EfTEN Capital

Consolidated Annual Report 2018

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

Beginning of financial year: 01.01.2018

End of financial year: 31.12.2018

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MANAGEMENT REPORT

Comment by the Chairman of the Board

During the last financial year, the fund successfully completed the construction of both the Viljandi UKU Center and the RAF Cenrer in Jelgava, as well as the improvement of the office building at Pärnu mnt 105. Both centers are covered by rental agreements and open to visitors in full. As a result of improvements, the vacany rate of Pärnu mnt 105 has decreased from 27.4% to 7.5% during the year.

In the first half of the year, EfTEN Kinnisvarafond made a 10'th successful exit from a single asset by selling Laki 24 office building in Tallinn. In the second half of the year, the fund's investors decided to extend the fund's maturity by 5 years until 2027. In addition to the annual dividend payment, in spring 2019, the fund's share capital will be reduced by 14% (amounting to EUR 9.060 million) compared to the paid-in share capital.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond AS in 2018 was EUR 15.641 (2017: 15.922) million, a decrease of 1.8% compared to the same period last year due to sale of investment properties. The Group's net profit for the same period was EUR 10.783 million (2017: EUR 9.569 million). In 2018, the net profit increased significantly due to lower dividend income tax expense.

The consolidated gross profit margin in 2018 was 93% (2017: same), therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 7% of the sales revenue in the current period (2017: same).

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 17.0% of the revenues in the of 2018. The respective indicator was 17.5% in 2017.

	2018	2017
EUR million		
Rental revenue. other fees from investment properties	15.641	15.922
Expenses related to investment properties, incl. marketing costs	-1.363	-1.424
Interest expense and interest income	-1.996	-2.118
Net rental revenue less finance costs	**12.282**	**12.380**
Management fees	-1.174	-1.174
Other revenue and expenses	-0.128	-0.187
Profit before change in the value of investment property, profits/losses from subsidiaries and joint ventures and income tax expense	**10.980**	**11.019**

As at 31.12.2018, the Group's total assets were in the amount of EUR 215.246 million (31.12.2017: EUR 215.568 million), including fair value of investment property, which accounted for 89.8% (31.12.2017: 87.9%) of total assets.

	31.12.2018	31.12.2017
EUR million		
Investment property	193.212	189.441
Other non-current assets	4.132	3.386
Current assets, excluding cash	0.767	0.763
Net debt	-92.845	-84.208
Net asset value (NAV)	105.266	109.382
Net asset value (NAV) per share, in euros	2.6721	2.7768

Access to flexible financing conditions will help to increase the Group's competitiveness. In 2018, the maturity date arrived for six loan agreements of the Group totalling to EUR 31.545 million (balance as at 31.12.2017). In January 2018, the Group's subsidiary paid EUR 0.661 million for one completed loan in connection with the real estate sale in the spring of 2018. The remaining loan agreements were refinanced by a sum EUR 7.0 million higher, of which EUR 4.5 million was received by the Group in 2018 and EUR 2.5 million will be received in the spring of 2019 before the share capital reduction payment to shareholders. The new interest rates on refinanced loans in 2018 remained between 1.69% - 1.8% instead of the previous 1.3% and 1.95%.

As at the end of the year, the average interest rate on Group's loan agreements (including interest swap contracts) was 2.11% (2017: 1.96%) and the LTV (loan to value) ratio of investment property generating rental revenue was 49% (2017: same). As at 31.12.2018, 50.0% of the Group's loan agreements were fixed Euribor rate at a level between 0.60% - 0.67% (31.12.2017: 52.2%)

12 months	31.12.2018	31.12.2017
ROE, % (net profit of the period / average equity of the period) * 100	10.1	8.8
ROA, % (net profit of the period / average assets of the period) * 100	4.9	4.4
ROIC, % (net profit of the period / average invested capital of the period) * 100[1]	17.6	15.5
EBITDA (EUR thousand)	13 003	12 999
EBITDA margin, %	83%	82%
EBIT (EUR thousand)	13 253	13 860
EBIT margin, %	85%	87%
Liquidity ratio (current assets / current liabilities)	0.4	0.6
DSCR (EBITDA/(interest expenses + scheduled loan payments)	2.6	2.6

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

[2] In 2019, the maturity date will arrive of the Group's four loan agreements totaling EUR 37.019 thousand (balance as at 31.12.2018), as a result, the Group's liquidity ratio as of 31.12.2018 is 0.4. The fair value of the underlying assets of these loan agreements is EUR 73,969 thousand, i.e. the assets LTV will remain between 47% and 55% at the end of 2018. Also, all loan agreements with ending maturity date are pledged as collateral with investment properties with strong existing cash flow and tenant base, thus the Group's management estimates that refinancing of these loans is unlikely to be difficult and would create liquidity problems for the Group.

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2018, the Group had 19 (2017: 20) commercial investment properties with a fair value as at the balance sheet date of EUR 193.212 million and acquisition cost of EUR 172.345 million. In addition, a joint venture of the Group owns the hotel Palace in Tallinn with a fair value of EUR 11.060 million as at 31.12.2018. The real estate portfolio of the Group is divided into following sectors:

- retail premises 37%; 6 investments
- office premises 27%; 6 investments
- storage and manufacturing premises 27%; 5 investments
- other (hotel and government) 9%; 2 investments

Investment property, as at 31.12.2018	Group's ownership interest, %	Cost of acquisition	Fair value	Net leasable area	Rental Revenue per annum	Occupancy, %	Average length of lease agreement
Tallinn Cold Storage (Tallinna Külmhoone)	100	6,237	6,410	6,863	552	100	3.5
Kuuli 10/Punane 73	100	9,171	10,300	15,197	833	100	9.2
Betooni 1a	100	7,347	8,000	10,678	676	100	2.3
Betooni 6	100	9,751	8,930	16,838	759	89	2.8
Nordic Technology Park	100	20,556	20,659	42,230	1,901	96	1.8
Total storage and manufacturing premises		**53,062**	**54,299**	**91,806**	**4,721**	**90**	**3.5**
Võru Rautakesko	100	3,270	2,880	3,120	243	100	4.2
UKU Centre	100	10,277	12,300	7,866	951	97	4.5
Mustika Centre	100	31,004	36,380	27,230	2,854	94	4.5
RAF Centrs	100	8,107	8,744	6,177	719	99	3.0
Depo shopping centre in Jelgava	100	2,323	2,323	*development stage*			
Tammsaare road Rautakesko	100	12,930	14,800	9,120	1,263	100	3.2
Total retail premises		**67,911**	**77,427**	**53,513**	**6,030**	**97**	**4.0**
Lauteri 5	100	3,360	5,140	3,942	401	97	2.5
Pärnu mnt 102	100	12,386	16,110	9,216	1,211	96	1.4
Pärnu mnt 105	100	7,759	7,610	4,778	592	92	2.2
Kadaka road 63	100	7,222	8,590	7,610	755	99	3.6
Terbata office building	100	9,689	9,416	4,843	705	100	1.6
Menulio 11 Police Building	100	6,016	7,780	5,620	677	100	3.9
Total office premises		**46,432**	**54,646**	**36,009**	**4,341**	**94**	**2.4**
Rakvere Police Building (government)	100	4,940	6,840	5,744	669	100	6.8
Hotel Palace (hotels) [1]	50	10,957	11,060	4,883	755	100	
Total		**183,302**	**204,272**	**191,955**	**16,516**	**97**	**3.5**

[1] Hotel Palace belongs to the Group's joint venture with a 50% share, therefore, the Group does not consolidate this investment property and the rental income it generates. These figures are not included in consolidated financial statements line items of investment properties and revenue.

As at 31.12.2018, the Group has a total of 331 (2017: 308) tenants. Contractual revenue generated by 12 customers' accounts for 52.6% of the consolidated rental revenue.

Customer	% of the consolidated rental revenue
Kesko Senukai Estonia AS	10.5%
Prisma Peremarket AS	8.9%
Logistika Pluss OÜ	5.4%
DHL Logistics Estonia AS	4.7%
Riigi Kinnisvara	4.4%
Eesti Energia AS	4.0%
Premia Tallinna Külmhoone AS	3.6%
Vlniaus apskrities vyriausiasis policijos komisariatas	2.7%
Livonia Print SIA	2.6%
Kinnisvaravalduse AS	2.1%
Fristads Kansas production SIA	1.9%
Arvato Services Estonia OÜ	1.8%
Others	47.4%

Valuation of investment property

EfTEN Kinnisvarafond revalues its investment properties twice a year – in June and in December. Since 2014, the Group's investment property has been valued by Colliers International Advisors OÜ. As a result of revaluation, the total value of investment property increased by 0.1% (2017: 0.6%) and the Group recognised a gain from fair value adjustment on investment property in the amount of EUR 0.239 million (2017: EUR 1.088 million).

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. Compared to 2017, the exit yields and discount rates in the Group's investment portfolio remained on the same level for most of the investment properties. Smaller shifts down have occured on those properties, where the properties have been improved as a result of the development work, an anchor tenant has extended its lease term or where the yields are lower due to actual market transactions. In 2018, exit yields fell within the range of 7.0%-8.7% (2017: 6.8%-8.7%). Discount rates in 2018 remained at the same level as in the previous year (7.9%-9.5%).

Information on shares

As at 31.12.2018, payments made to the share capital of EfTEN Kinnisvarafond AS total EUR 61.131 million (31.12.2017: same) including share capital of EUR 23.635 million and share premium of EUR 37.496 million. As at 31.12.2018, the number of shares was 39,391,371 (31.12.2017: same).

In September 2018, the general meeting of EfTEN Kinnisvarafond AS decided to reduce the share capital of the fund by reducing the nominal value of the share from EUR 0.6 to EUR 0.5. The share capital will decrease by a total of EUR 3.939 million due to this decision and the total amount that will be paid out to shareholders during the capital reduction is in the amount of EUR 9.060 million. As at 31.12.2018 EfTEN Kinnisvarafond AS filed an application with the Commercial Register for the reduction of share capital and the Commercial Register made a corresponding entry on 7 January 2019. As at 31.12.2018, the reduction of share capital in the Group's financial statements is included in the composition of liabilities, as at the balance sheet date there was assurance that third parties did not have any objections or claims against the fund. After the transaction, the share capital of EfTEN Kinnisvarafond AS is EUR 19.696 million and the share premium is EUR 32.375 million.

The net asset value (NAV) of the shares of EfTEN Kinnisvarafond AS as of 31.12.2018 was 2.67 euros. The net asset value of the shares of EfTEN Kinnisvarafond AS decreased by 3.8% during the year due to the reduction of share capital and dividends paid. Without the distribution of dividends, the associated income tax expense and the reduction of share capital, the NAV of the fund in 2018 would have increased by 9.8%

EUR thousands	31.12.2018	31.12.2017
Net asset value calculated in accordance with IFRS	105,266	109,382
Number of shares at the balance sheet date	39,391,371	39,391,371
IFRS net asset value per share, in euros	2.67	2.78

In addition to the aforementioned net asset value calculated in accordance with IFRS, EfTEN Kinnisvarafond AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most approriate net asset value. The EPRA recommended guide requires a long-term economic strategy for real estate companies, so temporary differences in the situation where asset sales are unlikely to occur in the near future obscure the transparency of the fair value of the fund's net assets. Therefore, the fair value of the deferred tax expense on investment property and the fair value of financial instruments (interest swap) is eliminated from the net asset value calculated in accordance with IFRS.

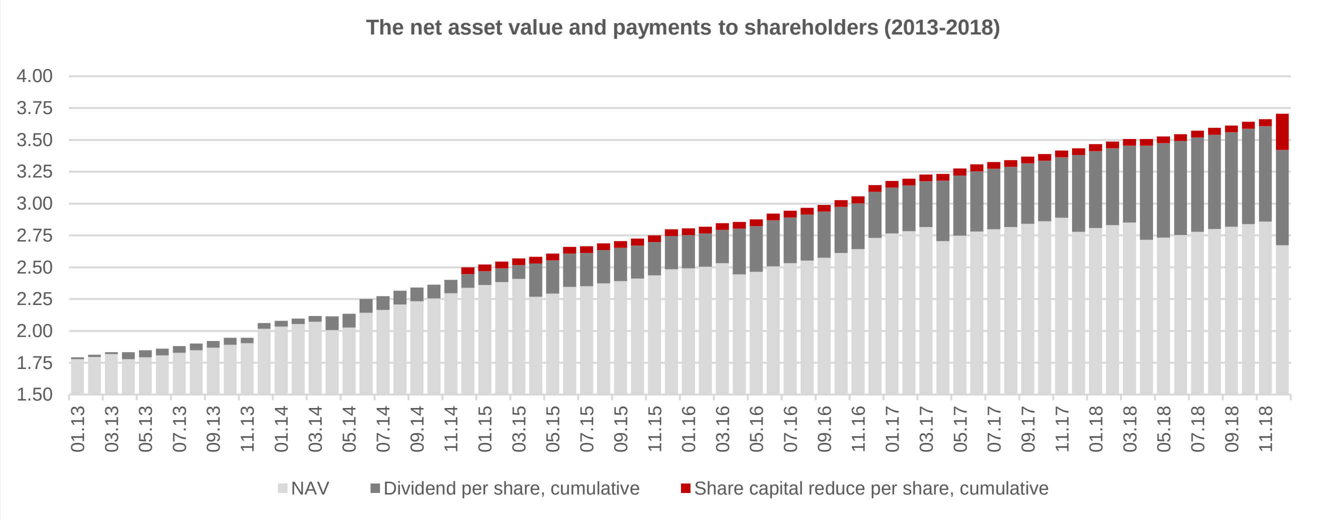
EUR thousands	31.12.2018	31.12.2017
Net asset value calculated in accordance with IFRS	105,266	109,382
Exclusion of deferred income tax on investment property	395	307
Exclusion of the fair value of financial instruments	1,182	1,095
EPRA net asset value	**106,843**	**110,784**
Number of shares at the balance sheet date	39,391,371	39,391,371
EPRA net asset value per share, in euros	**2.71**	**2.81**
EPRA NAV growth, in euros	-0.10	0.02
Dividend paid per share, in euros	0.15	0.22
Income tax on dividends paid per share, in euros	0.03	0.05
Reduction of share capital per share, in euros	0.23	0.00
Period earnings per share, in euros	**0.30**	**0.29**
Period earnings per share, increase compared to the net asset value of EPRA at the balance sheet date of the previous period	**10.8%**	**10.3%**

The dividend policy of EfTEN Kinnisvarafond AS foresees that in each financial year, the Group will pay 80% (gross) of the free cash flow to the shareholders. In 2018, the shareholders of EfTEN Kinnisvarafond AS decided to declare (net) dividends in the total amount of EUR 5.751 million, i.e. 14.6 cents per share, in 2017 it was decided to declare (net) dividends a total of EUR 8.6 million a year, i.e. 21.8 cents per share.

In 2018, the Group has earned a free cash flow of EUR 8.090 million (12 months of 2017: EUR 7.879 million). According to the dividend policy, EfTEN Kinnisvarafond AS would be able to pay net dividends to its shareholders in accordance with the established dividend policy of EUR 5.178 million this year. However, at the end of 2018, the Group's cash balance allows for the dividends to be paid out in a bigger amount than the dividend policy allows. As a result, in the spring of 2019 the Management Board of the Fund proposes to the Supervisory Board to pay a dividend of EUR 7.114 million (18 cents per share). For the whole previous year, the fund paid net dividends to shareholders of 15 cents per share.

	2018	2017
EUR thousands	-	-
Operating profit	**13,253**	**13,860**
Adjustment for revaluation gains on investment property	-239	-1,088
Adjustment for depreciation of fixed assets	4	4
Adjustment for non-monetary change in success fee	-15	223
EBITDA	**13,003**	**12,999**
Interest expenses	-1,997	-2,119
Repayment of bank loans	-2,916	-3,001
Free cash flow	**8,090**	**7,879**
80% of free cash flow	6,472	6,303
Income tax on dividends	-1,294	-1,105
Potential net dividend according to dividend policy	**5,178**	**5,198**
Number of shares at end of period	39,391,371	39,391,371
Potential net dividend according to dividend policy per share, in euros	**0.13**	**0.13**
Potential additional cash flow[1]	2,420	553
Income tax on dividends from additional cash flow	-484	0
Potential net dividend with additional cash flow	**7,114**	**5,751**
Potential net dividend per share, in euros	**0.18**	**0.15**

[1] The potential additional cash flow at the end of the reporting period includes the cash accumulated in the accounts of the Fund and the subsidiaries of the Fund, which are not intended to be invested or kept in daily business to ensure liquidity.



Shareholder structure of EfTEN Kinnisvarafond AS as at 31.12.2018

	Ownership percentage in share capital, %
LHV Pension Funds	46.5
Trio Holding OÜ	11.1
Ambient Sound Investments OÜ	6.3
Swedbank Pension Funds	3.7
Luminor Pension Funds	3.1
Others	29.3

Management

In 2018, two general meetings of shareholders took place. On April 23, 2018 the annual general meeting of shareholders of EfTEN Kinnisvarafond AS was held, which unanimously approved the 2017 annual report, decided to pay a net dividend in the amount of EUR 5,357,226 (EUR 13.6 cents per share) and the mandate of the five Supervisory Board members was extended for the next five years: Arti Arakas, Jaan Pillesaar, Siive Penu, Sander Rebane and Laire Piigi. The extraordinary general meeting was held on September 25, 2019, where it was decided to pay an additional dividend of EUR 393,914 (EUR 1 cent per share), extension of the term of the fund by five years and payment of the success fee calculated for the assets sold to the management company. In connection with the extension of the Fund's term, the new wording of the Fund's Articles of Association was also approved and the Management Board was empowered to amend the management agreement. In addition, it was decided to reduce the Fund’s share capital by EUR 3,939,137.1 by reducing the nominal value of each ordinary share by EUR 0.1. The nominal value of the new share is EUR 0.5 and the new share capital amounts to EUR 19,695,685.5. In the reducing of the share capital, it was decided to pay out the shareholders EUR 9,060,015 (EUR 0.23 per share).

The Supervisory Board has seven members: Arti Arakas (Chairman of the Supervisory Board), Jaan Pillesaar, Siive Penu, Laire Piik, Sander Rebane, Tauno Tats and Kristo Oidermaa. No changes were made to the members of the Supervisory Board. 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.

The Management Board of the Fund is comprised of two members: Viljar Arakas and Tõnu Uustalu. There were no changes among the members of the Management Board. The Management Board shall monitor the fund management company’s, depository’s and other third parties’ fund related activities, as well as supervise other functions related to management and transferred tasks carried out by third parties.

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

CONSOLIDATED INCOME STATEMENT

	Notes	2018	2017
€ thousand			
Revenue	4,5	15,641	15,922
Cost of services sold	6	-1,117	-1,148
Gross profit		**14,524**	**14,774**
Marketing costs	7	-246	-276
General and administrative expenses	8	-1,457	-1,647
Gain / loss from revaluation of investment properties	15	239	1,088
Other income		204	66
Other expenses		-11	-145
Operating profit	4	**13,253**	**13,860**
Profit/ loss from subsidiaries and joint ventures	9	719	194
Finance income		1	1
Finance costs	10	-1,997	-2,119
Profit before income tax		**11,976**	**11,936**
Income tax expense	11	-1,193	-2,367
Net profit for the financial year	4,12	**10,783**	**9,569**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2018	2017
€ thousand			
Net profit for the financial year		10,783	9,569
Other comprehensive profit/ -loss:			
Profit/ -loss from revaluation of hedging instruments	19	-87	828
Total other comprehensive profit/ -loss		**-87**	**828**
Total comprehensive income for the financial year		**10,696**	**10,397**

Notes on pages 11 to 42 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	13	17,135	21,978
Receivables and accrued income	14	722	706
Prepaid expenses		31	45
Inventories		14	12
Total current assets		**17,902**	**22,741**
Long-term receivables	14	51	18
Investments in joint ventures	3	4,044	3,325
Investment property	4,15	193,212	189,441
Property, plant and equipment		37	43
Total non-current assets		**197,344**	**192,827**
TOTAL ASSETS		**215,246**	**215,568**
LIABILITIES AND EQUITY			
Borrowings	16	39,445	33,139
Derivative instruments	19	1,182	1,095
Payables and prepayments	17	9,821	6,540
Total current liabilities		**50,448**	**40,774**
Borrowings	16	54,300	59,016
Other long-term liabilities	17	792	613
Success fee liability	18	4,045	5,369
Deferred income tax liability	11	395	307
Long-term provisions	23	0	107
Total non-current liabilities		**59,532**	**65,412**
Total liabilities		**109,980**	**106,186**
Share capital	20	23,635	23,635
Share premium		37,496	37,496
Statutory reserve capital	20	3,544	3,024
Reduction of unregistred share capital and share premium	20	-9,060	0
Hedging reserve	19	-1,182	-1,095
Retained earnings	21	50,833	46,322
Total equity	4	**105,266**	**109,382**
TOTAL LIABILITIES AND EQUITY		**215,246**	**215,568**

Notes on pages 11 to 42 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Lisad	2018	2017
€ thousand			
Net profit		**10,783**	**9,569**
Adjustments to net profit:			
Gain/-loss from joint ventures under equity accounting method	9	-719	-194
Finance income		-1	-1
Finance costs	10	1,997	2,119
Gains/-losses from investment property revaluation	15	-239	-1,088
Change in the success fee liability	8	-15	223
Depreciation, amortisation and impairment		10	8
Income tax expense	11	1,193	2,367
Total adjustments with non-cash changes		**2,226**	**3,434**
Cash flow from operations before changes in working capital		**13,009**	**13,003**
Change in receivables and payables related to operating activities		-1,491	-139
Net cash generated from operating activities		**11,518**	**12,864**
Purchase of property, plant and equipment		-5	-31
Purchase of investment property	15	-5,734	-4,034
Proceeds from sale of investment property	15	1,750	16,740
Sale of subsidiaries	3	0	3,080
Repayment of loans received		0	10
Interest received		1	122
Net cash generated from investing activities		**-3,988**	**15,887**
Loans received	16	5,165	931
Loan repayments on sale and refinancing of investment properties	16	-662	-8,068
Scheduled loan repayments	16	-2,916	-3,001
Interest paid		-1,992	-2,080
Dividends paid	19	-9,851	-4,500
Income tax paid on dividends	12	-2,119	-1,056
Net cash generated from financing activities		**-12,375**	**-17,774**
NET CASH FLOW		**-4,845**	**10,977**
Cash and cash equivalents at the beginning of the period	13	**21,980**	**11,003**
Change in cash and cash equivalents		-4,845	10,977
Cash and cash equivalents at the end of the period	13	**17,135**	**21,980**

Notes on pages 11 to 42 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Reduction of unregistred share capital and share premium	Hedging reserve	Retained earnings	**Total**
€ thousand							
Balance as at 31.12.2016	**23,635**	**37,496**	**2,303**	**0**	**-1,923**	**46,075**	**107,586**
Dividends announced	0	0	0	0	0	-8,600	**-8,600**
Transfers to statutory reserve capital	0	0	721	0	0	-721	**0**
Total transactions with owners	**0**	**0**	**721**	**0**	**0**	**-9,321**	**-8,600**
Net profit for the financial period	0	0	0	0	0	9,569	**9,569**
Other comprehensive loss	0	0	0	0	828	0	**828**
Total comprehensive income	**0**	**0**	**0**	**0**	**828**	**9,569**	**10,397**
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**-1,095**	**46,322**	**109,382**
Reduction of share capital	0	0	0	-3,939	0	0	**-3,939**
Reduction of share premium	0	0	0	-5,121	0	0	**-5,121**
Announced dividends	0	0	0	0	0	-5,751	**-5,751**
Transfers to statutory reserve capital	0	0	520	0	0	-520	**0**
Total transactions with owners	**0**	**0**	**520**	**-9,060**	**0**	**-6,271**	**-14,811**
Net profit for the financial period	0	0	0	0	0	10,783	**10,783**
Other comprehensive loss	0	0	0	0	-87	0	**-87**
Total comprehensive income	**0**	**0**	**0**	**0**	**-87**	**10,783**	**10,696**
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**-1,182**	**50,833**	**105,266**

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

Notes on pages 11 to 42 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond AS and its subsidiaries for the 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 AS (Parent company) is a company registered and operating in Estonia.

The structure of EfTEN Kinnisvarafond AS Group as at 31.12.2018 is as follows (see also Note 3):

EfTEN Kinnisvarafond AS

SUBSIDIARIES

Share	Subsidiary	Share	Subsidiary	*Investment property:*
100%	EfTEN SPV2 OÜ			*Lauteri 5*
100%	EfTEN SPV4 OÜ			*Rakvere police and rescue building*
100%	EfTEN SPV5 OÜ			*Pärnu mnt 105*
100%	EfTEN SPV6 OÜ			*Pärnu mnt 102*
100%	EfTEN SPV7 OÜ	100%	EfTEN SPV8 OÜ	*Mustika Shopping Centre*
100%	EfTEN SPV9 OÜ			*Kadaka road 63*
100%	EfTEN SPV10 OÜ			*Laki 24 (sold in 2018)*
100%	EfTEN SPV12 OÜ			*Tammsaare road 49. Tallinn; Kuuli 10. Tallinn*
100%	EfTEN SPV14 OÜ			*Võru Rautakesko*
100%	EfTEN SPV15 OÜ			*Tallinn Cold Storage (Tallinna Külmhoone)*
100%	EfTEN SPV16 OÜ	100%	EfTEN SPV3 OÜ	*UKU Centre*
100%	EfTEN SPV17 OÜ			*Betooni 1a. Tallinn; Betooni 6. Tallinn*
100%	EfTEN Jelgava SIA			*RAF Centrs*
100%	EfTEN Terbata SIA			*Lacpleca 20a. Riga*
100%	EfTEN NTP SIA			*Nordic Technology Park*
100%	EfTEN Menulio UAB			*Menulio Pollice Building*
100%	Auras Centrs SIA			*Depo*

JOINT VENTURES

Share	Joint venture	*Investment property:*
50%	EfTEN SPV11 OÜ	*Hotel Palace*

2 Statement of compliance and basis for preparation

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

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

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

2.1 Changes in the accounting policies and presentation

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became mandatory for the Group from January 1, 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 significant impact on financial reporting as of January 1, 2018 as the 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. In accordance with the transition rules of IFRS 9, comparative information on derivative instruments was not changed.

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 analyzed 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 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 amendments

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 January 2019 or after, and which the Group has not early adopted.

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, therefore the standard has no impact on the Group.

New standards that have yet to be 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 analyzes and discloses the impact of this other change after its implementation.

„Long-term Interests in Associates and Joint Ventures“ - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee.

EfTEN Kinnisvarafond AS owns the joint venture EfTEN SPV11 OÜ, whose net assets are higher than the equity investments made there. Consequently, the amendment has no impact on the Group's financial statements.

„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 analyzes and discloses the impact of this other 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 analyzes 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 analyzes and discloses the impact of this other change after its implementation

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

2.2 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

2.2.1 Estimation uncertainty

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

a) <u>Determination of the fair value of investment property</u>

At each balance sheet date, investment properties are measured at their fair values. Starting from 2014, 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. All of the investment properties owned by the Group generate (or will start to generate when they are completed) rental revenue, therefore, the applied method best indicates the fair value of the investment properties among the alternatives (for example, the comparison method). The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. Taking into account the changes in the commercial real estate market in the Baltic States and the favourable financing conditions, the discount rates are still at a relatively low level, ranging from 7.9% to 9.5% (31.12.2017: 7.5%-9.5%), depending on the location and the quality of the property. Similarly, the exit yields have remained at the same level, ranging between of 7.0% and 8.7% (2017: 6.8%-8.7%).

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

b) <u>Judgments concerning the existence of control or significant influence over other entities</u>

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

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

c) <u>Business combinations and acquisitions of assets</u>

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.

2.2.3 Investment company

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

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

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

New subsidiaries (business combinations) are accounted for in the interim 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 four business segments and three geographical segments are presented in the following table:

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

The main indicators used by the management in making business decisions are 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 and joint ventures in the separate balance sheet of the parent company

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

Revenue recognition

Sales revenue accounting principles as of 01.01.2018

Revenue is the income generated by the Company in the ordinary course of business. Revenue is recognized in the transaction price. The Transaction Price is the total fee that the Company is entitled to receive for the transfer of authorized services to the Customer, less any amounts collected on behalf of third parties. An entity recognizes revenue when control of the good or service is transferred to the customer.

The Group's revenue includes rental income, administrative fees, marketing fees, and profits from utility and administrative expenses.

Lease income from operating leases is recognized 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 recognized on a straight-line basis over the lease term, reducing rental income.

Administrative fees and marketing fees are recognized 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 on a gross basis but is offset by the related expense.

Financing component

The company has no contracts where the period between the delivery of goods or services allowed to the customer and the receipt of payment from the customer would be longer than one year. Consequently, the Company's transaction price is not adjusted for the effect of the time value of money.

Accounting policies for revenue until 31.12.2017

Revenue is measured at the fair value of the consideration received or receivable from transactions. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be measured reliably.
Rental income from investment properties is recognised on a straight-line basis over the lease term.
Income from intermediation of services (utility fees of subtenants, sublease, and other intermediated services) is offset against the expense on services purchased.

Finance income

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

Cash and cash equivalents

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

Financial assets

Accounting policies from 01.01.2018

(i) Classification
An entity classifies financial assets into the following measurement categories:
- those recognized at fair value (either through a statement of comprehensive income or a change in profit or loss)
- those recognized at amortized cost.

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

(ii) Recognition and derecognition
Purchases and sales of financial assets under normal market conditions are recognized on the trade date, ie the date on which the Group commits to a purchase or sale of the asset. Financial assets are derecognised when the rights to the cash flows from the financial asset expire or are transferred and the Group transfers substantially all the risks and rewards. Regular purchases and sales of financial assets are recognized on the trade date, the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the right to receive cash flows from the financial assets is extinguished or transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) measurement

Financial assets are initially recognized at fair value plus transaction costs directly attributable to the acquisition of a financial asset, except for financial assets at fair value through profit or loss. Transaction fees for financial assets at fair value through profit or loss are recognized as expenses in the income statement.

Debt instruments

The further recognition of debt instruments depends on the Company's business model for managing financial assets and the contractual cash flows of the financial asset.

All debt instruments of the Company are classified in the adjusted acquisition cost category.

Assets that are held to collect contractual cash flows and whose cash flows are interest only on the principal and outstanding principal are recognized at amortized cost. Interest income on these assets is recognized in financial income using the effective interest rate method. Upon derecognition, the gain or loss received is recognized in other comprehensive income / expense in the income statement.

As of January 1, 2018 and December 31, 2018, all financial assets of the Group were classified in this category:

- cash and cash equivalents;
- claims against buyers;
- contractual assets;
- other financial assets.

Assets that do not meet 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 in 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 the expected credit loss of debt instruments that reflect debt instruments at amortized cost and fair value through profit or loss on the basis of future information. The depreciation method applied depends on whether the credit risk has increased significantly.

Estimation of expected credit loss takes into account: (i) an impartial and probable weighted amount that is determined through the evaluation of a number of different possible outcomes, (ii) the time value of money, and (iii) reasonable information available at the end of the reporting period without excessive expense or effort on past events, current conditions and future economic conditions.

For receivables and contractual assets that do not have a significant financing component, the Company applies the simplified approach permitted by IFRS 9 and takes into account the expected impairment of receivables as the expected credit loss on initial recognition. The company uses a discount matrix where the discount is calculated on the basis of different periods of limitation.

Accounting policies until 31.12.2018

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

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

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

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

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

Loans and receivables from other parties

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

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

Investment property

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

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

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square metre and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate, which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income.

Gains and losses arising from changes in the value of investment property are recognised in profit or loss in the period in which they arise (in other income and other expenses, respectively).

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

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

Financial liabilities

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

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

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the company does not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the 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 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 10% on an annual basis. The success fee is calculated on a cumulative basis on all investment properties, i.e. if there is any investment property that is sold at a price below the cost of its acquisition, the success fees accrued on properties sold at a profit is decreased in the amount of 20% of the losses on sale of those properties sold below acquisition cost. According to the management 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 (see Note 8).

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

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.

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.

3 Subsidiaries and joint ventures

Company name	Country of domicile	Investment property	Group's ownership interest, % 31.12.2018	31.12.2017
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Centre Viljandi	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105 Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102 Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka road 63, Talinn	100	100
EfTEN SPV10 OÜ	Estonia	Laki 24, Tallinn (sold in 2018)	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare road Rautakesko	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinn Cold Storage	100	100
EfTEN SPV16 OÜ	Estonia	Narva Prisma (sold in 2017)	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6, Tallinn	100	100
EfTEN Jelgava SIA	Latvia	RAF Centre, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Techology Park. Riga	100	100
EfTEN Terbata SIA	Latvia	Lāčplēša iela 20A, Riga	100	100
Auras Centrs SIA	Latvia	Depo	100	100
EfTEN Menulio UAB	Lithuania	Menulio Police Building	100	100
Joint ventures				
EfTEN SPV11 OÜ	Estonia	Palace Hotel	50	50

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

As at 31.12.2018, the Group owned one joint venture. The key financial indicators of the joint venture are provided in the table below:

EfTEN SPV11 OÜ	31.12.2018 for the year 2018	31.12.2017 for the year 2017
€ thousand		
Cash and cash equivalents	1,502	1,090
Other current assets	131	139
Total current assets	**1,633**	**1,229**
Investment property	11,060	10,190
Total non-current assets	**11,060**	**10,190**
TOTAL ASSETS	**12,693**	**11,419**
Short-term borrowings	4,589	97
Other short-term liabilities	17	83
Long-term borrowings	0	4,589
TOTAL LIABILITIES	**4,606**	**4,769**
NET ASSETS	**8,087**	**6,650**
Revenue	739	753
Net income	**1,439**	**637**

In 2018 and 2017, the following changes have occurred in investments in joint ventures:

	31.12.2018	31.12.2017
Carrying value at the beginning of period	**3,325**	**3,006**
Profit from joint ventures using the equity method (Note 9)	719	319
Carrying value at the end of period	**4,044**	**3,325**

100% of the net assets of the entire entity EfTEN SPV11 OÜ as at 31.12.2018 amounted to EUR 8,087 thousand (31.12.2017: EUR 6,650 thousand). The Group owns 50% of the joint venture and therefore the value of the entity in the group's balance sheet equals the value of the joint venture entity's net assets.

In July 2017, the Group sold its subsidiary EfTEN Stabu 10 SIA. The sale price for the share was calculated based on the fair value of investment property and amounted to EUR 3,219 thousand, of which the income tax of 2% was withheld. There was EUR 75 thousand on the bank account of the subsidiary at the time of the sale. The sale of the subsidiary had a financial impact on Group's cash flows in the amount of EUR 3,080 thousand. Due to the sale of the subsidiary, the Group's investments in real estate decreased by EUR 5,100 thousand (Note 15). In 2018, the Group did not sell any subsidiaries.

4 Segment reporting

SEGMENT RESULT

	Office		Storage and manufacturing		Retail		Government		Unallocated		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
€ thousand												
Revenue (Note 5), incl.	**4,277**	**4,405**	**4,729**	**4,588**	**5,977**	**6,284**	**658**	**645**	**0**	**0**	**15,641**	**15,922**
Estonia	2,844	2,836	2,822	2,855	5,300	5,828	658	645	0	0	11,624	12,164
Latvia	707	852	1,907	1,733	677	456	0	0	0	0	3,291	3,041
Lithuania	726	717	0	0	0	0	0	0	0	0	726	717
Net revenue, incl.	**3,789**	**3,884**	**4,456**	**4,286**	**5,479**	**5,785**	**554**	**543**	**0**	**0**	**14,278**	**14,498**
Estonia	2,484	2,481	2,726	2,684	4,964	5,485	554	543	0	0	10,728	11,193
Latvia	681	785	1,730	1,602	515	300	0	0	0	0	2,926	2,687
Lithuania	624	618	0	0	0	0	0	0	0	0	624	618
Operating profit, incl.	**4,220**	**5,365**	**3,233**	**2,590**	**5,428**	**5,509**	**589**	**602**	**-217**	**-206**	**13,253**	**13,860**
Estonia	2,783	3,080	1,771	1,131	4,957	5,395	589	602	-217	-206	9,883	10,002
Latvia	727	1,471	1,462	1,459	471	114	0	0	0	0	2,660	3,044
Lithuania	710	814	0	0	0	0	0	0	0	0	710	814
EBITDA. Incl.	**3,494**	**3,557**	**4,069**	**3,908**	**5,024**	**5,318**	**549**	**538**	**-156**	**-177**	**12,980**	**13,144**
Estonia	2,330	2,316	2,517	2,483	4,677	5,143	549	538	-156	-177	9,917	10,303
Latvia	596	674	1,552	1,425	347	175		0		0	2,495	2,274
Lithuania	568	567	0	0	0	0		0		0	568	567
Operating profit											**13,253**	**13,860**
Profit /-loss from subsidiaries and joint ventures (Note 9)											719	195
Net finance expenses (Note 10)											-1,996	-2,119
Profit before income tax											**11,976**	**11,936**
Income tax expenses (Note 11)											-1,193	-2,367
Net profit for the financial year											**10,783**	**9,569**

SEGMENT ASSETS

	Office		Storage and manufacturing		Retail		Government		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
€ thousand										
Investment property (Note 15)										
Estonia	37,450	37,980	33,640	34,530	66,360	62,190	6,840	6,790	144,290	141,490
Latvia	9,416	9,211	20,659	20,657	11,067	10,493	0	0	41,142	40,361
Lithuania	7,780	7,590	0	0	0	0	0	0	7,780	7,590
Total investment property	**54,646**	**54,781**	**54,299**	**55,187**	**77,427**	**72,683**	**6,840**	**6,790**	**193,212**	**189,441**
Other non-current assets									4,132	3,386
Net debt									-92,845	-84,208
Other current assets									767	763
NET ASSETS									**105,266**	**109,382**

In 2018 and 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 owns the investment property.

10.5% of the consolidated rental income of the Group comes from Kesko Senukai Estonia OÜ, which rents retail and office premises in three properties that belong to the subsidiaries of the Group. The revenue proportion of other tenants is less than 10% of the consolidated revenue.

5 Revenue

Areas of activity	2018	2017
€ thousand		
Rental income from office premises	4,102	4,252
Rental income from government institutions	658	646
Rental income from retail premises	5,753	6,118
Rental income from warehousing and logistics premises	4,488	4,430
Rental income from parking premises	139	129
Other sales revenue	501	347
Total revenue by areas of activity (Note 15)	**15,641**	**15,922**

Geographical areas	2018	2017
€ thousand		
Estonia	11,624	12,164
Latvia	3,291	3,041
Lithuania	726	717
Total revenue by geographical areas	**15,641**	**15,922**

6 Cost of services sold

	2018	2017
€ thousand		
Repair and maintenance of rental premises	-436	-510
Property insurance	-56	-62
Land tax and real-estate tax	-171	-183
Improvement costs	-250	-252
Utilities for vacant spaces	-108	-101
Depreciation	-7	-5
Impairment losses on doubtful receivables	0	29
Other expenses of services sold	-89	-64
Total cost of services sold (Note 15)	**-1,117**	**-1,148**

7 Marketing costs

Marketing costs	2018	2017
€ thousand		
Commission expenses on rental premises	-114	-78
Advertising, promotional events	-132	-198
Total marketing costs	**-246**	**-276**

8 General and administrative expenses

	2018	2017
€ thousand		
Management services (Note 22)	-1,174	-1,174
Office expenses	-33	-25
Wages and salaries, incl. taxes	-57	-50
Consulting expenses	-135	-95
Regulatory expenses	-65	-66
Change in success fee liability (Note 18)	15	-223
Other general and administrative expenses	-4	-10
Depreciation	-4	-4
Total general and administrative expenses	**-1,457**	**-1,647**

9 Profit/loss from subsidiaries and joint ventures

	2018	2017
€ thousand		
Profit/ loss from joint ventures using the equity method (Note 3)	719	318
Loss from the sale of the subsidiary	0	-124
Total profit/loss from subsidiaries and joint ventures	**719**	**194**

10 Financial costs

	2018	2017
€ thousand		
Interest expenses, incl.	-1,997	-2,119
Interest expense on borrowings	-1,517	-1,621
Interest expense on derivatives (-)/ reduction of expense (+)	-480	-498
Total financial costs	**-1,997**	**-2,119**

11 Income tax

	2018	2017
€ thousand		
Income tax expenses on dividends	-1,105	-1,892
Income tax expenses on the profit of subsidiaries in Latvia and Lithuania	0	-350
Deferred income tax expense	-88	-125
Total income tax expense (Note 4)	**-1,193**	**-2,367**

As at 31.12.2018, the Group has a deferred income tax liability in connection with the tax amortization in Latvia and in Lithuania in the amount of EUR 395 thousand (31.12.2017: EUR 307 thousand). Deferred income tax liability or netting obligation arises upon expiration of the Group's tax amortization period.

From 1 January 2018, the new Corporate Income Tax Law came into force in Latvia, according to which the time to account for and pay the income tax is linked to the time of distribution of profits, similarly to the regulation in effect in Estonia. Due to the change, the deferred income tax liability and deferred income tax asset were eliminated from the balance sheet of the Group's Latvian subsidiaries. The change did not have a significant impact on the Group's profit.

12 Share profit

Share profit	**2018**	2017
Net profit for the period, € *thousand*	**10,783**	9,569
Weighted average number of shares over the period, in pcs	**39,391,371**	39,391,371
Earnings per share, in euros	**0.27**	0.24
Dividend per share, in euros	**0.15**	0.22

13 Cash and cash equivalents

	31.12.2018	31.12.2017
€ thousand		
Demand deposits (Note 19)	17,134	21,977
Cash	1	1
Total cash and cash equivalents (Note 19)	**17,135**	**21,978**

14 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2018	31.12.2017
€ thousand		
Receivables from customers	457	458
Allowance for doubtful trade receivables	-3	-15
Total trade receivables (Note 19)	**454**	**443**
Other short-term receivables	0	8
Total other short-term receivables	**0**	**8**
Prepaid taxes and receivables for reclaimed value-added tax	9	92
Other accrued income	259	163
Total accrued income	**268**	**255**
Total receivables (Note 19)	**722**	**706**

Non-current receivables

	31.12.2018	31.12.2017
€ thousand		
Prepayments and receivables related to real estate development projects (Note 15)	51	18
Total non-current receivables	**51**	**18**

15 *Investment property*

As at 31.12.2018, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value as at 31.12.2018	Share of market value of the Fund's assets
€ thousand						
Tallinn Cold Storage	Betooni 4. Tallinn	6,863	September 08	6,237	6,410	3%
Võru Rautakesko	Kreutzwaldi 89. Võru	3,120	September 08	3,270	2,880	1%
UKU Centre	Tallinna 41. Viljandi	7,866	August 10	10,277	12,300	6%
Rakvere Police Building	Kreutzwaldi 5a. Rakvere	5,744	November 10	4,940	6,840	3%
Lauteri 5	Lauteri 5. Tallinn	3,942	December 10	3,360	5,140	2%
Pärnu mnt 102	Pärnu mnt 102. Tallinn	9,216	December 11	12,386	16,110	7%
Pärnu mnt 105	Pärnu mnt 105. Tallinn	4,778	December 11	7,759	7,610	4%
Mustika Centre	Tammsaare road 116	27,230	July 12	31,004	36,380	17%
RAF Centre	Riga mnt 48. Jelgava	6,177	March 13	8,107	8,744	4%
Kadaka road 63	Kadaka road 63. Tallinn	7,610	January 13	7,222	8,590	4%
Kuuli 10/Punane 73	Kuuli 10/Punane 73. Tallinn	15,197	July 13	9,171	10,300	5%
Tammsaare road Rautakesko	Tammsaare road 49. Tallinn	9,120	July 13	12,930	14,800	7%
Betooni 1a	Betooni 1a. Tallinn	10,678	June 14	7,347	8,000	4%
Betooni 6	Betooni 6. Tallinn	16,838	June 14	9,751	8,930	4%
Terbata office building	Lacpleca 20a. Riga	4,843	December 14	9,689	9,416	4%
Nordic Technology Park	Jūrkalnes 15/25. Riga, Latvia	42,230	August 14	20,556	20,659	10%
Menulio Police Building	Menulio 11. Vilnius	5,620	December 15	6,016	7,780	4%
Depo Shopping Centre	Jelgava. Latvia	development stage	January 15	2,323	2,323	1%
Total		**187,072**		**172,345**	**193,212**	**90%**

In addition to the investment properties presented in the table above, the Group's joint venture with a 50% ownership interest, EfTEN SPV11 OÜ, owns an investment property at Vabaduse square 3 /Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as at 31.12.2018 is EUR 11,060 thousand (31.12.2017: EUR 10,190 thousand).

In 2018 and 2017, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 31.12.2016 (Note 4)	**2,306**	**203,551**	**205,858**
Capitalised improvements	11	4,293	**4,304**
Disposals	0	-16,710	**-16,710**
Decrease from the sale of subsidiaries (Note 3)	0	-5,100	**-5,100**
Gain/loss on changes in the fair value[2]	0	1,088	**1,088**
Balance as at 31.12.2017 (Note 4)	**2,317**	**187,122**	**189,441**
Acquisition and development	6	5,425	**5,431**
Disposals [1]	0	-1,900	**-1,900**
Gain/loss on changes in the fair value[2]	0	239	**239**
Balance as at 31.12.2018 (Note 4)	**2,323**	**190,886**	**193,212**

[1] In 2017, the Group sold Narva Prisma investment property and signed the agreement under the Law of Obligations to sell Laki 24 property in Tallinn. In 2017, EUR 150 thousand was received as a prepayment for the sale of Laki 24 and the rest of the selling price amount was received in spring 2018. Sales costs in the amount of EUR 120 thousand incurred on the sale of the properties.

[2] The increase in the value of investment properties in 2018 is mainly caused by the improved cash flow projections of investment properties.

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

As at 31 December or the whole year	2018	2017
Rental income earned on investment property (Note 5)	15,140	15,575
Expenses directly attributable to management of investment property (Note 6)	-1,117	-1,148
Prepayments received on the sale of investment property (Note 17)	0	150
Amounts owed from the acquisition of investment property (Note 17)	0	270
Prepayments for investment property (Note 14)	51	18
Carrying amount of investment property pledged as collateral to borrowings (Note 16)	190,886	187,122

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

Lease agreements concluded between EfTEN Kinnisvarafond AS 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 lease agreements	**31.12.2018**	31.12.2017
€ thousand		
Less than 1 year	11,985	13,753
2-5 years	20,460	36,504
Over 5 years	4,401	4,941
Total	**36,846**	**55,198**

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 with the discounted cash flow method. The following assumptions were used to determine fair value:

In 2018:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Exit yield**	**Average rent €/m2**
€ thousand						
Office premises	54,646	Discounted cash flows	4,340	7.9%-8.6%	7.0%-8.0%	10.5
Storage and manufacturing premises	54,299	Discounted cash flows	4,720	8.6%-9.5%	7.8%-8.7%	4.2
Retail premises	75,104	Discounted cash flows	6,030	8.1%-9.2%	7.5%-8.5%	8.2
Government	6,840	Discounted cash flows	669	9.0%	8.2%	9.6
Investment property in development phase	2,323	Comparable offerings	-	-	-	-
Total	**193,212**					

In 2017:

Sector	**Fair value**	**Valuation method**	**Rental income per annum**	**Discount rate**	**Exit yield**	**Average rent €/m2**
€ thousand						
Office premises	54,781	Discounted cash flows	4,235	7.5%-8.6%	6.8%-8%	10.1
Storage and manufacturing premises	55,187	Discounted cash flows	4,720	8.6%-9.5%	8%-8.7%	4.2
Retail premises	70,378	Discounted cash flows	5,714	8.6%-9%	7.5%-8.3%	8.2
Government	6,790	Discounted cash flows	657	9.0%	8.2%	9.5
Investment property in development phase	2,305	Comparable offerings	-	-	-	-
Total	**189,441**					

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

- Rental income: real growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;

- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;
- Capitalisation rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates **as at 31.12.2018** 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 estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand							*Fair value*	
Office premises	Change in rental income +/- 10%	*-5,906*	*5,894*	Change in the exit yield	-0.5%	*58,570*	*57,380*	*56,230*
					0.0%	*55,770*	*54,646*	*53,570*
					0.5%	*53,310*	*52,270*	*51,220*
Storage and manufacturing premises	Change in rental income +/- 10%	*-5,959*	*5,941*	Change in the exit yield	-0.5%	*57,820*	*56,680*	*55,560*
					0.0%	*55,380*	*54,299*	*53,220*
					0.5%	*53,200*	*52,170*	*51,150*
Retail premises	Change in rental income +/- 10%	*-8,019*	*7,958*	Change in the exit yield	-0.5%	*80,274*	*78,664*	*77,099*
					0.0%	*76,605*	*75,104*	*73,588*
					0.5%	*73,350*	*71,906*	*76,528*
Government	Change in rental income +/- 10%	*-810*	*810*	Change in the exit yield	-0.5%	*7,280*	*7,140*	*7,000*
					0.0%	*6,980*	*6,840*	*6,710*
					0.5%	*6,710*	*6,580*	*6,450*

Balance as at 31.12.2017

Sector	Sensitivity to management estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand							*Õiglane väärtus*	
Office premises	Change in rental income +/- 10%	*-5,951*	*5,969*	Change in the exit yield	-0.5%	*58,760*	*57,570*	*56,410*
					0.0%	*55,920*	*54,781*	*53,690*
					0.5%	*53,430*	*52,350*	*51,300*
Storage and manufacturing premises	Change in rental income +/- 10%	*-6,077*	*6,063*	Change in the exit yield	-0.5%	*58,760*	*57,610*	*56,470*
					0.0%	*56,270*	*55,187*	*54,090*
					0.5%	*54,090*	*53,030*	*51,990*
Retail premises	Change in rental income +/- 10%	*-7,743*	*7,743*	Change in the exit yield	-0.5%	*75,339*	*73,795*	*72,295*
					0.0%	*71,831*	*70,378*	*68,933*
					0.5%	*68,734*	*67,346*	*65,981*
Government	Change in rental income +/- 10%	*-800*	*800*	Change in the exit yield	-0.5%	*7,230*	*7,080*	*6,950*
					0.0%	*6,920*	*6,790*	*6,660*
					0.5%	*6,660*	*6,530*	*6,400*

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

16 Borrowings

As at 31.12.2018, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2018	Contract term	Interest rate as at 31.12.2018	Loan collateral (Note 15)	Value of collateral	Share of the Fund's net asset value
SEB	Estonia	4,300	3,325	30.04.22	1.70%	mortgage - Betooni 4, Tallinn	6,410	3.2%
DnB Nord	Estonia	2,239	1,557	15.12.20	1.70%	mortgage - Kreutzwaldi 89, Võru	2,880	1.5%
SEB	Estonia	2,514	1,929	13.06.21	1.80%	mortgage - Lauteri 5, Tallinn	12,300	1.8%
SEB	Estonia	7,029	5,496	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	6,840	5.2%
Swedbank	Estonia	4,133	3,142	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	5,140	3.0%
Swedbank	Estonia	4,153	3,056	30.08.23	1.80%	mortgage - Pärnu mnt 105, Tallinn	7,610	2.9%
Swedbank	Estonia	8,508	6,902	30.08.23	1.70%	mortgage - Pärnu mnt 102, Tallinn	16,110	6.6%
SEB	Estonia	20,000	17,029	31.08.19	1.33%	mortgage - Tammsaare road 116, Tallinn	36,380	16.2%
SEB	Estonia	4,740	3,848	29.12.20	1.47%	mortgage - Kadaka road 63, Tallinn	8,590	3.7%
Danske	Estonia	15,622	15,310	25.06.23	1.69%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,100	14.5%
SEB	Latvia	12,060	10,629	08.08.19	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,659	10.1%
Danske	Estonia	10,755	9,362	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	16,930	8.9%
SEB	Latvia	4,561	3,983	17.04.22	3.00%	mortgage - Rigas Street 48, Jelgava	8,744	3.8%
Swedbank	Latvia	5,850	4,970	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,416	4.7%
Swedbank	Lithuania	3,786	3,298	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,780	3.1%
Total		**110,250**	**93,834**				**190,889**	**89.1%**

As at 31.12.2017, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2017	Contract term	Interest rate as at 31.12.2017	Loan collateral (Note 15)	Value of collateral	Share of the Fund's net asset value
SEB	Estonia	4,300	3,433	31.08.18	1.45%	mortgage - Betooni 4, Tallinn	6,280	3.1%
DnB Nord	Estonia	2,239	1,654	15.12.20	1.70%	mortgage - Kreutzwaldi 89, Võru	2,880	1.5%
SEB	Estonia	2,514	1,929	16.06.21	1.80%	mortgage - Lauteri 5, Tallinn	4,930	1.8%
SEB	Estonia	4,529	3,273	31.05.18	1.80%	mortgage - Tallinna 41, Viljandi	8,780	3.0%
Swedbank	Estonia	4,133	3,258	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,790	3.0%
Swedbank	Estonia	4,333	3,299	30.08.18	1.95%	mortgage - Pärnu mnt 105, Tallinn	7,330	3.0%
Swedbank	Estonia	8,436	7,115	30.08.18	1.50%	mortgage - Pärnu mnt 102, Tallinn	15,250	6.5%
SEB	Estonia	20,000	17,387	31.08.19	1.33%	mortgage - Tammsaare road 116, Tallinn	35,680	15.9%
SEB	Estonia	4,740	3,929	29.12.20	1.47%	mortgage - Kadaka road 63, Tallinn	8,570	3.6%
SEB	Estonia	900	661	25.01.18	1.50%	mortgage - Laki 24, Tallinn	1,900	0.6%
Danske	Estonia	15,300	13,764	25.06.18	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	26,000	12.6%
SEB	Latvia	12,060	10,852	08.08.19	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,657	9.9%
Danske	Estonia	11,100	9,559	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	17,100	8.7%
SEB	Latvia	3,000	3,397	17.04.22	3.00%	mortgage - Rigas Street 48, Jelgava	8,175	3.1%
Swedbank	Latvia	5,850	5,226	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,211	4.8%
Swedbank	Lithuania	3,786	3,511	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,590	3.2%
Total		**107,220**	**92,247**				**187,123**	**84.3%**

Short-term borrowings	**31.12.2018**	31.12.2017
€ thousand		
Repayments of long-term bank loans in the next period	39,487	33,190
Discounted contract fees on bank loans	-42	-51
Total short-term borrowings	**39,445**	**33,139**

Long-term borrowings	**31.12.2018**	31.12.2017
€ thousand		
Total long-term borrowings	**93,745**	**92,155**
Incl. current portion of borrowings	39,445	33,139
Incl. non-current portion of borrowings, incl.	54,300	59,016
Bank loans	*54,347*	*59,057*
Discounted contract fees on bank loans	-47	*-41*

Bank loans are divided as follows according to repayment date:

	31.12.2018	31.12.2017
€ thousand		
Less than 1 year	39,487	33,190
2-5 years	54,347	59,057

Cash flows of borrowings	2018	2017
€ thousand		
Balance at the beginning of period	**92,155**	**103,814**
Bank loans received	5,165	931
Bank loans returned on refinancing and sale of investments	-662	-8,068
Annuity payments on bank loans	*-2,916*	-3,001
Balance on bank account on the sale of a subsidiary	*0*	-1,562
Discounted change of contract fees	*3*	41
Balance at the end of period	**93,745**	**92,155**

For additional information on borrowings, please see Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2018	31.12.2017
€ thousand		
Payable to suppliers on non-current asset transactions (Note 15)	0	166
Other trade payables	138	304
Total trade payables	**138**	**470**
Payables from fixed asset transactions (Note 15)	0	105
Other payables	19	20
Total other payables	**19**	**125**
Value added tax	292	321
Income tax on dividends[1]	0	1,104
Corporate income tax	0	18
Personal income tax	2	1
Social tax	4	2
Land tax and real-estate tax	28	0
Other tax liabilities	2	1
Total tax liabilities	**328**	**1,447**
Interest payable	30	30
Payables to employees	5	2
Dividend payables[2]	9,060	4,100
Tenant security deposits	188	129
Other accrued liabilities	42	60
Total accrued expenses	**9,325**	**4,321**
Prepayments received from buyers	0	150
Other deferred income	11	27
Total prepayments	**11**	**177**
Total payables and prepayments (Note 19)	**9,821**	**6,540**

[1] In December 2017, the extraordinary general meeting of EfTEN Kinnisvarafond AS decided to distribute additional dividends in the amount of EUR 4,100 thousand. Dividend distribution was accompanied by income tax expense in the amount of EUR 999 thousand. Dividends were paid out in January 2018.

[2] In September 2018, the extraordinary General Meeting of the Fund decided to reduce the Fund's share capital by EUR 3,939,137 by reducing the nominal value of the share and to pay the shareholders a total of EUR 9,060,015 (0.23 per share) as a result of the reduction of share capital. In December 2018, the Fund submitted an application to the Commercial Register to reduce its share capital. Financial contributions to shareholders can be made by the fund on May 7, 2019. See also Note 20 on reduction of share capital.

Long-term payables

	31.12.2018	31.12.2017
€ thousand		
Tenant security deposits	792	613
Total other long-term payables (Note 19)	**792**	**613**

18 Success fee liability

As of 31.12.2018, the Group has calculated the success fee liability as follows:

	2018	2017
€ thousand		
Balance at the beginning of the period	**5,369**	**5,146**
Calculated performance fee on increase in value of investment property (Note 8)	-15	223
Paid success fees	-1,309	0
Balance at end of period	**4,045**	**5,369**

The extraordinary general meeting of EfTEN Kinnisvarafond AS in September 2018 decided to pay to the management company the success fee calculated for the assets sold by the time of the general meeting in the amount of 1,309 thousand euros.

The basis for accrual accounting for success fees is the fair value estimates of investment properties as at 31.12.2018 and 31.12.2017. Expenses for the change in success fee are included in the Group's administrative expenses (see Note 8).

19 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	31.12.2018	31.12.2017
€ thousand			
Financial assets - loans and receivables measured at amortised cost			
Cash and cash equivalents	13	17,135	21,978
Trade receivables	14	454	443
Total financial assets measured at amortised cost		**17,589**	**22,421**
Financial liabilities measured at amortised cost			
Borrowings	16	93,745	92,155
Trade payables	17	138	470
Tenant security deposits	17	980	742
Other accruals	17	9,137	4,192
Success fee liabilities	18	4,045	5,369
Total financial liabilities measured at amortised cost		**108 045**	**102,928**
Financial liabilities on fair value			
Derivatives (interest swap agreements)		1,182	1,095
Total financial liabilities on fair value		**1,182**	**1,095**
Total financial liabilities		**109,227**	**104,023**

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

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

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

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

Market risk

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

Interest rate risk

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

As at 31.12.2018, all of the Group's borrowings bear interest based on a floating interest rate, 75% (31.12.2017: 76%) of which are linked to the 1-month EURIBOR. 25% of the loan commitments bearing a floating interest rate are linked to the 3-month EURIBOR (31.12.2017: 24%). In 2018, the 1-month EURIBOR fluctuated within the range of -0.372% to -0.363% (2017: -0.375% to -0.366%), that is, the maximum change during the year was 0.9 basis points (2017: same). A 0% limit (floor) has been set as protection against negative EURIBOR for 70% of the loan portfolio of EfTEN Kinnisvarafond (2016: 63.6%), i.e. in case of negative EURIBOR, the loan margin of these loan commitments does not decrease.

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The fund's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 2-4 years.

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

(1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2022);

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

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

The Group entered into six interest rate swap agreements in 2015 with a total notional amount of EUR 53,440 thousand for the purposes of mitigating interest rate risk. 1-month Euribor was fixed at the rate of 0.64%-0.67% in five agreements and the 3-month Euribor was fixed at the rate of 0.685% in one agreement. In 2016, repayment schedules of three loan contracts related to the said swap contracts were extended, whereas for ensuring the effectiveness of the swap contracts also the repayment schedules of derivative instrument contracts were respectively amended. In the course of the amendment, the fixed interest rate of three interest rate contracts decreased, a result of which as at 31.12.2016 the Euribor is fixed at the levels of 0.6%-0.67% (31.12.2017: same). The expiry of all of the interest rate swap agreements is in the year 2022. The total notional amount of the interest rate swap agreements as at 31.12.2018 was EUR 46,915 thousand, i.e. 50.0% of the entire loan portfolio (31.12.2017: EUR 48,436 thousand, i.e. 52.5% of the entire loan portfolio).

The Group accounts for the interest rate swap agreements based on the principle of hedge accounting. The total fair value of the Group's interest rate swap agreements as at 31.12.2018 was negative in the amount of EUR 1,182 thousand (31.12.2017: EUR 1,095 thousand). Due to the fair value changes, the loss in 2018 is EUR 87 thousand (2017: gain in the amount of EUR 828 thousand). Additional information on the methods used to determine the fair value of the interest rate swap agreements has been provided below in the paragraph titled 'Fair value'.

Liquidity risk

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

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

The objective of the Group is to manage its net cash flows, so to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 31.12.2018, the Group's interest-bearing liabilities accounted for 49% of rental income generating investment property (31.12.2017: same) and the debt coverage ratio was 2.6 (2017: same).

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	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	270	810	38,403	54,351	0	**93,834**
Interest payments	126	375	807	2,196	0	**3,504**
Interest payable	30	0	0	0	0	**30**
Trade payables	138	0	0	0	0	**138**
Tenant security deposits	19	83	86	549	243	**980**
Accrued expenses	47	9,060	0	0	0	**9,107**
Success fee liabilities	0	0	0	0	4,045	**4,045**
Total financial liabilities	**630**	**10,328**	**39,296**	**57,096**	**4,288**	**111,638**

As at 31.12.2017	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	889	685	31,617	59,056	0	**92,247**
Interest payments	121	358	758	1,315	0	**2,552**
Interest payable	30	0	0	0	0	**30**
Trade payables	470	0	0	0	0	**470**
Tenant security deposits	12	43	75	475	137	**742**
Accrued expenses	4,162	0	0	0	0	**4,162**
Success fee liabilities	0	0	0	5,369	0	**5,369**
Total financial liabilities	**5,684**	**1,086**	**32,450**	**66,215**	**137**	**105,572**

In 2018, the maturity date arrived for six of the Group's loan agreements in the total amount of (carrying amount as at 31.12.2017) EUR 31,545 thousand. One of the ending loan commitments in the amount of EUR 661 thousand was paid by a subsidiary of the Group in January 2018 in connection with the sale of the investment property in the spring of 2018. The remaining loan agreements were refinanced EUR 7,000 thousand in a larger amount, of which EUR 4,500 thousand was received by the Group in 2018 and EUR 2,500 thousand will be received in spring 2019 before payments to shareholders related to the share-capital decrease. The new interest rates on refinanced loans in 2018 remained between 1.69% -1.8% instead of the previous 1.3% and 1.95%.

In 2019, the maturity date of the Group's four loan agreements will arrive in the total amount of EUR 37,019 thousand (carrying amount as at 31.12.2018), which is why the Group's short-term liability ratio as of 31.12.2018 is only 0.4. The fair value of the underlying assets of these loan agreements is 73,969 thousand euros, i.e. the LTV will remain between 47% and 55% at the end of 2018. Investment property as collateral is with strong cash flow and tenant base, which makes it unlikely that the refinancing of these loans would be difficult and would create liquidity problems for the Group.

Credit risk

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

The Group’s activity in preventing reduction of cash flows due to credit risk and minimising such risk lies in the daily monitoring and guiding of clients’ payment behaviour, so that appropriate measures could be applied on a timely basis. In addition, agreements with customers generally provide payment of rent at the beginning of the calendar month, giving sufficient time for monitoring the customers' payment discipline and ensuring existence of sufficient liquidity on bank accounts at the date of annuity payment of financing contracts. To manage risk, the Group has entered into an agreement with one of the anchor tenants, according to which the financial institution of the tenant must guarantee rental payments throughout the rental period. In addition, most of the rental contracts also stipulate an obligation to make security deposits, on account of which the Group can settle debts resulting from insolvency of a tenant.

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

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

	31.12.2018	31.12.2017
Undue	237	236
Past due, incl.	**220**	**222**
up to 30 days	*209*	*182*
30-60 days	*5*	*7*
more than 60 days	*6*	*33*
Allowance for doubtful receivables	-3	-15
Total trade receivables (Note 14)	**454**	**443**

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

	31.12.2018	31.12.2017
€ thousand		
Cash and cash equivalents (Note 13)	17,135	21,978
Trade receivables (Note 14)	454	443
Total maximum credit risk	**17,589**	**22,421**

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	0	2,554
A2	1,191	0
A3	237	0
Aa2	15,706	221
Aa3	0	19,203
Total (Note 13)	**17,134**	**21,978**

Capital management

The Group's capital includes borrowings and equity.

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

The Group invests in real estate that generates cash flow and raises new equity for making investments. The investment policy of the Group prescribes that at least 30% of equity is invested in new real estate projects. The necessary equity level is calculated individually for each investment, taking into consideration the amount of net cash flows and loan payments of each investment and their proportion.

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

The free cash flow of the Group allows the Group to pay out in the form of dividends an average of 4-6% of the value of invested equity. In 2018, a total of EUR 5,751 thousand (EUR 14.6 per share) was distributed to investors. In addition, the general meeting of EfTEN Kinnisvarafond AS decided in September 2018 to reduce the share capital of the fund, as a result of which a total of 9,060 thousand euros (EUR 23 cents per share) will be paid to investors in the spring of 2019. In 2017, the amount distributed to investors was larger than usual - EUR 8,600 thousand was distributed in connection with the sale of Prisma store in Narva and Stabu 10 office building.

In 2019, the Management Board of EfTEN Real Estate Fund proposes to the shareholders to distribute EUR 7,114 thousand as dividends from the 2018 profit.

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 at 31.12.2018 nor 31.12.2017, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

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

20 Share capital

The amount of registered share capital of EfTEN Kinnisvarafond AS as at 31.12.2018 was EUR 23,635 thousand (31.12.2017: same). The share capital consisted of 39,391,371 shares as at 31.12.2018 (31.12.2017: same) with nominal value of EUR 0.6 (31.12.2017: same). Without amending the articles of association, the company may increase its share capital to EUR 60,137 thousand.

In September 2018, the general meeting of EfTEN Kinnisvarafond AS decided to reduce the share capital of the fund by reducing the nominal value of the share from EUR 0.6 to EUR 0.5. The share capital will decrease by a total of EUR 3,939 thousand due to the above-mentioned decision, and the share premium by EUR 5,121 thousand, thus the payments to the shareholders will be made in the amount of EUR 9,060 thousand. As at 31.12.2018 EfTEN Kinnisvarafond AS filed an application with the Commercial Register for reduction of share capital and the Commercial Register made a corresponding entry on 7 January 2019. As at 31.12.2018, the reduction of share capital was recorded in the financial statements as a liability because it was certain that third parties did not have any objections or claims against the fund regarding the planned transaction. The amount of share capital of EfTEN Kinnisvarafond AS after the transaction is EUR 19,696 thousand.

In 2018, EfTEN Kinnisvarafond AS allocated 5% of its 2017 comprehensive income, i.e. EUR 520 thousand to the statutory reserve (2017: 5%, i.e. EUR 721 thousand).

For additional information on parent company's unconsolidated equity, please see Note 27.

21 Contingent liabilities

Contingent income tax liability

	31.12.2018	31.12.2017
€ thousand		
The company's retained earnings	50,833	46,322
Potential income tax liability	10,167	9,264
The amount that can be paid out as dividends	40,666	37,058

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.

22 Related party transactions

EfTEN Kinnisvarafond 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 AS;

- members of the Supervisory Board and companies owned by the members of the Supervisory Board of EfTEN Kinnisvarafond AS;

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

- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in 2018 in the amount of EUR 1,174 thousand (2017: same), (see Note 8). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties any other goods or services in 2018 or 2017.

In 2018 and 2017, the Group had two employees who were remunerated in the amount of EUR 37 thousand (2017: EUR 29 thousand), including taxes. In addition, the Group's subsidiaries in Latvia and Lithuania paid EUR 20 thousand of labour tax in 2018 (2017: same). In 2018 and 2017, 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.

23 Provisions

Pending court cases

On 16.10.2015, OÜ Rest Art Group (the plaintiff) filed a complaint against the Group's subsidiary EfTEN SPV7 OÜ (represented by FORT Law Firm in the dispute) claiming compensation from the client in the amount of EUR 102 thousand and interest for late payment. Harju County Court satisfied the action in part with its ruling on 17.06.2016, ordering EfTEN SPV7 OÜ to pay the plaintiff compensation in the amount of EUR 101 thousand and interest for late payment. EfTEN SPV7 OÜ appealed the ruling of the County Court in Tallinn Circuit Court, who dismissed the appeal with its decision on 30.09.2016. EfTEN SPV7 OÜ then filed a cassation appeal to the Supreme Court on 31.10.2016. The Supreme Court upheld the appeal and annulled the ruling of the Circuit Court regarding the admissibility of the action and referred the case back to the Circuit Court. The Supreme Court agreed with the position of EfTEN SPV7 OÜ that lower level courts did not properly assess the issue of ownership of goods, and if it turns out that owners have not lost ownership, they should primarily demand the belongings and not damage.

The new trial of the case in the Tallinn Circuit Court took place on 1.11.2017, and the Circuit Court ruled on 24.11.2017. With the ruling of the Tallinn Circuit Court, the action of OÜ Rest Art Group was dismissed in its entirety and the costs related to the proceedings were imposed on Rest Art Group. The court found that the plaintiff had unreasonably refused to accept the belongings and, since the property was still in possession, the conditions for claiming a large loss were not met and the plaintiff cannot claim damages.

On 27.12.2017, OÜ Rest Art Group filed a motion for cassation to the Supreme Court, as at 31.12.2017 the Supreme Court had not yet decided on the admission of the complaint, therefore, it was not possible to provide a more precise estimate on the outcome of the litigation on the balance sheet date.

On 31.01.2018, the Supreme Court made a ruling to refuse to admit the proceedings, as the complaint was unfounded due to the lack of admissibility. Thus, the decision of the Tallinn Circuit Court entered into force on 31.01.2018, which dismissed the action of the private limited company Rest Art in its claim for damages in its entirety and the costs of the proceedings of the private limited company Rest Art.

As of 31.12.2017, the Group has recognized the provision related to the above-mentioned case in the amount of 107 thousand euros. The provision was recognised as income on 31 January 2018.

24 Parent company's separate income statement

Pursuant to the Accounting Act of the Republic of Estonia, information of the interim 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 interim 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	1,827	1,078
Gross profit	**1,827**	**1,078**
General and administrative expenses	-2,041	-1,445
Operating profit	**-214**	**-367**
Gain/-loss from subsidiaries	10,343	10,912
Gain/-loss from joint ventures	719	318
Finance income	94	81
Finance costs	-249	-266
Profit before income tax	**10,693**	**10,678**
Dividend income tax expense	0	-283
Net profit for the period	**10,693**	**10,395**

25 Parent company's separate balance sheet

	31.12.2018	31.12.2017
€ thousand		
ASSETS		
Cash and cash equivalents	3,022	7,658
Receivables and accrued income	13,201	4,634
Total current assets	**16,223**	**12,292**
Non-current assets		
Shares of subsidiaries	98,570	103,207
Shares of joint ventures	4,044	3,325
Long-term receivables	2,086	2,776
Total non-current assets	**104,700**	**109,308**
TOTAL ASSETS	**120,923**	**121,600**
Borrowings	5,719	6,719
Payables and prepayments	9,938	4,977
Total current liabilities	**15,657**	**11,696**
Success fee liability	0	520
Total non-current liabilities	**0**	**520**
Total liabilities	**15,657**	**12,216**
Share capital	23,635	23,635
Share premium	37,496	37,496
Statutory reserve capital	3,544	3,024
Reduction of unregistred share capital and share premium	-9,060	0
Retained earnings	49,651	45,229
Total equity	**105,266**	**109,384**
TOTAL LIABILITIES AND EQUITY	**120,923**	**121,600**

26 Parent company's separate statement of cash flows

	2018	2017
€ thousand		
Cash flows from operating activities		
Net profit	**10,693**	**10,395**
Adjustments to net profit:		
Financet income and finance expenses	154	185
Gain/-loss on the fair value adjustment of subsidiaries and joint ventures	-5,393	-4,158
Dividends received	-5,670	-7,073
Change in the success fee liability	790	191
Income tax expense	0	283
Cash flow from operations before changes in working capital	**574**	**-177**
Change in receivables and payables related to operating activities	-1,355	-47
Net cash generated from operating activities	**-781**	**-224**
Cash flows from investing activities		
Disposal of subsidiaries	0	7,703
Loans granted	-4,232	-1,642
Repayment of loans granted	2,862	190
Dividends received	8,613	4,860
Interest received	3	457
Net cash flows from investing activities	**7,246**	**11,568**
Cash flows from investing activities		
Repayment of loans received	-1,000	-180
Interest paid	-30	-133
Dividends paid	-9,851	-4,500
Income tax on dividends paid	-220	0
Net cash generated from financing activities	**-11,101**	**-4,813**
NET CASH FLOW	**-4,636**	**6,531**
Cash and cash equivalents at the beginning of the period	**7,658**	**1,127**
Change in cash and cash equivalents	-4,636	6,531
Cash and cash equivalents at the end of the period	**3,022**	**7,658**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Reduction of unregistred share capital and share premium	Retained earnings	**Total**
€ thousand						
Balance as at 31.12.2016	**23,635**	**37,496**	**2,303**	**0**	**44,155**	**107,589**
Dividends paid	0	0	0	0	-8,600	**-8,600**
Transfers to statutory reserve capital	0	0	721	0	-721	**0**
Comprehensive income for the financial year	0	0	0	0	10,395	**10,395**
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**45,229**	**109,384**
Reduction of share capital	0	0	0	-3 939	0	-3 939
Reductiion of share premium	0	0	0	-5 121	0	-5 121
Dividends paid	0	0	0	0	-5,751	-5,751
Transfers to statutory reserve capital	0	0	520	0	-520	0
Comprehensive income for the financial year	0	0	0	0	10,693	10,693
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**49,651**	**105,266**

For additional information on changes in share capital, please see Note 20.

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

	31.12.2018	31.12.2017
€ thousand		
Parent company's unconsolidated equity	105,266	109,384
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-102,614	-106,532
Value of subsidiaries and joint ventures under the equity method (plus)	102,614	106,532
Total	**105,266**	**109,384**

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Kuupäev/date 28.02.2019
PricewaterhouseCoopers, Tallinn

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Kinnisvarafond AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond AS (the Company) and its subsidiaries (together the Group) as at 31 December 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 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 AS proposes to the General Meeting of Shareholders to distribute the profit as follows (in euros):

Retained earnings as at 31.12.2018	50,833,000
Allocation to statutory reserve capital	540,000
Dividend distribution	7,114,000
Retained earnings after allocation	43,179,000

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__________________	__________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	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 AS.

Arti Arakas	Siive Penu	Kristo Oidermaa
Chairman of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
Sander Rebane	Jaan Pillesaar	Laire Piik
Member of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
Tauno Tats		
Member of the Supervisory Board		

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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	1,827	100%	Yes