EfTEN Capital

CONSOLIDATED ANNUAL REPORT 2015

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of financial year: 01/12/2014
End of financial year: 31/12/2015

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee
Website address: www.eften.ee

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MANAGEMENT REPORT

Financial overview

EfTEN Kinnisvarafond II AS started with investment activity in January 2015. The consolidated sales revenue of EfTEN Kinnisvarafond II AS in 2015 was EUR 9.2 million and the net profit was EUR 3 million. The consolidated gross profit margin was 54%.

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

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

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

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

	31.12.2015
EUR million	
Investment property	23.746
Property, plant and equipment	46.025
Other non-current assets	0.017
Current assets, excluding cash	0.612
Net debt	-32.744
Net asset value (NAV)	37.656
Net asset value (NAV) per share (in euros)	10.9968

The net asset value per share of EfTEN Kinnisvarafond II AS increased by 9.96% in the first year. Return on invested capital (ROIC) was 17.6%. The weighted average interest rate of Group's borrowings was 1.037% at the end of the accounting period.

	2015
ROE, % (net profit of the period / average equity of the period)x100	16.0
ROA, % (net profit of the period / average assets of the period)x100	7.8
ROIC, % (net profit of the period / average invested capital of the period1)x100	17.6
DSCR (EBITDA/(interest expenses + scheduled loan payments)	9.6

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

Investments in 2015

The fund made two investments in the year 2015. In January, a hotel and an office building was acquired at the address Rävala pst.3 / Kuke 2 in Tallinn. The size of the investment amounted to EUR 46 million. An office building was acquired in November at the address Duntes 6 in Riga, Latvia. The size of the investment amounted to EUR 24 million.

Premises	Address	Type	Acquisition time	Net leasable area (m²)
Radisson Blu Sky hotel	Tallinn, Rävala pst.3/Kuke tn.2	hotel	01.2015	24,499
Duntes Biroji office building	Riga, Duntes iela 6	office building	11.2015	12,650
Total				37,149

Radisson Blu Sky Hotel in Tallinn

Duntes Biroji office building in Riga

Valuation of investment property

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

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

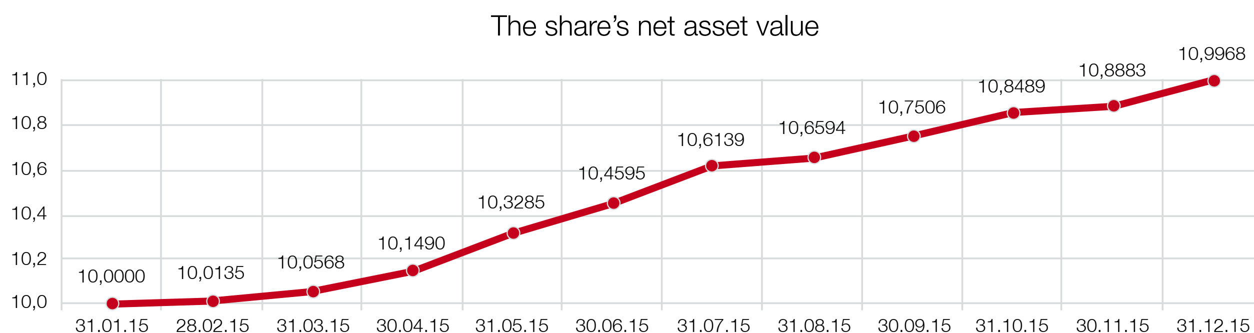
As at 31.12.2015 the Group owns investment property in Latvia. The investment property was acquired from an independent party at the end of the year 2015 on market conditions and according to management judgment the cost reflects the fair value of the asset at the balance sheet date because market conditions have not substantially changed after the acquisition date.

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

Information on shares

As at 31.12.2015, payments made to the share capital of the Group total EUR 34.24 million.

	31.12.2015	01.12.2014
Number of shares outstanding at the beginning of the period	**2,500**	**0**
Issue of shares during the period	3,421,754	2,500
Number of shares outstanding at the end of the period	**3,424,254**	**2,500**



The dividend policy of EfTEN Kinnisvarafond II AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. The Management Board proposes to the general meeting of shareholders to distribute from the net profit for the year 2015 (net) dividends of EUR 2,127 thousand or 62 cents per share.

Management

EfTEN Kinnisvarafond II AS was formed on 1 December 2014 and entered into the Commercial Register on 13 January 2015. The formation was approved by the Estonian Financial Supervision Authority in its decision dated 19 December 2014.

In 2015, one extraordinary shareholder's meeting took place, in the course of which it was resolved to increase share capital, amend the management agreement and approve a new version of the articles of association. The amendments were approved by the Estonian Financial Supervision Authority.

Since its formation, the fund's Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. The Supervisory Board adopted a total of eight resolutions. According to the articles

of association, the Supervisory Board is authorised to, among other activities, approve the budget, determine the business strategy and adopt decisions related to significant changes in the business, as well as grant approval for transactions outside of ordinary course of business made by the Management Board.

The Management Board of the fund is comprised of two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

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

Outlook for 2016

The year 2016 has started in a very turbulent manner for the financial markets. After the United States Federal Reserve raised its base interest rate by 0.25% in the month of December, there is a consensus that further increases in the interest rate are currently off the table and the Fed may even reconsider its December decision on the background of the poor macroeconomic situation. This has also postponed to the distant future any expectations regarding base rate raises in Europe. Based on this knowledge it can be expected that the expansionary monetary policy will be maintained for probably longer than was expected in the middle of the previous year. The continuation of a low interest-rate environment has a direct impact on commercial real estate where rates of return can be expected to decline further. The relatively high rates of return in the Baltic States compared to the primary centres of Central and Eastern Europe are attracting new investors into the region.

1.2 billion euros of commercial real estate investments were made in the Baltic States last year. This also surpassed the pre-crisis level from the year 2007 where the volume of all investments was 1.0 billion euros. Yet another record can be expected to be achieved in the year 2016. However, the Baltic commercial real estate market remains many times less liquid compared to the developed real estate markets of Scandinavia. The continuing decrease in rates of return, primarily attributable to the emergence of new investors, is contributing to the increase in the value of commercial real estate. The increase in rent levels is mostly marginal because the supply and demand for new commercial premises is largely in balance. There are certain anomalies across the Baltic States, such as the new retail space being added in Tallinn or the new office space being added in Vilnius but from the bigger perspective demand and supply are relatively well balanced in each segment.

Assuming that the current security situation persists and no new macroeconomic shocks emerge, the year 2016 should be a favourable one for the commercial real estate sector.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	01.12.2014-31.12.2015
EUR thousand		
Revenue	3	9,198
Cost of services and goods sold	4	-4,258
Gross profit		**4,940**
Marketing costs	5	-433
General and administrative expenses	6	-1,114
Other income		1
Operating profit		**3,394**
Finance costs	7	-336
Profit before income tax		**3,058**
Income tax expense	8	-39
Net profit for the accounting period		**3,019**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.12.2014-31.12.2015
EUR thousand		
Net profit for the financial year		3,019
Other comprehensive income:		
Revaluation of property, plant and equipment	13	138
Loss from revaluation of hedging instruments	16	-526
Total other comprehensive income		**-388**
Total comprehensive income for the financial year		**2,631**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2015	01.12.2014
EUR thousand			
ASSETS			
Cash and cash equivalents	9	6,661	25
Receivables and accrued income	10	471	0
Prepaid expenses	11	55	0
Inventories		86	0
Total current assets		**7,273**	**25**
Long-term receivables and prepayments		5	0
Long-term investments in securities		12	0
Investment property	12	23,746	0
Property, plant and equipment	13	46,025	0
Total non-current assets		**69,788**	**0**
TOTAL ASSETS		**77,061**	**25**
LIABILITIES AND EQUITY			
Borrowings	14	477	0
Derivative instruments	16	526	0
Payables and prepayments	15	844	0
Total current liabilities		**1,847**	**0**
Borrowings	14	36,568	0
Other long-term liabilities	15	233	0
Deferred income tax liability	8	757	0
Total non-current liabilities		**37,558**	**0**
Total liabilities		**39,405**	**0**
Share capital	18	34,243	25
Share premium	18	782	0
Hedging reserve	16	-526	0
Revaluation reserve	13	138	0
Retained earnings	19	3,019	0
Total equity		**37,656**	**25**
TOTAL LIABILITIES AND EQUITY		**77,061**	**25**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	01.12.2014-31.12.2015	01.12.2014 - 01.12.2014
EUR thousand			
Net profit		**3,019**	**0**
Adjustments:			
Finance costs	7	336	0
Depreciation	13	280	0
Income tax expense	8	39	0
Total adjustments with non-cash changes		**654**	**0**
Cash flow from operations before changes in working capital		**3,673**	**0**
Change in receivables and payables related to operating activities		-236	
Change in inventories		-10	
Net cash generated from operating activities		**3,427**	**0**
Purchase of property, plant and equipment	13	-180	0
Purchase of investment property	12	-12,835	0
Acquisition of subsidiaries	2	-22,697	0
Net cash generated from investing activities		**-35,712**	**0**
Loans received	14	14,155	0
Loan repayments	14	-9,791	0
Interest paid		-442	0
Proceeds from issuance of shares	18	35,000	25
Net cash generated from financing activities		**38,921**	**25**
NET CASH FLOW		**6,636**	**25**
Cash and cash equivalents at the beginning of the period	**9**	**25**	**0**
Change in cash and cash equivalents		6,636	25
Cash and cash equivalents at the end of the period	**9**	**6,661**	**25**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
EUR thousand						
Issue of shares	25	0	0	0	0	**25**
Balance as at 01.12.2014	**25**	**0**	**0**	**0**	**0**	**25**
Issue of shares	34,218	782	0	0	0	**35,000**
Total transactions with owners	**34,218**	**782**	**0**	**0**	**0**	**35,000**
Net profit for the financial year	**0**	**0**	**0**	**0**	**3,019**	**3,019**
Revaluation of property, plant and equipment	0	0	0	138	0	**138**
Loss from revaluation of hedging instruments	0	0	-526	0	0	**-526**
Total comprehensive income	**0**	**0**	**-526**	**138**	**3,019**	**2,631**
Balance as at 31.12.2015	**34,243**	**782**	**-526**	**138**	**3,019**	**37,656**

For additional information on share capital and changes in equity, please see Note 16, 18 and 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General principles used in preparing the financial statements

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

The structure of EfTEN Kinnisvarafond II AS Group as at 31.12.2015 is as follows:

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

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

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

1.1 Changes in the accounting policies and presentation

New accounting pronouncements

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 2016, 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).

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.

Annual Improvements to IFRSs 2012 (standard will become effective for annual periods beginning on or after 1 February 2015).

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (standard will become effective for annual periods beginning on or after 1 January 2016).

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative – Amendments to IAS 1 (standard will become effective for annual periods beginning on or after 1 January 2016).

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16, Leases (standard will become 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.

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.

1.2 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

Estimation uncertainty

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

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

Management has evaluated as at 31.12.2015 the value of property, plant and equipment measured using the revaluation model (fair value less subsequent depreciation and impairment) based upon an appraisal provided by an independent valuation specialist for the market value of the asset. The Group owns land and buildings (Radisson Blu Sky Hotel) that are measured using the revaluation model. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of fair value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and prevailing market conditions. The carrying amount of the property, plant and equipment measured using the revaluation model as at 31.12.2015 is provided in Note 13.

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

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

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

depreciation methods and estimated residual value and modify them if necessary. Any impact from a change in depreciation rate, depreciation method or residual value is accounted for as a change in accounting estimates.

c) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. The Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. As at the balance sheet date, the group had one investment property where the cost was used as its fair value due to the fact that the transaction between independent parties occurred close to the balance sheet date. Besides the transaction of purchase and sale of investment property, the management of the Group estimates that no substantial changes have taken place in the real estate market that would have caused any significant change to the fair value.

Additional information on the assumptions used in valuation of fair value can be found in Note 12.

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

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

Classification of real estate

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

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

Consolidation

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

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

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

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

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

In the separate balance sheet of the parent company (presented in Note 23), the investments in subsidiaries are measured at fair value. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

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

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

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

Finance income

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

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

Loans and receivables from other parties

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

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

accounting, any cumulative gain or loss accumulated in equity at that time remains in equity and is classified in the income statement when the forecast transaction takes place. If the future transaction is no longer expected, the cumulative gain or loss recognised in equity is immediately recognised in the income statement.

Property, plant and equipment

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

Land and buildings are measured using the revaluation model: land and buildings are measured after initial recognition at the revalued amount, which is equal to the fair value of the assets at the date of revaluation less accumulated depreciation and any accumulated impairment losses. Appraisals are carried out regularly by independent real estate specialists. Previously accumulated depreciation is eliminated on the date of revaluation and the former cost of the asset is replaced with its fair value at the date of revaluation.

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

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

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

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

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

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

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

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

At each balance sheet date, management estimates whether there is any evidence of impairment. If there are known facts which may cause impairment of non-current assets, management calculates the recoverable amount of non-current assets

(i.e. higher of the two following indicators: an asset's fair value less costs to sell and value in use). If the recoverable amount is lower than the carrying amount, the items of property, plant and equipment are written down to their recoverable amount. An impairment loss recognised in previous periods is reversed if a change has occurred in the estimates that were used as a basis for the determination of recoverable amount and if the recoverable amount has increased.

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

Investment property

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

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

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

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

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

Financial liabilities

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

The amortised cost of current financial liabilities generally equals their nominal value; therefore current financial liabilities are carried in the balance sheet in their net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received (less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method. Interest expenses on financial liabilities are

recognised on the line “finance income” and “finance costs” in the income statement on an accrual basis. Interest expenses on financing the development of assets from the start of the development period until the acceptance of completed assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are 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 II AS and EfTEN Capital AS have entered into a management contract according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the gain on sale of an investment or aggregate of investments above a hurdle rate of 7% on an annual basis. If the actual return of an investment is lower than 7% per annum during the lifetime of the investment, the difference between the actual return and the hurdle rate is also deducted from the sale price of the investment, so that the return before success fees would be at least 7% per annum. According to the management contract, the success fee is payable upon termination of the fund.

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

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

Subsidiaries in Latvia

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

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

2 Subsidiaries

Company name	Country of domicile	Investment	Group's ownership interest, %	
			31.12.2015	01.12.2014
Parent company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke tn 2 Tallinn	100	0
Astlanda Hotellli AS	Estonia	Operator company, Rävala pst 3/ Kuke 2, Tallinn	100	0
EfTEN Property SIA	Latvia	Duntes 6, Riga Latvia	100	0
Zeltini M SIA	Latvia	Duntes 6, Riga Latvia	100	0

On 23 January 2015, EfTEN Kinnisvarafond II AS formed a fully owned subsidiary, EfTEN Sky OÜ, by contributing a total of EUR 23,503 thousand to the equity of the subsidiary. The subsidiary was formed for the purposes of the acquisition of the Radisson Blue Sky Hotel property at the address Rävala pst.3/ Kuke tn.2 in Tallinn. On 30 January 2015, the subsidiary acquired for the same purposes a 100% ownership interest in the shares of Cougar Hotels OÜ (the owner of the Radisson Blue Sky property), which in turn held a 100% ownership interest in the hotel operating company Astlanda Hotelli AS, paying for the acquisition the amount of EUR 23,341 thousand. As a result of the acquisition, 100% control was achieved in both companies. The bank accounts of Cougar Hotels OÜ and Astlanda Hotelli AS held a combined EUR 644 thousand at the time of the acquisition. The entities EfTEN Sky OÜ and Cougar Hotels OÜ effected a merger on 1 February 2015. The acquiring entity was EfTEN Sky OÜ. If the subsidiary had been acquired at the start of the financial year, i.e. on 1 January, the group's revenue would have been higher by EUR 365 thousand.

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

	Fair value
EUR thousand	
Cash	644
Receivables and prepaid expenses	225
Inventories	76
Long-term investments	12
Property, plant and equipment (Note 13)	45,988
Bank loan	-23,000
Other liabilities	-604
The fair value of the net assets	**23,341**
Acquisition cost	23,341
Goodwill	**0**

On 3 November 2015, EfTEN Kinnisvarafond II AS formed a fully owned subsidiary, EfTEN Property SIA, by contributing a total of EUR 4 thousand to the equity of the subsidiary. The subsidiary was formed for the purposes of the acquisition of the office building at the address Duntes iela 6 in Riga, Latvia. Included in the investment property transaction of 30 November 2015 was the acquisition of Zeltini M SIA, a company registered in Latvia.

No shares of a subsidiary are publicly listed.

3 Revenue

Areas of activity	01.12.2014-31.12.2015
EUR thousand	
Rental income from office premises	470
Rental income from retail premises	5
Hotel revenue from rooms	5,942
Hotel revenue from food and beverage	1,890
Hotel revenue from conference sales	673
Other sales revenue	218
Total revenue by areas of activity	**9,198**

EUR 8,983 thousand of the revenue of the Group was generated in Estonia and EUR 215 thousand in Latvia.

4 Cost of goods and services sold

Cost of goods and services sold	01.12.2014-31.12.2015
EUR thousand	
Hotel direct costs from rooms	-520
Hotel direct costs from food and beverage	-753
Hotel royalty fees	-343
Other direct costs related to hotel operation	-128
Wages and salaries related to hotel operation, incl. taxes	-1,412
Administrative expenses related to hotel operation	-583
Repair and maintenance of rental property	-98
Property insurance	-23
Land tax	-43
Other administrative expenses	-56
Amortization expense (Note 13)	-280
Improvement costs	-19
Total cost of goods and services sold	**-4,258**

5 Marketing costs

Marketing costs	01.12.2014-31.12.2015
EUR thousand	
Commission expenses on rental property	-4
Wages and salaries, incl. taxes	-132
Advertising, promotional events	-29
Corporate marketing	-268
Total marketing costs	**-433**

6 General and administrative expenses

General and administrative expenses	01.12.2014-31.12.2015
EUR thousand	
Management services (Note 20)	-246
Office expenses	-91
Wages and salaries, incl. taxes	-472
Consulting expenses	-169
Other general and administrative expenses	-136
Total general and administrative expenses	**-1,114**

7 Finance costs

Finance costs	01.12.2014-31.12.2015
EUR thousand	
Interest expenses, incl.	-336
Interest expense on borrowings	-275
Interest expense on swap transactions	-61
Total finance costs	**-336**

8 Income tax

	01.12.2014-31.12.2015
EUR thousand	
Income tax expense of Latvian subsidiaries	-39
Total income tax expense	**-39**

As at 31.12.2015, the group has a deferred income tax liability of EUR 757 thousand in relation to the acquisition of investment property in Latvia.

Income tax expense in the year 2015 is related to the taxation of the profit of subsidiaries domiciled in Latvia. The obligation to pay income tax will arise upon the Group's disposition of the investment property.

9 Cash and cash equivalents

	31.12.2015	01.12.2014
EUR thousand		
Demand deposits	6,627	25
Cash in hand	34	0
Total cash and cash equivalents	**6,661**	**25**

10 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2015	01.12.2014
EUR thousand		
Receivables from customers	442	0
Allowance for doubtful trade receivables	-47	0
Total trade receivables	**395**	**0**
Other short-term receivables	11	0
Total other short-term receivables	**11**	**0**
Prepaid taxes and receivables for reclaimed value-added tax	52	0
Other accrued income	13	0
Total accrued income	**65**	**0**
Total receivables	**471**	**0**

	31.12.2015	01.12.2014
EUR thousand		
Undue	297	0
Expired, incl.	145	0
Up to 30 days	69	0
30-60 days	26	0
More than 60 days	50	0
Allowance for doubtful receivables	-47	0
Total trade receivables	**395**	**0**

11 Prepayments

	31.12.2015	1.12.2014
EUR thousand		
Prepayments of insurance	3	0
Prepayments of utility fees intermediation	2	0
Deferred expenses	50	0
Total prepayments	**55**	**0**

12 Investment property

As at 31.12.2015, the Group owns an investment property in Latvia. The investment property was acquired from an independent party at the end of the year 2015 on market conditions and according to management's judgment the cost reflects the fair value of the asset at the balance sheet date because market conditions have not substantially changed after the acquisition date.

Name	Location	Net leasable area (m^2)	Date of acquisition	Acquisition cost	Market value at 31.12.2015	Share of market value of the fund's assets
EUR thousand						
Duntes Biroji office building	Duntes iela 6, Riga	12,650	November 2015	23,746	23,746	31%
Total		**12,650**		**23,746**	**23,746**	**31%**

During the reporting period, the following changes have occurred in the Group's investment property:

	Investment property
Balance as at 01.12.2014	**0**
Acquisitions	23,746
Balance as at 31.12.2015	**23,746**

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

	2015
Rental income earned on investment property *	192
Expenses directly attributable to management of investment property *	-69
Carrying amount of investment property pledged as collateral to borrowings as at 31.12.2015	23,746

** As the investment property was acquired on 30 November 2015, the Group's income statement only includes the income and expenses from December 2015.*

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

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

Payments receivable under non-cancellable operating lease agreements	**31.12.2015**
EUR thousand	
up to 1 year	1,495
2-5 years	2,264
Total	**3,759**

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

The management of the group uses the transaction price in determining the fair value because the transaction of purchase and sale took place at the end of the year 2015 and no significant changes have occurred in the real estate market since then.

The management has based the acquisition of the investment property on the following assumptions:

	Fair value	**Valuation method**	**Rental income per annum**	**Discount rate**	**Exit yield**	**Average rent €/,m²**
EUR thousand						
Duntes Biroji office building	23,746	Discounted cash flows	1,800	8%	7.2%	11.3
Total	**23,746**					

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

- Rental income: real growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;
- 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 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant management's assumptions which was made on the acquisition:

	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		
Duntes Biroji office building	Change in rental income +/-10%	-2,528	2,527	Change in the capitalisation rate	-0.5%	25,491	25,003	24,527
					0.0%	24,235	23,746	23,271
					0.5%	23,141	22,653	22,177

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

13 Property, plant and equipment

	Land and buildings1	Depreciated buildings	Machinery and equipment	Other property, plant and equipment	Construction in progress and advance payments	Total
EUR thousand						
Carrying amount 01.12.2014	**0**	**0**	**0**	**0**	**0**	**0**
Cost 01.12.2014	0	0	0	0	0	0
Accumulated depreciation 01.12.2014	0	0	0	0	0	0
Purchases	94	0	14	62	10	180
Additions from business combinations (Note 2)	43,850	1,500	264	371	3	45,988
Reclassification	0	0	0	3	-3	0
Revaluation through comprehensive income	138	0	0	0	0	138
Depreciation charge	0	-138	-31	-111	0	-280
Carrying amount 31.12.2015	**44,082**	**1,362**	**247**	**324**	**10**	**46,025**
Cost 31.12.2015	44,082	1,362	356	793	10	46,603
Accumulated depreciation 31.12.2015	0	0	-109	-468	0	-577

1 Radisson Blu Sky Hotel, the sole asset in the land and buildings category, is measured using the revaluation model as an investment in property, plant and equipment. According to the management, the asset contained in the land and buildings category is of a substantial residual value and therefore it is a non-depreciable asset.

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

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

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

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

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

Radisson Blu Sky Hotel, the Group's sole asset in the land and buildings category, is appraised by an independent valuation specialist. The fair value of the land and buildings as provided in the Group's financial statements as at 31.12.2015 has been determined through the use of the discounted cash flows method. The following assumptions were used to determine fair value:

	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/,m²
EUR thousand						
Radisson Blu Sky hotel	45,444	Discounted cash flows	3,350	8.1%	7.0%	12.0
Total	**45,444**					

The valuation methods used for the valuation are described in Note 17.

Fair value sensitivity analysis

The table provided below illustrates as at 31.12.2015 the sensitivity of the fair value of land and buildings included in the balance sheet of the Group to the most significant assumptions:

	Sensitivity to management estimates			**Sensitivity to discount rate and 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		
Radisson Blu Sky hotel	Change in rental income +/-10%	-4,767	4,767	Change in the capitalisation rate	-0.5% 0.0% 0.5%	48,863 46,379 44,226	47,928 45,444 43,291	47,018 44,534 42,381

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

	2015
Revenue from hotel operation	8,505
Direct costs related to hotel operation	-3,982
Rental income from property, plant and equipment	283
Direct costs attributable to management of property, plant and equipment	-69
Depreciation expense on property, plant and equipment	-280
Carrying amount of property, plant and equipment provided as collateral to secure borrowings as at 31.12.2015	45,444

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

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

14 Borrowings

As at 31.12.2015, the Group has the following borrowings:

Lender	**Country of lender**	**Loan amount as per agreement, EUR thousand**	**Loan balance as at 31.12.2015**	**Contract term**	**Interest rate as at 31.12.2015**	**Loan collateral**	**Value of collateral**	**Share of the fund's net asset value**
SEB	Estonia	23,000	23,000	28.01.19	0.876%	mortgage - Rävala pst.3/Kuke tn.2, Astlanda Hotelli AS warranty	45,444	61.1%
SEB	Latvia	4,420	4,407	30.11.20	1.30%	mortgage - Duntes iela 6, Riga Latvia	23,746	11.7%
SEB	Latvia	9,780	9,701	30.11.20	1.30%	mortgage - Duntes iela 6, Riga Latvia	23,746	25.8%
Total		**37,200**	**37,108**				**69,190**	**98.5%**

Short-term borrowings	31.12.2015	01.12.2014
EUR thousand		
Repayments of long-term bank loans in the next period	483	0
Discounted contract fees on bank loans	-6	0
Total short-term borrowings	**477**	**0**

Long-term borrowings	31.12.2015	01.12.2014
EUR thousand		
Total long-term borrowings	**37,045**	**0**
Incl. current portion of borrowings	477	0
Incl. non-current portion of borrowings, incl.	36,568	0
Bank loans	36,625	0
Discounted contract fees on bank loans	-57	0

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	31.12.2015	01.12.2014
EUR thousand		
Less than 1 year	483	0
2-5 years	36,625	0

Lender	Loan balance as at 01.12.2014	Loans received	Additions of investments acquisition	Loan repayment	Loan balance as at 31.12.2015
EUR thousand					
SEB	0	0	23,000	0	**23,000**
SEB	0	4,420	0	-13	**4,407**
SEB	0	9,735	0	-34	**9,701**
Swedbank AS	0	0	9,744	-9,744	**0**
Total	**0**	**14,155**	**32,744**	**-9,791**	**37,108**

15 Payables and prepayments

Short-term payables and prepayments

	31.12.2015	01.12.2014
EUR thousand		
Trade payables	**168**	**0**
Tax liabilities		
Value added tax	80	0
Corporate income tax	2	0
Personal income tax	42	0
Social tax	86	0
Other tax liabilities	10	0
Total tax liabilities	**220**	**0**
Accrued expenses		
Interest payable	5	0
Payables to employees	119	0
Tenant security deposits	3	0
Other accrued liabilities	305	0
Total accrued expenses	**432**	**0**
Prepayments		
Prepayments received from buyers	23	0
Other deferred income	1	0
Total prepayments	**24**	**0**
Total payables and prepayments	**844**	**0**

Long-term payables

	31.12.2015	01.12.2014
EUR thousand		
Tenant security deposits	233	0
Total other long-term payables	**233**	**0**

16 Derivative instruments

As at 31.12.2015, the Group had an effective interest rate swap agreement fixing the interest rate on long-term borrowings at notional value of EUR 23,000 thousand.

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

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

The basis for the fair value of the derivative instruments is the quotation provided by SEB Eesti Ühispank, the fair value of the derivative position as at 31.12.2015 was negative in the amount of EUR 526 thousand. Additional disclosures have been provided regarding the estimation of the fair value of the derivative instrument in Note 19.

The Group's interest expense attributable to the interest rate swap transaction in 2015 was EUR 61 thousand.

17 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	31.12.2015	1.12.2014
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	9	6,661	25
Trade receivables	10	395	0
Total financial assets		**7,056**	**25**
Financial liabilities			
Borrowings	14	37,045	0
Trade payables	15	168	0
Tenant security deposits	15	236	0
Accrued expenses	15	305	0
Financial liabilities measured at amortised cost		**37,754**	**0**
Derivative instruments (interest derivatives)	16	526	0
Financial liabilities measured at fair value		**526**	**0**
Total financial liabilities		**38,280**	**0**

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

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

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

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

Market risk

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

Interest rate risk

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

As at 31.12.2015, all of the Group's borrowings bear interest on the basis of a floating interest rate and are linked to the 1-month EURIBOR. The 1-month EURIBOR fluctuated in 2015 within the range of 0.001% to -0.205%. The covenants of the Group's loan agreements require the Group to maintain a debt coverage ratio in excess of 3.0. As at 31.12.2015, the Group's debt coverage ratio was 9.6.

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

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

(1) The asset that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2025);

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

The group entered into interest rate swap agreement with a total notional amount of EUR 23,000 thousand for the purposes of mitigating interest rate risk, whereby 1-month EURIBOR was fixed in the agreement at the rate of 0.65%. The expiry of the interest rate swap agreements is in the year 2022. As at 31.12.2015 the borrowings related to interest rate swap agreements made up 62% of all the Group's borrowings.

The group accounts for the interest rate swap agreements based on the principle of hedge accounting. The total fair value of the Group's interest rate swap agreements as at 31.12.2015 was negative in the amount of EUR 526 thousand (Note 16).

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

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

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

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

Credit risk

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

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

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

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

Accounts receivable are illustrated by the table below:

	31.12.2015	01.12.2014
Undue	297	0
Past due	**145**	**0**
up to 30 days	69	0
30-60 days	26	0
more than 60 days	50	0
Allowance for doubtful receivables	-47	0
Total trade receivables	**395**	**0**

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

	31.12.2015	01.12.2014
EUR thousand		
Cash and cash equivalents	6,661	25
Trade receivables	395	0
Total maximum credit risk	**7,056**	**25**

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 31.12.2015
A1	6,627
Total	**6,627**

Capital management

The aim of the Group in capital management is to ensure the Group's going concern status to provide an investment return to shareholders and maintain an optimal capital structure.

The Group invest in real estate that generates cash flow in Estonia and Latvia. The investment policy of the group stipulates that no more than 30% of the asset value of the fund can be invested in any one investment. The necessary equity level is calculated individually for each investment, taking into consideration the amount of net cash flows and loan payments of each investment and their proportion.

Fair value

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

Level 1 – quoted prices in active markets;
Level 2 – inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – unobservable inputs at the market.

As at 31.12.2015, 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 (Note 12) and property, plant and equipment measured at revaluation method (Note 13) are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

The group has entered into interest rate swap agreements (Note 16) 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.

18 Share capital

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

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

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

The amount of registered share capital of EfTEN Kinnisvarafond II AS as at 31.12.2015 is EUR 34,243 thousand. The share capital consisted of 3,424,254 shares as at 31.12.2015 with nominal value of EUR 10. Without amending the articles of association, the company may increase its share capital to EUR 100,100 thousand.

19 Contingent liabilities

Contingent income tax liability

	31.12.2015	1.12.2014
EUR thousand		
The company's retained earnings	3,019	0
Potential income tax liability	604	0
The amount that can be paid out as dividends	2,415	0

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

Potential liabilities arising from the tax audit

Estonia

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

Latvia

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

20 Related party transactions

EfTEN Kinnisvarafond II AS considers the following as related parties:

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

The Group purchased management services from EfTEN Capital AS in the accounting period in the amount of EUR 246 thousand (Note 6) and accounting and intermediary services in the amount of EUR 13 thousand from EfTEN Kinnisvaratee-nuste OÜ, the subsidiary of EfTEN Capital AS. The Group also paid EUR 14 thousand to EfTEN Capital AS in order to cover the establishment costs.

In the accounting period, the Group had 138 employees who were remunerated including taxes in the amount of EUR 2,015 thousand. In the accounting period no compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

21 Subsequent events

Share capital will be increased by EUR 13,477 by way of new share issuance on the basis of the resolution dated 9 February 2016 of the Supervisory Board of EfTEN Kinnisvarafond II AS. 1,347,663 new shares will be issued at nominal value of EUR 10, as a result the share capital on a post-issuance basis will be EUR 47,719 thousand. The new shares are issued at a share premium of EUR 0.1509 per share.

22 Parent company's separate income statement

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

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

	01.12.2014-31.12.2015
EUR thousand	
Revenue	235
Gross profit	**235**
General and administrative expenses	-291
Operating profit	**-56**
Gain from subsidiaries	2,660
Interest income	27
Profit before income tax	**2,631**
Net profit for the financial year	**2,631**
Total comprehensive income for the financial year	**2,631**

23 Parent company's separate balance sheet

	31.12.2015	01.12.2014
EUR thousand		
ASSETS		
Cash and cash equivalents	2,063	25
Receivables and accrued income	27	0
Total current assets	**2,090**	**25**
Non-current assets		
Shares of subsidiaries	26,166	0
Long-term receivables	9,405	0
Total non-current assets	**35,571**	**0**
TOTAL ASSETS	**37,661**	**25**
LIABILITIES AND EQUITY		
Current liabilities		
Payables	5	0
Total current liabilities	**5**	**0**
Total liabilities	**5**	**0**
Equity		
Share capital	34,243	25
Share premium	782	0
Retained earnings	2,631	0
Total equity	**37,656**	**25**
TOTAL LIABILITIES AND EQUITY	**37,661**	**25**

24 Parent company's separate statement of cash flows

	01.12.2014-31.12.2015	01.12.2014-01.12.2014
EUR thousand		
Cash flows from operating activities		
Net profit	**2,631**	**0**
Adjustments to net profit:		
Interest income and interest expenses	-27	0
Gain on the fair value adjustment of subsidiaries	-2,660	0
Cash flow from operations before changes in working capital	**-56**	**0**
Change in receivables and payables related to operating activities	5	0
Net cash generated from operating activities	**-50**	**0**
Cash flows from investing activities		
Acquisition / establishment of investments in subsidiaries	-23,507	0
Loans granted	-9,405	0
Net cash generated from investing activities	**-32,912**	**0**
Cash flows from financing activities		
Proceeds from issuance of shares	35,000	25
Net cash generated from financing activities	**35,000**	**25**
NET CASH FLOW	**2,038**	**25**
Cash and cash equivalents at the beginning of the period	**25**	**0**
Change in cash and cash equivalents	2,038	25
Cash and cash equivalents at the end of the period	**2,063**	**25**

25 Parent company's separate statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
EUR thousand				
Issue of shares	25	0	0	25
Balance as at 01.12.2014	**25**	**0**	**0**	**25**
Issue of shares	34,218	782	0	35,000
Income for the financial year	0	0	2,631	2,631
Balance as at 31.12.2015	**34,243**	**782**	**2,631**	**37,656**

For additional information on changes in share capital, please see Note 18.

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

	31.12.2015	01.12.2014
EUR thousand		
Parent company's unconsolidated equity	37,656	25
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-26,166	0
Value of subsidiaries under the equity method (plus)	26,166	0
Total	**37,656**	**25**

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Kinnisvarafond II AS

We have audited the accompanying consolidated financial statements of EfTEN Kinnisvarafond II AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EfTEN Kinnisvarafond II AS and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/digitally signed/	/digitally signed/
Ago Vilu Auditor's Certificate No. 325	Rando Rand Auditor's Certificate No. 617

29 February 2016

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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 II AS (in EUR):

Retained earnings as at 31.12.2015	3,018,897
Allocation to statutory reserve capital	150,945
Distribution of dividends	2,127,200
Retained earnings after allocations	740,752

Viljar Arakas
Management Board
Member

Tõnu Uustalu
Management Board
Member

29 February 2016

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2015 ANNUAL REPORT

We hereby confirm the correctness of data presented in the 2015 annual report of EfTEN Kinnisvarafond II AS.

Arti Arakas
Chairman of the
Supervisory Board

Siive Penu
Member of the
Supervisory Board

Sander Rebane
Member of the
Supervisory Board

Olav Miil
Member of the
Supervisory Board

Viljar Arakas
Management Board
Member

Tõnu Uustalu
Management Board
Member

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

	Classification of Economic Activities code	2015	Revenue %	Main activity
EUR thousand				
Management of funds	66301	235	100%	Yes