Consolidated Annual Report 2016

(translation of the Estonian original)

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of reporting period: 01.01.2016

End of reporting period: 31.12.2016

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee

Website address: www.eften.ee

Table of contents

MANAGEMENT REPORT 3
FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE YEAR 2016 6
CONSOLIDATED INCOME STATEMENT 6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 7
CONSOLIDATED STATEMENT OF CASH FLOWS 8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 9
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 10
1 General principles used in preparing the financial statements *10*
1.1 Changes in the accounting policies and presentation *10*
1.2 Summary of the most important accounting principles *11*
2 Subsidiaries *17*
3 Revenue *18*
4 Cost of goods and services sold *18*
5 Marketing costs *19*
6 General and administrative expenses *19*
7 Other income and other expenses *19*
8 Finance costs *20*
9 Income tax *20*
10 Cash and cash equivalents *20*
11 Receivables and accrued income *20*
12 Prepayments *21*
13 Investment property *21*
14 Property, plant and equipment *23*
15 Borrowings *26*
16 Payables and prepayments *27*
17 Success fee liability *27*
18 Derivative instruments *27*
19 Financial instruments, management of financial risks *28*
20 Share capital *31*
21 Contingent liabilities *32*
22 Related party transactions *32*
23 Parent company's separate income statement *32*
24 Parent company's separate balance sheet *33*
25 Parent company's separate statement of cash flows *34*
26 Parent company's separate statement of changes in equity *35*
Independent Auditor's Report *36*
Profit allocation proposal *39*
Signatures of the members of the management board and supervisory board to the 2016 annual report *40*
Distribution of revenue in accordance with the Estonian Classification of Economic Activities *41*

MANAGEMENT REPORT

In 2016, the Fund made two investments in the commercial real estate business segment, acquiring the Magistrali shopping centre in Tallinn and the Domina shopping centre in Riga. While the Magistrali centre is regionally important, being a community centre in Mustamäe, the Domina shopping centre is one of Riga's three large shopping centres. Development plans of Magistrali include continuing with the current structure of tenants, with minor changes, which take into account the interests of the centre's daily visitors. In 2016, Magistrali achieved 100% occupancy of commercial spaces, which we plan to maintain also in 2017. In 2017, Domina shopping centre will undergo major upgrading. In 2016, prior to the acquisition of the shopping centre by EfTEN Kinnisvarafond II, the 10-year rental agreement of the Prisma grocery store expired and the previous owner did not renew it. Several new stores - Maxima XXX hypermarket, JYSK, and Sports Direct, to name just a few - will be located on the space formerly rented by Prisma and will open doors in 2017. Rebuilding works will be completed in the first half of 2017.

The Fund' two other investments - the Duntes office building and the Radisson Sky hotel in Tallinn will continue their current activities without major changes. The Duntes office building has extremely low vacancy rate and 2017 should not bring any major changes in the composition of its tenants. Radisson Sky hotel is a 24-storey hotel building and a landmark in center of Tallinn. 2016 was a successful year for both the Estonian tourism sector and the Radisson Sky hotel. In 2017 the Tallinn hotel market will be influenced by Estonia's EU presidency in the second half of the year which will bring a lot of foreign visitors and high-level meetings to Tallinn. Assuming that the economies of our neighbouring countries continue their current growth rate, it can be expected that 2017 will be successful also to the hotel market in Tallinn.

The investment period of EfTEN Kinnisvarafond II AS will run until 2020. Thus, the Fund continues to search new suitable investment opportunities that meet the Fund's conservative investment criteria. Given the rapid growth of the commercial property market in the Baltic countries, it is increasingly more difficult to find investments with a suitable ratio of risk and yield. For this reason, EfTEN Kinnisvarafond II is not making any specific investment plans. We will continue actively monitoring suitable investment objects, and we are ready to make transactions if we can find a suitable investment object.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS in 2016 was EUR 16 million (2015: EUR 9.2 million) and the net profit was EUR 10.5 million (2015: EUR 3 million). The consolidated gross profit margin was 68% (2015: 54%).

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 49.4% of the revenues in 2016 (2015: 63.1%).

	2016	2015
EUR million		
Revenue	16.048	9.198
Expenses related to investment properties, incl. marketing costs	-6.064	-4.691
Interest expense and interest income	-1.040	-0.336
Net revenue less finance costs	**8.944**	**4.171**
Management fees	-0.639	-0.246
Other revenue and expenses	-1.231	-0.867
Profit before change in the value of investment property, change in the succes fee liability and income tax expense	**7.074**	**3.058**

EfTEN Kinnisvarafond II AS has a 100% ownership interest in Astlanda Hotelli AS, the operator of the Radisson Blu Sky Hotel. The operating results of the hotel are consolidated in the fund's report.

As at 31.12.2016, the Group total assets were in the amount of EUR 194 million (31.12.2015: EUR 77.1 million), including investment property at fair value and fixed assets, which accounted for EUR 176 million of the total assets (31.12.2015: EUR 69.8 million).

	31.12.2016	31.12.2015
EUR million		
Investment property	129.891	23.746
Property, plant and equipment	46.350	46.025
Other non-current assets	0.043	0.017
Current assets, excluding cash	0.805	0.612
Net debt	-83.314	-32.744
Net asset value (NAV)	93.7739	37.6557
Net asset value (NAV) per share (in euros)	11.6175	10.9968

Net asset value of the share of EfTEN Kinnisvarafond II AS increased 5.6% in a year (2015: 9.96%), including the dividend payment made in May 2016, and the related income tax expense totaling EUR 2.7 million. Without dividends the NAV would have increased by 8.6%. Return on invested capital (ROIC) was 17.8%. The weighted average interest rate of Group's borrowings was 1.15% at the end of the accounting periood (31.12.2015: 1.037%).

For the year	2016	2015
ROE, % *(net profit of the period / average equity of the period)x100*	16.0	16.0
ROA, % *(net profit of the period / average assets of the period)x100*	7.8	7.8
ROIC, % *(net profit of the period / average invested capital of the period)x100*[1]	17.8	17.6
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	3.8	9.6

[1] The average invested capital of the period is the paid-in share capital and share premium of EfTEN Kinnisvarafond II AS's equity. The indicator does not show the actual investment of the funds raised as equity.

Real estate portfolio

The Group made two investments in the year 2016. In February, the Fund purchased a shopping centre in Tallinn located at Sõpruse pst 201/203, investment volume was EUR 24 million. In July, the Fund acquired a shopping centre at Ieriķu 3 in Riga, the investment volume was EUR 74.5 million.

As at 31.12.2016, the Group holds four investments:

Premises	Address	Type	Net leasable area (m2)	Acquisition time
EUR thousand				
Radisson Blu Sky hotel	Rävala pst 3/ Kuke tn 2 Tallinn Estonia	hotel	24,499	01.2015
Duntes Biroji office building	Duntes 6, Riga Latvia	office building	12,650	11.2015
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	shopping center	11,720	02.2016
Domina shopping center	Ieriku 3, Riga Latvia	shopping center	47,493	07.2016
Total			**96,362**	

Weighted average expiry of rent agreements of investment property of the Group is 5.5 years (2015: 5.1 years), and as at 31.12.2016, the Group has a total of 342 (2015: 40) rent contracts. None of the rental income of a rent contract exceeds 10% of consolidated rental income.

Valuation of investment property

EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in the month of June and in the month of December. In 2016 and 2015, the Group's investment property was valued by Colliers International Advisors OÜ.

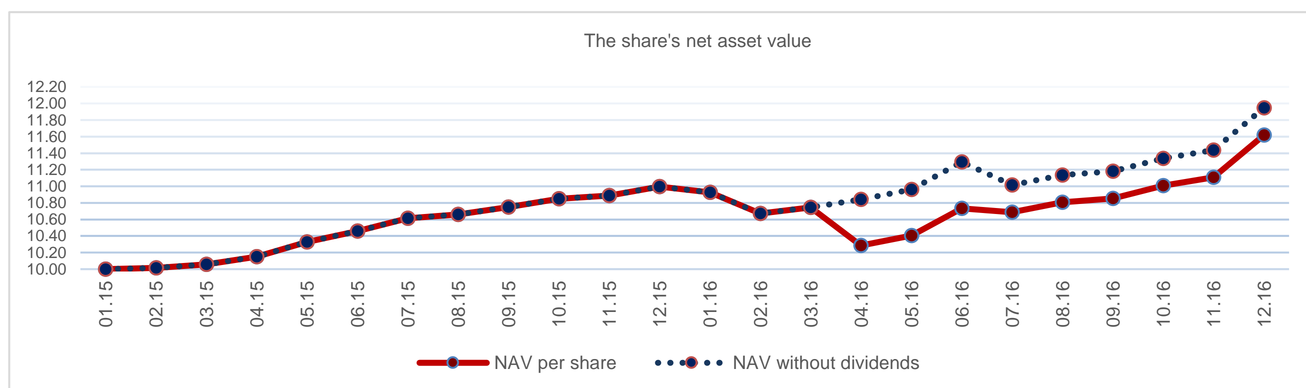
The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level.

The group uses the hotel and office building acquired in January 2015 located at Rävala pst.3 / Kuke tn.2 in its operations and therefore classifies it as property, plant and equipment.

Information on shares

As at 31.12.2016, payments made to the share capital of EfTEN Kinnisvarafond II AS total EUR 80.72 million:

	31.12.2016	31.12.2015
Number of shares outstanding at the beginning of the period	**3,424,254**	**2,500**
Issue of shares during the period	4,647,502	3,421,754
Number of shares outstanding at the end of the period	**8,071,756**	**3,424,254**



The dividend policy of EfTEN Kinnisvarafond II AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In 2016, the shareholders were paid dividends in amount of EUR 2.1 million.

Shareholder structure of EfTEN Kinnisvarafond II AS as at 31.12.2016

	Ownership percentage in share capital, %
Swedbank Pension Funds	69.4
Nordea Pension Funds	9.3
Latvian Central Depository	6.0
ERGO Life Insurance SE Estonian branch	3.6
SEB Bankas AB	2.6
LHV Pension Funds	1.2
Others	7.8
Total	**100.0**

Outlook for 2017

In 2017, the real estate market can be expected to grow further, supported in particular by low interest rates and the increase in domestic consumption caused by wage growth. While the US Federal Reserve has started to raise interest rates, they are not expected to grow in Europe in 2017. An important change compared with the previous year is the return of inflation. Because of the loss of the base effect of low prices of energy carriers, consumer prices in January 2017 in Estonia were 2.7% higher as compared to the year before. Given the fact that rental rates of commercial property are usually indexed to inflation, it creates an opportunity for rental rates to go up. As a counterforce, the growth of rental rates is influenced by significant increase in offering of new commercial premises essentially in all business segments and in the capitals of all Baltic countries. In the combination of two factors, rental prices are expected to move laterally. Due to the offering of new commercial spaces, averages vacancy rates on the market are growing.

The total investment volume in the Baltic commercial real estate in 2016 totaled EUR 1.17 billion, which is lower than in 2015 when the market volume was EUR 1.4 billion. Whereas last year funds managed by EfTEN Capital were the leaders of the Baltic market of commercial real estate with EUR 140 million in the total volume of transactions, we expect the investment pace to slow down considerably in 2017. The reason is continued decrease in yield rates, which makes it difficult to find new investment targets with a suitable risk and yield profile. The liquidity of the Baltic commercial real estate market is several times lower than in the Nordic region. The reason is that foreign institutional capital is leaving the market rather than making new investments.

The investment period of EfTEN Kinnisvarafond II AS will run until 2020. The Fund manager is actively searching new investment opportunities. Considering In high price level of commercial real estate in the Baltic capitals, the Fund and the Fund Manager have not set any specific investment objective. We focus only on the investments that have a suitable risk profile (core real estate). If it is not possible to find them on the market, the Fund will not make new investments in projects that have higher risk profile and lower rate of return. The main focus of the existing portfolio is the successful completion of the rebuilding of the Domina shopping centre with the deadline on 30 June 2017. The Fund has a significant position in the Tallinn hotel market through its ownership of the hotel building of Radisson Sky Blu and full ownership in hotel operator Astlanda Hotel AS. Taking into account that Estonia will hold the Presidency of the European Council in the second half of 2017 and that the new ruling coalition decided not to raise the VAT rate of accommodation establishments, this year should be successful for the Tallinn hotel market.

Management

On 25.04.2016 a general annual meeting of shareholders was held in the course of which the 2015 annual report was approved and it was decided to pay out EUR 2,127,200 in net dividend. No extraordinary general meetings of shareholders were held in 2016.

There are no changes in Fund management, including members of the Fund's Supervisory Board and Management Board. Since its foundation, the fund’s Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil, and the Management Board memebrs of the fund are Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

According to the management contract and the fund's articles of association, the fund's assets are managed and controlled by the fund management company EfTEN Capital AS.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE YEAR 2016

CONSOLIDATED INCOME STATEMENT

	Notes	2016	2015
EUR thousand			
Revenue	3	16,048	9,198
Cost of services and goods sold	4	-5,201	-4,258
Gross profit		**10,847**	**4,940**
		,	,
Marketing costs	5	-864	-433
General and administrative expenses	6	-2,911	-1,114
Other income	7	6,071	1
Other expenses	7	-238	0
Operating profit		**12,905**	**3,394**
		,	,
Finance income		1	0
Finance costs	8	-1,041	-336
Profit before income tax		**11,865**	**3,058**
		,	,
Income tax expense	9	-1,357	-39
Net profit for the accounting period		**10,508**	**3,019**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016	2015
EUR thousand			
Net profit for the financial year		10,508	3,019
Other comprehensive income/loss:			
Revaluation of property, plant and equipment	14	457	138
Loss from revaluation of hedging instruments	18	-734	-526
Total other comprehensive income/loss		**-277**	**-388**
Total comprehensive income for the financial year		**10,231**	**2,631**

Notes on pages 10 to 35 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016	31.12.2015
EUR thousand			
ASSETS			
Cash and cash equivalents	10	16,890	6,661
Receivables and accrued income	11	663	471
Prepaid expenses	12	56	55
Inventories		86	86
Total current assets		**17,695**	**7,273**
Long-term receivables		1	5
Long-term investments in securities		12	12
Investment property	13	129,891	23,746
Property, plant and equipment	14	46,379	46,025
Total non-current assets		**176,283**	**69,788**
TOTAL ASSETS		**193,978**	**77,061**
LIABILITIES AND EQUITY			
Borrowings	15	2,299	477
Derivative instruments	18	1,260	526
Payables and prepayments	16	2,773	844
Total current liabilities		**6,332**	**1,847**
Borrowings	15	90,481	36,568
Other long-term liabilities	16	1,029	233
Success fee liability	17	1,041	0
Deferred income tax liability	9	1,321	757
Total non-current liabilities		**93,872**	**37,559**
Total liabilities		**100,204**	**39,405**
Share capital	20	80,718	34,243
Share premium	20	2,321	782
Statutory reserve capital		151	0
Hedging reserve	18	-1,260	-526
Revaluation reserve	14	595	138
Retained earnings	21	11,249	3,019
Total equity		**93,774**	**37,656**
TOTAL LIABILITIES AND EQUITY		**193,978**	**77,061**

Notes on pages 10 to 35 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016	2015
EUR thousand			
Net profit		**10,508**	**3,019**
Adjustments:			
Finance income		-1	0
Finance costs	8	1,041	336
Gains/losses from investment property revaluation	13	-5,833	0
Change in success fee liabilty	17	1,041	0
Depreciation	14	295	280
Income tax expense	9	1,357	39
Total adjustments with non-cash changes		**-2,100**	**654**
Cash flow from operations before changes in working capital		**8,408**	**3,673**
Change in receivables and payables related to operating activities		1,146	-236
Change in inventories		0	-10
Net cash generated from operating activities		**9,554**	**3,427**
Purchase of property, plant and equipment	14	-191	-180
Purchase of investment property		-75,553	-12,835
Acquisition of subsidiaries, net cash flow	2	-11,634	-22,697
Interests received		1	0
Net cash generated from investing activities		**-87,377**	**-35,712**
Loans received	15	45,000	14,155
Scheduled loan repayments	15	-1,180	-9,791
Interest paid		-1,123	-442
Proceeds from issuance of shares	20	48,014	35,000
Dividends paid		-2,127	0
Income tax paid on dividends	9	-532	0
Net cash generated from financing activities		**88,052**	**38,921**
NET CASH FLOW		**10,229**	**6,636**
Cash and cash equivalents at the beginning of the period	10	**6,661**	**25**
Change in cash and cash equivalents		10,229	6,636
Cash and cash equivalents at the end of the period	10	**16,890**	**6,661**

Notes on pages 10 to 35 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
EUR thousand							
Balance as at 31.12.2014	**25**	**0**	**0**	**0**	**0**	**0**	**25**
Issue of shares	34,218	782	0	0	0	0	**35,000**
Total transactions with owners	**34,218**	**782**	**0**	**0**	**0**	**0**	**35,000**
Net profit for the financial year	**0**	**0**	**0**	**0**	**0**	**3,019**	**3,019**
Revaluation of property, plant and equipment	0	0	0	0	138	0	**138**
Loss from revaluation of hedging instruments	0	0	0	-526	0	0	**-526**
Total comprehensive income	**0**	**0**	**0**	**-526**	**138**	**3,019**	**2,631**
Balance as at 31.12.2015	**34,243**	**782**	**0**	**-526**	**138**	**3,019**	**37,656**
Issue of shares	46,475	1,539	0	0	0	0	**48,014**
Transfers to reserve capital	0	0	151	0	0	-151	**0**
Dividends paid	0	0	0	0	0	-2,127	**-2,127**
Total transactions with owners	**46,475**	**1,538**	**151**	**0**	**0**	**-2,278**	**45,887**
Net profit for the financial year	**0**	**0**	**0**	**0**	**0**	**10,508**	**10,508**
Revaluation of property, plant and equipment	0	0	0	0	457	0	**457**
Loss from revaluation of hedging instruments	0	0	0	-734	0	0	**-734**
Total comprehensive income	**0**	**0**	**0**	**-734**	**457**	**10,508**	**10,231**
Balance as at 31.12.2016	**80,718**	**2,321**	**151**	**-1,260**	**595**	**11,249**	**93,774**

More information on share capital and changes in equity is provided in Notes 18, 20 and 21.

Notes on pages 10 to 35 are an integral part of the consolidated financial statements.

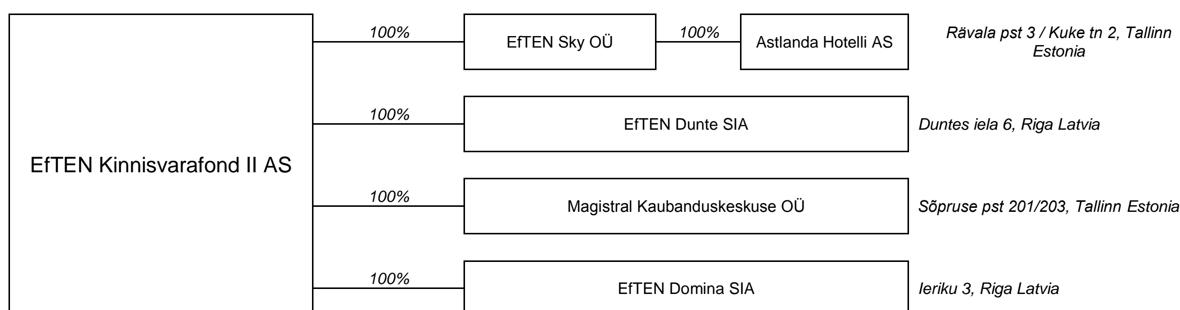
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 *General principles used in preparing the financial statements*

Consolidated financial statements of EfTEN Kinnisvarafond II AS and its subsidiaries for the year ended 31.12.2016 have been signed by the Management Board on 28 February 2017. In accordance to the Commercial Code of the Republic of Estonia, an annual report prepared by the management board and approved by the supervisory board is approved on the annual general meeting of shareholders. These consolidated financial statements are part of the annual report that is to be approved by the shareholders and one of the basis for deciding on profit allocation. Shareholders are entitled not to approve the annual report prepared by the Management Board and approved by the Supervisory Board, and to request preparation of a new report.

EfTEN Kinnisvarafond II AS (Parent company) is a company registered and operating in Estonia.

The structure of EfTEN Kinnisvarafond II AS Group as at 31.12.2016 is as follows:



The consolidated financial statements of EfTEN Kinnisvarafond II AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements of the Group are presented in thousands of euros.

The financial statements have been prepared under the historical cost convention, except for land and buildings that have been revalued and measured using the revaluation model as described in the respective accounting policies and except for investment property that has been measured at fair value.

1.1 *Changes in the accounting policies and presentation*

Adoption of new or revised standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 January 2017, and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement *(effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU)***.** Key features of the new standard are:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers, amendment to enforcement of IFRS 15 *(effective for annual periods beginning on or after 1 January 2018*). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Management of the Group has analysed the effect of the named change to the consolidated income statement and finds that the change does not have significant influence to Group's financial statements because the Group's revenue materially consists of rental income and the Group does not sell goods and services under one contract.

IFRS 16, Leases *(effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (*effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU*). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

Revenue from Contracts with Customers – Amendments to IFRS 15 (*effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU*). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group is currently assessing the impact of the amendments on its financial statements.

Transfers of Investment Property – Amendments to IAS 40 (*effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU*). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group is currently assessing the impact of the amendments on its financial statements.

1.2 Summary of the most important accounting principles

Management's critical estimates and judgements

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities.

Although estimates and underlying assumptions are reviewed by the management on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

Information about management's critical judgements and estimates that have a material effect on the amounts reported in the financial statements is provided below.

Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date of preparation of the financial statements. Therefore there is a risk with the assets and liabilities presented at the balance sheet date, and the related revenue and expenses, that the estimates applied need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material restatements to the financial statements are described below.

a) Valuation of property, plant and equipment measured using the revaluation model

Management has evaluated as at 31.12.2016 the value of property, plant and equipment measured using the revaluation model (fair value less subsequent depreciation and impairment) based upon an appraisal provided by an independent valuation specialist for the market value of the asset. The Group owns land and buildings (Radisson Blu Sky Hotel) that are measured using the revaluation model. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of fair value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and prevailing market conditions. The carrying amount of the property, plant and equipment measured using the revaluation model as at 31.12.2016 is provided in Note 14.

b) Property, plant and equipment: assets with a significant residual value

Group management considers it very likely that the Radisson Blu Sky Hotel building is sold at the end of the 10-year term of the EfTEN Kinnisvarafond II AS fund. Management estimates that the residual value of the building in ten years' time is at least as high as the cost, therefore it has been decided to divide the cost of the hotel building into two components - the non-depreciable portion and the depreciable portion. Using as a basis the assumption that the annual estimated capital expenditures required to maintain the present condition of the hotel building amount to EUR 150 thousand, the management defined EUR 1,500 thousand as the depreciable cost component of the building to be depreciated over ten years. The remaining portion of the cost of the building is allocated to the non-depreciable component.

In case of items with a significant residual value, only the depreciable portion of the difference between the cost and the residual value is depreciated into an expense over their useful lives. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of residual value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and market conditions. If residual value has substantially declined by the balance sheet date, the management of the Group will review the estimates that have been made regarding the applied depreciation rates, depreciation methods and estimated residual value and modify them if necessary. Any impact from a change in depreciation rate, depreciation method or residual value is accounted for as a change in accounting estimates.

c) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. The Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method.

More information on the assumptions used in valuation of fair value is provided in Note 13.

d) Judgments concerning the existence of control or significant influence over other entities

The Group owns 100% of all of its subsidiaries and the members of the management board of the Group's parent entity are included in governance bodies of subsidiaries. Hence, the Group has full control over its subsidiaries in its distribution of profit and adoption of management decisions.

Classification of real estate

Items of real estate (properties) are classified as investment property or property, plant and equipment both on initial recognition and on any subsequent reclassification based on management's intentions regarding further use of the properties. Implementation of plans may require additional decisions independent of the Group (changing the intended purpose of land, approving a detailed plan, issuing building permits, etc.), reducing the accuracy of asset classification.

The purpose of acquisition of properties is to hold it for long-term rental yields or for capital appreciation. In addition, properties that are held for a longer period and that have several possible purposes of use, are classified as investment property.

Investment company

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond II AS does not meet the definition of an investment company, since it has characteristics of a real estate company rather than of a purely investment firm. Although also the investors of EfTEN Kinnisvarafond II AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond II AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. Also, in accordance with IFRS 10, an investment firm should make direct investments in companies, which are valued at fair value. In case of the parent company of EfTEN Kinnisvarafond II AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond II AS are assessed for fair value, thereby obtaining the fair value of the subsidiary which may not necessarily be the final market price of the subsidiary. It also assesses the Group's business activities on

the basis of rental income, profit margins, volume of assets and other financial ratios characteristic to real estate companies which cannot be made only no the basis of a fair value of the subsidiary.

Consolidation

The consolidated financial statements present the financial information of EfTEN Kinnisvarafond II AS and its subsidiaries, consolidated on a line-by-line basis. The subsidiaries are consolidated from the date on which control or joint control is transferred to the Group, and subsidiaries are deconsolidated from the date that control or joint control ceases.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. All inter-company transactions, receivables and payables and unrealised gains and losses from transactions between the Group companies have been fully eliminated in the financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

Business combinations are accounted for in the consolidated financial statements using the acquisition method.

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

Investments in subsidiaries in the separate balance sheet of the Parent company

In the separate balance sheet of the parent company (presented in Note 24), the investments in subsidiaries are measured at fair value. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

Revenue from the sale of goods and from services rendered in the ordinary course of business is measured at the fair value of the consideration received or receivable. Revenue is recognised only when the amount of revenue can be measured reliably, it is probable that future economic benefits attributable to the transaction will flow to the group, significant risks and rewards of ownership have been transferred from the seller to the buyer. The amount of revenue is considered to be reliably measureable only when all circumstances related to the transaction are unambiguous.

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

Income from intermediation of services (utility fees of subtenants, sublease, and other intermediated services) is offset against the expense on services purchased.

Finance income

Interest income is recognised on an accrual basis, using the effective interest rate method. Dividend income is recognised when the right to receive payment has been established.

Cash and cash equivalents

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

Financial assets

All financial assets are initially recognised at cost which is the fair value of the consideration paid for the financial asset. Acquisition costs are any costs that are directly attributable to the acquisition of the financial asset, including fees and commissions paid to agents and advisers, as well as any non-recoverable levies, taxes and duties. An exception is financial assets measured at fair value through profit or loss, the additional expenses related to the acquisition are recognised as an expense in the income statement.

A regular way purchase or sale of financial assets is recognised using trade date accounting. A trade date is the date at which the Group commits itself to purchase or sell a certain financial asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

Upon initial recognition, financial assets are classified in one of the following four categories of financial assets (see below). The following principles are used for measurement of financial assets in each category:

- Financial assets at fair value through profit or loss – fair value;
- Held-to-maturity investments – amortised cost;
- Loans and receivables – amortised cost;
- Available-for-sale financial assets – fair value or cost in case of equity instruments, the fair value of which cannot be reliably measured.

In the year and 2016 and 2015, the Group only had financial assets in the "Loans and receivables" category.

Loans and receivables from other parties

After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Amortised cost is calculated for the whole term of useful life of the financial asset, including any discount or premium arising upon acquisition and any directly attributable transaction costs.

If there is objective evidence, which indicates that an impairment loss on a financial asset carried at amortised cost has been incurred, the carrying amount of the financial asset is written down by the difference between the book value and the recoverable amount. The recoverable amount is the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Financial assets that are individually significant are assessed for impairment on an individual basis. If 180 days or more has passed from the due date of the receivable, the amount receivable is classified as a doubtful receivable and written off as an expense to the extent of 100%. If a decrease in the value of assets becomes evident more quickly, the receivables are written down earlier.

If a receivable that has been written down is collected or any other event occurs which reverses an impairment loss that has been recognised, the reversal is recognised by reducing the line item in the income statement within which the impairment loss was originally recognised.

Interest income from receivables is recognised in the income statement on the line "Finance income".

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

Derivative instruments

The risk policy of the Group specifies that company may use interest rate swaps from among derivative instruments to hedge the risks related to change in interest rates of financial liabilities. Such derivative instruments are initially recognised in the balance sheet at their fair value at the date of entering into a contract and subsequently remeasured in accordance with the change in the fair value of the instruments at the balance sheet date. A derivative instrument with a positive fair value is recognised as an asset and a derivative instrument with a negative fair value is recognised as a liability. In determining the fair value of interest rate swaps, bank quotations at the balance sheet date are used as a basis.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement on the line item "Finance income" or "Finance costs". Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item affects profit or loss. The gain or loss that is related to the effective portion of an instrument that hedges a credit risk with a variable interest rate is recognised in the income statement on the line item "Interest expense". When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss accumulated in equity at that time remains in equity and is classified in the income statement when the forecast transaction takes place. If the future transaction is no longer expected, the cumulative gain or loss recognised in equity is immediately recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the group.

Land and buildings are measured using the revaluation model: land and buildings are measured after initial recognition at the revalued amount, which is equal to the fair value of the assets at the date of revaluation less accumulated depreciation and any accumulated impairment losses. Appraisals are carried out regularly

by independent real estate specialists. Previously accumulated depreciation is eliminated on the date of revaluation and the former cost of the asset is replaced with its fair value at the date of revaluation.

If a revaluation of land and buildings results in an increase in the carrying amount of such land and buildings, it is credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus". The reversal of a revaluation decrease of the same asset previously recognised as an expense is recognised in profit or loss. A decrease arising as a result of a revaluation is recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. The difference in depreciation arising from the difference between the initial cost and revaluation amount of the assets is transferred on an annual basis from the heading "revaluation surplus" to the heading "retained earnings".

Other property, plant and equipment is carried in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Other property, plant and equipment is initially recognised at its cost, comprised of its purchase price and any expenditure directly attributable to the acquisition.

When an item of property, plant and equipment takes a substantial period of time to get ready for its intended use, the borrowing costs attributable to it are capitalized in the cost of the asset. Capitalization of borrowing costs is terminated when the asset is ready for its intended use to a material extent or its active development has been suspended for a substantial period of time.

Subsequent expenditures incurred on an item of property, plant and equipment are capitalized as non-current assets if it is probable that the company will obtain future economic benefits related to the item and if the cost of the item can be measured reliably. All other repair and maintenance costs are recognised as an expense during the financial period in which they are incurred.

The straight-line method is used for depreciation. A depreciation rate is assigned to each non-current asset individually depending on its useful life.

The ranges of depreciation rates for groups of property, plant and equipment are the following:

Buildings	2.5-10%
Machinery and equipment	7-10%
Fixtures	15-20%
Computers	20-33%

Depreciation begins when the asset is available for use for the purposes intended by management and continues until the residual value of the asset exceeds its carrying amount, when the asset is retired from use or when the asset is reclassified as "non-current assets held for sale". At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets is assessed.

At each balance sheet date, management estimates whether there is any evidence of impairment. If there are known facts which may cause impairment of non-current assets, management calculates the recoverable amount of non-current assets (i.e. higher of the two following indicators: an asset's fair value less costs to sell and value in use). If the recoverable amount is lower than the carrying amount, the items of property, plant and equipment are written down to their recoverable amount. An impairment loss recognised in previous periods is reversed if a change has occurred in the estimates that were used as a basis for the determination of recoverable amount and if the recoverable amount has increased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and they are included in the income statement under other operating income and expenses.

Investment property

Investment property is property (land or a building or both) held or developed to earn rental income or for capital appreciation rather than for use in the production or supply of goods or services for administrative purposes. In addition, investment property includes properties which are held over an extended period for an undetermined future use.

An investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would not have taken place). After initial recognition, investment property is measured at fair value at each balance sheet date. The fair value of investment property reflects market conditions at the balance sheet date.

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income. Gains and losses arising from changes in the value of investment property are recognised in profit or loss in the period in which they arise (in other income and other expenses, respectively).

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

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

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, bonds issued and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortised cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.

The amortised cost of current financial liabilities generally equals their nominal value; therefore current financial liabilities are carried in the balance sheet in their net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received (less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method. Interest expenses on financial liabilities are recognised on the line "finance income" and "finance costs" in the income statement on an accrual basis. Interest expenses on financing the development of assets from the start of the development period until the acceptance of completed assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are capitalized and added to the carrying amount of the asset as borrowing costs.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the company does not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue, are recognised as current. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current.

A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

Success fee liability

EfTEN Kinnisvarafond II AS and EfTEN Capital AS have entered into a management contract according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the gain on sale of an investment or aggregate of investments above a hurdle rate of 7% on an annual basis. If the actual return of an investment is lower than 7% per annum during the lifetime of the investment, the difference between the actual return and the hurdle rate is also deducted from the sale price of the investment, so that the return before success fees would be at least 7% per annum. According to the management contract, the success fee is payable upon termination of the fund.

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property. Period expenses from the change in success fees are included in the general and administrative expenses of the Group.

Provisions and contingent liabilities

A provision is recognised in the balance sheet only when the company has a present legal or factual obligation as a result of an event that occurred before the balance sheet date, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Present obligations arising from events that occurred before the balance sheet date, the realisation of which according to management's judgement is improbable, are also disclosed as contingent liabilities.

Leases

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

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

Statutory reserve capital

According to the Estonian Commercial Code, the statutory reserve capital of a company has to amount to at least 10% of its share capital. Based on that, the parent company shall allocate at least 5% of the net profit to the statutory reserve capital annually. Transfers are continued until the required level has been achieved. The statutory reserve capital may not be paid out as dividends but it may be used for covering accumulated losses if there is an insufficient amount of unrestricted equity to cover the losses. The statutory reserve capital may also be used to increase equity through issuing new shares.

Income tax

Parent company and subsidiaries registered in Estonia

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

Subsidiaries in Latvia

The net profit of companies is taxed with a 15% income tax in Latvia. Taxable income is calculated from the company's profit before income tax, adjusted in income tax returns by temporary or permanent income or expense adjustments under the requirements of the local income tax legislation.

For foreign subsidiaries, the deferred income tax assets or liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.

2 Subsidiaries

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2016	31.12.2015
Parent company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
Astlanda Hotelli AS	Estonia	Hotel operator company, Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
EfTEN Dunte SIA	Latvia	Duntes 6, Riga, Latvia	100	100
Magistral Kaubanduskeskuse OÜ	Estonia	Sõpruse pst 201/203, Tallinn, Estonia	100	0
EfTEN Domina SIA	Latvia	Ieriku 3, Riga, Latvia	100	0

On 29 February 2016, EfTEN Kinnisvarafond II AS acquired 100% of Magistral Kaubanduskeskuse OÜ for EUR 12,346 thousand with the objective of acquiring the property at Sõpruse pst. 201/203 in Tallinn. At the time of acquisition, Magistral Kaubanduskeskuse OÜ had EUR 712 thousand on its cash account.

The fair value of the assets acquired and liabilities accompanied through the acquisition was as follows:

EUR thousand	Fair value
Cash	712
Receivables and prepaid expenses	120
Investment property (Note 13)	24,000
Bank loan (Note 15)	-12,000
Other liabilities	-486
The fair value of the net assets	**12,346**
Acquisition cost	12,346
Goodwill	**0**

On 28 April 2016, EfTEN Kinnisvarafond II AS formed a fully owned subsidiary, EfTEN Domina SIA, by contributing a total of EUR 4 thousand to the equity of the subsidiary. The subsidiary was formed for the purposes of the acquisition of the Domina shopping center at the address Ieriku 3 in Riga, Latvia. For additional information on acquisition of investment property, please see Note 13.

On 17 June 2016, Latvian subsidiary EfTEN Property SIA merged with its subsidary Zeltini M SIA in which the ownership precentage was 100%. The merged company was named EfTEN Dunte SIA.

No shares of a subsidiary are publicly listed.

3 Revenue

Areas of activity	2016	2015
EUR thousand		
Rental income from office premises	1,974	470
incl. investment property rental income	*1,683*	*192*
incl. fixed assets rental income	*291*	*278*
Rental income from retail premises	4,547	5
incl. investment property rental income	*4,486*	0
incl. fixed assets rental income	*61*	5
Other revenue from rental premises	848	0
Hotel revenue from rooms	6,038	5,942
Hotel revenue from food and beverage	1,795	1,890
Hotel revenue from conference sales	664	673
Other sales revenue	182	218
Total revenue by areas of activity (Note 13)	**16,048**	**9,198**

EUR 10,982 thousand of the revenue of the Group was generated in Estonia and EUR 5,066 thousand in Latvia (2015: EUR 8,983 thousand in Estonia and EUR 215 thousand in Latvia).

4 Cost of goods and services sold

Cost of goods and services sold	2016	2015
EUR thousand		
Repair and maintenance of rental property	-398	-98
Hotel direct costs from rooms	-641	-520
Hotel direct costs from food and beverage	-741	-753
Hotel royalty fees	-316	-343
Other direct costs related to hotel operation	-132	-128
Wages and salaries related to hotel operation, incl. taxes	-1,538	-1,412
Administrative expenses related to hotel operation	-602	-583
Property insurance	-80	-23
Land tax	-238	-43
Other administrative expenses	-215	-56
Amortization expense	-295	-280
Improvement costs	-52	-19
Impairment of receivables and receipt of impaired receivables	47	0
Total cost of goods and services sold	**-5,201**	**-4,258**

5 Marketing costs

Marketing costs	2016	2015
EUR thousand		
Commission expenses on rental property	-5	-4
Wages and salaries, incl. taxes	-145	-132
Advertising, promotional events	-454	-29
Corporate marketing	-260	-268
Total marketing costs	**-864**	**-433**

6 General and administrative expenses

General and administrative expenses	2016	2015
EUR thousand		
Management services (Note 22)	-639	-246
Office expenses	-212	-91
Wages and salaries, incl. taxes	-639	-472
Consulting expenses	-268	-169
Change in success fee liability (Note 17)	-1,041	0
Other general and administrative expenses	-113	-136
Total general and administrative expenses	**-2,912**	**-1,114**

7 Other income and other expenses

Other income	2016	2015
EUR thousand		
Gain on changes in the fair value of investment property (Note 13)	6,067	0
Contractual penalties and late payment fees received	2	0
Other income	2	1
Total other income	**6,071**	**1**

Other expenses	2016	2015
EUR thousand		
Loss on changes in the fair value of investment property (Note 13)	-234	0
Other expenses	-3	0
Total other expenses	**-237**	**0**

8 Finance costs

Finance costs	2016	2015
EUR thousand		
Interest expenses, incl.	-1,041	-336
Interest expense on borrowings	-645	-275
Interest expense on swap transactions (Note 18)	-396	-61
Total finance costs	-1,041	**-336**

9 Income tax

	2016	2015
EUR thousand		
Income tax expense of Latvian subsidiaries	-825	-39
Income tax on dividends	-532	0
Total income tax expense	**-1,357**	**-39**

As at 31.12.2016, the Group has deferred tax liability in the amount of EUR 1,320 thousand (31.12.2015: EUR 757 thousand) in connection with the profit from the change of fair value of property investments in Latvia. The Group will incur a deferred income tax liability upon sale of the investment property.

10 Cash and cash equivalents

	31.12.2016	31.12.2015
EUR thousand		
Demand deposits	16,821	6,627
Cash in hand	69	34
Total cash and cash equivalents (Note 19)	**16,890**	**6,661**

11 Receivables and accrued income

Short-term receivables

	31.12.2016	31.12.2015
EUR thousand		
Receivables from customers	611	442
Allowance for doubtful trade receivables	-29	-47
Total trade receivables	**582**	**395**
Other short-term receivables	19	11
Total other short-term receivables	**19**	**11**
Prepaid taxes and receivables for reclaimed value-added tax	0	52
Other accrued income	62	13
Total accrued income	**62**	**65**
Total receivables (Note 19)	**663**	**471**

	31.12.2016	31.12.2015
EUR thousand		
Undue	360	297
Expired, incl.	**251**	**145**
Up to 30 days	*142*	*69*
30-60 days	*56*	*26*
More than 60 days	*53*	*50*
Allowance for doubtful receivables	-29	-47
Total trade receivables	**582**	**395**

12 Prepayments

	31.12.2016	31.12.2015
EUR thousand		
Prepayments to suppliers	2	0
Prepayments of insurance	9	3
Prepayments of utility fees intermediation	20	2
Deferred expenses	25	50
Total prepayments	**56**	**55**

13 Investment property

As at 31.12.2016, the Group owns one investment property in Estonia and two in Latvia:

Name of the property	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value at 31.12.2016	Share of market value of the fund's assets
EUR thousand						
Duntes Biroji office building	Duntes 6, Riga Latvia	12,650	11.2015	23,746	23,520	12%
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	11,720	02.2016	24,000	26,320	14%
Domina shopping center	Ieriku 3, Riga Latvia	47,493	07.2016	74,500	79,750	41%
Total		**71,863**		**122,246**	**129,590**	**67%**

In 2016, the following changes have occurred in the Group's investment property:

	Completed investment property	Prepayments for investment property	**Total investment property**
EUR thousand			
Balance as at 31.12.2014	**0**	**0**	**0**
Acquisition and development	23,746	0	**23,746**
Balance as at 31.12.2015	**23,746**	**0**	**23,746**
Acquisition and development (Note 2)	74,500	301	**74,801**
Acquisition from business combinations (Note 3)	24,000	0	**24,000**
Capitalized improvements	1,511	0	**1,511**
Gain/loss on changes in the fair value (Note 7)	5,833	0	**5,833**
Balance as at 31.12.2016	**129,590**	**301**	**129,891**

The income statement and balance sheet of the Group include, among other items, the following income and expenses and balances related to investment property:

	2016	2015
EUR thousand		
Rental income earned on investment property	6,169	192
Expenses directly attributable to management of investment property	-711	-69
Prepayments for investment property	301	0
Carrying amount of investment property pledged as collateral to borrowings as at December 31	129,590	23,746

Investment property is pledged as collateral to long-term bank loans.

The terms of lease agreements entered into by the Group and tenants correspond to non-cancellable operating lease terms. Income from the aforementioned lease agreements is divided as follows:

Payments receivable under non-cancellable operating lease agreements	31.12.2016	31.12.2015
EUR thousand		
up to 1 year	9,155	1,495
2-5 years	21,971	2,264
Over 5 years	7,050	0
Total	**38,176**	**3,759**

Assumptions and basis for the calculation of fair value of investment property

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 31.12.2016 and 31.12.2015 was determined using the discounted cash flow method.

The following assumptions are used to determine fair value:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/,m2
EUR thousand						
Office premises	23,520	Discounted cash flows	1,694	7.60%	7.0%	11.48
Retail premises	106,070	Discounted cash flows	9,121	8.6%-9.25%	7.8%-8.0%	12.12
Total	**129,590**					

As at 31.12.2015

	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/,m2
EUR thousand						
Duntes Biroji office building	23,746	Discounted cash flows	1,800	8%	7.2%	11.30
Total	**23,746**					

The fair value of investment property is based on the following:

- Rental income: real growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;
- Capitalization rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property included in the balance sheet of the Group as at 31.12.2016 to the most significant management's assumptions which was made on the acquisition:

	Sensitivity to management estimates				Sensitivity to discount rate and capitalization rate			
	Assess-ment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/-10%	*-2,510*	*2,500*	Change in the capitalization rate	-0.5%	*25,350*	*24,830*	*24,320*
					0.0%	*24,010*	*23,520*	*23,050*
					0.5%	*22,850*	*22,390*	*21,940*
Retail premises	Change in rental income +/-10%	*-12,480*	*12,380*	Change in the capitalization rate	-0.5%	*113,480*	*111,160*	*108,900*
					0.0%	*108,270*	*106,070*	*103,930*
					0.5%	*103,680*	*101,580*	*99,540*

As at 31.12.2015

	Sensitivity to management estimates				Sensitivity to discount rate and exit yield			
	Assess-ment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Õiglane väärtus*	
Office premises	Change in rental income +/-10%	*-2,528*	*2,527*	Change in the capitalization rate	-0.5%	*25,491*	*25,003*	*24,527*
					0.0%	*24,235*	*23,746*	*23,271*
					0.5%	*23,141*	*22,653*	*22,177*

Level three inputs are used to determine the fair value of all of the investment properties of the Group.

More information on property investments is provided in Notes 2 and 19.

14 *Property, plant and equipment*

	Land and buildings[1]	Depreciated buildings	Machinery and equipment	Other property, plant and equipment	Construction in progress and advance payments	**Total**
EUR thousand						
Carrying amount 31.12.2015	**44,082**	**1,362**	**247**	**324**	**10**	**46,025**
Cost 31.12.2015	*44,082*	*1,500*	*356*	*792*	*10*	*46,740*
Accumulated depreciation 31.12.2015	*0*	*-138*	*-109*	*-468*	*0*	*-715*
Purchases	0	0	38	95	58	191
Reclassification	0	0	0	10	-10	0
Revaluation through comprehensive income	457	0	0	0	0	457
Depreciation charge	0	-150	-37	-108	0	-295
Carrying amount 31.12.2016	**44,539**	**1,212**	**248**	**322**	**58**	**46,379**
Cost 31.12.2016	44,539	1,500	394	898	58	*47,389*
Accumulated depreciation 31.12.2016	0	-288	*-146*	*-576*	*0*	*-1,010*

[1] Radisson Blu Sky Hotel, the sole asset in the land and buildings category, is measured using the revaluation method as an investment in property, plant and equipment. According to the management estimate, the asset contained in the land and buildings category is of a substantial residual value and therefore it is a non-depreciable asset. Gains and losses of revaluation of property, plant and equipment are recognised in Group equity as a reserve.

If the cost method had been used, the residual value of land and buildings would have been as follows:

	Land and buildings	Depreciated buildings
EUR thousand		
Carrying amount 31.12.2015	**43,944**	**1,362**
Cost 31.12.2015	*43,944*	*1,500*
Accumulated depreciation 31.12.2015	*0*	*-138*
Depreciation charge	0	-150
Carrying amount 31.12.2016	**43,944**	**1,212**
Cost 31.12.2016	43,944	1,500
Accumulated depreciation 31.12.2016	0	-288

The property, plant and equipment of the group is divided into two categories:

1) Property, plant and equipment of insignificant residual value whereby the cost is depreciated to profit and loss over the useful life of the asset;

2) Property, plant and equipment with a significant residual value, for which only the depreciable portion of the difference between the cost and the residual value is depreciated into an expense over their useful lives.

The group owns Radisson Blu Sky Hotel, which is subject to appraisal of its residual value at each balance sheet date. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of residual value. Independent valuation specialist of the group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and market conditions. As a result of the appraisal of residual value that was carried out, it was concluded that the asset is not sold at a significantly lower value compared to its carrying amount as at 31.12.2016 because it is very favourably located in central Tallinn and the hotel is new and does not require major capital expenditure. If the cost model had been used, the carrying amount of land and buildings as at 31.12.2016 would have amounted to EUR 43,944 thousand (as at 31.12.2015: 43 944).

Assumptions and basis for the calculation of fair value of land and buildings

Radisson Blu Sky Hotel, the Group's sole asset in the land and buildings category, is appraised by an independent valuation specialist. The fair value of the land and buildings as provided in the Group's financial statements as at 31.12.2016 has been determined through the use of the discounted cash flows method. The following assumptions were used to determine fair value:

	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/,m2
EUR thousand						
Radisson Blu Sky hotel	45,752	Discounted cash flows	3,273	8.1%	7.0%	13.39
Total	**45,752**					

As at 31.12.2015

	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/,m2
EUR thousand						
Radisson Blu Sky hotel	45,444	Discounted cash flows	3,350	8.1%	7.0%	12.00
Total	**45,444**					

Fair value sensitivity analysis

The table provided below illustrates as at 31.12.2016 the sensitivity of the fair value of land and buildings included in the balance sheet of the Group to the most significant assumptions:

	Sensitivity to management estimates			Sensitivity to discount rate and capitalization rate			
	Assess-ment	**Effect of decrease to value**	**Effect of increase to value**			Change in discount rate	
					-0.5%	0.0%	0.5%
EUR thousand						*Fair value*	
Radisson Blu Sky hotel	Change in rental income +/-10%	*-4,910*	*4,910*	Change in the capitalization rate -0.5%	*49,940*	*48,920*	*47,930*
				0.0%	*47,310*	*46,350*	*45,420*
				0.5%	*45,030*	*44,120*	*43,240*

As at 31.12.2015

	Sensitivity to management estimates			Sensitivity to discount rate and capitalization rate			
	Assess-ment	**Effect of decrease to value**	**Effect of increase to value**			Change in discount rate	
					-0.5%	0.0%	0.5%
EUR thousand						*Fair value*	
Radisson Blu Sky hotel	Change in rental income +/-10%	*-4,767*	*4,767*	Change in the capitalization rate -0.5%	*48,863*	*47,928*	*47,018*
				0.0%	*46,379*	*45,444*	*44,534*
				0.5%	*44,226*	*43,291*	*42,381*

The income statement and balance sheet of the Group include, among other items, the following income and expenses and balances related to non-current assets:

	2016	2015
Revenue from hotel operation	8,679	8 505
Direct costs related to hotel operation	-4,028	-3 982
Rental income from property, plant and equipment	351	283
Direct costs attributable to management of property, plant and equipment	-168	-69
Depreciation expense on property, plant and equipment	-294	-280
Carrying amount of property, plant and equipment provided as collateral to secure borrowings as at 31 December	45,752	45,444

The terms of lease agreements entered into by the Group and tenants correspond to non-cancellable operating lease terms. Income from the aforementioned lease agreements is divided as follows:

Payments received under non-cancellable operating lease agreements	**31.12.2016**	31.12.2015
EUR thousand		
up to 1 year	401	345
2-5 years	817	977
Over 5 years	242	400
Total	**1,460**	**1,722**

15 Borrowings

As at 31.12.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement, EUR thousand	Loan balance as at 31.12.2016	Contract term	Interest rate as at 31.12.2016	Loan collateral (Note 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.19	0.714%	mortgage - Rävala 3, Astlanda Hotelli AS warranty	46,350	24.5%
SEB	Latvia	4,420	4,257	30.11.20	1.30%	mortgage - Duntes iela 6, Riga Latvia	23,520	4.5%
SEB	Latvia	9,780	9,370	30.11.20	1.30%			10.0%
Danske	Estonia	12,000	11,661	25.02.21	1.35%	mortgage - Sõpruse pst 201/203, Tallinn Estonia	26,320	12.4%
Nordea	Latvia	27,360	27,155	25.06.21	1.30%	mortgage- Ieriku 3, Riga Latvia	79,750	29.0%
Nordea	Latvia	17,640	17,485	25.06.21	1.30%			18.6%
Total		**94,200**	**92,928**				**175,940**	**99%**

Short-term borrowings	**31.12.2016**	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	2,339	483
Discounted contract fees on bank loans	-40	-6
Total short-term borrowings	**2,299**	**477**

Long-term borrowings	**31.12.2016**	31.12.2015
EUR thousand		
Total long-term borrowings	**92,781**	**37,045**
Incl. current portion of borrowings	2,299	477
Bank loans	*2,339*	*482*
Discounted contract fees on bank loans	*-40*	*-5*
Incl. non-current portion of borrowings, incl.	90,481	36,568
Bank loans	*90,589*	*36,625*
Discounted contract fees on bank loans	*-108*	*-57*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	**31.12.2016**	31.12.2015
EUR thousand		
Less than 1 year	2,339	483
2-5 years	90,589	36,625

Lender	Loan balance as at 31.12.2015	Loans received	Additions through business combinations	Loan repayments	Loan balance as at 31.12.2016
EUR thousand					
SEB	23,000	0	0	0	23,000
SEB	4,407	0	0	-150	4,257
SEB	9,701	0	0	-331	9,370
Danske Bank (Note 2)	0	0	12,000	-339	11,661
Nordea	0	45,000	0	-360	44,640
Total	**37,108**	**45,000**	**12,000**	**-1,180**	**92,928**

More information on borrowings is provided in Note 19.

16 Payables and prepayments

Short-term payables and prepayments

	31.12.2016	31.12.2015
EUR thousand		
Trade payables	1,224	168
Total trade payables	**1,224**	**168**
Tax liabilities		
Value added tax	189	80
Corporate income tax	264	2
Personal income tax	49	42
Social tax	103	86
Other tax liabilities	12	10
Total tax liabilities	**617**	**220**
Accrued expenses		
Interest payable	15	5
Payables to employees	168	119
Tenant security deposits	368	3
Other accrued liabilities	316	305
Total accrued expenses	**867**	**432**
Prepayments		
Prepayments received from buyers	57	23
Other deferred income	8	1
Total prepayments	**65**	**24**
Total payables and prepayments	**2,773**	**844**

Long-term payables

	31.12.2016	31.12.2015
EUR thousand		
Tenant security deposits	1,029	233
Total other long-term payables	**1,029**	**233**

More information on payables and prepayments is provided in Note 19.

17 Success fee liability

As at 31.12.2016, the Group has accounted a success fee in the amount of EUR 1,041 thousand. The accrual accounting of success fee is based on fair value assessments of property investments as at 31.12.2016. The cost in change of success fee is recorded in the Group's general administration expenses (Note 6).

18 Derivative instruments

As at 31.12.2016, the Group had two effective interest rate swap agreements fixing the interest rate on long-term borrowings at notional value of EUR 50,360 thousand (31.12.2015: one agreement at notional value of EUR 23,000 thousand).

The terms and payment schedule of the interest rate swap transactions correspond to the loan repayment schedule of the loan that is subject to the hedge and has been accounted for as a cash flow hedging instrument.

The derivative instruments will expire in the year 2021 and 2022, the base interest rate is the 1-month EURIBOR. The Group's floating interest rate is fixed at the level of 0-0.65% according to the interest rate swap agreement.

The basis for the fair value of the derivative instruments is the quotation provided by the banks that are contractual partners, the fair value of the derivative position as at 31.12.2016 was negative in the amount of EUR 1,260 thousand (31.12.2015: negatiive in the amount of EUR 526 thousand).
The Group's interest expense attributable to the interest rate swap transactions in 2016 was EUR 396 thousand (2015: EUR 61 thousand) (Note 8).

More information on derivative instruments is provided in Note 19.

19 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investments of the Group. The Group's balance sheet also includes cash, accounts receivable, other receivables, accounts payable and liabilities related to interest rate derivatives used for the mitigation of interest rate risk.

The table below indicates the division of the Group's financial assets and financial liabilities according to financial instrument type.

Carrying amounts of financial instruments

	Notes	31.12.2016	31.12.2015
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	10	16,890	6,661
Trade receivables	11	582	395
Total financial assets		**17,472**	**7,056**
Financial liabilities			
Borrowings	15	92,781	37,045
Trade payables	16	1,224	168
Tenant security deposits	16	1,397	236
Accrued expenses	16	316	305
Financial liabilities measured at amortised cost		**95,718**	**37,754**
Derivative instruments (interest derivatives)	18	1,260	526
Financial liabilities measured at fair value		**1,260**	**526**
Total financial liabilities		**96,977**	**38,280**

The fair value of such financial assets and financial liabilities that are measured at amortised cost, presented in the table provided above, does not materially differ from their fair value.

Risk management of the Group is based on the principle that risks must be assumed in a balanced manner, by taking into consideration the rules established by the Group and by applying risk mitigation measures according to the situation, thereby achieving stable profitability of the Group and growth in the value of shareholder assets. In making new investments, extensive evaluation is undertaken on the solvency of potential customers, duration of lease contracts, possibility of replacing tenants and the risk of increases in the interest rates. The terms and conditions of financing agreements are adjusted to match the net cash flow of each property, ensuring the preservation of sufficient unrestricted cash for the Group and growth even after the financial liabilities have been met.

In investing the Group's assets, the risk expectations of the Group's investors are taken as a basis, therefore excessive risk-taking is unacceptable and suitable measures need to be applied for the mitigation of risks.

The Group considers a financial risk to be risk that arises directly from making investments, including the market risk, liquidity risk and credit risk, thus reducing the company's financial capacity or reducing the value of investments.

Market risk

Market risk is a risk involving change in the fair value of financial instruments due to changes in market prices. The Group's financial instruments most influenced by changes in market prices are borrowings and interest rate derivatives. The main factor influencing these financial instruments is interest rate risk.

Interest rate risk

Interest rate risk is the risk of changes in the future cash flows of financial instruments due to changes in market interest rates. A change in market interest rates mainly influences the long-term floating rate borrowings of the Group.

As at 31.12.2016, all of the Group's borrowings bear interest on the basis of a floating interest rate and are linked to the 1-month EURIBOR. The 1-month EURIBOR fluctuated in 2016 within the range of 0.374% to 0.21% (2015:-0.206% to 0.06%). The covenants of the Group's loan agreements require the Group to maintain a debt coverage ratio in excess of 3.0. As at 31.12.2016, the Group's debt coverage ratio was 3.8 (2015: 9.6).

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The Group's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 4-7 years.

As a result of the long-term nature of the Group's investments and the long-term borrowings associated with the investments, the management of EfTEN Kinnisvarafond II AS decided in 2015 to mitigate the risk of an increase of the long-term floating interest rate applicable to the loan portfolio by fixing the applicable floating interest rate (1-month EURIBOR). It was decided to use interest rate swap agreement for the risk mitigation whereby the floating interest rate loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreement considering the following conditions:

(1) The asset that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2025);
(2) The loan agreement that the cash flow hedge applies to is being extended at maturity until the expiry date of the swap agreement in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

For hedging the interest rate risk, two interest rate swap contracts have been concluded: a contract in nominal value of EUR 23,000 thousand expiring in 2022 in which one-month EURIBOR is fixed at 0.65%, and a contract for the nominal value of EUR 27,360 thousand expiring in 2021 in which one-month EURIBOR is fixed at 0%. As at 31.12.2016 the borrowings related to interest rate swap agreements made up 54% of all the Group's borrowings.

The group accounts for the interest rate swap agreements based on the principle of hedge accounting. The total fair value of the Group's interest rate swap agreements as at 31.12.2016 was negative in the amount of EUR 1,260 thousand (31.12.2015: EUR 526 thousand) (Note 18). The loss incurred from the change in fair value was EUR 734 thousand (2015: EUR 526 thousand).

Liquidity risk

Liquidity risk arises from potential changes in the financial position, reducing the Group's ability to meet its liabilities in due time and in a correct manner. Above all, the group's liquidity is affected by the following factors:

- Decrease or volatility of rental- and accommodation income, reducing the Group's ability to generate positive net cash flows;
- Vacancy of rental property;
- Hotel utility rate;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Financing structure.

The objective of the Group is to manage its net cash flows, so as to not use debt in making investments in excess of 60% of the cost of the investment.

The financing policy of the Group specifies that loan agreements for raising debt are entered into on a long-term basis, also taking into consideration the maximum duration of the lease agreements on these investment objects. The table below summarises the information on the maturities of the Group's financial liabilities (undiscounted cash flows):

As at 31.12.2016	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	191	574	1,534	90,481	0	**92,780**
Interest payments	111	330	872	3,230	0	**4,543**
Interest derivatives liabilities	0	0	0	263	996	**1,259**
Interest payable	15	0	0	0	0	**15**
Trade payables	1,224	0	0	0	0	**1,224**
Tenant security deposits	4	63	301	799	230	**1,397**
Accrued expenses	316	0	0	0	0	**316**
Total financial liabilities	**1,862**	**967**	**2,706**	**94,774**	**1,226**	**101,534**

As at 31.12.2015	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
EUR thousand						
Interest-bearing liabilities	41	120	316	36,568	0	**37,045**
Interest payments	32	98	258	1,079	0	**1,467**
Interest derivatives liabilities	0	0	0	0	0	**0**
Interest payable	5	0	0	0	0	**5**
Trade payables	168	0	0	0	0	**168**
Tenant security deposits	0	0	3	227	6	**236**
Accrued expenses	305	0	0	0	0	**305**
Total financial liabilities	**551**	**218**	**577**	**37,874**	**6**	**39,226**

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the group by failing to discharge an obligation. The Group is subject to credit risk due to its business operations (mainly arising from trade receivables) and transactions with financial institutions, including through cash on bank accounts and deposits.

The Group's activity in preventing reduction of cash flows due to credit risk and minimising such risk lies in the daily monitoring and guiding of clients' payment behaviour, so that appropriate measures could be applied on a timely basis.

The Group's companies generally only enter into co-operation and rental agreements with parties that have been determined to be eligible for credit. The corresponding analysis of customers is carried out before entering into a contract.

If it becomes evident that there is a risk of a client or tenant becoming insolvent, the Group assesses each receivable individually and decides whether the receivables should be classified as doubtful. In general, receivables that have exceeded the payment term by more than 180 days are classified as doubtful, except in cases where the Group has sufficient certainty as to the collectibility of the receivable or there is a payment schedule in place for the payment of the receivables.

Accounts receivable are illustrated by the table below:

	31.12.2016	31.12.2015
Undue	360	297
Past due	**251**	**145**
up to 30 days	*142*	*69*
30-60 days	*56*	*26*
more than 60 days	*53*	*50*
Allowance for doubtful receivables	-29	-47
Total trade receivables	**582**	**395**

The maximum credit risk of the Group is provided in the table below:

	31.12.2016	31.12.2015
EUR thousand		
Cash and cash equivalents	16,890	6,661
Trade receivables	582	395
Total maximum credit risk	**17,472**	**7,056**

The bank account balances presented as part of the cash and cash equivalents of the Group are divided according to the credit ratings of banks (*Moody's long-term*) as follows:

Rating	31.12.2016
A1	1,741
Aa3	15,080
Total	**16,821**

Capital management

The aim of the Group in capital management is to ensure the Group's going concern status to provide an investment return to shareholders and maintain an optimal capital structure. The Group's capital includes borrowings and equity.
The Group invest in real estate that generates cash flow in Estonia and Latvia. The investment policy of the group stipulates that no more than 30% of the asset value of the fund can be invested in any one investment. The necessary equity level is calculated individually for each investment, taking into consideration the amount of net cash flows and loan payments of each investment and their proportion.

Fair value

The table below analyses assets and liabilities measured at fair value by valuation methods. The valuation methods have been defined as follows:

Level 1 – quoted prices in active markets;

Level 2 – inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs at the market.

As at 31.12.2016, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties (Note 13) and property, plant and equipment measured at revaluation method (Note 14) are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

The group has entered into interest rate swap agreements (Note 18) for the mitigation of interest rate risk. The fair value of such agreements is determined through the discounting of cash flows from interest rate swap agreements by determining the cash inflows and outflows according to market expectations with regard to EURIBOR and such cash flows are discounted using the zero-rate. The group uses information sourced from credit institutions used as counterparties for the fair value accounting of interest rate swap agreements.

20 Share capital

In December 2014, EfTEN Kinnisvarafond II AS issued 2,500 shares with the nominal value of EUR 10. A total of EUR 25 thousand was paid for the new shares in cash.

In January 2015, EfTEN Kinnisvarafond II AS issued 2,500,000 shares with the nominal value of EUR 10. A total of EUR 25,000 thousand was paid for the new shares in cash.

In November 2015, EfTEN Kinnisvarafond II AS issued 921,754 shares with the nominal value of EUR 10. New shares were issued at a premium of EUR 0.8489 per share. As a result of this share issuance, the share capital increased by EUR 9,218 thousand and share premium increased by EUR 782 thousand. A total of EUR 10,000 thousand was paid for the new shares and the share premium in cash.

In February 2016, EfTEN Kinnisvarafond II issued 1,347,663 shares with a nominal value of EUR 10. New shares were issued at a premium in the amount of EUR 0.1509 per share. Consequently, the share capital increased by EUR 13,477 thousand and share premium increased by EUR 203 thousand. A total of EUR 13,680 thousand in cash was paid for new shares and in share premium.

In June 2016, EfTEN Kinnisvarafond II issued 3,299,839 new shares with a nominal value of EUR 10 euros and at a premium of EUR 0.4046 per share. Consequently, the share capital increased by EUR 32,998 thousand and share premium increased by EUR 1,335 thousand. A total of EUR 34,333 thousand in cash was paid for new shares and in share premium.

In the financial year EUR 151 thousand was transferred from the retained earnings to the statutory reserve.

The amount of registered share capital of EfTEN Kinnisvarafond II AS as at 31.12.2016 is EUR 80,718 thousand. The share capital consisted of 8,071,756 shares as at 31.12.2016 with nominal value of EUR 10. Without amending the articles of association, the company may increase its share capital to EUR 100,100 thousand.

More information on share capital is provided in Note 26.

21 Contingent liabilities

Contingent income tax liability

	31.12.2016	31.12.2015
EUR thousand		
The company's retained earnings as at 31 December	11,249	3,019
Potential income tax liability	2,250	604
The amount that can be paid out as dividends	8,999	2,415

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution as at 31.12.2016 and 31.12.2015.

Potential liabilities arising from the tax audit

Estonia

The tax authorities have neither started nor performed any tax audits or individual case audits in any of the Group companies. The tax authorities have the right to verify the company's tax records up to 5 years from the time of filing the tax return and upon finding errors, impose additional taxes, interest and fines. The management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

Latvia

The management estimates that there are no circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

22 Related party transactions

EfTEN Kinnisvarafond II AS considers the following as related parties:
- persons who own more than 10% of the share capital of EfTEN Kinnisvarafond II AS;
- management board members and companies owned by the management board members of EfTEN Kinnisvarafond II AS;
- supervisory board members and companies owned by the supervisory board members of EfTEN Kinnisvarafond II AS;
- employees and companies owned by the employees of EfTEN Kinnisvarafond II AS;
- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in the accounting period in the amount of EUR 639 thousand (2015: 246) (Note 6) and accounting and intermediary services in the amount of EUR 62 thousand (2015: 13) from the subsidiaries and affiliated companies of EfTEN Capital AS.
In the accounting period, the Group had 124 (2015: 138) employees who were remunerated including taxes in the amount of EUR 2,321 (2015: 2,015) thousand. In the accounting period no compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

23 Parent company's separate income statement

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the annual report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments in subsidiaries are measured at fair value.

	2016	2015
EUR thousand		
Revenue	587	235
Gross profit	**587**	**235**
General and administrative expenses	-729	-291
Operating loss	**-142**	**-56**
Gain from subsidiaries	7,796	2,660
Dividend income	2,127	0
Finance income	450	27
Profit before income tax	**10,231**	**2,631**
Total comprehensive income for the financial year	**10,231**	**2,631**

24 Parent company's separate balance sheet

	31.12.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	7,436	2,063
Receivables and accrued income	477	27
Total current assets	**7,913**	**2,090**
Non-current assets		
Shares of subsidiaries	77,960	26,166
Long-term receivables	7,908	9,405
Total non-current assets	**85,868**	**35,571**
TOTAL ASSETS	**93,781**	**37,661**
LIABILITIES AND EQUITY		
Current liabilities		
Payables	7	5
Total current liabilities	**7**	**5**
Total liabilities	**7**	**5**
Equity		
Share capital	80,718	34,243
Share premium	2,321	782
Statutory reserve capital	151	0
Retained earnings	10,584	2,631
Total equity	**93,774**	**37,656**
TOTAL LIABILITIES AND EQUITY	**93,781**	**37,661**

25 Parent company's separate statement of cash flows

	2016	2015
EUR thousand		
Cash flows from operating activities		
Net profit	**10,231**	**2,631**
Adjustments to net profit:		
Finance income and costs	-450	-27
Gain/-loss on the fair value adjustment of subsidiaries	-7,796	-2,660
Dividends received	-2,127	0
Total adjustments with non-cash changes	**-10,373**	**-2,687**
Cash flow from operations before changes in working capital	**-142**	**-56**
Change in receivables and payables related to operating activities	2	5
Net cash generated from operating activities	**-140**	**-50**
Cash flows from investing activities		
Acquisition and establishment of investments in subsidiaries	-42,501	-23,507
Loans granted	-28	-9,405
Repayments of loans granted	28	0
Dividends received	2,127	0
Interests received	1	0
Net cash generated from investing activities	**-40,373**	**-32,912**
Cash flows from financing activities		
Proceeds from issuance of shares	48,013	35,000
Dividends paid	-2,127	0
Net cash generated from financing activities	**45,886**	**35,000**
NET CASH FLOW	**5,373**	**2,038**
Cash and cash equivalents at the beginning of the period	**2,063**	**25**
Change in cash and cash equivalents	5,373	2,038
Cash and cash equivalents at the end of the period	**7,436**	**2,063**

26 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
EUR thousand					
Balance as at 31.12.2014	**25**	**0**	**0**	**0**	**25**
Issue of shares	**34,218**	**782**	**0**	**0**	**35,000**
Profit for the financial year	**0**	**0**	**0**	**2,631**	**2,631**
Balance as at 31.12.2015	**34,243**	**782**	**0**	**2,631**	**37,656**
Issue of shares	46,475	1,539	0	0	48,014
Dividends paid	0	0	0	-2,127	-2,127
Transfers to reserve capital	0	0	151	-151	0
Profit for the financial year	0	0	0	10,231	10,231
Balance as at 31.12.2016	**80,718**	**2,321**	**151**	**10,584**	**93,774**

More information on changes in share capital is provided in Note 20.

Adjusted unconsolidated equity of the parent company (to account for compliance with the requirements set forth in the Commercial Code) is as follows:

	31.12.2016	31.12.2015
EUR thousand		
Parent company's unconsolidated equity	93,774	37,656
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-77,960	-26,166
Value of subsidiaries under the equity method (plus)	77,960	26,166
Total	**93,774**	**37,656**

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Kinnisvarafond II AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond II AS (the Company) and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Group's consolidated financial statements that comprise:
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

/digitally signed/

Ago Vilu
Auditor's certificate no.325

/digitally signed/

Rando Rand
Auditor's certificate no.617

28 February 2017

---

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.

Profit allocation proposal

The Management Board makes the following profit allocation proposal at the general meeting of EfTEN Kinnisvarafond II AS (in EUR):

Retained earnings as at 31.12.2016	11,249,231
Allocation to statutory reserve capital	525,424
Distribution of dividends	4,000,000
Retained earnings after allocations	6,723,807

___________________ ___________________

Viljar Arakas
Management Board Member

Tõnu Uustalu
Management Board Member

28 February 2017

Signatures of the members of the management board and supervisory board to the 2016 annual report

We hereby confirm the correctness of data presented in the 2016 annual report of EfTEN Kinnisvarafond II AS.

_________________	_________________
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board

_________________	_________________
Sander Rebane	Olav Miil
Member of the Supervisory Board	Member of the Supervisory Board

_________________	_________________
Viljar Arakas	Tõnu Uustalu
Management Board Member	Management Board Member

Distribution of revenue in accordance with the Estonian Classification of Economic Activities

	Classification of Economic Activities code	2016	Revenue %	Main activity
EUR thousand				
Management of funds	66301	587	100%	Yes