on completion. Project properties are continually valued at cost or at net realisable value if the latter is lower.

The cost of project properties includes expenses relating to the acquisition of land and project planning/property development and expenses pertaining to new construction, extensions and/or refurbishment. The net realisable value is the estimated sales value in operating activities less estimated completion and selling costs.

The carrying amount includes previously recognised but unrealised increases in value for investment properties. In 2019 this part of the value was realised as a result of the divestment of previously market-valued properties in the 22byQuartiers project.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Opening carrying amount	**153,150**	111,284
Cost of properties acquired during the year	0	24,367
Investments in properties	6,953	42,265
Divestments	-49,139	-20,893
Exchange rate differences	974	3,826
Reclassifications	0	-7,699
Closing carrying amount	**111,938**	**153,150**

NOTE 16. INVENTORIES

The item inventories consists entirely of raw materials, mainly for the restaurant business.

ACCOUNTING POLICY

Inventories are recognised at the lower of cost and net realisable value. Cost is established using the first in first out method (FIFO).

NOTE 17. RECEIVABLES FROM JOINT VENTURES/ASSOCIATES

Receivables from joint ventures/associates relate in their entirety to receivables from Quartiers Estate Espana SL.

ACCOUNTING POLICY

Receivables from joint ventures/associates are recognised according to the principles described in Note 23 concerning financial assets measured at amortised cost.

NOTE 18. TRADE RECEIVABLES

ACCOUNTING POLICY

Trade receivables are recognised according to the principles described in Note 28 concerning financial assets measured at amortised cost.

TRADE RECEIVABLES	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Haciendan	1,185	2,372
Boho Club	436	0
Other	24	0
Total	**1,645**	**2,372**

AGE ANALYSIS	31/12/2019	31/12/2018
Not overdue	587	
Receivables overdue by 1–30 days	323	
Receivables overdue by 31–60 days	215	
Receivables overdue by more than 60 days	520	2,509
Total	**1,645**	**2,509**

At 31 December 2019 no customer accounted for more than 10% of trade receivables. In 2018 100% of trade receivables consisted of receivables from the operator at the time.

NOTE 19. OTHER RECEIVABLES

ACCOUNTING POLICY

Other receivables are recognised according to the principles described in Note 23 concerning financial assets measured at amortised cost.

	31/12/2019	31/12/2018
VAT-related receivables	2,271	1,173
Other items	2,903	628
Total	**5,174**	**1,801**

NOTE 20. PREPAID EXPENSES AND ACCRUED INCOME

ACCOUNTING POLICY

Prepaid expenses and accrued income are recognised according to the principles described in Note 23 concerning financial assets measured at amortised cost.

	31/12/2019	31/12/2018
Advance payments to suppliers	15,119	11,998
Down payment for acquisition of land	1,748	1,748
Property acquisition option	4,701	4,668
Prepaid sales commission	0	1,498
Prepaid leases	0	64
Other	844	894
Total	**22,412**	**20,371**

'Property acquisition option' relates to a plot next to the company's CFS property in Marbella's Golden Mile district. At 31 December 2019 the company had paid EUR 450 thousand for the non-binding purchase option. The option has been renegotiated in 2020 and expired earlier in January 2020 but now expires in January 2021. The total purchase price was previously EUR 1,788 thousand, but following the extension has been adjusted to EUR 1,838 thousand.

NOTE 21. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents are financial instruments and include, in both the balance sheet and the statement of cash flows, bank deposits with maturities falling due within three months of the date of acquisition.

The company's cash and cash equivalents consist primarily of bank balances in euros.

NOTE 22. SHAREHOLDERS' EQUITY

ACCOUNTING POLICY

Ordinary shares and preference shares are classified as equity. Share capital corresponds to the Parent Company's share capital and comprises issued ordinary and preference shares. Other contributed capital consists of capital contributed by the shareholders in addition to share capital. Reserves for translation differences comprise such translation differences as are recognised in other comprehensive income. Retained earnings including earnings for the period comprise accumulated earnings from the Group's activities, less dividends to shareholders.

The share of equity attributable to participations owned by parties other than those Group companies included in the consolidated accounts is recognised as non-controlling interests. 20% of the net assets of BohoClub SL were recognised as non-controlling interests at 31 December 2019.

Transaction expenses that are directly attributable to the issue of new shares are recognised, gross before tax, in equity as a deduction from the issue proceeds. Transaction expenses are recognised as a deduction item under the equity category 'Other contributed capital'. Dividends on preference shares are recognised as a liability in the consolidated financial statements in the period in which the dividend was adopted by the AGM.

A specification of changes in equity can be found in the statement of changes in equity, which follows immediately after the balance sheet.

NUMBER OF SHARES

Share capital in the Parent Company, Quartiers Properties AB (publ), amounts to SEK 1,393 thousand and is allocated among 55,737,513 shares. Of these shares, 48,462,896 are ordinary shares and 7,274,617 are preference shares. The company's ordinary and preference shares are subject to trading on Nasdaq First North. The shares have a quota value of SEK 0.025 per share. Ordinary shares carry ten votes and preference shares carry one vote each. All shares registered at the balance sheet date are fully paid.

Preference shares take precedence over ordinary shares for an annual dividend corresponding to SEK 0.96, with payment made quarterly. Following the resolution by the meeting of the shareholders, the company is entitled to redeem the preference shares for a redemption amount of SEK 12 per share. All shares carry the same right to the company's remaining net assets, in addition to which preference shares entitle holders to receive SEK 12 per share from the company's remaining assets and any remaining amount before distribution is made to owners of ordinary shares.

The company has no outstanding warrants at the balance sheet date.

An issue of 2,786,875 preference shares was carried out in January 2020. The number of shares subsequently totals 58,524,388, of which 10,061,492 comprised preference shares.

EARNINGS PER SHARE

The calculation of earnings per ordinary share has been based on earnings for the year attributable to the Parent Company's ordinary shareholders amounting to SEK -32,778 thousand, having taken account of the preference shares' portion of earnings for the year of SEK 6,983 thousand. Earnings less the preference shares' portion, SEK -39,761 thousand, have been divided by a weighted average number of ordinary shares during the year, amounting to 48,462,896.

Weighted average number of ordinary shares outstanding	31/12/2019	31/12/2018
Opening total number of shares:	48,462,896	48,462,896
Effect of newly issued shares	0	0
Average number of ordinary shares	**48,462,896**	**48,462,896**

NOTE 23. OTHER PROVISIONS

ACCOUNTING POLICY

Amounts expected to be required to settle a legal or constructive obligation resulting from previous events are recognised as provisions.

A reserve for the contingent consideration regarding the acquisition of Wecap Spain SL was recognised at 31 December 2018 as other provisions. At 31 December 2019 this was reclassified as other current liabilities and comparative figures for 2018 were also adjusted.

NOTE 24. INTEREST-BEARING LIABILITIES

This note contains information about the company's contractual terms and conditions for interest-bearing liabilities. For further information about the relevant accounting policy and the company's exposure to interest rate risk and risk of exchange rate fluctuations, please refer to Note 28.

Quartiers' interest-bearing liabilities consist mainly of property loans from Spanish credit institutions raised in connection with the original acquisition of the properties acquired directly from the Spanish bank Banco Popular and investment loans.

The property loans are in euros and secured via property mortgages. The average interest rate was 1.88% in 2019. The maturities average 15 years.

In addition, the company has raised investment loans at a higher interest rate, mainly in euros. This financing may be regarded as a type of bridge financing aimed at funding project development. The average interest rate on this alternative financing was 11.98% in 2019.

The average weighted cost of borrowing in 2019 was 6%.

The Group has also entered into leases concerning property plant and equipment, mainly furnishings for the hotel and restaurant business. Until 31 December 2018 the leases were classified as financial leases within the Group. These assets are recognised at the present value of future lease payments, less amortisation. On the liability side, the present value of remaining future lease payments is recognised as liabilities to credit institutions. The asset is amortised over its useful life, which corresponds to the lease term.

	31/12/2019	31/12/2018
Long-term		
Property loans	150,731	152,970
Lease liability	3,497	1,201
Interest-bearing liability, purchase price	4,449	0
Investment loans	**95,216**	**0**
Total	**253,893**	**154,171**
Short-term		
Property loans	17,779	16,888
Lease liability	2,433	950
Interest-bearing liability, purchase price	4,449	
Investment loans	**0**	**29,684**
Total	**24,661**	**47,522**
Total interest-bearing liabilities	**278,554**	**201,462**

	2019	2018
Liabilities at start of year	201,462	160,368
Borrowings raised	127,848	47,748
Repayments	-50,960	-14,797
Foreign exchange adjustments	204	8,143
Liabilities at year-end	278,554	201,462

NOTE 25. OTHER NON-CURRENT LIABILITIES

The outstanding purchase price for the purchase of the CFS property is recognised as other non-current liabilities. The liability does not carry interest. Payment of the purchase price is dependent on a new local development plan being adopted.

NOTE 26. OTHER CURRENT LIABILITIES

	31/12/2019	31/12/2018
Contingent consideration	5,394	5,394
Liabilities to related parties	0	11
Guarantee	2,194	0
Liability, preference share dividend	3,492	3,492
VAT liability	1,669	0
Other tax liabilities	776	0
Other	3,252	4,779
Total	**16,777**	**13,676**

NOTE 27. ACCRUED EXPENSES AND DEFERRED INCOME

	31/12/2019	31/12/2018
Accrued holiday pay	146	146
Accrued social security charges	80	46
Other accrued expenses	968	1,467
Total	**1,194**	**1,659**

NOTE 28. FINANCIAL INSTRUMENTS AND FINANCING

ACCOUNTING POLICY

Financial instruments recognised in the balance sheet are classified in accordance with IFRS 9 in three different categories: financial assets and financial liabilities measured at fair value via profit or loss, financial assets and financial liabilities measured at fair value via other comprehensive income, and financial assets and financial liabilities measured at amortised cost.

The classification depends on the purpose for which the financial asset or liability was acquired. Financial instruments are initially measured at fair value plus transaction expenses, with the exception of the category financial instruments recognised at fair value via profit or loss, for which transaction expenses are not included. Purchases and sales of financial assets are recognised at the transaction date, which is the date that the company commits to purchase or sell the asset in question. A financial asset is removed from the balance sheet when the rights in the contract are realised, fall due or the company no longer has control over the asset. A financial liability is removed from the balance sheet when the obligation in the contract has been fulfilled or in some other way discharged.

Financial assets

The categories that are relevant to Quartiers regarding financial assets are amortised cost and fair value via profit or loss.

Financial assets are measured following initial recognition at amortised cost according to the effective interest rate method if they are held for the purposes of obtaining contractual cash flows, and at specific dates they give rise to cash flows that are exclusively payments of principal and interest on the outstanding principal. Quartiers' financial assets that are included in this category are trade receivables, cash and cash equivalents and other receivables. However, the trade receivables' expected maturities are short, which is why the value is recognised at a nominal amount without discounting. Trade and loan receivables are recognised at the amount that is expected to be paid, i.e. after deductions for bad debts. See Impairment Loss below regarding the assessment of need for impairment. Cash and cash equivalents and other assets with short maturities are recognised at nominal value.

Financial assets measured at fair value via profit or loss comprise holdings for trading purposes, i.e. for the primary purpose of being sold. Financial assets in this category are measured continually at fair value, with changes in value recognised in profit or loss. This category includes smaller listed holdings, the value of which is estimated by referring to listed market prices. Financial assets recognised at fair value at the balance sheet date refer to publicly listed shares at a value of SEK 12 thousand.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value via profit or loss.

Quartiers' liabilities consist primarily of liabilities to credit institutions, other loans and operating liabilities such as trade payables. Financial liabilities are classified as current if they fall due within one year or earlier. Otherwise they are recognised as non-current liabilities. Borrowing costs are recognised in profit or loss in the period to which they refer. Accrued interest is recognised as the short-term portion of current liabilities from credit institutions, in cases where the interest is expected to be settled within 12 months of the balance sheet date.

Trade payables and other short-term operating liabilities that constitute financial liabilities are recognised at nominal value due to the short maturity.

It is estimated that the fair value of short- and long-term borrowings corresponds almost exactly to their carrying amounts. Collateral is pledged in the company's properties.

Borrowings are classified as Level 2 in the fair value hierarchy, in accordance with IFRS 13. Liabilities to credit institutions carry variable interest and the refinancing terms are not deemed to have changed appreciably since the loans were raised, which means that the carrying amount is considered to be consistent with the fair value.

Lease liabilities

A lease liability is recognised under interest-bearing liabilities for leases with a term of more than 12 months. Lease liabilities comprise the net present value of future payments less the margin loan interest.

Impairment
At each balance sheet date Quartiers assess whether there are objective grounds for there being a need for the impairment of a financial asset. A provision for depreciation in the value of trade receivables is made based on an assessment of expected credit losses. Significant financial difficulties of a debtor, the likelihood of a debtor entering administration or undergoing financial reorganisation and missed or overdue payments (overdue by more than 30 days) are regarded as indicators of a possible need for the impairment of a trade receivable. Each assessment is made individually as the company does not yet have historical data on which to base assumptions about loss provisions. No loss provision was recorded for 2019. For 2018 the loss provision was SEK 2,577 thousand, which related to the company's operator at the time, with which collaboration ended on 31 December 2018. The final loss for 2019 was SEK 3,290 thousand.

FINANCIAL RISK AND RISK MANAGEMENT
Through its operations, the Group is exposed to a number of different financial risks. Quartiers is mainly exposed to interest rate risk, liquidity and financing risk, and foreign exchange risk.

Responsibility for the Group's financial transactions and financial risk lies directly with the Chief Executive Officer. The overall risk management objective is to have cost-effective financing and to ensure liquidity. Regular cash flow forecasts are the main control mechanism. Finance issues of strategic significance are handled by the Board.

A) Interest rate risk
Interest rate risk is the risk that changes in interest rate levels will have a negative impact on the Group's net earnings. The Group's interest rate risk arises primarily via long-term borrowings, the majority of which carry a variable rate. Loans raised with variable rates expose the Group to interest rate risk with regard to cash flow. Most of the Group's loans are in EUR. The company's interest rate risk follows EURIBOR.

Inflation expectations determine the rate and therefore affect the company's net interest income/expense. The interest expense for liabilities constitutes a significant cost item for Quartiers. This means that interest rate changes in the longer term may affect Quartiers' earnings and cash flow to a significant extent. Moreover, inflation impacts Quartiers' expenses via, for example, higher running and maintenance costs. In addition, a change in interest rate levels in the economy affects the market's yield requirements for properties, which in turn impacts the market value of the company's property portfolio.

At the balance sheet date, the company's loans from credit institutions with variable rates totalled SEK 173,432 thousand (EUR 16,130 thousand)] (157 990) (16,040 TEUR), and the Group's cash and cash equivalents amounted to SEK 6,874 thousand (SEK 8,422 thousand). A change in EURIBOR 12M of +/- 1% would affect net interest revenues by +/- SEK 2,786 thousand.

B) Liquidity and financing risk
Liquidity risk is the risk of the Group having insufficient cash and cash equivalents to pay its commitments with regard to financial liabilities. The objective of the company's liquidity management is to minimise the risk of the Group having insufficient cash and cash equivalents to fulfil its commercial obligations. Cash flow forecasts are regularly prepared for management. The Board of Directors and management use such forecasts to assess the need to adjust credit facilities and loan terms, as well as the need for various equity instruments such as new share issues or the issue of preference shares.

In order to manage liquidity risk Quartiers has the ability to sell apartments, postpone investments and also decide not to pay a dividend on preference shares.

Refinancing risk refers to the risk of not being able to obtain financing at all, or only at significantly increased costs.

Quartiers is endeavouring to optimise its capital structure to manage this risk. See capital structure below.

The company is also taking strategic measures to expand the company's network within the Spanish finance and capital market. This strategic approach has allowed the company to strengthen its ability to also obtain refinancing amid significant fluctuations in the markets.

C) Foreign exchange risk
Quartiers' foreign exchange risk relates primarily to its income statement and balance sheet in foreign currency, which is translated into Swedish kronor. Since the entire operating business takes place in Spain, the euro is the company's functional currency. Translation differences arise when translating from the functional currency to the reporting currency of Swedish kronor.

The translation of foreign net assets affected Quartiers' equity by SEK 5,966 thousand (SEK 13,322 thousand).

Quartiers does not currently hedge translation exposures in foreign currency. Increased borrowing in euros is resulting in a gradual reduction in the translation exposure.

D) Credit risk
Credit risk refers to the risk that a customer or counterparty in a financial instrument may not be able to meet their commitments, causing the Group financial loss.

The Group's overall credit risk exposure is very small. Rental income is mainly invoiced and paid in advance and other operating income is mainly paid in cash at the point of service.

Exposure to individual customers/tenants is also limited. Overall, possible expected credit losses are negligible for the Group. See also accounting policies/impairment above.

SENSITIVITY ANALYSIS
The majority of the company's transactions, as well as assets and liabilities, are in EUR. Exchange rate fluctuations therefore have a significant impact on carrying amounts. Changes to interest expenses primarily affect earnings before tax.

	Change, %	Effect on the value of properties, SEK thousand	Change in borrowings, SEK thousand	Effect on equity, net SEK thousand	Effect on earnings before tax, SEK thousand
Exchange rate change	+/- 1.0%	+/-6,445	+/-2,759	+/-3,687	+/-6,445
Interest expense at current fixed interest period	+/- 1.0%				+/- 2,786

CAPITAL STRUCTURE
The Group's objective with regard to its capital structure is to ensure the Group's ability to continue operations, so that it can continue to generate a return for its shareholders and benefit to other stakeholders. A well organised capital structure is important in order to maintain the company's cost of capital at the minimum level possible. See also the Liquidity and Financing Risk section above.

Quartiers Properties assesses capital on the basis of its debt/equity ratio, as do other companies in the same industry. This key ratio is calculated by dividing net debt by total capital. Net debt is calculated as total borrowings (including short- and long-term borrowings in the consolidated balance sheet), less cash and cash equivalents. Total capital is calculated as equity in the consolidated balance sheet plus net debt. The current debt/equity ratio is below the range for the Board's target debt/equity ratio. The Board's target is for the debt/equity ratio to be within the range of 55–60% to achieve yield requirements on equity. The debt/equity ratio at 31 December 2019 is lower, owing mainly to the low loan-to-value ratio of the CFS properties but also to the high rate of repayment on property loans. Quartiers started working in December 2019 to refinance existing loans and to free up liquidity through higher loan-to-value ratios and longer repayment periods. This work has continued in 2020 with the intention of implementing refinancing in the first half of the year. However, Covid-19 has changed market conditions, meaning that this refinancing will take place on worse conditions than had otherwise been expected. Available sources of financing now mainly consist of alternative financing from Spanish investment banks and property funds.

The dividend on the company's preference shares over the period was SEK 0.94 per share. The total dividend recognised and paid amounts to SEK 6,983 thousand. See Note 21 for the terms and conditions of the redeemable preference shares.

LEASE LIABILITY
The transition to IFRS 16 has not resulted in any restatement of existing leases. Apart from leases relating to tangible assets Quartiers has no leases that come under IFRS 16.

DEBT/EQUITY RATIO	31/12/2019	31/12/2018
Interest-bearing liabilities	278,554	201,693
Less: Cash and cash equivalents	-6,874	-8,422
Net debt	271,680	193,271
Shareholders' equity	334,712	373,171
Total capital	606,392	566,442
Debt/equity ratio	**45%**	**34%**

MATURITY ANALYSIS

The maturity analysis of borrowings below examines the Group and Parent Company's financial liabilities broken down by the time remaining on the balance sheet date, up until the contractual maturity date. The amounts stated in the table are the contractual, undiscounted cash flows.

Group, 31 December 2019	<1 year	1–2 years	2–5 years	>5 years
Loans from credit institutions	17,779	14,580	41,938	94,512
Leases	2,433	1,772	1,725	0
Purchase consideration liability	4,449	4,449		
Contingent consideration liability		14,103		
Other interest-bearing liabilities	0	90,331	4,586	0
Total	**24,661**	**125,235**	**48,249**	**94,512**

CLASSIFICATION OF FINANCIAL INSTRUMENTS

SEK thousand	Financial assets/liabilities measured at fair value via profit or loss		Financial assets/liabilities measured at amortised cost	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Assets in the balance sheet				
Other securities held as non-current assets	12	1,194		
Other non-current receivables			30	38
Trade receivables			1,645	2,372
Other receivables			5,174	1,801
Cash and cash equivalents			6,874	8,422
Total	**12**	**1,194**	**13,723**	**12,633**
Liabilities in the balance sheet				
Non-current interest-bearing liabilities			253,893	154,171
Current interest-bearing liabilities			24,661	47,522
Other non-current liabilities			14,103	13,872
Trade payables			9,306	6,669
Other liabilities			16,777	13,676
Total	**0**	**0**	**318,740**	**235,910**

NOTE 29. PLEDGED ASSETS

ACCOUNTING POLICY

Security is pledged for the Group's obligations primarily in the form of property mortgage deeds. In addition, shares in subsidiaries have been pledged.

	31/12/2019	31/12/2018
For liabilities to credit institutions		
Property mortgages	252,599	242,752
Total	**252,599**	**244,491**
Other pledged collateral		
Pledged shares in subsidiaries	40,946	38,927

NOTE 30. CONTINGENT LIABILITIES

Quartiers had no contingent liabilities at the balance sheet date.

NOTE 31. CASH FLOW STATEMENT

ACCOUNTING POLICY

The cash flow statement illustrates the change in cash and cash equivalents and the Group's available liquidity for the period. The cash flow statement has been prepared according to the indirect method, which means that operating earnings are adjusted for transactions that do not result in incoming or outgoing payments during the period.

NOTE 32. TRANSACTIONS WITH RELATED PARTIES

In May 2019, the company entered into a financing agreement with Strandängen Bostäder i Bunkeflostrand AB. Jörgen Cederholm, Chairman of the Board of Quartiers, is also Chairman of the Board of Strandängen Bostäder. Jörgen's ownership stake in both companies does not exceed 10%. The Chairman waived his right to vote on the issue when the Board made the financing decision.

The loan sum amounts to EUR 1,340 thousand, of which EUR 700 thousand is to be used for completion of the Amapura project. The loan has a maturity of two years and carries an annual interest rate of 7.46%. If the Amapura project results in a net realisable value in excess of EUR 1,540 thousand, then 50% of the profit will revert to the lender. This means, for example, that the effective rate of interest for an anticipated net realisable value of EUR 1,800 thousand would be 12.3%.

NOTE 33. EVENTS AFTER THE BALANCE SHEET DATE

In January, the company completed a new issue of preference shares, generating proceeds of around SEK 25 million after share issue expenses.

The coronavirus has led to dramatic changes in the operating business. The company's hotel and restaurant business closed in compliance with the Spanish government's lockdown decision to prevent the spread of the virus. This has, of course, had a negative impact on revenues. However, it has been possible to mitigate the loss of income in the personnel-intensive part of the business by furloughing staff (ERTE). The company has made use of this possibility and furloughed 64% of its workforce, while 24% of personnel have had their employment permanently terminated.

As the restaurant and hotel business in the newly opened Boho Club were in the start-up phase, the lost revenues and reduced costs have had a relatively neutral effect on the company's cash flow.

The Boho Club restaurant reopened at the end of May for dinner bookings with a restricted number of places.

The sale of apartments also stopped during the ongoing lockdown.

The company had intended to refinance part of its liabilities in 2020 with a view to freeing up cash flow for continued investments. As a part of this process, the company commissioned JLL Real Estate Advisors in London as consultants in December 2019. This work was interrupted because of the Covid-19 outbreak in Europe.

As a result of the Covid-19 pandemic and its impact Quartiers is in need of additional financing, through the sale of assets that are also part of the company's day-to-day business operations, or the raising of new loans, to finance operating activities and free up capital for further investments.

At the time of publication of the annual report, the management is in discussions with both Frux Capital, with which the company is already working, and other operators that have indicated an interest in financing the company for the above-stated purpose. In the event that loan financing cannot be obtained from any of the operators with which discussions are currently ongoing, the company could instead need to sell properties more quickly. There is then a risk that they have to be sold at lower prices than desired. In the worst case, this could lead to losses if sales have to be made at less than the carrying amount.

The company generally assesses that the Spanish housing market is better equipped today than it was before the 2008 financial crisis, when it was characterised by overleveraging and property value inflation. Both of these aspects have been strictly governed through new regulatory measures since that crisis. Both valuations and rules on borrowing are now tightly controlled, resulting in many property owners, both corporate and private, being more solvent than before the crisis. It is still too early to assess the precise impact on property values, but a number of assessments, including Quartiers', expect there to be a slowdown in the number of transactions while values remain relatively stable, with modest declines in comparison with the financial crisis. Particularly in more exclusive areas such as the Costa del Sol, where many international buyers have purchased housing with only 0–60% bank financing. This makes the market more resilient to declines in value, since fewer property owners have to sell at a significant discount, although individual cases of this are expected to occur.

Several of the financing solutions being discussed require Quartiers not to pay a dividend to shareholders, irrespective of the class of shares. The Board therefore chose to propose that the AGM resolve not to pay a dividend on the company's preference shares until the next AGM. In connection with this, the Board proposed an exchange offer, which the Board believes strategically strengthens the Company's balance sheet and is favourable for both preference shareholders and ordinary shareholders, given current market conditions.

The offer means that preference shareholders will be offered an exchange of each preference share for one ordinary share, as well as one Series 1, 2020/2021 share warrant and one Series 2, 2020/2022 share warrant. The registration period for the exchange offer is expected to run from 28 July 2020 through 28 August 2020.

Each share warrant in the exchange offer entitles the holder to subscribe for one newly issued ordinary share in the company. The share warrants can be used to subscribe for ordinary shares during the period from 17 August 2021 through 31 August 2021 (for Series 1 share warrants) and from 17 March 2022 through 31 March 2022 (for Series 2 share warrants). The share warrants entitle holders to subscribe for new ordinary shares at whichever is higher of the value of (i) 75 percent of the volume-weighted average price according to Nasdaq First North's official list of prices for the shares for a period of 10 trading days immediately prior to (and excluding) 13 August 2021 and 15 March 2022, respectively, and (ii) SEK 3.50.

PARENT COMPANY INCOME STATEMENT

Amounts are stated in SEK thousand	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Net sales	2	2,587	4,681
Total operating income		**2,587**	**4,681**
Operating expenses			
Other external expenses	3	-3,839	-5,469
Employee expenses	4	-984	-2,105
Depreciation/amortisation		-1,104	-1,104
Operating profit/loss		**-3,340**	**-3,997**
Other interest income and similar profit/loss items	5	2,770	2,645
Interest expenses and similar profit/loss items	5	-1,413	-476
Profit/loss from financial items		**1,357**	**2,169**
Profit/loss before tax		-1,983	-1,828
Tax on profit for the year	**6**	**0**	**0**
PROFIT/LOSS FOR THE YEAR		**-1,983**	**-1,828**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts are stated in SEK thousand	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Profit/loss for the year		-1,983	-1,828
Total comprehensive income		**-1,983**	**-1,828**

PARENT COMPANY BALANCE SHEET

Amounts are stated in SEK thousand	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment, tools and fixtures and fittings	7	1,153	2,257
Non-current financial assets			
Investments in subsidiaries	8	246,526	232,298
Interests in joint ventures/associates	9	0	8,890
Non-current receivables from group companies	10	25,714	27,584
Other non-current receivables		200	438
Total non-current assets		**273,593**	**271,467**
Current assets			
Current receivables			
Other current receivables	11	3,784	846
Prepaid expenses and accrued income	12	6,378	5,836
Financial investments		12	12
Cash and cash equivalents		1,828	2,144
Total current assets		**12,002**	**8,848**
TOTAL ASSETS		**285,595**	**280,328**

PARENT COMPANY BALANCE SHEET

Amounts are stated in SEK thousand	Note	31/12/2019	31/12/2018
EQUITY & LIABILITIES			
SHAREHOLDERS' EQUITY	**12,13**		
Restricted shareholders' equity			
Share capital		1,393	1,393
Total restricted shareholders' equity		**1,393**	**1,393**
Unrestricted shareholders' equity			
Other contributed capital		291,673	291,673
Retained earnings		-33,715	-24,903
Profit/loss for the year		-1,983	-1,828
Total unrestricted shareholders' equity		255,975	264,942
TOTAL SHAREHOLDERS' EQUITY		**257,368**	**266,335**
LIABILITIES			
Non-current liabilities			
Other provisions	14	5,394	5,394
Non-current liabilities to group companies	9	3,716	
Interest-bearing liabilities		9,035	
Total non-current liabilities		**18,145**	**5,394**
Current liabilities			
Interest-bearing liabilities		4,449	0
Trade payables		1,013	376
Other current liabilities	16	3,461	7,383
Accrued expenses and deferred income	17	1,159	840
Total current liabilities		10,082	8,599
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**285,595**	**280,328**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Amounts are stated in SEK thousand	Share capital	Other contributed capital	Retained earnings incl. profit/loss for the year	Total shareholders' equity
Opening balance, 01/01/2018	1,363	279,852	-17,726	263,489
Comprehensive income				
Profit/loss for the period			-1,828	-1,828
Total comprehensive income			**-1,828**	**-1,828**
Transactions with shareholders				
New share issue	30	11,916		11,945
Dividend paid, preference shares			-3,205	-3,205
Expensed unpaid dividend, preference shares			-3,972	-3,972
Share issue expenses		-95		-95
Total transactions with shareholders	**30**	**11,821**	-7,177	**4,673**
Closing balance, 31/12/2018	**1,393**	**291,673**	**-26,731**	**266,335**
Opening balance, 01/01/2019	**1,393**	**291,673**	**-26,731**	**266,335**
Comprehensive income				
Profit/loss for the period			**-1,983**	**-1,983**
Total comprehensive income			**-1,983**	**-1,983**
Transactions with shareholders				
Dividend, preference shares			-6,983	-6,983
Total transactions with shareholders			**-6,983**	**-6,983**
Closing balance, 31/12/2019	**1,393**	**291,673**	**-35,698**	**257,368**

PARENT COMPANY STATEMENT OF CASH FLOWS

Amounts are stated in SEK thousand	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Cash flow from operating activities		
Operating profit/loss	-3,340	-3,997
Adjustments for non-cash items		
Reversal of depreciation	1,104	1,104
Interest received	2,770	2,645
Interest paid	-1,414	-476
Cash flow from operating activities before changes in working capital	**-880**	**-724**
Changes in working capital		
Increase/decrease in trade receivables	0	18
Increase/decrease in other current receivables	1,827	-2,177
Increase/decrease in trade payables	637	-870
Increase/decrease in other current liabilities	-3,659	-2,306
Cash flow from operating activities	**-1,985**	**-6,059**
Cash flow from investing activities		
Investments in subsidiaries	-5,338	-95
Investments in associates		-8,890
Increase/decrease in non-current receivables from subsidiaries	268	-8,351
Increase/decrease in other non-current receivables	238	200
Cash flow from investing activities	**-4,832**	**-17,136**
Cash flow from financing activities		
New share issue	0	24,750
Borrowings	13,484	
Dividends paid to Parent Company shareholders	-6,983	-3,205
Cash flow from financing activities	**6,501**	**21,545**
Cash flow for the period	-316	-1,650
Cash and cash equivalents at start of period	2,144	3,794
Cash and cash equivalents at end of period	**1,828**	**2,144**

PARENT COMPANY ACCOUNTING POLICIES AND NOTES

NOTE 1. PARENT COMPANY ACCOUNTING POLICIES

The Parent Company applies RFR 2 Accounting for Legal Entities. The Parent Company applies accounting policies that differ from those of the Group in the situations detailed below.

Differences between the Group and Parent Company's accounting policies
RFR 2 states that a legal entity must apply the same IFRS/IAS standards as those applied in the consolidated accounts to the extent possible within the framework of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and taking account of the relationship between accounting and taxation.

Format
The income statement and balance sheet follow the format stipulated in the Swedish Annual Accounts Act. The statement of changes in equity also follows the Group's format, but must include the columns stated in the Swedish Annual Accounts Act. This means there are differences in item names compared with the consolidated accounts, primarily regarding finance income and costs and equity.

Investments in subsidiaries
Investments in subsidiaries are recognised at cost less any impairment. Cost includes acquisition-related expenses and any contingent considerations.

When there is an indication that investments in subsidiaries have declined in value, a calculation is carried out of the recoverable amount. If this is lower than the carrying amount, an impairment is made.

Financial instruments
IAS 39 is not applied in the Parent Company and financial instruments are measured at cost.

Leases
The Parent Company recognises financial lease agreements as operating leases. Lease payments are expensed as an operating expense on a straight-line basis over the term of the lease. Variable rents are expensed in the periods in which they arise.

NOTE 2. NET SALES

ACCOUNTING POLICY

The Parent Company's net sales comprise administration and project management services regarding the Group's Spanish subsidiaries. Such income is recognised in the period to which it relates.

NOTE 3. OTHER EXTERNAL EXPENSES

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
PwC – Öhrlings Pricewaterhousecoopers AB		
Audit assignment	447	357
Audit activities in addition to the audit assignment	85	80
Total	**532**	**437**

NOTE 4. SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY CONTRIBUTIONS

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Average no. of employees		
Men	0	1
Women	0	0.5
Total	**0**	**1.5**
Salaries and other remuneration		
Chairman of the Board	160	160
Board members	207	160
Total Board fees	**367**	**320**
CEO of the Parent Company	0	447
Former CEO of the Parent Company	0	780
Other employees	0	0
Total salaries and other remuneration	**0**	**1,227**
Social security contributions		
Pension costs	139	184
Other social security charges according to law and agreements	148	480
Total social security contributions	**287**	**664**
Total salaries, remuneration, social security contributions and pension costs	**654**	**1,811**

NOTE 5. INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

Finance income relates to interest income from receivables from Group companies of SEK 2,486 thousand and other interest income of SEK 159 thousand. Interest expenses and similar profit/loss items primarily relate to interest expenses for other current liabilities.

NOTE 6. TAX

	31/12/2019	31/12/2018
Reconciliation of effective tax		
Recognised profit/loss before tax	-1,983	-1,828
Tax according to current tax rate of 21.4%	424	402
Non-deductible costs	-7	-14
Share issue expenses recognised in equity	0	95
Tax losses for which no deferred tax asset is recognised	**417**	**484**
Recognised effective tax	**0**	**0**

Loss carry-forwards total SEK 20,486 thousand. Deficits can be offset against future revenues with no time limit. No deferred tax assets on loss carry-forwards are recognised.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

The Parent Company's equipment is measured at cost less accumulated depreciation according to plan. Depreciation according to plan is carried out at 20%.

Parent Company	31/12/2019	31/12/2018
Opening carrying amount	2,257	3,361
Purchases	0	0
Depreciation/amortisation	-1,104	-1,104
Closing carrying amount	**1,153**	**2,257**

NOTE 8. INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICY

Investments in subsidiaries are recognised in the Parent Company at cost. Where the carrying amount of the investments exceeds the subsidiaries' fair value, impairment losses are charged to profit or loss. If an impairment previously implemented is no longer justified, it is reversed.

Name Corp. reg. no	Registered office	Share of equity	Share of voting power	Carrying amount
Flexshare España SL B19567130	Málaga	100%	100%	94,998
Quartiers Properties Holding SL B93528750	Málaga	100%	100%	124,711
Wecap Spain SL B93536621	Málaga	100%	100%	12,589
The Boho Club SL	Málaga	80%	80%	14,229

The carrying amount of the shares in Wecap Spain SL includes a reserve for an estimated contingent consideration of SEK 5,394 thousand.

CHANGE FOR THE YEAR	31/12/2019	31/12/2018
Opening accumulated purchase costs	232,298	219,709
Reclassification from investments in associates	14,228	7,195
Reserve for contingent consideration	0	5,394
Closing accumulated purchase costs	246,526	232,298
Closing carrying amount	**246,526**	**232,298**

NOTE 9. INTERESTS IN JOINT VENTURES/ASSOCIATES

ACCOUNTING POLICY

Interests in joint ventures/associates are recognised in the Parent Company at cost. Where the carrying amount of the investments exceeds the subsidiaries' fair value, impairment losses are charged to profit or loss. If an impairment previously implemented is no longer justified, it is reversed.

CHANGE FOR THE YEAR	31/12/2019	31/12/2018
Opening accumulated purchase costs	8,889	0
Company formation	0	16
Acquisition	8,889	
Capital contributions paid	0	8,873
Sale	-3,559	0
Reclassification	-14,228	
Closing accumulated purchase costs	0	8,889
Closing carrying amount	**0**	**8,889**

Acquisitions refer to outstanding ownership interests in Boho Club SL. Immediately after the acquisition, 20% of the ownership interests were sold. The holding is recognised at 31 December 2019 as a subsidiary.

NOTE 10. NON-CURRENT RECEIVABLES FROM GROUP COMPANIES

ACCOUNTING POLICY

Receivables from Group companies are recognised as follows:

Receivables from Group companies are non-current and are expected to continue in order to manage cash flow in the subsidiaries. Interest on the receivables is capitalised on an ongoing basis.

	31/12/2019	31/12/2018
Opening carrying amount	27,584	19,233
Repayment	-1,870	0
Additional receivables	0	8,351
Closing carrying amount	**25,714**	**27,584**

	31/12/2019	31/12/2018
Flexshare SL	20,057	16,370
Quartiers Properties Holding SL	0	6,083
Bohoclub SL	34	
Quartiers Estate SL	3	0
Wecap Spain SL	5,620	5,131
Total	**25,714**	**27,584**

NOTE 11. OTHER CURRENT RECEIVABLES

ACCOUNTING POLICY

Other current receivables are recognised as follows:

Receivables from Group companies are non-current and are expected to continue in order to manage cash flow in the subsidiaries. Interest on the receivables is capitalised on an ongoing basis.

	31/12/2019	31/12/2018
VAT-related receivables	50	72
Loan receivable	3,559	0
Other receivables	175	774
Closing carrying amount	**3,784**	**846**

NOTE 12. PREPAID EXPENSES AND ACCRUED INCOME

	31/12/2019	31/12/2018
Prepaid leases, short-term component	200	200
Down payment for acquisition of land	1,748	1,748
Costs to be charged on	3,800	3,800
Accrued interest income	45	0
Prepaid leases	40	64
Expenses for ongoing new share issue	457	0
Other	88	24
Total	**6,378**	**5,836**

NOTE 13. SHAREHOLDERS' EQUITY

ACCOUNTING POLICY

Shareholder's contributions are recognised with the Parent Company as an increase in the carrying amount of shares and with the subsidiary as an increase in unrestricted equity. The amount of shareholder's contributions paid that has been capitalised by the Parent Company is reviewed in accordance with details stated under 'Investments in subsidiaries, change for the year'. See Group Note 21 for further details.

NUMBER OF SHARES

Share capital in the Parent Company, Quartiers Properties AB (publ), amounts to SEK 1,393 thousand and is allocated among 55,737,513 shares. Of these shares, 48,462,896 are ordinary shares and 7,274,617 are preference shares. The company's ordinary and preference shares are subject to trading on Nasdaq First North. An issue of 2,786,875 preference shares was carried out in January 2020. The number of shares subsequently totals 58,524,388, of which 10,061,492 are preference shares.

The shares have a quota value of SEK 0.025 per share. Ordinary shares carry ten votes and preference shares carry one vote each. All shares registered at the balance sheet date are fully paid.

The company has no outstanding warrants at the balance sheet date.

NOTE 14. APPROPRIATIONS

The following funds are at the disposal of the AGM:

Share premium reserve	291,672,718
Retained earnings	-33,715,038
Profit/loss for 2019	-1,983,371
Total available funds	**255,974,309**

The Board proposes that the AGM does not approve a dividend and that the AGM resolve that the available profit in the Parent Company of SEK 255,974,309 be carried forward.

NOTE 15. INTEREST-BEARING LIABILITIES

Maturity analysis

Group, 31 December 2019	<1 year	1–2 years	2–5 years	>5 years
Purchase consideration liability	4,449	4,449		
Other interest-bearing liabilities	0	0	4,586	0
Total	**4,449**	**4,449**	**4,586**	**0**

NOTE 16. OTHER CURRENT LIABILITIES

	31/12/2019	31/12/2018
Liabilities to related parties	0	11
Short-term loans from other lenders (not credit institutions)	0	3,911
Liability, preference share dividend	3,492	3,492
Other	-31	-31
Total	**3,462**	**7,383**

NOTE 17. ACCRUED EXPENSES AND DEFERRED INCOME

	31/12/2019	31/12/2018
Accrued salaries and holiday pay	146	146
Accrued social security charges	46	46
Other accrued expenses	967	648
Total	**1,159**	**840**

NOTE 18. FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

All financial conditions described for the Group (see Group Note 22) apply to the Parent Company as well, apart from the fact that the Parent Company applies the exception for IFRS 9 according to RFR 2.

SEK thousand	Financial assets/liabilities measured at fair value via profit or loss		Financial assets/liabilities measured at amortised cost	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Assets in the balance sheet				
Non-current receivables from group companies			25,714	27,584
Other non-current receivables			200	438
Other receivables			3,784	846
Financial investments	12	12		
Cash and cash equivalents			1,828	2,144
Total	**12**	**12**	**31,526**	**31,012**
Liabilities in the balance sheet				
Non-current liabilities to group companies			3,716	0
Trade payables			1,013	376
Interest-bearing liabilities			13,484	3,911
Other current liabilities			3,461	3,472
Total	**0**	**0**	**21,674**	**5,599**

NOTE 19. EVENTS AFTER BALANCE SHEET DATE

In January, the company completed a new issue of preference shares, generating proceeds of around SEK 25 million after share issue expenses.

The coronavirus has led to dramatic changes in the operating business. The company's hotel and restaurant business closed in compliance with the Spanish government's lockdown decision to prevent the spread of the virus. This has, of course, had a negative impact on revenues. However, it has been possible to mitigate the loss of income in the personnel-intensive part of the business by furloughing staff (ERTE). The company has made use of this possibility and furloughed 64% of its workforce, while 24% of personnel have had their employment permanently terminated.

As the restaurant and hotel business in the newly opened Boho Club were in the start-up phase, the lost revenues and reduced costs have had a relatively neutral effect on the company's cash flow.

The Boho Club restaurant reopened at the end of May for dinner bookings with a restricted number of places.

The sale of apartments also stopped during the ongoing lockdown.

The company had intended to refinance part of its liabilities in 2020 with a view to freeing up cash flow for continued investments. As a part of this process, the company commissioned JLL Real Estate Advisors in London as consultants in December 2019. This work was interrupted because of the Covid-19 outbreak in Europe.

As a result of the Covid-19 pandemic and its impact Quartiers is in need of additional financing, through the sale of assets that are also part of the company's day-to-day business operations, or the raising of new loans, to finance operating activities and free up capital for further investments.

At the time of publication of the annual report, the management is in discussions with both Frux Capital, with which the company is already working, and other operators that have indicated an interest in financing the company for the above-stated purpose. In the event that loan financing cannot be obtained according to plan with one of those operators with which discussions are being held, the company could instead be required to sell properties more quickly, which would carry the risk of selling at a lower price than desired, thereby realising lower profits or losses, in order to ensure sufficient liquidity.

The company generally assesses that the Spanish housing market is better equipped today than it was before the 2008 financial crisis, when it was characterised by overleveraging and property value inflation. Both of these aspects have been strictly governed through new regulatory measures since that crisis. Both valuations and rules on borrowing are now tightly controlled, resulting in many property owners, both corporate and private, being more solvent than before the crisis. It is still too early to assess the precise impact on property values, but a number of assessments, including Quartiers', expect there to be a slowdown in the number of transactions while values remain relatively stable, with modest declines in comparison with the financial crisis. Particularly in more exclusive areas such as the Costa del Sol, where many international buyers have purchased housing with only 0–60% bank financing. This makes the market more resilient to declines in value, since fewer property owners have to sell at a significant discount, although individual cases of this are expected to occur.

Several of the financing solutions being discussed require Quartiers not to pay a dividend to shareholders, irrespective of the class of shares. The Board therefore chose to propose that the AGM resolve not to pay a dividend on the company's preference shares until the next AGM. In connection with this, the Board proposed an exchange offer, which the Board believes strategically strengthens the Company's balance sheet and is favourable for both preference shareholders and ordinary shareholders, given current market conditions.

The offer means that preference shareholders will be offered an exchange of each preference share for one ordinary share, as well as one Series 1, 2020/2021 share warrant and one Series 2, 2020/2022 share warrant. The registration period for the exchange offer is expected to run from 28 July 2020 through 28 August 2020.

Each share warrant in the exchange offer entitles the holder to subscribe for one newly issued ordinary share in the company. The share warrants can be used to subscribe for ordinary shares during the period from 17 August 2021 through 31 August 2021 (for Series 1 share warrants) and from 17 March 2022 through 31 March 2022 (for Series 2 share warrants). The share warrants entitle holders to subscribe for new ordinary shares at whichever is higher of the value of (i) 75 percent of the volume-weighted average price according to Nasdaq First North's official list of prices for the shares for a period of 10 trading days immediately prior to (and excluding) 13 August 2021 and 15 March 2022, respectively, and (ii) SEK 3.50.

CERTIFICATION BY THE BOARD OF DIRECTORS AND THE CEO

The consolidated accounts and annual accounts have been prepared in accordance with the international accounting standards referred to in the European Parliament and Council's regulation (EC) no 1606/2002 dated 19 July 2002 regarding the application of international accounting standards and generally accepted accounting principles, and provide a true and fair view of the Group and Parent Company's position and performance. The Directors' Report for the Group and Parent Company gives an accurate overview of performance.

Stockholm, 5 June 2020

Jörgen Cederholm
Chairman of the Board

Marcus Johansson Prakt
Chief Executive Officer

Jimmie Hall
Board member

Andreas Bonnier
Board member

Sten Andersen
Board member

Our auditor's report was presented on 5 June 2020

Öhrlings PricewaterhouseCoopers AB

Henrik Boman
Authorised Public Accountant

AUDITOR'S REPORT

To the Annual General Meeting of the shareholders of Quartiers Properties AB (publ), corp. reg. no 556975-7684

REPORT ON THE ANNUAL AND CONSOLIDATED ACCOUNTS

OPINIONS

We have audited the annual accounts and consolidated accounts of Quartiers Properties AB (publ) for 2019. The company's annual accounts and consolidated accounts are provided on pages 28–74 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and provide in all material respects a true and fair view of the Parent Company's financial position at 31 December 2019 and of its financial performance and cash flow for the year, according to the Swedish Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and provide in all material respects a true and fair view of the financial position of the Group at 31 December 2019 and of its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Swedish Annual Accounts Act. The Directors' Report is consistent with the other sections of the annual accounts and consolidated accounts.

We therefore recommend that the Annual General Meeting of shareholders adopt the consolidated statement of comprehensive income and the consolidated statement of financial position, as well as the income statement and balance sheet for the Parent Company.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility according to these standards is described in more detail under the section 'Auditor's responsibilities'. We are independent in relation to the Parent Company and the Group in accordance with rules of professional ethics in Sweden, and have in all other respects fulfilled our professional responsibilities according to these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

DISCLOSURE OF PARTICULAR IMPORTANCE

Without prejudice to our statements above, we would like to bring attention to the section 'Significant events after the end of the financial year' in the Directors' Report of the annual accounts. It states that as a result of the Covid-19 pandemic and its impact, the company and the Group are in need of additional financing, through the sale of assets or the raising of new loans to finance operating activities and free up capital in order to continue investing. It also states that the management is in discussions with a number of operators about raising loans. In the event that loan financing cannot be obtained according to plan from any of the operators with which discussions are currently ongoing, the company may instead need to sell properties more quickly, and possibly at a lower price than desired. In the worst case, this could lead to losses if sales have to be made at less than the carrying amounts.

OTHER INFORMATION BESIDES THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document contains other information in addition to the annual accounts and consolidated accounts, on pages 1–27 and 78–79. The Board of Directors and the CEO are responsible for this other information.

Our opinion with regard to the annual accounts and consolidated accounts does not extend to this information, and we do not provide a statement of assurance concerning such other information.

In connection with our audit of the annual accounts and consolidated accounts, it is our responsibility to read the information identified above and consider whether such information deviates significantly from the annual accounts and consolidated accounts. During the course of this review we also consider the knowledge we have otherwise obtained during our audit, and we make an assessment of whether the information in general appears to contain any material misstatements.

If, based on the work that has been carried out regarding this information, we conclude that the other information contains a material misstatement, we are obliged to report the matter. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CEO

The Board of Directors and CEO are responsible for ensuring that the annual accounts and consolidated accounts are prepared and that they provide a true and fair view in accordance with the Swedish Annual Accounts Act and, as regards the consolidated accounts, in accordance with IFRS as adopted by the EU, and the Swedish Annual Accounts Act. The Board of Directors and the CEO are also responsible for such internal controls as they deem necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

When preparing the annual accounts and consolidated accounts, the Board of Directors and CEO are responsible for analysing the company and Group's ability to continue operating. Where applicable, they provide notification of circumstances that could affect the ability to continue operations and to use the assumption of continued operation. The assumption of continued operation does not apply, however, if the Board of Directors and the CEO intend to liquidate the company, discontinue operations or do not have any realistic alternative to taking either of these options.

AUDITOR'S RESPONSIBILITIES

Our objectives are to achieve a reasonable level of assurance that the annual accounts and the consolidated accounts as a whole do not contain any material misstatements, whether due to fraud or error, and to submit an auditor's report that contains our opinions. Reasonable assurance is a high level of assurance, but is no guarantee that an audit carried out in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if it exists. Misstatements may occur because of fraud or error and are deemed material if individually or together they could reasonably be expected to affect the financial decisions that users take based on the annual accounts and the consolidated accounts.

Further details of our responsibility for the audit of the annual and consolidated accounts are available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar (in Swedish). This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Quartiers Properties AB (publ) for 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the Annual General Meeting of shareholders that the profit be appropriated in accordance with the proposal in the Directors' Report, and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

BASIS OF OPINION

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibility according to these standards is described in more detail under the section 'Auditor's responsibilities'. We are independent in relation to the Parent Company and the Group in accordance with rules of professional ethics in Sweden, and have in all other respects fulfilled our professional responsibilities according to these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. Any proposed dividend contains, among other things, an assessment of whether the dividend is justifiable with regard to the requirements that the company and Group's type of business, size and risk place on the size of the Parent Company and Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and management of the company's affairs. This includes continually assessing the company and Group's financial situation and ensuring that the company's organisation is structured so that its accounting records, management of funds and the company's financial affairs in other respects are subject to satisfactory checks. The CEO must conduct ongoing management in accordance with the Board of Directors' guidelines and instructions and, for example, take the action necessary to ensure that the company's accounting records are implemented in compliance with the law and that management of funds is carried out satisfactorily.

AUDITOR'S RESPONSIBILITIES

Our objective for the audit of management, and therefore our statement on discharge from liability, is to obtain audit evidence to have a reasonable level of assurance to be able to assess whether any Board member or the CEO in any significant respect:

- has taken any action or is guilty of any negligence that may cause liability to the company;
- has in some way acted in breach of the Swedish Companies Act, the Swedish Annual Accounts Act or the company's Articles of Association.

Our objective for the audit of the proposed appropriations of the company's profit or loss, and therefore our statement about this, is to have a reasonable level of assurance to assess whether the proposal is consistent with the Swedish Companies Act.

Reasonable assurance is a high level of assurance, but is no guarantee that an audit carried out in accordance with good auditing standards in Sweden will always detect a material misstatement or negligence that may cause liability to the company, or that proposed appropriations of the company's profit or loss are not consistent with the Swedish Companies Act.

Further details of our responsibility for the audit of the company's administration are available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar (in Swedish). This description is part of the auditor's report.

Stockholm, 5 June 2020

Öhrlings PricewaterhouseCoopers AB

Henrik Boman
Authorised Public Accountant

SHAREHOLDER INFORMATION

Quartiers Properties has two outstanding share classes, in the form of ordinary shares and a series of preference shares. The ordinary and preference shares in Quartiers Properties have been traded on Nasdaq First North Stockholm since 21 June 2017. The preference share was previously traded on NGM Nordic MTF.

The market value of the company's ordinary shares at 31 December 2019 totalled SEK 247.0 million (SEK 316.9 million), based on a closing price of SEK 5.10 (SEK 5.60). The preference share pays an annual dividend of SEK 0.96 per share, which, given the closing price of SEK 9.7 per share at 31 December, corresponds to a yield of 9.9 percent.

WARRANTS

There were no outstanding warrants in the company at 31 December 2019.

AUTHORISATION

The 2019 AGM resolved to authorise the Board of Directors, up until the next AGM and within the scope of the Articles of Association, on one or more occasions, with or without deviation from shareholders' preferential rights, to decide on the issue of shares (ordinary shares and/or preference shares). When deciding on the number of preference shares to be issued, the Board of Directors shall ensure that the company is able to fulfil its commitments relating to dividends for preference shares, in accordance with the decision regarding the distribution of profit.

An issue may be made against a cash payment, via assets contributed in kind and/or via offsetting, or otherwise according to conditions. Decisions on share issues based on this authority may result in an increase in the company's share capital by a maximum of 15 percent. For private cash issues the subscription price must be set on a market basis.

MARKET MAKER AND CERTIFIED ADVISER

Mangold is the company's certified adviser, while ABGSC is the company's market maker for the ordinary shares. Mangold can be contacted on +46 8 503 015 50, and ABGSC can be reached at +46 8 566 286 00.

TEN LARGEST SHAREHOLDERS – 30 DECEMBER 2019

#	Shareholder	Ordinary shares	Preference shares	Capital	Votes
1	Egonomics AB	10,011,340	–	18.0%	20.4%
2	Fastighets Aktiebolag Bränneröd	6,139,018	85,370	11.2%	12.5%
3	LMK Companies & Foundation	4,627,714	1,402,222	10.8%	9.7%
4	Rocet AB	3,847,334	30,000	7.0%	7.8%
5	Bosmac Invest AB	2,400,666	–	4.3%	4.9%
6	Bernt Lundberg Fastigheter Lund AB	1,980,000	150,000	3.8%	4.1%
7	Swedbank Robur Funds	1,897,699	–	3.4%	3.9%
8	Mats Invest AB	1,700,000	156,000	3.3%	3.5%
9	Leif Edlund	1,333,334	–	2.4%	2.7%
10	SIX SIS AG	1,267,428	70,000	2.4%	2.6%
	Other	**13,258,363**	**5,381,025**	**33.4%**	**28.0%**
	Total	**48,462,896**	**7,274,617**	**100.0%**	**100.0%**

Source: Euroclear

ANNUAL GENERAL MEETING 2020

The Annual General Meeting of the shareholders in Quartiers Properties AB (publ), corp. reg. no 556975-7684, is hereby convened.

- **Date and time:** Friday 26 June 2020, 10.00 a.m.
- **Venue:** Advokatfirma Wåhlin AB's offices at Engelbrekrsgatan 7 in Stockholm, Sweden.

Registration, etc.
Shareholders wishing to participate in the Annual General Meeting must be entered as shareholders in the shareholders' register maintained by Euroclear Sweden AB on the record date, which is Friday 19 June 2020, and inform the company of their intention to participate by Monday 22 June 2020 at the latest.

Registration can be submitted by letter, or to:

- Quartiers Properties AB (publ), Strandvägen 7A, 114 56 Stockholm
- By email to marcus.prakt@quartiersproperties.se
- By telephone on +46 (0) 720185998.

When registering, shareholders must supply their name, personal identity number/corporate registration number and daytime phone number and, where applicable, details of any deputies, proxies and assistants (max. two assistants). Shareholders that are being represented must issue proxies with a signed and dated proxy authorisation. The original proxy authorisation and, for legal entities, proof of registration or equivalent authorisation documents, should be sent to the company at the above address well in advance of the AGM. Proxy authorisation forms are available on the company's website www.quartiersproperties.com, and can be sent by post to shareholders requesting them who state their postal address.

FINANCIAL CALENDAR

Annual General Meeting 2020	26 June 2020
Interim Report Jan–Jun 2020	17 July 2020
Year-end Report Jan–Dec 2020	28 February 2021

CONTACT

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Jörgen Cederholm, Chairman of the Board
email: jorgen.cederholm@quartiersproperties.se
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QUARTIERS

PROPERTIES

Contact

The company – Quartiers Properties AB (publ)
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