Consolidated Annual Report 2018

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of financial year: 01.01.2018

End of financial year: 31.12.2018

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MANAGEMENT REPORT

In 2018, EfTEN Kinnisvarafond II AS made its last individual investment by acquiring the Marienthal business center in Mustamäe, Tallinn. At the end of the year, the Fund's portfolio includes 6 individual investments with a total fair value of EUR 243 million. As the fund reaches its target business volume, the fund will no longer acquire new objects and the fund entered the retention phase.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS in 2018 was EUR 29 million (2017: EUR 24 million) and the net profit was EUR 14 million (2017: EUR 20 million). The consolidated gross profit margin was 74% (2017: 72%).

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 41.5% of the revenues in 2018 (2017: 44.1%).

	2018	2017
€ million		
Revenue	29.182	24.404
Expenses related to investment properties, incl. marketing costs	-9.099	-8.223
Interest expense and interest income	-1.747	-1.505
Net rental revenue less finance costs	**18.336**	**14.676**
Management fees	-1.231	-0.969
Other revenue and expenses	-1.780	-1.560
Profit before change in the value of investment property, change in the success fee liability and income tax expense	**15.325**	**12.147**

EfTEN Kinnisvarafond II AS owns a 100% stake in the Astlanda Hotel AS, which operates the Radisson Blu Sky Hotel. The operating results of the hotel are consolidated in the fund's report.

As at 31.12.2018, the Group's total assets were in the amount of EUR 263 million (31.12.2017: EUR 222 million), including fair value of investment property and non-current assets, which accounted for EUR 243 million (31.12.2017: EUR 209 million) of total assets.

	31.12.2018	31.12.2017
€ million		
Investment property	190.620	162.090
Property, plant and equipment	52.337	46.442
Other non-current assets	0.022	0.008
Current assets, excluding cash	1.260	1.051
Net debt	-105.892	-99.278
Net asset value (NAV)	138.347	110.313
Net asset value (NAV) per share, in euros	15.0152	13.6665

The net asset value per share of EfTEN Kinnisvarafond II AS increased by 9.9% in a year (2017: 17.6%), including the dividend payment made in April 2018 and the related income tax expense of EUR 7.8 million (2017: EUR 4.6 million). Without dividends, NAV would have increased by 14.3% (2017: 22%). Return on Invested Capital (ROIC) was 15.9% (2017: 24%). The weighted average interest rate of the Group's loan agreements at the end of the reporting period was 1.17% (31.12.2017: 1.09%).

12 months	31.12.2018	31.12.2017
ROE, % (net profit of the period / average equity of the period) * 100	11.5	19.5
ROA, % (net profit of the period / average assets of the period) * 100	5.9	9.6
ROIC, % (net profit of the period / average invested capital of the period) * 100[1]	15.9	24.0
DSCR (EBITDA/(interest expenses + scheduled loan payments)	3.7	3.5

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

Real estate portfolio

In 2018, the Group made one investment. In April, an office and shopping center was purchased in Tallinn, Mustamäe tee 16, with an investment volume of EUR 24.8 million. As of 31.12.2018, the Group has six investments:

Investment property	Address	Type	Net leasable area (m2)	Date of purchase
€ million				
Radisson Blu Sky hotel	Rävala pst 3/ Kuke tn 2 Tallinn Estonia	hotel	24,499	Jan. 15
Duntes Biroji office building	Duntes 6, Riga Latvia	office building	12,650	Nov. 15
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	shopping center	11,736	Feb. 16
Domina shopping center	Ieriku 3, Riga Latvia	shopping center	47,493	Jul. 16
Kaunas Terminal logistics center	Terminalo 8 and 10, Kaunas Lithuania	logistics center	28,298	Aug. 17

Marienthali center	Mustamäe tee 16, Tallinn Estonia	office and shopping center	14,021	Apr. 18
Total			**138,697**	

The weighted average expiration date of the lease agreements of the Group's investment properties is 3.5 (31.12.2017: 3.3) years and as of 31.12.2018 the Group has 395 (31.12.2017: 360) leases. The rental income of any lease does not exceed 10% of the consolidated rental income.

Valuation of investment property

EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in June and in December. During 2018 and 2017, the Group's investment property has been valued by Colliers International Advisors OÜ.

The independent appraiser of the Group values the investment properties individually with 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.

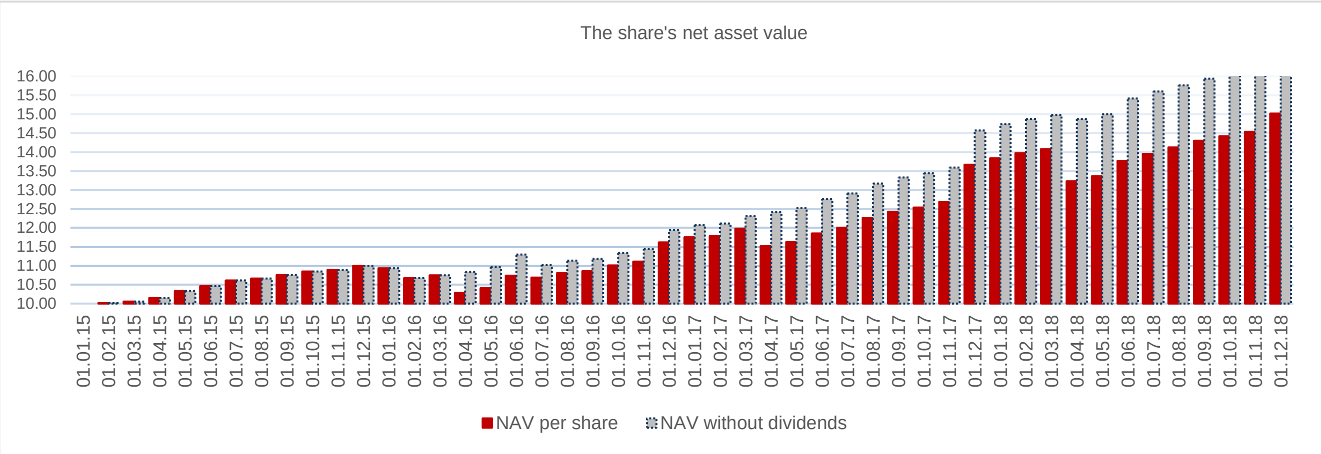
In January 2015, the Group acquired the hotel and office building at Rävala pst.3 / Kuke tn.2 and uses it in its own business operations and therefore represents it as a non-current asset.

Information on shares

As at 31.12.2018, payments made to the share capital of EfTEN Kinnisvarafond II AS total EUR 92.14 million:

	31.12.2017	31.12.2017
Number of shares at the beginning of the period	**8,071,756**	**8,071,756**
Shares issued during the period	1,142,000	0
Number of shares at end of period	**9,213,756**	**8,071,756**

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
NAV per share, EUR	15.0152	13.6665	11.6175	10.9968	10.0000
NAV increase per year	9.87%	17.64%	5.64%	9.97%	-
NAV increase per 2 years	29.25%	24.28%	16.18%	-	-
NAV increase per 3 years	36.54%	36.67%	-	-	-
NAV increase per 4 years	50.15%	-	-	-	-



The dividend policy of EfTEN Kinnisvarafond II AS foresees that in each financial year the Group will pay 80% (gross) of the free cash flow to the shareholders. In 2018, a total of EUR 7 million (2017: EUR 4 million) was paid to shareholders (net).

According to the fund's dividend policy, in 2019 the fund plans to pay EUR 8.1 million (net) dividends, which is 9% compared to paid-in equity.

Shareholder structure of EfTEN Kinnisvarafond II AS as at 31.12.2018

	Ownership percentage in share capital, %
Swedbank Pension Funds	67.6%
Luminor Pension Funds	15.7%
SEB Bankas AB	4.1%
ERGO Life Insurance SE Estonian Branch	4.0%
LHV Pension Funds	1.1%
Other	7.5%
	100.0%

Management

In 2018, one shareholder meeting was held. The Annual General Meeting held at April 12, 2018 approved the Annual Report for 2017, decided to pay a net dividend of 7,022,428 euros (0.87 euros per share), the new wording of the Articles of Association was amended in connection with the amendment of the Investment Act and the Board was therefore also authorized to amend the management agreement. In addition, the decision was made to increase the share capital by EUR 11,420,000 by issuing new shares. The new share capital amounts to EUR 92,137,560. There were no extraordinary general meetings in 2018.

There were no changes in the Fund’s Supervisory Board in 2018. Since its foundation, the Supervisory Board of the Fund includes Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. The task of the supervisory board is to issue orders for the management of the fund in accordance with the articles of association and the management contract and to decide on the transactions outside the scope of everyday business.

There were no changes in the members of the management board of the fund and since the foundation the members of the management board have been Viljar Arakas and Tõnu Uustalu.

According to the management agreement and the fund's articles of association, the fund management company is EfTEN Capital AS.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE YEAR 2018

CONSOLIDATED INCOME STATEMENT

	Notes	2018	2017
€ thousand			
Revenue	4	29,182	24,404
Cost of services and goods sold	5	-7,492	-6,769
Gross profit		**21,690**	17,635
Marketing costs	6	-1,607	-1,454
General and administrative expenses	7	-4,537	-4,800
Gain / loss from revaluation of investment properties	14	1,371	10,219
Other income	8	74	129
Other expenses		-7	-57
Operating profit		**16,984**	21,672
Finance income		5	5
Finance costs	9	-1,752	-1,506
Profit before income tax		**15,237**	20,171
Income tax expense	10	-880	-241
Total net profit for the financial year		**14,357**	19,930

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018	2017
€ thousand			
Net profit for the financial year		14,357	19,930
Other comprehensive profit/ -loss:			
Revaluation of non-current assets	15	5,991	52
Profit/ -loss from revaluation of hedging instruments	19	-252	557
Total other comprehensive profit/ -loss		**5,739**	608
Total comprehensive income for the financial year		**20,096**	**20,539**

Notes on pages 10 to 41 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2018	31.12.2017
€ thousand			
ASSETS			
Cash and cash equivalents	11	18,922	11,874
Receivables and accrued income	12	1,024	886
Prepaid expenses	13	111	52
Inventories		125	113
Total current assets		**20,182**	**12,925**
Long-term receivables		14	0
Investments in securities		8	8
Investment property	14	190,620	162,090
Property, plant and equipment	15	52,337	46,442
Total non-current assets		**242,979**	**208,540**
TOTAL ASSETS		**263,161**	**221,465**
LIABILITIES AND EQUITY			
Borrowings	16	26,045	2,649
Derivative instruments	19	955	703
Payables and prepayments	17	2,577	2,831
Total current liabilities		**29,577**	**6,183**
Borrowings	16	88,923	100,335
Other long-term liabilities	17	1,543	1,354
Success fee liability	18	4,695	3,236
Deferred income tax liability	10	76	44
Total non-current liabilities		**95,237**	**104,969**
Total liabilities		**124,814**	**111,152**
Share capital	21	92,138	80,718
Share premium	21	5,861	2,321
Statutory reserve capital	21	1,673	676
Hedging reserve	19	-955	-703
Revaluation reserve	15	6,638	647
Retained earnings		32,992	26,654
Total equity		**138,347**	**110,313**
TOTAL LIABILITIES AND EQUITY		**263,161**	**221,465**

Notes on pages 10 to 41 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2018	2017
€ thousand			
Net profit		**14,357**	**19,930**
Adjustments to net profit:			
Finance income		-5	-5
Finance costs	9	1,752	1,506
Gains/-losses from investment property revaluation	14	-1,371	-10,219
Change in the success fee liability	7	1,459	2,195
Depreciation, amortisation and impairment	15	363	337
Income tax expense	10	880	241
Total adjustments with non-cash changes		**3,078**	**-5,946**
Cash flow from operations before changes in working capital		**17,435**	**13,985**
Change in receivables and payables related to operating activities		-163	-172
Change in inventory		-12	-28
Net cash generated from operating activities		**17,260**	**13,785**
Purchase of property, plant and equipment	15	-266	-348
Purchase of investment property	14	-27,406	-6,284
Acquisitions of subsidiaries, net cash flow		98	-6,289
Sale of other investments		0	8
Loans granted		0	-275
Interest received		1	1
Net cash generated from investing activities		**-27,573**	**-13,187**
Loans received	16	14,900	2,966
Scheduled loan repayments	16	-2,938	-2,509
Interest paid		-1,714	-1,440
Shares issued	21	14,960	0
Dividends paid		-7,022	-4,000
Income tax paid on dividends	10	-825	-631
Net cash generated from financing activities		**17,361**	**-5,614**
NET CASH FLOW		**7,048**	**-5,016**
Cash and cash equivalents at the beginning of the period	11	**11,874**	**16,890**
Change in cash and cash equivalents		7,048	-5,016
Cash and cash equivalents at the end of the period	11	**18,922**	**11,874**

Notes on pages 10 to 41 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
€ thousand							
Balance as at 31.12.2016	**80,718**	**2,321**	**151**	**-1,260**	**595**	**11,249**	**93,774**
Transfers to statutory reserve capital	0	0	525	0	0	-525	**0**
Dividends paid	0	0	0	0	0	-4,000	**-4,000**
Total transactions with owners	**0**	**0**	**525**	**0**	**0**	**-4,525**	**-4,000**
Net profit for the financial year	**0**	**0**	**0**	**0**	**0**	**19,930**	**19,930**
Revaluation of property, plant and equipment	0	0	0	0	52	0	**52**
Revaluation losses on hedging instruments	0	0	0	557	0	0	**557**
Total comprehensive income	**0**	**0**	**0**	**557**	**52**	**19,930**	**20,539**
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**-703**	**647**	**26,654**	**110,313**
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**-703**	**647**	**26,654**	**110,313**
Shares issued	11,420	3,540	0	0	0	0	**14,960**
Transfers to statutory reserve capital	0	0	997	0	0	-997	**0**
Dividends paid	0	0	0	0	0	-7,022	**-7,022**
Total transactions with owners	**11,420**	**3,540**	**997**	**0**	**0**	**-8,019**	**7,938**
Net profit for the financial year	**0**	**0**	**0**	**0**	**0**	**14,357**	**14,357**
Revaluation of property, plant and equipment	0	0	0	0	5,991	0	**5,991**
Revaluation losses on hedging instruments	0	0	0	-252	0	0	**-252**
Total comprehensive income	**0**	**0**	**0**	**-252**	**5,991**	**14,357**	**20,096**
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**-955**	**6,638**	**32,992**	**138,347**

For additional information on share capital and equity, please see Note 19, 21 and 22.

Notes on pages 10 to 41 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 II AS and its subsidiaries for the year ended 31.12.2018 have been signed by the Management Board on 28 February 2019. 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 is approved on the annual general meeting of shareholders. These consolidated financial statements are part of the annual report that is to be approved by the shareholders and 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 II AS (Parent company) is a company registered and operating in Estonia.

The structure of EfTEN Kinnisvarafond IIAS Group as at 31.12.2018 is as follows:

Parent	Share	Subsidiary	Share	Subsidiary	Address
EfTEN Kinnisvarafond II AS	100%	EfTEN Sky OÜ	100%	Astlanda Hotelli AS	*Rävala pst 3 / Kuke tn 2, Tallinn Estonia*
	100%	EfTEN Dunte SIA			*Duntes iela 6, Riga Latvia*
	100%	Magistral Kaubanduskeskuse OÜ			*Sõpruse pst 201/203, Tallinn, Estonia*
	100%	EfTEN Marienthal OÜ			*Mustamäe tee 16, Tallinn Estonia*
	100%	EfTEN Domina SIA			*Ieriku 3, Riga, Latvia*
	100%	Kaunas Terminal UAB			*Terminalo g. 10, Kaunas, Lithuania*

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 interim 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, except for land and buildings that have been revalued and recognized using the revaluation method, as described in the respective accounting policies and investment property, that has been recognized at fair value.

1.1 Changes in the accounting policies and presentation

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became mandatory for the Group's annual periods beginning at 1 January 2018:

IFRS 9 *"Financial Instruments"* (effective for annual periods beginning on or after 1 January 2018).

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.

IFRS 9 did not have a material impact on its financial statements as at 1 January 2018 because impairment of receivables has been historically not material and cash and deposits are held in credit institutions with a high rating; therefore applying the expected loss model, including assessment of forward-looking information, did not cause material impairment losses. All the financial assets (except for derivatives) meet SPPI requirement and are held to collect, thus will continue to be measured using the amortised cost method. Derivative instruments are recognized at fair value through profit or loss (trading instruments) or statement of comprehensive income (hedging instruments) under both the current standard and the standard coming into force.

IFRS 9 did not have a significant impact on hedge accounting, as all derivatives recognized as hedging instruments as of 01.01.2018 also meet the IFRS 9 hedging criteria.

IFRS 15 *“Revenue from Contracts with Customers“* (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 Group's management has analysed the impact of this change on consolidated profit and loss accounts and considers that, as the Group's revenue is largely derived from rental income and the Group does not sell goods and services under one contract, the changes have no significant impact on the Group's financial statements. Further information on changed accounting policies is provided in Note 2.2.

Amendments to IFRS 15 *“Revenue from Contracts with Customers”* (effective for annual periods beginning on or after 1 January 2018).

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 changes have no significant impact on the Group's financial statements. Further information on changed accounting policies is provided in Note 2.2.

***“Transfers of Investment Property”* - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018).**

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 does not have any investment property that would have changed the use of the item, so the amendment to IAS 40 has no impact on the Group's financial statements.

"Annual Improvements to IFRSs 2014–2016 Cycle" **(effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28)).**

IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method.

The amendments have no impact on the Group's financial statements.

New standards, interpretations, and their changes

New or revised standards and interpretations have been issued that become mandatory for the Group from 1 January 2019 or later, and which the Group has not implemented early.

IFRS 16 *"Leases"* (effective for annual periods beginning on or after 1 January 2019).

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.

As a lessee, the Group has no lease agreements with a maturity of more than 12 months, so the standard has no impact on the Group.

Standards not yet adopted

"Annual Improvements to IFRSs 2015-2017 cycle" **(effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).**

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

The Group analyses and discloses the effect of this change after its implementation

"Amendments to the Conceptual Framework for Financial Reporting" **(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).**

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The Group analyses and discloses the effect of this change after its implementation.

"Definition of a business" **– Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).**

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

The Group analyses and discloses the impact of this other change after its implementation.

“Definition of materiality” **– Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).**

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group analyses and discloses the impact of this other change after its implementation.

Other new or revised standards or interpretations that are not yet effective are not 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) <u>Valuation of propoerty, plant and equipment in the revaluation method</u>

As of 31.12.2018, the management has assessed the value of property, plant and equipment recognized by the revaluation method (fair value less depreciation and write-downs) based on the valuation of the market value of the object by an independent expert. The Group owns land and buildings (the Radisson Blu Sky Hotel), which is recognized using the revaluation method. The fair value is estimated using Colliers International Advisors OÜ's valuation of the hotel market value. The Group's independent valuer has estimated the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and current market conditions. As at 31.12.2018, the carrying amount of property, plant and equipment included in the revaluation method was included in Note 15.

b) <u>Property, plant and equipment: Assets with a significant residual value</u>

According to the management of the Group, it is very likely that the Radisson Blu Sky hotel will be sold at the end of the 10 year term of EfTEN Kinnisvarafond II AS. The management estimates that the estimated final value of the building after ten years is at least as high as the acquisition cost, which is why it has been decided to split the cost of the hotel building into two parts - the non-depreciable portion and the depreciable portion. Based on the assumption that in order to maintain the current state of the hotel building, it is necessary to make property, plant and equiment investments in the amount of 150 thousand euros per year, the Management Board determined the depreciable cost of the building to be 1,500 thousand euros over ten years. The rest of the cost of the building is allocated to the non-depreciating portion.

In the case of assets with a significant residual value, only the depreciable amount between the acquisition cost and the residual value is depreciated over the useful life of the asset. The valuation of the final value is based on Colliers International Advisors OÜ's valuation of the hotel market value. The group's independent valuer has estimated the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and market conditions. If the terminal value has dropped significantly by the balance sheet date, the management of the group reviews the estimates made for depreciation rates, depreciation methods and estimated residual values and, if necessary, changes them. The effect of the amortization rate, depreciation method or change in the residual value is recognized 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 individually with the discounted cash flow method.

Additional information on the assumptions and sensitivity used in valuation can be found in Note 14.

d) Business combinations and acquisitions of assets

As a rule, purchases of real estate are treated as purchase of assets. According to management estimate the purchase is not considered to be a business combination, if the investment property has a single or a few tenants, the Fund acquires no other assets and rights in addition to the investment property and recruits no past employees. The Fund does not acquire know-how for business process management, but manages all acquired objects centrally.

Classification of real estate

Classification of real estate objects as investment property or property, plant and equipment is based on both initial recognition and subsequent reclassification of management's intentions for subsequent use of the asset. Implementation of the plans may require additional decisions independent of the Group (alteration of the purpose of the land, approval of detailed plans, granting of building permits, etc.), which reduces the accuracy of the classification of assets.

The purpose of the investment property acquisition is to obtain income from the lease of the real estate object or the increase in the market value, as well as objects that are kept for a longer period of time and have several possible uses.

Investment company

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond II AS does not meet the definition of an investment company, since it has characteristics of a real estate company rather than of a purely investment firm. Although also the investors of EfTEN Kinnisvarafond II AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond II AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. In addition, in accordance with IFRS 10, an investment firm should make direct investments in companies, which are valued at fair value. In case of the parent company of EfTEN Kinnisvarafond II AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond II AS are assessed at 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 based on 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 II AS and its subsidiaries, consolidated on a line-by-line basis. The subsidiaries are consolidated from the date on which control is transferred to the Group, and subsidiaries are deconsolidated from the date that 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 interim financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

The subsidiaries are recognized 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 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 three business segments and geographical segments are presented in the following table:

Premises / country	**Estonia**	**Latvia**	**Lithuania**
Retail premises	Sõpruse pst 201/203, Tallinn	Ieriku 3, Riga	
	Mustamäe tee 16, Tallinn		
Office premises	Rävala pst 3 / Kuke tn 2, Tallinn	Duntes iela 6, Riga	
	Mustamäe tee 16, Tallinn		
Logistics premises			Terminalo 8 ja 10, Kaunas
Hotels and restaurants	Rävala pst 3 / Kuke tn 2, Tallinn		

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 analyses all indicators on a monthly basis.

Investments in subsidiaries 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 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 accounting policies from 1 January 2018

Revenue is income arising in the course of the Company's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a good or service to a customer.

The Group's revenue includes rental income, administration fees, marketing fees, and utility and administrative agency fees.

Lease income from operating leases is recognised on a straight-line basis over the lease term. If the Group agrees with the tenants during the lease-free period, the said expense is also recognised on a straight-line basis over the lease term, reducing rental income.

Administrative fees and marketing fees are recognised in the period in which the control over the services is transferred to the customer, i.e. during the service period.

Some management fees may include different service components. In this case, the Group assesses whether they give rise to a number of implementation obligations. If such different implementation obligations exist, then the total transaction fee is allocated to each obligation to execute on the basis of a separate selling price. If there is no separate selling price, it is derived from the expected cost plus margin.

The Group acts as an agent for resale of utility and administrative expenses, and therefore such income is not shown in gross amount but is offset by the related expense.

<u>Financing component</u>

Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Revenue accounting policies applied until 31 December 2017

Revenue is recognised at the fair value of the consideration received or receivable from the transactions. Revenue is recognised only to the extent that it is probable that the economic benefits will be received and at a reliable rate.

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

The Group acts as an agent in the intermediation of services (fees for sub-tenants' utilities, sublease, other intermediated services), therefore, such income is not shown on a gross basis but is offset by the related costs.

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

Investments and ohter financial assets - accounting policies from 1 January 2018

(i) Classification

The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Regular purchases and sales of financial assets are recognised on the trade date, the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. All Company's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses.

As at 1 January 2018 and 31 December 2018, all the Company's financial assets were classified in this category:

- cash and cash equivalents;
- trade receivables;
- contractual assets;
- other financial assets.

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Assets that do not meet the criterion of cost or fair value through profit or loss are recognized at fair value through profit or loss. Gains or losses on debt instruments with changes to profit or loss are recognized in the income statement in the period in which the change in fair value has occurred. Such fair value gains and losses also include contractual interest earned on the respective instruments.

Equity instruments

The Company does not have any investments in equity instruments.

(iv) Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Investments and ohter financial assets - accounting policies applied until 31 December 2017

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

The Group only had financial assets in the "Loans and receivables" category in 2017.

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. Derivative instruments are measured at fair value through profit or loss.

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 assets with a useful life of over one year if it is probable that future economic benefits will flow from their use.

Land and buildings are accounted for using the revaluation method: land and buildings are carried at revalued amount after initial recognition, which is the fair value of the asset at the date of the revaluation less accumulated depreciation and any impairment losses. Evaluations are carried out regularly by independent real estate experts. Earlier accumulated depreciation is eliminated at the revaluation date and the asset's historical cost is replaced by its fair value at the date of the revaluation.

The increase in the carrying amount of land and buildings as a result of revaluation is recognized in the statement of comprehensive income and accumulated in equity under the item “Revaluation reserve”. An increase in the value of assets previously derecognised through profit or loss is recognized in the income statement. Impairment of an asset is recognized through other comprehensive income in the amount of the accumulated revaluation reserve of the same item. The remaining amount is recognized as an expense in the period. The difference in depreciation arising from the difference between the initial cost of the assets and the revalued amounts is entered annually in the 'Revaluation reserve' under 'Non-distributed profit'.

Other non-current assets are recognized in the balance sheet at their acquisition cost less accumulated depreciation and any impairment losses. Other non-current assets are initially recognized at cost, which consists of the purchase price and the costs directly attributable to the acquisition.

In the event that the disposal of an item of property, plant and equipment for its intended use expires over a longer period, the cost of borrowing related to the asset is capitalized at the cost of the asset. Capitalization of borrowing costs is discontinued from the moment when the asset is substantially ready for its intended use or its active development is suspended for a longer period of time.

Subsequent expenditure on an item of property, plant and equipment is recognized as a non-current asset when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably. Other maintenance and repair costs are expensed as incurred.

The straight-line method is used for depreciation. Depreciation rates are determined separately for each property, plant and equipment item, depending on its useful life.

Depreciation rates for property, plant and equipment are as follows:

Buildings	2.5-10%

Machines & Equipment	7-10%
Furnishings	15-20%
Computers	20-33%

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Depreciation begins when the asset is available for management's intended purpose and is terminated when the final value exceeds its carrying amount, when the asset is definitively decommissioned or reclassified as 'available-for-sale'. At each balance sheet date, the reasonableness of depreciation rates, depreciation methods and residual values assigned to assets is assessed.

At each balance sheet date, management assesses whether there are indications of impairment of property, plant and equipment assets. If circumstances that may cause impairment of these assets is known, the management determines the recoverable amount of the assets (i.e., the higher of the fair value less costs to sell and the value of the asset). If the recoverable amount is less than its carrying amount, the items of property, plant and equipment are written down to their recoverable amount. A write-down recognized in prior periods is reversed if there has been a change in the estimates used to determine the recoverable amount and the recoverable amount has increased.

Gains and losses on disposal of property, plant and equipment determined by subtracting residual value from sales proceeds are recognized in other income and expenses 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 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 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 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 (except for 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 interim 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 agreement 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 7% on an annual basis. If the actual return on an object is less than 7% per annum during the lifetime of the investment, the difference between the effective return on investment and the hurdle rate will be deducted from the sales price so that the yield before the performance fee would be at least 7%. According to the management agreement, 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 (when the liability arises).

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

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Subsidiaries in Latvia and Lithuania

The net profit of companies is taxed with a 15% income tax in 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 Lithuanian 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.

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

2 Subsidiaries

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2018	31.12.2017
Parent company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
Astlanda Hotelli AS	Estonia	Hotel's operator company, Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
EfTEN Dunte SIA	Latvia	Duntes 6, Riga, Latvia	100	100
Magistral Kaubanduskeskuse OÜ	Estonia	Sõpruse pst 201/203, Tallinn, Estonia	100	100
EfTEN Domina SIA	Latvia	Ieriku 3, Riga, Latvia	100	100
Kaunas Terminal UAB	Lithuania	Terminalo g. 10, Kaunas, Lithuania	100	100
EfTEN Marienthal OÜ	Estonia	Mustamäe tee 16, Tallinn Estonia	100	0

On February 9, 2018, EfTEN Kinnisvarafond II AS established a 100% subsidiary EfTEN Marienthal OÜ. The subsidiary was established with the aim of acquiring the property at Mustamäe tee 16 in Tallinn, Estonia (Note 14).

No shares of a subsidiary or joint venture are publicly listed.

3 *Segment reporting*

SEGMENT RESULTS

	Retail		Office		Logics		Hotels and restaurants		Non-allocated		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
€ thousand												
Revenue (Note 4), incl.	**12,837**	**11,212**	**3,311**	**2,279**	**1,519**	**540**	**11,515**	**10,373**	**0**	**0**	**29,182**	**24,404**
Estonia	2,851	2,452	1,422	449	0	0	11,515	10,373	0	0	15,788	13,274
Latvia	9,986	8,760	1,889	1,830	0	0	0	0	0	0	11,875	10,590
Lithuania	0	0	0	0	1,519	540	0	0	0	0	1,519	540
Operating income, net, incl.	**11,229**	**9,771**	**3,026**	**2,093**	**1,485**	**507**	**5,950**	**5,264**	**0**	**0**	**21,690**	**17,635**
Estonia	2,746	2,397	1,191	330	0	0	5,950	5,264	0	0	9,887	7,992
Latvia	8,483	7,374	1,835	1,763	0	0	0	0	0	0	10,318	9,137
Lithuania	0	0	0	0	1,485	507	0	0	0	0	1,485	507
Operating profit, incl.	**9,558**	**14,509**	**2,690**	**1,828**	**1,751**	**1,807**	**3,104**	**3,599**	**-119**	**-70**	**16,984**	**21,672**
Estonia	3,063	1,831	930	260	0	0	3,104	3,599	-119	-70	6,978	5,620
Latvia	6,495	12,678	1,760	1,568	0	0	0	0	0	0	8,255	14,245
Lithuania	0	0	0	0	1,751	1,807	0	0	0	0	1,751	1,807
EBITDA, incl.	**9,062**	**7,865**	**2,814**	**1,864**	**1,367**	**455**	**4,310**	**3,871**	**-119**	**-70**	**17,434**	**13,985**
Estonia	2,320	2,026	1,178	296	0	0	4,310	3,871	-119	-70	7,689	6,123
Latvia	6,742	5,840	1,636	1,568	0	0	0	0	0	0	8,378	7,407
Lithuania	0	0	0	0	1,367	455	0	0	0	0	1,367	455
Operating profit											**16,984**	**21,672**
Net financial expense											**-1,747**	**-1,501**
Profit before income tax expense											**15,237**	**20,171**
Income tax expense (Note 10)											-880	**-241**
NET PROFIT FOR THE FINANCIAL YEAR											**14,357**	**19,930**

SEGMENT ASSETS

	Retail		Office		Logics		Hotels and restaurants		Total	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
€ thousand										
Investment property (Note 14)										
Estonia	33,245	26,090	18,705	0	0	0	0	0	51,950	26,090
Latvia	96,025	94,346	24,275	23,764	0	0	0	0	120,300	118,110
Lithuania	0	0	0	0	18,370	17,890	0	0	18,370	17,890
Total investment property	**129,270**	**120,436**	**42,980**	**23,764**	**18,370**	**17,890**	**0**	**0**	**190,620**	**162,090**
Property, plant and equipment (Note 15)										
Estonia	1	3	6,003	6,000	0	0	46,260	40,390	52,264	46,393
Latvia	73	49	0	0	0	0	0	0	73	49
Lithuania	0	0	0	0	0	0	0	0	0	0
Total property, plant and equipment	**74**	**52**	**6,003**	**6,000**	**0**	**0**	**46,260**	**40,390**	**52,337**	**46,442**
Other non-current assets									22	8
Net debt									-105,892	-99,278
Other short-term assets									1,260	1,051
NET ASSETS									**138,347**	**110,313**

In 2018 and in 2017, 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 made the property investment is located.

The rental income of any lease does not exceed 10% of the consolidated rental income.

4 Revenue

Areas of activity	2018	2017
€ thousand		
Rental income from office premises	3,026	2,078
incl. rental income from investment property	*2,734*	*1,722*
incl. rental income from property, plant and equipment	*292*	*356*
Rental income from commercial and service premises	10,547	9,238
incl. rental income from investment property	10,475	9,171
incl. rental income from property, plant and equipment	72	67
Rental income from warehousing premises	1,513	539
incl. rental income from investment property	1,513	539
Other sales revenue from rental premises	2,580	2,175
Hotel accommodation	8,146	7,242
Hotel catering income	2,759	1,916
Hotel conference income, other income	610	1,215
Other sales revenue	1	1
Total revenue by areas of activity	**29,182**	**24,404**

Revenue by geographical area	2018	2017
€ thousand		
Estonia	15,788	13,274
Latvia	11,875	10,590
Lithuania	1,519	540
Total revenue by geographical area	**29,182**	**24,404**

5 Cost of services and goods sold

Cost of services and goods sold	2018	2017
€ thousand		
Repair and maintenance of rental premises	-1,209	-1,070
Direct costs of hotel accommodation	-971	-797
Direct costs of hotel catering	-940	-914
Hotel license fees	-366	-334
Other direct costs of operations	-200	-165
Wages and salaries of operations, incl. taxes	-2,080	-1,877
Management costs of operations	-699	-618
Property insurance	-72	-69
Land tax	-397	-454
Other administrative expenditure	-76	-82
Depreciation of property, plant and equipment (Note 15)	-362	-336
Improvement costs	-69	-24
Impairment of receivables	-51	-29
Total cost of services and goods sold	**-7,492**	**-6,769**

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6 Marketing costs

Marketing costs	2018	2017
€ thousand		
Commission expenses on rental premises	-46	-22
Wages and salaries, incl. taxes	-184	-168
Advertising, promotional events	-1,059	-962
Corporative marketing	-318	-302
Total marketing costs	**-1,607**	**-1,454**

7 General and administrative expenses

General and administrative expenses	2018	2017
€ thousand		
Management services (Note 23)	-1,231	-969
Office expenses	-229	-212
Wages and salaries, incl. taxes	-1,121	-997
Consulting expenses	-324	-301
Change in success fee liability (Note 18)	-1,459	-2,195
Other general and administrative expenses	-172	-125
Depreciation of property, plant and equipment (Note 15)	-1	-1
Total general and administrative expenses	**-4,537**	**-4,800**

8 Other operating income

Other operating income	2018	2017
€ thousand		
Fines and penalties received	18	121
Other income	56	8
Total other operating income	**74**	**129**

9 Financial costs

Financial costs	2018	2017
€ thousand		
Interest expenses, incl.	-1,752	-1,506
Interest expense on borrowings	-1,351	-1,139
Intrest expense on swap transactions (Note 19)	-401	-367
Total financial costs	**-1,752**	**-1,506**

10 Income tax

	2018	2017
€ thousand		
Income tax expenses on the profit of subsidiaries in Lithuania (2017: Latvia and Lithuania)	-55	390
Income tax expenses on dividends	-825	-631
Total income tax expence	**-880**	**-241**

As at 31.12.2018, the Group has a deferred tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 76 thousand (31.12.2017: EUR 44 thousand). Deferred tax expense payment obligation arises after the expiration of the tax depreciation period.

11 Cash and cash equivalents

	31.12.2018	31.12.2017
€ thousand		
Demand deposits	18,888	11,820
Cash in hand	34	54
Total cash and cash equivalents (Note 20)	**18,922**	**11,874**

12 Receivables and accrued income

<u>**Short-term receivables**</u>

	31.12.2018	31.12.2017
€ thousand		
Receivables from customers		
Trade receivables from customers	583	634
Doubtful debts	-36	-50
Total receivables from customers	**547**	**584**
Other short-term receivables		
Receivable from the acquisition of a company	0	98
Other short-term receivables	45	22
Total other short-term receivables	**45**	**120**
Accrued income		
Other accrued income	432	182
Total accrued income	**432**	**182**
Total receivables	**1,024**	**886**

Receivables from customers	31.12.2018	31.12.2017
€ thousand		
Not expired	348	337
Expired, incl.	**235**	**297**
Up to 30 days	*185*	*206*
30-60 days	*11*	*22*
More than 60 days	*39*	*69*
Doubtful debts	-36	-50
Total receicables from customers	**547**	**584**

13 Prepaid expenses

	31.12.2018	31.12.2017
€ thousand		
Advance payments to suppliers	4	2
Prepayments for insurance	5	10
Prepayments for utilities intermediation	73	3
Future expenses	29	37
Total Prepayments	**111**	**52**

14 Investment property

As at 31.12.2018, the Group ownts two investment properties in Estonia, two in Latvia and one in Lithuania:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value at 31.12.2018	Share of market value of the Fund's assets
€ thousand						
Duntes Biroji office building	Duntes 6, Riga Latvia	12,650	Nov. 15	23,746	24,275	9%
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	11,736	Feb. 16	24,000	27,010	10%
Domina shopping center	Ieriku 3, Riga Latvia	47,493	Jul. 16	74,500	95,873	36%
Kaunas Terminal logistics center	Terminalo 8 ja 10, Kaunas Lithuania	28,298	Aug. 17	16,200	18,370	7%
Marienthali center	Mustamäe tee 16, Tallinn Estonia	14,021	Apr. 18	24,837	24,940	9%
Total		**114,198**		**163,283**	**190,468**	**72%**

The following changes have occurred in the Group's investment property in 2018:

	Completed investment property	Prepayments for investment property	**Total investment property**
€ thousand			
Balance as at 31.12.2016	**129,590**	**301**	**129,891**
Acquisitions from business combinations	16,200	0	**16,200**
Acquisitions and developments	5,780	0	**5,780**
Reclassifications	270	-270	**0**
Gain (loss) on changes in the fair value	10,219	0	**10,219**
Balance as at 31.12.2017	**162,059**	**31**	**162,090**
Balance as at 31.12.2017	**162,059**	**31**	**162,090**
Acquisitions and developments	27,038	121	**27,159**
Gain (loss) on changes in the fair value	1,371	0	**1,371**
Balance as at 31.12.2018	**190,468**	**152**	**190,620**

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

	2018	2017
Rental income earned on investment property	14,722	11,432
Expenses directly attributable to management of investment property	-1,706	-1,533
Prepayments for investment property	152	31
Carrying amount of investment property pledged as collateral to borrowings as at 31 December	190,468	162,059

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

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Lease agreements concluded between the Group and tenants correspond to the terms of non-cancellable operating leases. The income from these leases is divided as follows:

Payments from non-cancellable operating leases	**31.12.2018**	31.12.2017
€ thousand		
Up to 1 year	13,210	11,467
1-5 years	27,492	22,974
Over 5 years	7,872	6,312,
Total	**48,574**	**40,753**

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 31.12.2018 and 31.12.2017 was determined using the discounted cash flow method.

The following assumptions were used to determine fair value:

As at 31.12.2018:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Capitalisation rate**	**Average rent, EUR/m2**
€ thousand						
Office premises	42,980	Discounted cash flows	3,336	7.60%-8.6%	7.0%-7.5%	10.03
Logistics premises	18,370	Discounted cash flows	1,722	8.6%	8.5%	4.80
Retail premises	129,118	Discounted cash flows	10,660	7.7%-8.6%	7.2%-7.6%	13.79
Total	**190 468**					

As at 31.12.2017:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Capitalisation rate**	**Average rent, EUR/m2**
€ thousand						
Office premises	23,764	Discounted cash flows	1,687	7.60%	7.0%	11.67
Logistics premises	17,890	Discounted cash flows	1,459	8.6%	8.5%	4.54
Retail premises	120,405	Discounted cash flows	9,569	8.6%-7.5%	7.2%-7.6%	13.99
Total	**162 059**					

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 condition and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates as at 31 December 2018 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 estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	Effect to decrease to value	Effect to increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Office premises	Change in rental income +/- 10%	*-4,602*	*4,579*	Change in the capitalisation rate	-0.5%	*46,193*	*45,260*	*44,349*
					0.0%	*43,867*	*42,980*	*42,123*
					0.5%	*41,837*	*41,001*	*40,183*
Logistics premises	Change in rental income +/- 10%	*-1,950*	*1,940*	Change in the capitalisation rate	-0.5%	*19,550*	*19,160*	*18,780*
					0.0%	*18,750*	*18,370*	*18,010*
					0.5%	*18,030*	*17,670*	*17,330*
Retail premises	Change in rental income +/- 10%	*-16,059*	*15,939*	Change in the capitalisation rate	-0.5%	*139,320*	*136,352*	*133,467*
					0.0%	*131,910*	*129,118*	*126,389*
					0.5%	*125,452*	*122,803*	*120,220*

As at 31.12.2017:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	Effect to decrease to value	Effect to increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Office premises	Change in rental income +/-10%	*-2,554*	*2,526*	Change in the capitalisation rate	-0.5%	*25,624*	*25,100*	*24,580*
					0.0%	*24,260*	*23,764*	*23,280*
					0.5%	*23,080*	*22,610*	*22,152*
Logistics premises	Change in rental income +/-10%	*-1,900*	*1,880*	Change in the capitalisation rate	-0.5%	*19,030*	*18,650*	*18,280*
					0.0%	*18,250*	*17,890*	*17,540*
					0.5%	*17,560*	*17,220*	*16,880*
Retail premises	Change in rental income +/-10%	*-14,155*	*14,045*	Change in the capitalisation rate	-0.5%	*129,400*	*126,760*	*124,168*
					0.0%	*122,900*	*120,405*	*117,960*
					0.5%	*117,233*	*114,860*	*112,553*

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

15 Property, plant and equipment

	Land and buildings[1]	Depreciable buildings	Machines and devices	Other property, plant and equipment	Prepayments	**Total**
€ thousand						
Residual value as at 31.12.2017	**44,591**	**1,062**	**290**	**449**	**51**	**46,442**
Cost as at 31.12.2017	44,591	1,500	481	1,166	51	*47,789*
Accumulated depreciaton as at 31.12.2017	0	-438	*-191*	*-717*	*0*	*-1,347*
Acquisitions and Developments	82	0	2	168	13	266
Reclassification	39	0	0	5	-44	0
Revaluation through profit or loss	5,991	0	0	0	0	5,991
Depreciation cost	0	-150	-50	-163	0	-363
Residual value as at 31.12.2018	**50,703**	**912**	**242**	**460**	**20**	**52,337**
Cost as at 31.12.2018	50,703	1,500	483	1,340	20	*54,046*
Accumulated depreciaton as at 31.12.2018	0	*-588*	*-241*	*-880*	*0*	*-1,709*

[1] The Group's only object recognized as land and buildings - Radisson Blu Sky Hotel - is recognized by the revaluation method as an investment in fixed assets. According to the management's estimates, the object belonging to the land and buildings group is of significant final value, therefore depreciation costs are not taken into account. Revaluation gains and losses on property, plant and equipment are recognized as a provision in the Group's equity.

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

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	Land and buildings	Depreciable buildings
Residual value as at 31.12.2017	**43,944**	**1,062**
Cost as at 31.12.2017	43,944	1,500
Accumulated depreciaton as at 31.12.2017	0	-438
Acquisitions and Developments	82	0
Reclassification	39	0
Depreciation cost	0	-150
Residual value as at 31.12.2018	**44,065**	**912**
Cost as at 31.12.2018	44,065	1,500
Accumulated depreciaton as at 31.12.2018	0	-588

The Group's property, plant and equipment is divided into two groups:

1) Property, plant and equipment of insignificant value, where the cost is amortized over the lifetime of the asset;

2) Property, plant and equipment of significant value, where the depreciable amount between the cost and the final value is depreciated over the useful life of the asset.

The Group owns the Radisson Blu Sky hotel, for which its final value is assessed at each balance sheet date. The valuation of the final value is based on Colliers International Advisors OÜ's valuation of the hotel market value. The group's independent valuer has estimated the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and market conditions. As a result of the valuation of the final value, it has been concluded that the asset will not be sold at a significantly lower value than its book value as of 31.12.2018 because it is located in a very good location in the center of Tallinn and the hotel is new and does not require large investments. If the cost method had been used, the residual value of land and buildings (including depreciable buildings) as at 31.12.2018 would have been EUR 44,977 thousand (31.12.2017: EUR 45,006 thousand).

Prerequisites and basics of finding fair value of land and buildings

The Group's only object recognized as land and buildings- Radisson Blu Sky Hotel - is rated by an independent valuer. The fair value of land and buildings recognized in the Group's report as at 31.12.2018 is based on the discounted cash flow method. The following assumptions have been used to find the fair value:

	Fair value	**Valuation method**	**Rental income per annum**	**Discount rate**	**Capitalisation rate**	**Average rent, EUR/m2**
€ thousand						
Radisson Blu Sky hotel	51,615	Discounted cash flows	3,756	8.1%	7.0%	13.41
Total	**51,615**					

As at 31.12.2017

	Fair value	**Valuation method**	**Rental income per annum**	**Discount rate**	**Capitalisation rate**	**Average rent, EUR/m2**
€ thousand						
Radisson Blu Sky hotel	45,653	Discounted cash flows	3,473	8.1%	7.0%	13.39
Total	**45,653**					

Sensitivity analysis of fair value

The table below illustrates the sensitivity of the fair value of land and buildings recorded in the Group's balance sheet as at 31.12.2018 to the key assumptions of estimates:

	Sensitivity to management estimate			**Sensitivity to discount rate and capitalisation rate**				
	Assessment	**Effect to decrease to value**	**Effect to increase to value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand							*Fair value*	
Radisson Blu Sky hotel	Change in rental income +/-10%	*-5,380*	*5,390*	Change in the capitalisation rate	-0.5%	*55,656*	*54,506*	*53,396*
					0.0%	*52,696*	*51,615*	*50,566*
					0.5%	*50,136*	*49,116*	*48,126*

As at 31.12.2017:

	Sensitivity to management estimate			**Sensitivity to discount rate and capitalisation rate**				
	Assessment	**Effect to decrease to value**	**Effect to increase to value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand							*Fair value*	
Radisson Blu Sky hotel	Change in rental income +/-10%	*-4,920*	*4,900*	Change in the capitalisation rate	-0.5%	*49,193*	*48,920*	*47,193*
					0.0%	*47,340*	*45,653*	*45,460*
					0.5%	*44,353*	*44,190*	*42,573*

The Group's income statement and balance sheet include, among other things, the following items of income and expenses as well as balances related to property, plant and equipment:

	2018	2017
€ thousand		
Income from hotel operations	11,515	10,373
Direct costs of operations	-5,318	-4,772
Rental income on property, plant and equipment	364	423
Direct costs related to property, plant and equipment management	-120	-127
Depreciation of property, plant and equipment	-363	-337
The carrying amount of property, plant and equipment pledged as collateral for loan commitments as at 31 December	51,615	45,653

The leases concluded between the Group and the tenants meet the requirements of non-cancellable operating leases. The revenue from these leases is divided as follows:

Payments from non-cancellable operating leases	**31.12.2018**	31.12.2017
€ thousand		
Up to 1 year	228	454
2-5 years	462	683
Over 5 years	337	410
Total	**1,027**	**1,547**

16 Borrowings

As at 31 December 2018, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement (€ thousand)	Loan balance as at 31.12.2018	Contract term	Interest rate as at 31.12.2018	Loan collateral (Notes 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.19	0.711%	Mortgage - Rävala 3, Astlanda Hotelli AS security	51,615	16.6%
SEB	Latvia	4,420	3,952	30.11.20	1.300%	Mortgage - Duntes iela 6, Riga Latvia	24,275	2.9%
SEB	Latvia	9,780	8,694	30.11.20	1.300%			6.3%
SEB	Estonia	14,900	14,652	17.04.23	1.835%	Mortgage - Mustamäe tee 16, Tallinn Estonia	24,940	10.6%
Danske	Estonia	12,000	10,834	25.02.21	1.350%	Mortgage - Sõpruse pst 201/203, Tallinn Estonia	27,010	7.8%
Luminor	Latvia	27,360	25,513	25.06.21	0.934%	Mortgage - Ieriku 3, Riga Latvia	95,873	18.4%
Luminor	Latvia	20,640	19,213	25.06.21	1.300%			13.9%
Luminor	Lithuania	9,720	9,208	30.06.22	1.291%	Mortgage - Terminalo 8 ja 10, Kaunas Lithuania	18,370	6.7%
Total		**121,820**	**115,067**				**242,083**	**83%**

Short-term borrowings	**31.12.2018**	31.12.2017
€ thousand		
Repayments of long-term bank loans in the next period	26,076	2,691
Discounted contract fees on bank loans	-31	-42
Total short-term borrowings	**26,045**	**2,649**

Long-term borrowings	**31.12.2018**	31.12.2017
€ thousand		
Total long-term borrowings	**114,968**	**102,984**
incl. current portion of borrowings	26,045	2,649
Bank loans	26,076	*2,691*
Discounted contract fees on bank loans	-31	*-42*
incl. non-current portion of borrowings, incl.	88,923	100,335
Bank loans	88,991	100,414
Discounted contract fees on bank loans	-68	-79

Bank loans are divided as follows according to repayment date:

Repayment of bank loans according to repayment dates	**31.12.2018**	31.12.2017
€ tuhandetes		
Less than 1 year	26,076	2,691
2-5 years	88,991	100,414
Total repayments of bank loans	**115,067**	**103,105**

In 2018, the following changes occurred in bank loan balances:

Lender	Loan balance as at 31.12.2017	Loans received	Loan repayments	Loan balance as at 31.12.2018
€ thousand				
SEB	23,000	0	0	23,000
SEB	4,106	0	-154	3,952
SEB	9,034	0	-340	8,694
SEB	0	14,900	-248	14,652
Danske Bank	11,250	0	-415	10,835
Luminor Bank	46,166	0	-1,440	44,726
Luminor Bank	9,549	0	-341	9,208
Total	**103,105**	**14,900**	**-2,938**	**115,067**

For additional information on borrowings, please see Note 20.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2018	31.12.2017
€ thousand		
Other trade payables	661	745
Total trade payables	**661**	**745**
Tax liabilities		
Value added tax	306	255
Corporate income tax	89	427
Personal income tax	79	55
Social tax	181	121
Other tax liabilities	21	14
Total tax liabilities	**676**	**872**
Accruals		
Interest liabilities	29	14
Payables to employees	209	200
Tenant security deposits	471	413
Other accrued liabilities	372	511
Total accrued expenses	**1,081**	**1,138**
Prepayments		
Prepayments received from buyers	154	73
Other deferred income	5	3
Total prepayments	**159**	**76**
Total payables and prepayments	**2,577**	**2,831**

Long-term payables

	31.12.2018	31.12.2017
€ thousand		
Tenants security deposits	1,543	1,354
Total other long-term payables	**1,543**	**1,354**

For additional information on payables and prepayments, please see Note 20.

18 Success fee liability

As at 31.12.2018, the Group has calculated the success fee liability in the amount of EUR 4,695 thousand (31.12.2017: EUR 3,236 thousand). The basis for accrual accounting for the success fee is the fair value estimates of investment properties as at the balance sheet date. Changes in the success fee are recognized in the Group's administrative expenses (Note 7).

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PricewaterhouseCoopers, Tallinn

19 Derivatives

As at 31.12.2018, the Group had three interest rate swaps to fix the interest rate on long-term borrowings at a nominal amount of EUR 57,722 thousand (31.12.2017: three contracts with a nominal value of EUR 58,883 thousand).

The terms and conditions of interest rate swaps follow the repayment schedule of the hedged loan and are accounted for as cash flow hedges.

The maturity of derivative transactions is in 2021 and 2022, with a base interest rate of 1 or 3 months EURIBOR. The Group's floating interest rate is fixed at 0-0.65% according to the interest rate swap.

The fair value of derivative instruments is based on the quotation of the counterparties, the fair value of the derivative transaction as of 31.12.2018 was negative in the amount of EUR 955 thousand (31.12.2017: negative in the amount of EUR 703 thousand).

The Group's interest expense on interest rate swaps in 2018 was EUR 401 thousand (2017: EUR 367 thousand) (Note 9).

Additional information on derivatives is provided in Note 20.

20 *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, trade receivables, other receivables and trade payables and debts on interest derivatives used for hedging interest rate risks.

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

	Note	31.12.2018	31.12.2017
€ thousand			
Financial assets - measured at amortised cost			
Cash and cash equivalents	11	18,922	11,874
Trade receivables	12	547	584
Total financial assets measured at amortised cost		**19,469**	**12,458**
Financial liabilities measured at amortised cost			
Borrowings	16	114,968	102 984
Trade payables	17	661	745
Tenant security deposits	17	2,014	1 767
Success fee liabilities	18	4,695	3 236
Accrued expenses	17	372	511
Total financial liabilities measured at amortised cost		**122 710**	**109,243**
Derivative instruments (interest rate swaps)	19	955	703
Total financial liabilities measured at fair value		**955**	**703**
Total financial liabilities		**123,665**	**109,946**

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.

The following changes in the carrying amounts of financial liabilities occurred in 2018:

			Non-monetary change		
	As at 31.12.2017	Change in cash flows	Change in fair value	Other non-monetary movements	As at 31.12.2018
€ thousand					
Borrowings	102,984	11,962	0	22	114,968
Trade payables	745	-84	0	0	661
Tenant security deposits	1,767	247	0	0	2,014
Accrued expenses	511	-139	0	0	372
Success fee liabilities	3,236	0	0	1,459	4,695
Derivative instruments (interest rate swaps)	703	0	252	0	955
Total financial liabilities	**109,946**	**11,986**	**252**	**1,481**	**123,665**

The 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 of 31.12.2018, 87% of the Group's loan agreements are based on floating interest rates (31.12.2017: 100%), 79% of which are related to 1-month EURIBOR (31.12.2017: 91%) and 8% to 3-month EURIBOR (31.12.2017: 9%). 1-month EURIBOR fluctuated between -0.363% and -0.372% in 2018 (2017: -0.366% and -0.375%) and 3-month EURIBOR between -0.309% and -0.329% (2017: -0.318% and -0.332%).

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 3-5 years.

As a result of the long-term nature of the Group's investments and long-term loan commitments related to investments, the management of EfTEN Kinnisvarafond II AS decided in 2015 to mitigate the risk of an increase in the long-term floating interest rate on the loan portfolio through floating interest rate fixation. It was decided to hedge the risk with interest rate swap contracts, where the floating interest rate of the loan agreement was changed against a fixed interest rate. It was decided to enter into interest rate swap contracts subject to the following conditions:

(1) Assets held as collateral for a loan contract with a cash flow risk are unlikely to be sold before the maturity of the fund (i.e., before 2025);

(2) The loan agreement for which the cash flow risk is hedged shall be extended upon maturity up to the maturity date of the swap contract so that the cash flows of the loan agreements overlap with the cash flows of the payment schedules underlying the swap contract.

To mitigate interest rate risk, the Group has entered into three interest-swap contracts:

					Fair value, € thousand	
	Country	Nominal amount of the contract, € thousand	Fixed interest rate	Maturity of the contract	31.12.2018	31.12.2017
SEB	Estonia	23,000	1-month EURIBOR at 0,65%	30.08.2022	-662	-579
Luminor	Latvia	25,513	1-month EURIBOR at 0%	25.06.2021	-162	-42
Luminor	Lithuania	9,208	3-month EURIBOR at 0,35%	30.06.2022	-131	-82
Total		**57,722**			**-955**	**-703**

As at 31.12.2018, the loan liabilities related to the swap contract account for 50% of all loan commitments of the Group (31.12.2017: 57%).

The Group recognizes interest rate swaps on a hedge accounting basis. The fair value of the Group's interest rate swaps as of 31.12.2018 was negative in the total amount of EUR 955 thousand (31.12.2017: negative total of EUR 703 thousand) (Note 19).

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;
- hotel occupancy;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Volume and pace of real estate development activities;

- Financing structure.

The objective of the Group is to manage net cash flows in such a way that no more than 60% of the cost of the investment is included in the capital of the investment and that the Group's debt coverage ratio is higher than 3.0. As at 31.12.2018, the Group's interest-bearing debt liabilities accounted for 47% (31.12.2017: 50%) of the cash-generating investment property and 3.7 (2017: 3.5) debt ratio.

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 31.12.2018	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	23,225	760	2,054	88,929	0	**114,968**
Interest payments	145	468	1,243	4,061	0	**5,917**
interest rate derivatives liabilities	0	0	0	955	0	**955**
Interest payables	29	0	0	0	0	**29**
Trade payables	661	0	0	0	0	**661**
Success fee liability	0	0	0	0	4,695	**4,695**
Tenant security deposits	29	243	200	1,157	385	**2,014**
Accrued expenses	372	0	0	0	0	**372**
Total financial liabilities	**24,461**	**1,471**	**3,497**	**95,102**	**5,080**	**129,611**

As at 31.12.2017	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	192	662	1,794	100,336	0	**102,984**
Interest payments	126	377	999	2,670	0	**4,173**
interest rate derivatives liabilities	0	0	0	703	0	**703**
Interest payables	14	0	0	0	0	**14**
Trade payables	745	0	0	0	0	**745**
Success fee liability	0	0	0	0	3,236	**3,236**
Tenant security deposits	4	177	232	1,034	320	**1,767**
Accrued expenses	511	0	0	0	0	**511**
Total financial liabilities	**1,593**	**1,217**	**3,025**	**104,743**	**3,556**	**114,133**

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 activities to prevent and minimize the risk of credit risk arising from credit risk are the daily monitoring and routing of customers' payment behavior, which enables operational measures to be taken quickly.

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 collectability 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:

Trade receivables	31.12.2018	31.12.2017
€ thousand		
Undue	348	337
Past due, incl.	**235**	**297**
up to 30 days	*185*	*206*
30-60 days	*11*	*22*
more than 60 days	*39*	*69*
Doubtful debt	-36	-50
Total trade receivables	**547**	**584**

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

	31.12.2018	31.12.2017
€ thousand		
Cash and cash equivalents	18,922	11,874
Trade receivables	547	584
Total maximum credit risk	**19,469**	**12,458**

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

Rating	31.12.2018	31.12.2017
A1	2,668	2,418
Aa3	16,220	9,402
Total	**18,888**	**11,820**

Capital management

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

The Group invests in cash-generating real estate in Estonia and Latvia. The Group's investment policy requires that no more than 30% of the value of the fund's assets be invested in one investment object. The required amount of equity is calculated individually for each investment, taking into account the volume and proportion of net cash flows and loan payments for a particular investment.

Fair value

The valuation methods used to analyse 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 of 31.12.2018 and 31.12.2017, the Group had no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All investment property of the Group (Note 14) and property, plant and equipment recognized under revaluation method (Note 15) are carried at fair value and are classified as Level 3 according to the valuation method. All loan liabilities of the Group and derivative instruments for hedging interest rate risk belong to the Level 2 group.

For hedging the interest rate risk, the Group has entered into interest rate swaps (Note 19), the fair value of which is obtained by discounting the cash flows of interest rate swaps in a way incoming and outgoing cash flows are determined according to EURIBOR market expectations and they are discounted at zero rate. For recognising the fair value of interest rate swaps, the Group uses information received from credit institutions who are contract partners.

21 Share capital

In April 2018, EfTEN Kinnisvarafond II AS issued 1,142,000 shares with a nominal value of 10 euros. The new shares were issued at a premium of EUR 3.10 per share. As a result, the share capital increased by 11,420 thousand euros and the share premium by 3,540 thousand euros. A total of 14,960 thousand euros was paid in cash for the new shares and share premium.

The registered share capital of EfTEN Kinnisvarafond II AS as of 31.12.2018 is 92,138 thousand euros. As at 31.12.2018, the share capital consisted of 9,213,756 shares with a nominal value of 10 euros. Without amending the Articles of Association, the Company has the right to increase the share capital to EUR 100,100 thousand.

In the reporting period, 997 thousand euros of retained earnings were transferred to the statutory reserve capital (2017: 525 thousand euros).

Further information on share capital is provided in Note 27.

22 Contingent liabilities

Contingent income tax liability

	31.12.2018	31.12.2017
€ thousand		
The company's retained earnings as at December 31	32,992	26,654
Potential income tax liability	6,598	5,331
The amount that can be paid out as dividends	26,394	21,323

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 31.12.2018 and 31.12.2017.

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 and Lithuania

The management estimates that there are not any circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

23 Related party transactions

EfTEN Kinnisvarafond II AS considers the following as related parties:
- members of the Management Board and companies owned by the members of the Management Board of EfTEN Kinnisvarafond II AS;
- members of the Supervisory Board and companies owned by the members of the Supervisory Board of EfTEN Kinnisvarafond II AS;
- employees and companies owned by the employees of EfTEN Kinnisvarafond II AS;
- EfTEN Capital AS (fund management company).

In the reporting period, the Group purchased management services from EfTEN Capital AS in the amount of EUR 1,231 thousand (2017: EUR 969 thousand) (Note 7) and accounting and brokerage services from subsidiaries and associates of EfTEN Capital AS in the amount of EUR 86 thousand (2017: EUR 79 thousand).

In the reporting period, the Group had a total of 149 employees (2017: 133), who were paid a total of EUR 3,384 thousand (2017: EUR 3,041 thousand) including the associated taxes. During the reporting period, no compensations were accounted for 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.

24 Parent company's separate income statement

Pursuant to the Accounting Act of the Republic of Estonia, information of the annual 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.

	2018	2017
€ thousand		
Revenue	1,202	910
Gross profit	**1,202**	**910**
General and administrative expenses	-1,321	-1,081
Other operating income		100
Operating profit	**-119**	**-71**
Gain from subsidiaries	12,967	16,424
Dividend income	7,023	4,000
Finance income	225	186
Profit before income tax	**20,096**	**20,539**
Total comprehensive income for the financial year	**20,096**	**20,539**

25 Parent company's separate balance sheet

	31.12.2018	31.12.2017
€ thousand		
ASSETS		
Cash and cash equivalents	3,431	1,514
Receivables and accrued income	193	44
Total current assets	**3,624**	**1,558**
Non-current assets		
Shares of subsidiaries	126,328	103,358
Long-term receivables	8,408	5,408
Total non-current assets	**134,736**	**108,766**
TOTAL ASSETS	**138,360**	**110,324**
LIABILITIES AND EQUITY		
Short-term liabilities		
Payables and prepayments	13	11
Total short-term liabilities	**13**	**11**
Total liabilities	**13**	**11**
EQUITY		
Share capital	92,138	80,718
Share premium	5,861	2,321
Statutory reserve capital	1,673	676
Retained earnings	38,675	26,598
Total equity	**138,347**	**110,313**
TOTAL LIABILITIES AND EQUITY	**138,360**	**110,324**

26 Parent company's separate statement of cash flows

	2018	2017
€ thousand		
Cash flows from operating activities		
Net profit	**20,096**	**20,539**
Adjustments to net profit:		
Interest income and interest expenses	-225	-186
Gain/-loss on the fair value adjustment of subsidiaries	-12,967	-16,424
Dividends received	-7,023	-4,000
Total adjustments	**-20,215**	**-20,610**
Cash flow from operations before changes in working capital	**-119**	**-71**
Change in receivables and payables related to operating activities	26	-36
Net cash generated from operating activities	**-93**	**-107**
Cash flows from investing activities		
Acquisition of subsidiaries	-10,004	-6,474
Loans granted	-3,000	-725
Repayment of loans granted	0	725
Dividends received	7,023	4,000
Interest received	53	659
Net cash flows from investing activities	**-5,928**	**-1,815**
Cash flows from investing activities		
Shares issued	14,960	0
Dividends paid	-7,022	-4,000
Net cash generated from financing activities	**7,938**	**-4,000**
NET CASH FLOW	**1,917**	**-5,922**
Cash and cash equivalents at the beginning of the period	**1,514**	**7,436**
Change in cash and cash equivalents	1,917	-5,922
Cash and cash equivalents at the end of the period	**3,431**	**1,514**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
€ thousand					
Balance as at 31.12.2016	**80,718**	**2,321**	**151**	**10,584**	**93,774**
Dividends paid	0	0	0	-4,000	**-4,000**
Transfers to statutory reserve capital			525	-525	**0**
Comprehensive income for the financial year	0	0	0	20,539	**20,539**
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**26,598**	**110,313**
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**26,598**	**110,313**
Shares issued	11,420	3,540	0	0	14,960
Dividends paid	0	0	0	-7,022	-7,022
Transfers to statutory reserve capital	0	0	997	-997	0
Comprehensive income for the financial year	0	0	0	20,096	20,096
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**38,675**	**138,347**

For additional information on changes in share capital, please see Note 21.

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

	31.12.2018	31.12.2017
€ thousand		
Parent company's unconsolidated equity	138,347	110,313
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-126,328	-103,358
Value of subsidiaries and joint ventures under the equity method (plus)	126,328	103,358
Total	**138,347**	**110,313**

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Kinnisvarafond II AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond II AS (the Company) and its subsidiaries (together the Group) as at 31 December 2018, 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 2018;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows 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

/signed/ /signed/

Lauri Past
Auditor's certificate no.567

Rando Rand
Auditor's certificate no.617

28 February 2019

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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.*

Proposal for profit allocation

The management board of EfTEN Kinnisvarafond II AS proposes to the General Meeting of Shareholders to distribute the profit as follows (in euros):

Retained earnings as at 31.12.2018	32,992,310
Allocation to statutory reserve capital	717,852
Dividend distribution	8,108,105
Retained earnings after allocation	24,166,353

/signed/

Viljar Arakas

Member of the Management Board

/signed/

Tõnu Uustalu

Member of the Management Board

28 February 2019

Signatures of the members of the Management Board and Supervisory Board to the 2018 annual report

We hereby confirm the correctness of data presented in the 2018 annual report of EfTEN Kinnisvarafond II AS.

__________________	__________________
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board
__________________	__________________
Sander Rebane	Olav Miil
Member of the Supervisory Board	Member of the Supervisory Board
/signed/	/signed/
__________________	__________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board

Allocation of income according to EMTA classificators

	EMTAK code	**2018**	Revenue %	Main activity
€ thousand				
Fund management	66301	1,202	100%	Yes