EfTEN Capital

Consolidated Annual Report 2016

(translation of the Estonian original)

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

Beginning of financial year: 01/01/2016
End of financial year: 31/12/2016

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Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond AS in 2016 was EUR 16.870 million, growing by 2.2% in a year. The net profit of the Group in the same period was EUR 14.408 million and net profit incresed by 19.8% compared to 2015. In 2016, net profit increased due to amounts of revaluation of investment property which together with the change of success fee liability reserve constitutes EUR 3.677 million (2015: EUR 2.386 million).

The consolidated gross profit margin in 2016 was 92% (2015: 91%), therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 8% of the sales revenue in 2016 (2015: 9%). Based on this indicator, EfTEN Kinnisvarafond is the most efficient real estate fund in the Baltic States.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 18.8% of the revenues in 2016. The respective indicator was 19.2% in 2015.

	2016	2015
EUR million		
Rental revenue, other fees from properties	16,870	16,499
Expenses related to investment properties, incl. marketing costs	-1,696	-1,767
Interest expense and interest income	-2,255	-2,114
Net rental revenue less finance costs	**12,918**	**12,618**
Management fees	-1,174	-1,174
Other revenue and expenses	-0,304	-0,233
Profit before change in the value of investment property, change in the success fee liability, profits/losses from joint ventures and income tax expense	**11,440**	**11,211**

As at 31.12.2016, the Group's total assets were in the amount of EUR 220.531 million (31.12.2015: EUR 214.743 million), including fair value of investment property, which accounted for EUR 205.858 million of the total assets (31.12.2015: EUR 202.653 million). In terms of total assets, EfTEN Kinnisvarafond is the largest commercial real estate fund operating exclusively in the Baltic States.

	31.12.2016	31.12.2015
EUR million		
Investment property	205,858	202,653
Other non-current assets	3,186	2,667
Current assets, excluding cash	0,483	0,407
Net debt	-101,941	-107,880
Net asset value (NAV)	107,586	97,847
Net asset value (NAV) per share (in euros)	2,7312	2,4840

The net asset value per share of EfTEN Kinnisvarafond AS increased by 9.95% in a year as a result of profit increase, low interest rates and efficient management of costs. Dividends paid out in 2016 from the profit for 2015 totalled EUR 3,905 thousand. Without dividends and the related income tax expense, the Fund's NAV would have been 14.8% higher in 2016. Return on invested capital (ROIC) in the year 2016 was 23.6% (2015: 19.7%). Access to flexible financing conditions help the Group to increase the competitiveness. In 2016, the Group extended the existing loan repayment schedules, thus significantly increasing its potential dividend capability. The extension of repayment schedules of loan contracts also included changing the payment schedules of the Group's interest swaps contracts and fixed Euribor level. Whereas at the end of 2015, 47.8% of the loan portfolio was linked to fixed Euribor levels of between 0.64% and 0.685%, at the end of 2016 48.2% of the Fund's loan portfolio was linked with fixed Euribor levels of 0.60% to 0.67%.

The average interest rate of the Group's loan agreements (including the interest swap agreements) at the end of the year was 1.92% (2015: 2.05%) and the LTV (Loan to Value) ratio was 50% (2015: 54%).

The dividend policy of EfTEN Kinnisvarafond 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, EfTEN Kinnisvarafond AS paid out (net) dividends to shareholders in the amount of EUR 3.9 million, equal to 9.9 cents per share. In the previous year, EUR 5.1 million, equal to 12.9 cents per share, was paid out as (net) dividends.

12 months	31.12.2016	31.12.2015
ROE, % (net profit of the period / average equity of the period)x100	14,0	12,7
ROA, % (net profit of the period / average assets of the period)x100	6,6	5,7
ROIC, % (net profit of the period / average invested capital of the period)x100[1]	23,6	19,7
DSCR (EBITDA/(interest expenses + scheduled loan payments)	2,1	1,8

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

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2016, the Group had 22 commercial investment properties (2015: 23) with a fair value as at the balance sheet date of EUR 205.858 million and acquisition cost of EUR 183.138 million. In addition, a joint venture of the Group owns the hotel Palace in Tallinn with a fair value of EUR 10.0 million as at 31.12.2016. The real estate portfolio of the Group is divided into following sectors:

- retail premises 40%; 7 investments
- office premises 26%; 8 investments
- storage and manufacturing premises 26%; 5 investments
- other (hotel and government) 8%; 2 investments

Investment property, as at 31.12.2016	Group's ownership interest, %	Net leasable area	Rental revenue per annum	Occupancy, %
Tallinn Cold Storage (Tallinna Külmhoone)	100	6,863	680	100
Kuuli 10/Punane 73	100	15,197	903	100
Betooni 1a	100	10,678	641	100
Betooni 6	100	16,838	817	91
Nordic Technology Park	100	45,325	1,708	81
Total logistics/warehouse		**94,901**	**4,749**	**100**
Võru Rautakesko	100	3,120	318	100
UKU Centre	100	5,117	653	100
Mustika Centre	100	27,230	2,806	97
RAF Centrs	100	4,474	441	97
Depo shopping center in Jelgava	100	development stage		
Narva Prisma	100	13,361	1,361	100
Tammsaare road Rautakesko	100	9,120	1,189	100
Total retail		**62,422**	**6,768**	**100**
Lauteri 5	100	3,942	369	88
Pärnu mnt 102	100	9,216	1,161	98
Pärnu mnt 105	100	5,149	395	97
Laki 24	100	1,854	160	100
Kadaka road 63	100	7,705	707	91
Stabu 10 office building	100	4,223	386	100
Lacpleca 20a office building	100	4,427	677	100
Menulio 11 office building	100	5,620	663	93
Total office		**42,136**	**4,518**	**100**
Rakvere Police Building (national)	100	5,744	644	100
Hotel Palace (hotels)	50	4,883	649	100

The weighted average expiration term of the lease agreements of investment property owned by the Group is 4.0 (2015: 4.7) years and as at 31.12.2016 the Group has a total of 300 (2015: 290) tenants. Contractual revenue generated by 15 customers accounts for 64.1% of the consolidated rental revenue.

Customer	% of the consolidated rental revenue
Prisma Peremarket AS	15,6%
Kesko Senukai Estonia AS	9,7%
Logistika Pluss OÜ	5,2%
DHL Estonia AS	5,2%
Vilnius County Police Headquarters	4,9%
Premia Tallinna Külmhoone AS	4,0%
Riigi Kinnisvara	3,8%
Eesti Energia AS	3,6%
Arvato Services Estonia OÜ	2,4%
Äripäev AS	1,9%
Kinnisvaravalduse AS	1,9%
Fristads Kansas production SIA	1,6%
Livonia Print SIA	1,6%
Plesko Real Estate SIA	1,4%
Dukascopy Bank SA Sveices Konfederacijas komersants	1,4%
Others	35,9%

Mustika shopping center

Investments in real estate in 2016

In 2016, the EfTEN Kinnisvarafond made no new real estate investments and focused on the managaement of the existing portfolio. Since the Fund's investment period has ended, no new share capital is being raised in the Fund. The Fund will continue to develop existing investments further. In 2017 the Fund plans to start construction activities in the expansion projects of RAF Centre in Jelgava and UKU Centre in Viljandi.

The maturity date of the fund is in the year 2022. The fund will continue to implement its strategic objectives, consisting of the disposal of smaller investments and focusing on larger investments.

UKU Centre in Viljandi

Valuation of investment property

EfTEN Kinnisvarafond 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. As a result of revaluation, the total value of investment property increased 2.3% (2015: 1.4%) and the Group recognised a gain from fair value adjustment on investment property in the amount of EUR 4.704 (2015: 2.838) million.

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. Taking into account the changes in the commercial real estate market of the Baltic States and the favourable financing conditions, similar to 2015 the exit yields have slightly decreased, falling within in the range of 7.3% - 8.2% (2015: 7.75% - 9.0%). The discount rates applied to cash flows have also decreased for the same reason, falling within the range of 8.2% - 9.75% (2015: 8.6% - 10.2%) depending on the quality level of the property.

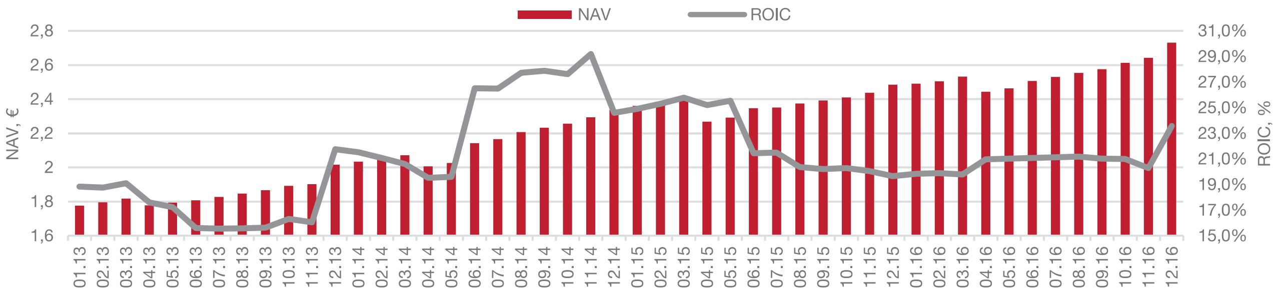
Among the investments of the Group in real estate so far, the best in terms of the rate of return has been an investment in 2010 in the Rakvere police and rescue building, for which the net yield on the initial investment, based on the expected net cash flow in 2017 is 11.1%. It is followed by the segment of retail premises with an 8.8% net yield, closely followed by the segment of warehouse and logistics space where the expected net cash flow to the acquisition cost of investments in 2016 is 8.3%. The respective yield level of the office space segment has been 8.1%.

Information on shares

As at 31.12.2016, payments made to the share capital of EfTEN Kinnisvarafond AS total EUR 61.131 million (31.12.2015: unchanged). As at 31.12.2016 the number of shares was 39,391,371 (31.12.2015: unchanged).

	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.05.2008
NAV per share, EUR	2,7312	2,4840	2,3377	2,0161	1,7613	1,6140	1,2315	1,0123	0,6000
Annual increase in NAV	10%	6%	16%	14%	9%	31%	22%	69%	-
Increase in NAV over 2 years	17%	23%	33%	25%	43%	59%	105%	-	-
Increase in NAV over 3 years	35%	41%	45%	64%	74%	169%	-	-	-
Increase in NAV over 4 years	55%	54%	190%	99%	194%	-	-	-	-
Increase in NAV over 5 years	69%	102%	231%	236%	-	-	-	-	-
Increase in NAV over 6 years	122%	145%	390%	-	-	-	-	-	-

NAV and ROIC values since 2013



Shareholder structure of EfTEN Kinnisvarafond AS as at 31.12.2016

	Shareholding %
LHV Pension Funds	46,5
Trio Holding OÜ	11,1
Ambient Sound Investments OÜ	6,3
Swedbank Pension Funds	3,7
Nordea Pension Funds	3,1
Others	29,3

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 AS has ended. The Fund will continue to manage its current portfolio with the main focus of keeping vacancy as low as possible. In addition, the Fund plans to continue existing smaller investments, and focus on larger single investments.

Management

On April 26, 2016, the annual general meeting of shareholders of EfTEN Kinnisvarafond AS was held which unanimously approved the 2015 annual report and decided to pay a net dividend in the amount of EUR 3,905,000 euros. No extraordinary general meetings were held.

The Supervisory Board of the fund is comprised of eight members: Arti Arakas (Chairman of the Supervisory Board), Jaan Pillesaar, Siive Penu, Laire Piik, Sander Rebane, Martin Hendre, Tauno Tats and Erkki Raasuke. Members of the Supervisory Board Martin Hendre and Erkki Raasuke have expressed a wish to step down as members of the Supervisory Board due to changes in other positions. According to the articles of association, the election and recall of members of the Supervisory Board is in the competence of the the general meeting of shareholders and consequently, the item of recalling members of the Supervisory Board will be added to the agenda of the 2017 annual general meeting of shareholders. In other issues, no changes have taken place in connection with members of the Supervisory Board nor decisions in the competence of the Supervisory Board.

The management board of the fund is comprised of two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund). There were no changes among the Management board members.

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

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FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	2016	2015
EUR thousand			
Revenue	4,5	16,870	16,499
Cost of services sold	6	-1,402	-1,554
Gross profit		**15,468**	**14,945**
Marketing costs	7	-295	-213
General and administrative expenses	8	-2,461	-2,020
Other income	9	5,988	4,173
Other expenses	9	-1,329	-1,174
Operating profit		**17,371**	**15,711**
Profit from joint ventures using the equity method	10	422	103
Finance income		1	8
Finance costs	11	-2,256	-2,122
Profit before income tax		**15,538**	**13,700**
Income tax expense	12	-1,129	-1,677
Net profit for the financial year		**14,407**	**12,023**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016	2015
EUR thousand			
Net profit for the financial year		14,407	12,023
Other comprehensive loss:			
Loss from revaluation of hedging instruments	19	-764	-1,159
Total other comprehensive loss		**-764**	**-1,159**
Total comprehensive income for the financial year		**13,643**	**10,864**

Notes on pages 14 to 44 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	13	11,003	9,016
Receivables and accrued income	14	435	343
Prepaid expenses		40	55
Inventories		9	9
Total current assets		**11,487**	**9,423**
Long-term receivables	14	159	70
Investments in joint ventures	3	3,006	2,585
Investment property	4,15	205,858	202,653
Property, plant and equipment		21	13
Total non-current assets		**209,044**	**205,320**
TOTAL ASSETS		**220,531**	**214,743**
LIABILITIES AND EQUITY			
Borrowings	16	7,119	12,201
Derivative instruments	19	1,923	1,159
Payables and prepayments	17	1,004	1,601
Total current liabilities		**10,046**	**14,961**
Borrowings	16	96,695	97,301
Other long-term liabilities	17	549	357
Success fee liability	18	5,146	4,119
Deferred income tax liability	12	402	156
Long-term provisions	23	107	0
Total non-current liabilities		**102,899**	**101,934**
Total liabilities		**112,945**	**116,895**
Share capital	20	23,635	23,635
Share premium		37,496	37,496
Statutory reserve capital	20	2,303	1,760
Hedging reserve	19	-1,923	-1,159
Retained earnings	21	46,075	36,116
Total equity		**107,586**	**97,848**
TOTAL LIABILITIES AND EQUITY		**220,531**	**214,743**

Notes on pages 14 to 44 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016	2015
EUR thousand			
Net profit		**14,407**	**12,023**
Adjustments to net profit:			
Profit from joint ventures using the equity method	10	-422	-103
Finance income		-1	-8
Finance costs	11	2,256	2,122
Gain (loss) from revaluation of investment property	15	-4,704	-2,838
Change in the success fee liability	8	1,027	452
Depreciation, amortisation and impairment		6	5
Income tax expense	12	1,129	1,677
Total adjustments with non-cash changes		**-709**	**1,307**
Cash flow from operations before changes in working capital		**13,698**	**13,330**
Change in receivables and payables related to operating activities		-412	-441
Net cash generated from operating activities		**13,286**	**12,889**
Purchase of property, plant and equipment		-14	-3
Purchase of investment property		-1,295	-7,868
Proceeds from sale of investment property		2,665	189
Acquisition of subsidiaries		0	-2,051
Loans granted		0	-40
Repayment of loans granted		0	3
Interest received		1	1
Net cash generated from investing activities		**1,357**	**-9,769**
Loans received	16	0	12,206
Loan repayments on sale and refinancing of investment properties	16	-1,297	-4,500
Scheduled loan repayments	16	-4,402	-5,342
Interest paid		-2,242	-2,099
Dividends paid	19	-3,905	-5,100
Income tax paid on dividends	12	-810	-1,210
Net cash generated from financing activities		**-12,656**	**-6,045**
NET CASH FLOW		**1,987**	**-2,925**
Cash and cash equivalents at the beginning of the period	**13**	**9,016**	**11,941**
Change in cash and cash equivalents		1,987	-2,925
Cash and cash equivalents at the end of the period	**13**	**11,003**	**9,016**

Notes on pages 14 to 44 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	**Total**
EUR thousand						
Balance as at 31.12.2014	**23,635**	**37,496**	**1,002**	**0**	**29,951**	**92,084**
Dividends paid	0	0	0	0	-5,100	**-5,100**
Transfers to statutory reserve capital	0	0	758	0	-758	**0**
Total transactions with owners	**0**	**0**	**758**	**0**	**-5,858**	**-5,100**
Net profit for the financial year	0	0	0	0	12,023	**12,023**
Other comprehensive loss	0	0	0	-1,159	0	**-1,159**
Total comprehensive income	**0**	**0**	**0**	**-1,159**	**12,023**	**10,864**
Balance as at 31.12.2015	**23,635**	**37,496**	**1,760**	**-1,159**	**36,116**	**97,848**
Dividends paid	0	0	0	0	-3,905	**-3,905**
Transfers to statutory reserve capital	0	0	543	0	-543	**0**
Total transactions with owners	**0**	**0**	**543**	**0**	**-4,448**	**-3,905**
Net profit for the financial year	0	0	0	0	14,407	**14,407**
Other comprehensive loss	0	0	0	-764	0	**-764**
Total comprehensive income	**0**	**0**	**0**	**-764**	**14,407**	**13,645**
Balance as at 31.12.2016	**23,635**	**37,496**	**2,303**	**-1,923**	**46,075**	**107,586**

For additional information on share capital, please see Note 19 and 20.

Notes on pages 14 to 44 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond AS and its subsidiaries for the financial year ended 31.12.2016 has been signed by the Management Board on 28 February 2017. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board shall be approved at the general meeting of shareholders. These consolidated financial statements form a part of the annual report to be approved by the shareholders and they serve as a basis for the decision concerning the distribution of profit. Shareholders may decide not to approve the annual report, which has been prepared by the Management Board and approved by the Supervisory Board, and may demand that a new annual report be prepared.

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

The structure of EfTEN Kinnisvarafond AS Group as at 31.12.2016 is as follows (also see Note 3):

EfTEN Kinnisvarafond AS

Share	SUBSIDIARIES	Share	Subsidiary	Investment in real estate:
100%	EfTEN SPV1 OÜ			Be eliminated
100%	EfTEN SPV2 OÜ			Lauteri 5
100%	EfTEN SPV3 OÜ			UKU Centre
100%	EfTEN SPV4 OÜ			Rakvere Police Building
100%	EfTEN SPV5 OÜ			Pärnu mnt 105
100%	EfTEN SPV6 OÜ			Pärnu mnt 102
100%	EfTEN SPV7 OÜ	100%	EfTEN SPV8 OÜ	Mustika Shopping Centre
100%	EfTEN SPV9 OÜ			Kadaka road 63
100%	EfTEN SPV10 OÜ			Laki 24
100%	EfTEN SPV12 OÜ			Tammsaare road 49, Tallinn; Kuuli 10, Tallinn
100%	EfTEN SPV14 OÜ			Võru Rautakesko
100%	EfTEN SPV15 OÜ			Tallinn Cold Storage
100%	EfTEN SPV16 OÜ			Narva Prisma
100%	EfTEN SPV17 OÜ			Betooni 1a, Tallinn; Betooni 6, Tallinn
100%	EfTEN Stabu 10 SIA			Stabu 10, Riga
100%	EfTEN Jelgava SIA			RAF Centrs
100%	EfTEN Terbata SIA			Lacpleca 20a, Riga
100%	EfTEN NTP SIA			Nordic Technology Park
100%	EfTEN Menulio UAB			Menulio Police Building
100%	Auras Centrs SIA			Depo

Share	JOIN VENTURES	Investment in real estate:
50%	EfTEN SPV11 OÜ	Palace Hotel

2 Statement of compliance and basis for preparation

The consolidated financial statements of EfTEN Kinnisvarafond 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.

In the preparation of the financial reports, the cost method has been used as a basis, unless stated otherwise (for example investment property is measured at fair value).

2.1 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.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 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 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.

2.2.1 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) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. Starting from the year 2014, 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. All of the investment properties owned by the Group generate (or will start to generate when they are completed) rental revenue, therefore the applied method best indicates the fair value of the investment properties among the alternatives (comparison method for example). 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. In view of the changes in the commercial real estate market of the Baltic States and the favourable financing conditions, the discount rate has decreased compared to 2015, falling within the range of 8.2% to 9.75% (2015: 8.6% to 10.2%) depending on the location and quality level of the property. In 2016, the exit yields have slightly decreased compared with the previous year being on the level of 7.3% - 9% (2015: 7.75% - 9%).

Additional information on the assumptions and sensitivity used in valuation can be found in Note 15.

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

The Group owns 100% of all of its subsidiaries and only 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.

The Group has a 50% ownership interest in the joint ventures that the Group is in and the members of the management boards of joint ventures also overlap with the management board members of the Group's parent entities. Any decisions in joint ventures are made in accordance with agreements with the approval of both shareholders, therefore the Group has joint control over joint ventures.

2.2.2 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.

Properties where development by the Group is ongoing for future use as business premises that will be leased out under operating leases and commercial buildings which have been acquired and are undergoing major renovation work are also classified as investment property.

2.2.3 Investment company

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond 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 AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond 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 AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond 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. The Group's business activities are also assessed 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 on the basis of a fair value of the subsidiary.

Consolidation

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

A joint venture is a company over which two or more parties (including the parent company) have contractual joint control. Joint ventures are accounted for under the equity method.

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.

New subsidiaries (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.

Segment reporting

The Group allocates raised capital and available resources for investments in accordance with the Group's investment policy, analysing the reasonable allocation of of risks by real estate sector.

In disclosing information on segments the Group adheres to the principles of grouping used in the Group's internal accounting and reporting. Independent business segments are sub-sectors of commercial real estate which differentiate from one another by type of rented space and have different yield rates (rental income per sqm, acquisition price of one sqm. capitalisation rates).

The Group's four business segments and three geographical segments are presented in the following table:

Premises / Country	Estonia	Latvia	Lithuania
Office premises	Lauteri 5, Tallinn	Stabu 10, Riga	Menulio 11, Vilnius
	Pärnu mnt 105, Tallinn	Terbata Office Building, Riga	
	Pärnu mnt 102, Tallinn		
	Kadaka road 63		
	Laki 24		
Storage and manufacturing premiseses	Kuuli 10, Tallinn	Nordic Technology Park, Riga	
	Premia Cold Storage, Tallinn		
	Betooni 1a, Tallinn		
	Betooni 6, Tallinn		
Retail premises	UKU Centre, Viljandi	RAF Centrs, Jelgava	
	Mustika Shopping Centre, Tallinn	Depo, Jelgava	
	Tammsaare road Rautakesko		
	Võru Rautakesko		
	Narva Prisma		
Government	Rakvere Police Building		

The main indicators used by the management in making business decisions is sales revenue, net operating income (net sales less the cost of sales and marketing costs), EBITDA and operating profit. It is also important to monitor the volume of property investments by segments. The Group analyzes all indicators on a monthly basis.

Investments in subsidiaries and joint ventures in the separate balance sheet of the parent company

In the separate balance sheet of the parent company (presented in Note 25), the investments in subsidiaries and joint ventures are measured at fair value. Dividends paid by subsidiaries and joint ventures are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

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

Rental income from investment properties is 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 years 2016 and 2015, the Group only had financial assets in the "Loans and receivables" category.

<u>Loans and receivables from other parties</u>

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.

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 (including rent per 1 square metre and the occupancy rate) 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 capitalised 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 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 difference between the sales and acquisition price of investment property above a hurdle rate of 10% on an annual basis. The success fee is calculated on a cumulative basis on all investment properties, i.e. if there is any investment property that is sold at a price below the cost of its acquisition, the success fees accrued on properties sold at a profit is decreased in the amount of 20% of the losses on sale of those properties sold below acquisition cost. 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 (see Note 8).

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 (when the liability arises).

Subsidiaries in Latvia and Lithuania

The net profit of companies is taxed with a 15% income tax in Latvia and Lithuania. 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.

3 Subsidiaries and joint ventures

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2016	31.12.2015
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV1 OÜ	Estonia	Ülikooli 6a, Tartu – Investment property sold in 2016	100	100
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Centre, Viljandi	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105, Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102, Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika keskus, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika keskus, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka road 63, Talinn	100	100
EfTEN SPV10 OÜ	Estonia	Laki 24, Tallinn	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare road Rautakesko	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinn Cold Storage (Tallinna Külmhoone)	100	100
EfTEN SPV16 OÜ	Estonia	Narva Prisma	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6, Tallinn	100	100
EfTEN Stabu 10 SIA	Latvia	Stabu 10 office building, Riga	100	100
EfTEN Jelgava SIA	Latvia	RAF shopping centre, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Techology Park, Riia	100	100
EfTEN Terbata SIA	Latvia	Lāčplēša iela 20A, Riia	100	100
Auras Centrs SIA	Latvia	Depo	100	100
Jelgavas Centrs SIA	Latvia	Depo	merged	100
EfTEN Menulio UAB	Lithuania	Menulio Police Building	100	100
Joint ventures				
EfTEN SPV11 OÜ	Estonia	Palace Hotel	50	50

All subsidiaries and joint ventures are engaged in the acquisition and lease of investment property. No shares of a subsidiary or joint venture are publicly listed.

As at 31.12.2016, the Group owned one joint venture. The key financial indicators of the joint venture are provided in the table below:

EfTEN SPV11 OÜ	**31.12.2016 or the financial year 2016**	**31.12.2015 or the financial year 2015**
EUR thousand		
Cash and cash equivalents	719	398
Other current assets	119	108
Total current assets	**838**	**506**
Investment property	10,040	9,626
Total non-current assets	**10,040**	**9,626**
TOTAL ASSETS	**10,878**	**10,132**
Short-term borrowings	91	88
Other short-term liabilities	82	83
Total current liabilities	**173**	**171**
Long-term borrowings	4,692	4,792
Total non-current liabilities	**4,692**	**4,792**
TOTAL LIABILITIES	**4,865**	**4,963**
NET ASSETS	**6,013**	**5,169**
Revenue	667	607
Net income	**844**	**206**

In the years 2016 and 2015, the following changes have occurred in investments in joint ventures:

EUR thousand	31.12.2016	31.12.2015
Carrying value at the beginning of period	**2,585**	**2,482**
Profit from joint ventures using the equity method (Note 10)	422	103
Carrying value at the end of period	**3,006**	**2,585**

The net assets of the entire entity EfTEN SPV11 OÜ as at 31.12.2016 amounted to EUR 6.013 thousand (2015: EUR 5.169 thousand). The Group owns 50% of the joint venture and therefore the value of the entity in the group's balance sheet equals the value of the joint venture entity's net assets.

4 Segment reporting

SEGMENT INCOME

	Office		Storage and manufacturing		Retail		Government		Unallocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
EUR thousand												
Revenue (Note 5), incl.	**4,492**	**4,022**	**4,739**	**4,784**	**6,995**	**7,049**	**644**	**644**	**0**	**0**	**16,870**	**16,499**
Estonia	2,972	3,023	2,971	2,879	6,474	6,501	644	644	0	0	13,061	13,047
Latvia	984	973	1,768	1,905	522	548	0	0	0	0	3,274	3,426
Lithuania	535	26	0	0	0	0	0	0	0	0	535	26
Net revenue, incl.	**3,936**	**3,332**	**4,329**	**4,354**	**6,370**	**6,526**	**537**	**550**	**0**	**0**	**15,173**	**14,762**
Estonia	2,626	2,479	2,797	2,663	5,980	6,039	537	550	0	0	11,941	11,731
Latvia	896	827	1,532	1,691	390	487	0	0	0	0	2,818	2,005
Lithuania	414	26	0	0	0		0	0	0	0	414	26
Operating profit, incl.	**6,007**	**3,505**	**3,930**	**5,134**	**6,916**	**6,487**	**664**	**600**	**-146**	**-14**	**17,371**	**15,711**
Estonia	4,081	2,946	2,957	3,172	6,564	6,291	664	600	-146	-14	14,120	12,995
Latvia	564	541	973	1,962	351	196	0	0	0	0	1,889	2,699
Lithuania	1,362	17	0	0	0	0	0	0	0	0	1,362	17
EBITDA, incl.	**3,551**	**2,851**	**3,960**	**3,921**	**5,762**	**6,057**	**532**	**533**	**-105**	**-31**	**13,700**	**13,330**
Estonia	2,440	2,157	2,599	2,446	5,484	5,700	532	533	-105	-31	10,950	10,805
Latvia	769	676	1,361	1,475	278	357	0	0	0	0	2,408	2,508
Lithuania	342	17	0	0	0	0	0	0	0	0	342	17
Operating profit											**17,371**	**15,711**
Profit from joint ventures using the equity method (Note 10)											422	103
Net finance expenses											-2,256	-2,114
Profit before income tax											15,538	13,700
Income tax expenses (lisa 12)											-1,129	-1,677
Net profit for the financial year											**14,407**	**12,023**

SEGMENT ASSETS

	Office		Storage and manufacturing		Retail		Government		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
EUR thousand										
Investment property (Note 15)										
Estonia	36,080	36,817	36,220	35,772	77,410	75,759	6,710	6,545	156,420	154,893
Latvia	13,300	13,048	20,520	20,803	8,348	8,054	0	0	42,168	41,905
Lithuania	7,270	5,854	0	0	0	0	0	0	7,270	5,854
Total investment property	**56,650**	**55,719**	**56,740**	**56,575**	**85,758**	**83,813**	**6,710**	**6,545**	**205,858**	**202,653**
Other non-current assets									3,186	2,667
Net debt									-101,941	-107,880
Other current assets									483	407
NET ASSETS									**107,586**	**97,848**

In 2016 and 2015 no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that owns the investment property.

15.6% of the consolidated rental income of the Group comes from Prisma Peremarket OÜ which rents commercial premises in two properties that belong to the subsidiaries of the Group. The revenue proportion of other tenants is less than 10% of the consolidated revenue.

5 Revenue

Areas of activity	**2016**	2015
EUR thousand		
Rental income from office premises	4,369	3,895
Rental income from government institutions	644	644
Rental income from retail premises	6,748	6,792
Rental income from warehousing and logistics premises	4,601	4,626
Rental income from parking premises	124	128
Other sales revenue	384	414
Total revenue from areas of activity (Notes 4, 15)	**16,870**	**16,499**

EUR 3.274 thousand (2015: EUR 3.427 thousand) of the revenue of the Group was generated in Latvia, EUR 535 thousand in Lithuania (2015: EUR 26 thousand) and the remainder of the revenue EUR 13.061 thousand (2015: EUR 13.046 thousand) was generated in Estonia.

6 Cost of services sold

	2016	2015
EUR thousand		
Repair and maintenance of rental premises	-918	-731
Property insurance	-60	-58
Land tax and real-estate tax	-205	-205
Improvement costs	-193	-481
Depreciation	-4	-4
Impairment losses on doubtful receivables	-22	-76
Total cost of services sold (Note 15)	**-1,402**	**-1,554**

7 Marketing costs

	2016	2015
EUR thousand		
Commission expenses on rental premises	-75	-54
Advertising, promotional events	-219	-159
Total marketing costs	**-295**	**-213**

8 General and administrative expenses

	2016	2015
EUR thousand		
Management services (Note 22)	-1,174	-1,174
Office expenses	-23	-20
Wages and salaries, incl. taxes	-47	-46
Consulting expenses	-95	-258
Depositary expenses	-67	-62
Change in success fee liability (Note 18)	-1,027	-452
Other general and administrative expenses	-27	-6
Depreciation	-1	-1
Total general and administrative expenses	**-2,461**	**-2,020**

9 Other income and other expenses

Other income	2016	2015
EUR thousand		
Gain on changes in the fair value of investment property (Note 14)	5,923	4,009
Contractual penalties and late payment fees received	61	8
Other income	4	156
Total other income	**5,988**	**4,173**

Other expenses	2016	2015
EUR thousand		
Loss on changes in the fair value of investment property (Note 14)	-1,219	-1,171
Other expenses	-110	-4
Total other expenses	**-1,329**	**-1,174**

In 2016, other expenses comprise the provision in amount of EUR 107 thousand related to the Group's subsidiary's court case (Note 23).

10 Profit from joint ventures using the equity method

	2016	2015
EUR thousand		
Profit from joint ventures using the equity method (Note 3)	422	103
Total profit from joint ventures	**422**	**103**

11 Finance costs

	2016	2015
EUR thousand		
Interest expenses, incl.	-2,256	-2,122
Interest expense on borrowings	-1,786	-1,952
Interest expense on derivatives (-)/ reduction of expense (+)	-470	-170
Total finance costs	**-2,256**	**-2,122**

12 Income tax

	2016	2015
EUR thousand		
Income tax expense	-1,027	-1,686
Deferred income tax expense	-102	9
Total income tax expense (Note 4)	**-1,129**	**-1,677**

As at 31.12.2016, the Group has a deferred income tax liability in relation to the gain on the change in the fair value of investment property located in Latvia in the amount of EUR 402 thousand (31.12.2015: EUR 156 thousand) and a deferred income tax asset in the amount of EUR 123 thousand (2015: EUR 11 thousand). The obligation to pay income tax will arise upon the Group's realisation of the investment property.

The expenses related to the Group's payment of dividends in 2016 amounted to EUR 810 thousand (2015: EUR 1 362 thousand). The remaining portion of income tax expense in the year 2016 and 2015 is related to the taxation of the profit of subsidiaries domiciled in Latvia and Lithuania.

13 Cash and cash equivalents

	31.12.2016	31.12.2015
EUR thousand		
Demand deposits	11,002	9,016
Cash	1	0
Total cash and cash equivalents (Note 19)	**11,003**	**9,016**

14 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2016	31.12.2015
EUR thousand		
Receivables from customers	373	353
Allowance for doubtful trade receivables	-76	-78
Total trade receivables	**297**	**275**
Other short-term receivables	0	3
Total other short-term receivables	**0**	**3**
Prepaid taxes and receivables for reclaimed value-added tax	9	4
Other accrued income	129	61
Total accrued income	**138**	**65**
Total receivables (Note 19)	**435**	**343**

Non-current receivables

	31.12.2016	31.12.2015
EUR thousand		
Deferred income tax asset	123	11
Prepayments and receivables related to real estate development projects	36	59
Total non-current receivables	**159**	**70**

15 Investment property

As at 31.12.2016, the Group has made investments in the following investment properties:

Name	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						
Tallinn Cold Storage (Tallinna Külmhoone)	Betooni 4, Tallinn	6,863	September 08	6,237	7,280	3%
Võru Rautakesko	Kreutzwaldi 89, Võru	3,120	September 08	3,270	3,330	2%
UKU Centre	Tallinna 41, Viljandi	5,117	August 10	5,423	7,710	3%
Rakvere Police Building	Kreutzwaldi 5a, Rakvere	5,744	November 10	4,940	6,710	3%
Lauteri 5	Lauteri 5, Tallinn	3,942	December 10	3,245	4,670	2%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	9,216	December 11	12,280	14,620	7%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	5,149	December 11	6,270	6,670	3%
Mustika Centre	Tammsaare road 116	27,230	July 12	30,964	34,850	16%
RAF Centrs	Riia mnt 48, Jelgava	4,474	March 13	5,381	6,043	3%
Narva Prisma	Kangelaste pr 29, Narva	13,361	February 13	14,850	16,710	8%
Laki 24	Laki 24, Tallinn	1,854	January 13	1,659	1,600	1%
Kadaka road 63	Kadaka road 63, Tallinn	7,705	January 13	7,167	8,520	4%
Stabu 10 office building	Stabu 10, Riga	4,223	March 13	4,047	4,190	2%
Kuuli 10/Punane 73	Kuuli 10/Punane 73, Tallinn	15,197	July 13	9,171	11,230	5%
Tammsaare road Rautakesko	Tammsaare road 49, Tallinn	9,120	July 13	12,930	14,810	7%
Betooni 1a	Betooni 1a, Tallinn	10,678	June 14	7,347	7,930	4%
Betooni 6	Betooni 6, Tallinn	16,838	June 14	9,719	9,780	4%
Lacpleca 20a office building	Lacpleca 20a, Riga	4,427	December 14	9,636	9,110	4%
Nordic Technology Park	Jūrkalnes 15/25, Riga, Latvia	45,325	August 14	20,337	20,520	9%
Menulio Police Building	Menulio 11, Vilnius	5,620	December 15	5,958	7,270	3%
Depo shopping centre	Jelgava, Latvia	development stage	January 15	2,306	2,305	1%
Total		**205,203**		**183,138**	**205,858**	**93%**

In addition to the investment properties presented in the table above, the joint venture with a 50% ownership interest of the Group, EfTEN SPV11 OÜ, owns an investment property at the address Vabaduse square 3 /Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as at 31.12.2016 is EUR 10.040 thousand (31.12.2015: EUR 9.626 thousand).

In the years 2016 and 2015, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 31.12.2014	**0**	**189,692**	**189,692**
Acquisition and development	76	7,476	**7,552**
Acquisition from business combinations (Note 3)	2,230	0	**2,230**
Capitalised improvements	0	339	**339**
Gain/loss on changes in the fair value (Note 9)	0	2,838	**2,838**
Balance as at 31.12.2015 (Note 4)	**2,306**	**200,345**	**202,653**
Acquisition and development	0	100	**100**
Capitalised improvements	0	1,202	**1,202**
Disposals	0	-2,800	**-2,800**
Gain/loss on changes in the fair value (Note 9) [1]	0	4,704	**4,704**
Balance as at 31.12.2016 (Note 4)	**2,306**	**203,551**	**205,858**

[1] The value increase of investment property in 2016 is materially caused by the decrease of exit yields of market transactions and decrease of discount rates derived from low interest rates.

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

As at 31 December or annual	2016	2015
Rental income earned on investment property (Note 5)	16,486	16,085
Expenses directly attributable to management of investment property (Note 6)	-1,402	-1,554
Carrying amount of investment property pledged as collateral to borrowings (Note 16)	203,551	200,345

All rental income generating investment properties of EfTEN Kinnisvarafond AS are pledged as collateral to long-term bank loans.

The terms of lease agreements entered into by EfTEN Kinnisvarafond AS 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	15,920	13,743
2-5 years	43,888	31,876
Over 5 years	12,078	12,259
Total	**71,886**	**57,878**

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 were used to determine fair value:

In 2016:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Exit yield**	**Average rent €/,m2**
EUR thousand						
Office premises	56,650	Discounted cash flows	4,518	8.2%-9.0%	7.3%-8%	9.8
Storage and manufacturing premises	56,740	Discounted cash flows	4,750	8.6%-9.7%	8.0%-8.7%	4.3
Retail premises	83,453	Discounted cash flows	6,767	8.6%-9.75%	7.8%-9%	9.2
Government	6,710	Discounted cash flows	644	9.0%	8.2%	9.3
Investment property in development phase	2,305	Compareable offerings	-	-	-	-
Total	**205,858**					

In 2015:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Exit yield**	**Average rent €/,m2**
EUR thousand						
Office premises	55,719	Discounted cash flows	4,450	8.5%-9.6%	7.75%-9.2%	9.2
Storage and manufacturing premises	56,576	Discounted cash flows	5,158	8.6%-10.2%	8.25%-9.0%	3.9
Retail premises	81,507	Discounted cash flows	6,916	8.8%-9.6%	8.02-9.0%	8.8
Government	6,545	Discounted cash flows	644	9.0%	8.5%	9.3
Investment property in development phase	2,305	The bid price	-	-	-	-
Total	**202,652**					

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

- Rental income: real growth rates and rents under current lease agreements are used;
- 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;
- Capitalisation 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 as at **31.12.2016** the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	**Sensitivity to management estimates**			**Sensitivity to discount rate and exit yield**				
	Assessment	**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%	*-6,150*	*6,140*	Change in the capitalisation rate	-0.5%	*60,650*	*59,440*	*58,260*
					0.0%	*57,800*	*56,650*	*55,510*
					0.5%	*55,300*	*54,200*	*53,150*
Storage and manufacturing premises	Change in rental income +/-10%	*-5,990*	*5,970*	Change in the capitalisation rate	-0.5%	*60,400*	*59,200*	*58,030*
					0.0%	*57,870*	*56,730*	*55,610*
					0.5%	*55,610*	*54,510*	*53,470*
Retail premises	Change in rental income +/-10%	*-9,130*	*9,130*	Change in the capitalisation rate	-0.5%	*89,194*	*87,370*	*85,631*
					0.0%	*85,158*	*83,453*	*81,772*
					0.5%	*81,597*	*79,970*	*78,367*
Government	Change in rental income +/-10%	*-790*	*790*	Change in the capitalisation rate	-0.5%	*7,140*	*7,000*	*6,860*
					0.0%	*6,840*	*6,710*	*6,580*
					0.5%	*6,580*	*6,450*	*6,320*

Balance as at 31.12.2015

Sector	**Sensitivity to management estimates**			**Sensitivity to discount rate and exit yield**				
	Assessment	**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%	*-6,152*	*6,149*	Change in the capitalisation rate	-0.5%	*59,240*	*58,288*	*57,129*
					0.0%	*56,626*	*55,719*	*54,622*
					0.5%	*54,321*	*53,461*	*52,410*
Storage and manufacturing premises	Change in rental income +/-10%	*-6,185*	*6,183*	Change in the capitalisation rate	-0.5%	*60,129*	*58,946*	*57,795*
					0.0%	*57,690*	*56,576*	*55,465*
					0.5%	*55,524*	*54,446*	*53,396*
Retail premises	Change in rental income +/-10%	*-8,707*	*8,707*	Change in the capitalisation rate	-0.5%	*89,220*	*87,494*	*85,813*
					0.0%	*85,452*	*81,507*	*82,214*
					0.5%	*82,123*	*80,557*	*79,034*
Government	Change in rental income +/-10%	*-777*	*777*	Change in the capitalisation rate	-0.5%	*6,956*	*6,819*	*6,685*
					0.0%	*6,676*	*6,545*	*6,418*
					0.5%	*6,427*	*6,302*	*6,180*

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

16 Borrowings

As at 31.12.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2016	Contract term	Interest rate as at 31.12.2016	Loan collateral (Note 15)	Value of collateral	Share of the fund's net asset value
SEB	Estonia	4,300	3,541	31.08.18	1.45%	mortgage - Betooni 4, Tallinn	7,280	3.3%
DnB Nord	Estonia	2,239	1,795	15.05.18	1.59%	mortgage - Kreutzwaldi 89, Võru	3,330	1.7%
SEB	Estonia	2,514	1,976	14.06.21	1.80%	mortgage - Lauteri 5, Tallinn	4,670	1.8%
SEB	Estonia	4,529	3,540	31.05.18	1.80%	mortgage - Tallinna 41, Viljandi	7,710	3.3%
Swedbank	Estonia	4,133	3,449	25.11.17	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,710	3.2%
Swedbank	Estonia	4,333	3,546	30.08.18	1.95%	mortgage - Pärnu mnt 105, Tallinn	6,670	3.3%
Swedbank	Estonia	8,436	7,299	30.08.18	1.50%	mortgage - Pärnu mnt 102, Tallinn	14,620	6.8%
SEB	Estonia	20,000	17,745	02.09.19	1.33%	mortgage - Tammsaare road 116, Tallinn	34,850	16.5%
SEB	Estonia	4,740	4,010	31.05.18	1.49%	mortgage - Kadaka road 63, Tallinn	8,520	3.7%
SEB	Estonia	900	691	25.01.17	1.73%	mortgage - Laki 24, Tallinn	1,600	0.6%
Pohjola Bank	Estonia	9,700	8,143	28.02.18	1.50%	mortgage - Kangelaste pr 29, Narva	16,710	7.6%
SEB	Latvia	1,980	1,621	16.04.18	2.90%	mortgage - Stabu 10/4, Riga	4,190	1.5%
Danske	Estonia	15,300	14,049	25.06.18	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	26,040	13.1%
SEB	Latvia	12,060	11,075	08.08.19	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,520	10.3%
Danske	Estonia	11,100	9,757	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	17,710	9.1%
SEB	Latvia	3,000	2,513	17.12.18	2.63%	mortgage - Rigas Street 48, Jelgava	6,043	2.3%
Swedbank	Latvia	5,850	5,478	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,110	5.1%
Swedbank	Lithuania	3,786	3,718	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,270	3.5%
Total		**118,900**	**103,947**				**203,553**	**96.6%**

As at 31.12.2015, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2015	Contract term	Interest rate as at 31.12.2015	Loan collateral (Note 15)	Value of collateral	Share of the fund's net asset value
SEB	Estonia	4,300	3,717	17.09.16	1.29%	mortgage - Betooni 4, Tallinn	7,315	3.8%
DnB Nord	Estonia	2,239	1,933	15.05.18	1.82%	mortgage - Kreutzwaldi 89, Võru	3,331	2.0%
SEB	Estonia	1,637	1,304	26.05.16	1.84%	mortgage - Ülikooli 6a, Tartu	2,800	1.3%
SEB	Estonia	2,514	2,065	06.09.16	1.79%	mortgage - Lauteri 5, Tallinn	4,488	2.1%
SEB	Estonia	4,529	3,804	31.05.18	1.80%	mortgage - Tallinna 41, Viljandi	7,390	3.9%
Swedbank	Estonia	4,133	3,656	25.11.17	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,545	3.7%
Swedbank	Estonia	4,333	3,788	30.08.18	1.95%	mortgage - Pärnu mnt 105, Tallinn	6,395	3.9%
Swedbank	Estonia	8,436	7,612	30.08.18	1.50%	mortgage - Pärnu mnt 102, Tallinn	13,449	7.8%
SEB	Estonia	20,000	18,422	30.12.17	1.70%	mortgage - Tammsaare road 116, Tallinn	33,776	18.8%
SEB	Estonia	4,740	4,168	31.05.18	1.80%	mortgage - Kadaka road 63, Tallinn	8,131	4.3%
SEB	Estonia	900	747	25.01.17	2.10%	mortgage - Laki 24, Tallinn	1,554	0.8%
Pohjola Bank	Estonia	9,700	8,426	28.02.18	1.50%	mortgage - Kangelaste pr 29, Narva	16,322	8.6%
SEB	Latvia	1,980	1,738	16.04.18	2.90%	mortgage - Stabu 10/4, Riga	4,015	1.8%
Danske	Estonia	15,300	14,536	25.06.18	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	26,046	14.9%
SEB	Latvia	12,060	11,475	08.08.19	1.69%	mortgage - Jurkalnes iela 15/25, Riga	20,803	11.7%
Danske	Estonia	11,100	10,049	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	17,352	10.3%
SEB	Latvia	3,000	2,695	17.12.18	2.84%	mortgage - Rigas Street 48, Jelgava	5,748	2.8%
Swedbank	Latvia	5,850	5,724	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,033	5.9%
Swedbank	Lithuania	3,786	3,786	07.12.20	2.74%	mortgage - Menulio 11, Vilnius	5,854	3.9%
Total		**120,537**	**109,646**				**200,347**	**112.1%**

Short-term borrowings	31.12.2016	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	7,227	12,305
Discounted contract fees on bank loans	-108	-104
Total short-term borrowings	**7,119**	**12,201**

Long-term borrowings	31.12.2016	31.12.2015
EUR thousand		
Total long-term borrowings	**103,814**	**109,502**
Incl. current portion of borrowings	7,119	12,201
Incl. non-current portion of borrowings, incl.	96,695	97,301
Bank loans	*96,720*	*97,340*
Discounted contract fees on bank loans	-25	*-39*

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	7,227	12,305
2-5 years	96,720	97,340

Cash flows of borrowings	2016	2015
EUR thousand		
Balance at the beginning of period	**109,502**	**107,123**
Bank loans received	0	12,206
Bank loans returned on refinancing and sale of investments	-1,297	-4,500
Annuity payments on bank loans	*-4,402*	*-5,342*
Discounted change of contract fees	*11*	*14*
Balance at the end of period	**103,814**	**109,502**

For additional information on borrowings, please see Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2016	31.12.2015
EUR thousand		
Other trade payables	141	151
Total trade payables	**141**	**151**
Other payables	28	39
Total other payables	**28**	**39**
Value added tax	296	254
Income tax on dividends	243	354
Corporate income tax	5	184
Personal income tax	1	5
Social tax	2	8
Land tax and real-estate tax	13	16
Other tax liabilities	2	1
Total tax liabilities	**561**	**821**
Interest payable	29	27
Payables to employees	2	3
Tenant security deposits	163	291
Other accrued liabilities	16	111
Total accrued expenses	**210**	**431**
Prepayments received from buyers	46	135
Other deferred income	19	25
Total prepayments	**65**	**160**
Total payables and prepayments (Note 19)	**1,004**	**1,601**

Long-term payables

	31.12.2016	31.12.2015
EUR thousand		
Tenant security deposits	537	349
Other long-term liabilities	12	9
Total other long-term payables	**549**	**357**

18 Success fee liability

As at 31.12.2016, the Group has accumulated a success fee liability in the amount of EUR 5.146 thousand (31.12.2015: EUR 4.119 thousand). The success fee liability as at 31.12.2016 includes success fees amounting to EUR 759 thousand relating to investment properties sold in the years 2013, 2014 and 2015 (2015: EUR 665 thousand).

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property as at 31.12.2016 and 31.12.2015. Expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 8).

19 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables.

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	13	11,003	9,016
Trade receivables	14	297	275
Total financial assets		**11,301**	**9,290**
Financial liabilities measured at amortised cost			
Borrowings	16	103,814	109,502
Trade payables	17	141	151
Tenant security deposits	17	700	639
Accrued expenses	17	47	140
Total financial liabilities measured at amortised cost		**104,702**	**110,433**
Financial liabilities on fair value			
Derivatives (Interest swap agreements)		1,923	1,159
Total financial liabilities on fair value		**1,923**	**1,159**
Total financial liabilities		**106,625**	**111,592**

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 in real estate, 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, 95% (31.12.2015: unchanged) of which are linked to the 1-month EURIBOR. 5% of the borrowings bearing interest on the basis of floating interest rates are linked to the 3-month EURIBOR (31.12.2015: unchanged). The 1-month EURIBOR fluctuated in 2016 within the range of -0.374% to 0.210% (2015: -0.206% to 0.016%), that is, the maximum change during the year was 58.4 basis points (2015: 22.2 basis points). 63.6% of the loan portolio of EfTEN Kinnisvarafond (2015: 57.6%) has set a 0% limit (*floor*) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

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 fund'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 real estate investments and the long-term borrowings associated with the investments, the management of EfTEN Kinnisvarafond AS decided in 2015 to mitigate the risk of an increase in the long-term floating interest rate applicable to the loan portfolio and hedge 50% of the loan portfolio by fixing the applicable floating interest rate (1-month Euribor and 3-month Euribor). It was decided to use interest rate swap agreements for the risk mitigation whereby the floating interest rate of a subsidiary's loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreements considering the three following conditions:

(1) The investment property 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 2022);

(2) The aggregate notional amount of the swap agreements at the time that they were entered into did not exceed 50% of the entire consolidated loan portfolio of EfTEN Kinnisvarafond AS;

(3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

The group entered into six interest rate swap agreements in 2015 with a total notional amount of EUR 53,440 thousand for the purposes of mitigating interest rate risk. 1-month Euribor was fixed at the rate of 0.64%-0.67% in five agreements and the 3-month Euribor was fixed at the rate of 0.685% in one agreement. In 2016, repayment schedules of three loan contracts related to the said swap contracts were extended, whereas for ensuring the effectiveness of the swap contracts also the repayment schedules of derivative instrument contracts were respectively amended. In the course of the amendment, the fixed interest rate of three interest rate contracts decreased, a result of which as at 31.12.2016 the Euribor is fixed at the levels of 0.6%-0.67%. The expiry of all of the interest rate swap agreements is in the year 2022. The total notional amount of the interest rate swap agreements as at 31.12.2016 was EUR 50,125 thousand, i.e. 48.2% of the entire loan portfolio (31.12.2015: EUR 52,382 thousand, i.e 47.8% of the entire loan portfolio).

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 1,923 thousand (31.12.2015: EUR 1,159 thousand). Due to the fair value changes the loss in 2016 is EUR 764 thousand (2015: EUR 1,159 thousand). Additional information on the methods used to determine the fair value of the interest rate swap agreements has been provided below in the paragraph titled 'Fair value'.

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 income, reducing the Group's ability to generate positive net cash flows;
- Vacancy of rental property;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Marketability of long-term assets;
- Volume and pace of real estate development activities;
- Financing structure.

The objective of the Group is to manage its net cash flows, so as to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 31.12.2016, the Group's interest-bearing liabilities accounted for 51% of rental income generating investment property (31.12.2015: 55%) and the debt coverage ratio was 2.1 (2015: 1.8).

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 properties. 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	272	1,492	5,463	96,720	0	**103,947**
Interest payments	136	403	1,052	1,843	0	**3,434**
Interest payable	29	0	0	0	0	**29**
Trade payables	141	0	0	0	0	**141**
Tenant security deposits	11	54	99	469	68	**700**
Accrued expenses	18	0	0	0	0	**18**
Total financial liabilities	**606**	**1,949**	**6,613**	**99,032**	**68**	**108,269**

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	464	1,397	10,400	97,240	0	**109,503**
Interest payments	152	453	1,145	2,920		**4,669**
Interest payable	27	0	0	0	0	**27**
Trade payables	151	0	0	0	0	**151**
Tenant security deposits	22	34	105	408	71	**639**
Accrued expenses	113	0	0	0	0	**113**
Total financial liabilities	**930**	**1,884**	**11,650**	**100,568**	**71**	**115,102**

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. In addition, agreements with customers generally provide payment of rent at the beginning of the calendar month, giving sufficient time for monitoring the customers' payment discipline and ensuring existence of sufficient liquidity on bank accounts at the date of annuity payment of financing contracts. To manage risk, the Group has entered into an agreement with one of the anchor tenants, according to which the financial institution of the tenant must guarantee rental payments throughout the rental period. In addition, most of the rental contracts also stipulate an obligation to make security deposits, on account of which the Group can settle debts resulting from insolvency of a tenant.

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

If it becomes evident that there is a risk of a 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	198	195
Past due	**175**	**157**
up to 30 days	*49*	*55*
30-60 days	*12*	*11*
more than 60 days	*113*	*91*
Allowance for doubtful receivables	-76	-78
Total trade receivables	**297**	**275**

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	11,003	9,016
Trade receivables	297	275
Total maximum credit risk	**11,300**	**9,290**

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	**Balance as at 31.12.2016**
Aa3	3,217
Aa3	4,704
A1	1,788
Aa3	1,054
Aa2	239
Total bank account balances	**11,003**

Capital management

The Group's capital includes borrowings and equity.

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 invests in real estate that generates cash flow and raises new equity for making investments. The investment policy of the Group prescribes that at least 30% of equity is invested in new real estate projects. 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.

After making an investment, the net operating profit on investment of any of the cash flow producing investment properties cannot be less than 120% of the loan annuity payments.

The free cash flow of the Group allows the Group to pay out in the form of dividends an average of 4-6% of the value of invested equity. In the year 2016, the amount of EUR 3,905 thousand (2015: EUR 5,100 thousand) was distributed to investors in the form of net dividends. In 2017, the management board of EfTEN Kinnisvarafond will propose to the shareholders to distribute EUR 4,500 thousand as dividends from the profit of the year 2016.

Fair value

The valuation methods used to analyze the Group's assets and liabilities measured at fair value 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 nor 31.12.2015, 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 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 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

The amount of registered share capital of EfTEN Kinnisvarafond AS as at 31.12.2016 is EUR 23,635 thousand (31.12.2015: unchanged). The share capital consisted of 39,391,371 shares as at 31.12.2016 (31.12.2015: unchanged) with nominal value of EUR 0.6 (31.12.2015: unchanged). Without amending the articles of association, the company may increase its share capital to EUR 60,137 thousand.

In 2016, EfTEN Kinnisvarafond AS transferred 5% of its 2015 comprehensive income, i.e. EUR 543 thousand to the statutory reserve (2015: 5%, i.e. EUR 758 thousand).

For additional information on parent company’s unconconsolidated equity, please see Note 27.

21 Contingent liabilities

Contingent income tax liability

	31.12.2016	31.12.2015
EUR thousand		
The company's retained earnings	46,075	36,116
Potential income tax liability	9,215	7,223
The amount that can be paid out as dividends	36,860	28,893

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 at 31.12.2016 and 31.12.2015.

22 Related party transactions

EfTEN Kinnisvarafond AS considers the following as related parties:

- persons who own more than 10% of the share capital of EfTEN Kinnisvarafond AS;

- management board members and companies owned by the management board members of EfTEN Kinnisvarafond AS;

- supervisory board members and companies owned by the supervisory board members of EfTEN Kinnisvarafond AS;

- employees and companies owned by the employees of EfTEN Kinnisvarafond AS;

- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in 2016 in the amount of EUR 1,174 thousand (2015: unchanged), (see Note 8). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties any other goods or services in 2016 or 2015.

In 2016 and 2015, the Group had two employees who were remunerated including taxes in the amount of EUR 26 thousand (2015: EUR 27 thousand). In addition the Group subsidiaries in Latvia and Lithuania paid EUR 21 thousand of labor tax in 2016 (2015: EUR 19 thousand). In 2016 or 2015 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 Provisions

Pending court cases

Supreme Court is proceeding on the cassation appeal of EfTEN SPV7 OÜ, subsidiary of EfTEN Kinnsivarafond AS, in connection with the writ filed by Rest Art Group, former tenant of Mustika shopping centre in the claim of compensation of damages and fine for delay in the amount of EUR 102 thousand.

The substance of the court dispute is that because of the rent debt, EfTEN SPV7 OÜ, the Group's subsidiary and landlord, terminated the lease and exercised the landlord's right of pledge. However, subsequently Rest Art Group seized goods worth the previously stated amount, including goods that allegedly belonged to its partners, and filed a statement of claim to the court on the grounds that as a result of the actions of EfTEN SPV7 OÜ, the owners were unjustly deprived of the ownership of their goods.
EfTEN SPV7 OÜ believes that Rest Art Group is not entitled to claim damages because of the statue of limitation, and because the cooperation partner of the claimant, from whom Rest Art Group acquired its rights, have not lost their alleged property rights and, consequently, no loss could have occurred because of loss of right of ownership.

Harju County Court upheld the action in part and ordered EfTEN SPV7 OÜ to pay EUR 101 thousand in damages and fine for delay (as at the time of making the ruling in the amount of EUR 5 thousand + current fine for delay for the period after the ruling). Tallinn Circuit Court maintained the ruling of the county court and ordered EfTEN SPV7 OÜ to pay the costs of the appeal proceeding.

The view of the management of EfTEN SPV7 OÜ is that lower-instance courts have wrongly applied the substantive law, and, in addition, the circuit court has failed to eliminate the irregularities made by the county court, leading to incorrect judgments.

Given that the Supreme Court usually agrees to proceed on such court cases where the district court has erred in adjudicating, we consider it likely that the Supreme Court reverses the district court's decision. However, at this time it is not yet possible to give a more precise assessment on the outcome of litigation and as at 31.12.2016 the Group has recognized the potential losses resulting from the action in the amount of EUR 107 thousand (Note 9).

24 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 and joint ventures are measured at fair value.

	2016	2015
EUR thousand		
Revenue	1,150	1,273
Gross profit	**1,150**	**1,273**
General and administrative expenses	-1,296	-1,288
Operating profit/loss	**-146**	**-15**
Gain from subsidiaries	13,559	10,981
Gain from joint ventures	422	103
Finance income	76	332
Finance costs	-268	-365
Profit before income tax	**13,643**	**11,036**
Income tax expense on dividends	0	-151
Total comprehensive income for the financial year	**13,643**	**10,885**

25 Parent company's separate balance sheet

	31.12.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	1,127	1,435
Receivables and accrued income	1,616	2,015
Total current assets	**2,744**	**3,450**
Non-current assets		
Shares of subsidiaries	107,134	97,049
Shares of joint ventures	3,006	2,585
Long-term receivables	2,461	2,350
Total non-current assets	**112,601**	**101,983**
TOTAL ASSETS	**115,343**	**105,433**
Borrowings	0	7,095
Payables	527	276
Total current liabilities	**527**	**7,371**
Borrowings	6,899	0
Success fee liability	329	193
Total non-current liabilities	**7,228**	**193**
Total liabilities	**7,755**	**7,564**
Share capital	23,635	23,635
Share premium	37,496	37,496
Statutory reserve capital	2,303	1,760
Retained earnings	44,155	34,979
Total equity	**107,589**	**97,869**
TOTAL LIABILITIES AND EQUITY	**115,344**	**105,433**

26 Parent company's separate statement of cash flows

	2016	2015
EUR thousand		
Cash flows from operating activities		
Net profit	**13,644**	**10,885**
Adjustments to net profit:		
Interest income and interest expenses	191	33
Gain on the fair value adjustment of subsidiaries and joint ventures	-10,526	-5,982
Dividends received	-3,455	-5,102
Change in the success fee liability	41	-17
Income tax expense	0	151
Cash flow from operations before changes in working capital	**-104**	**-32**
Change in receivables and payables related to operating activities	66	-58
Net cash generated from operating activities	**-38**	**-90**
Cash flows from investing activities		
Acquisition of investments in subsidiaries and joint ventures	0	-3,453
Loans granted	-116	-180
Repayment of loans granted	14	6,673
Dividends received	3,905	4,495
Interest received	27	9
Net cash flows from investing activities	**3,831**	**7,544**
Cash flows from financing activities		
Loans received	0	3,757
Repayment of loans received	-196	-4,500
Interest paid	0	-99
Dividends paid	-3,905	-5,100
Income tax paid on dividends	0	-151
Net cash generated from financing activities	**-4,101**	**-6,093**
NET CASH FLOW	**-308**	**1,361**
Cash and cash equivalents at the beginning of the period	**1,435**	**73**
Change in cash and cash equivalents	-308	1,361
Cash and cash equivalents at the end of the period	**1,127**	**1,435**

27 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	**23,635**	**37,496**	**1,002**	**29,944**	**92,077**
Dividends paid	0	0	0	-5,100	**-5,100**
Transfers to statutory reserve capital	0	0	758	-758	**0**
Comprehensive income for the financial year	0	0	0	10,892	**10,892**
Balance as at 31.12.2015	**23,635**	**37,496**	**1,760**	**34,978**	**97,869**
Dividends paid	0	0	0	-3,905	-3,905
Transfers to statutory reserve capital	0	0	543	-543	0
Comprehensive income for the financial year	0	0	0	13,625	13,625
Balance as at 31.12.2016	**23,635**	**37,496**	**2,303**	**44,155**	**107,589**

For additional information on changes in share capital, please see 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	107,589	97,869
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-110,140	-99,633
Value of subsidiaries and joint ventures under the equity method (plus)	110,137	99,612
Total	**107,586**	**97,848**

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Kinnisvarafond AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond 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/	/digitally signed/
Ago Vilu Auditor's certificate no.325	Rando Rand Auditor's certificate no.617

28 February 2017

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* *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 AS (in EUR):

Retained earnings as at 31.12.2016	46,075,000
Allocation to statutory reserve capital	721,000
Distribution of dividends	4,500,000
Retained earnings after allocations	40,855,000

__________________ __________________

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 AS.

________________	________________	________________
Arti Arakas	Siive Penu	Erkki Raasuke
Chairman of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
________________	________________	________________
Sander Rebane	Jaan Pillesaar	Laire Piik
Member of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
________________	________________	
Martin Hendre	Tauno Tats	
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	1,150	100%	Yes