EfTEN Capital

Consolidated Annual Report 2019

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

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MANAGEMENT REPORT

EfTEN Kinnisvarafond II AS portfolio includes 6 individual investments with a total fair value of EUR 241 million as at the end of 2019 (2018: EUR 243 miljon). As the fund has reached its volume of activity, the fund no longer continues to acquire new assets and has entered the retention phase.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS for the year 2019 was EUR 30 million (2018: EUR 29 million) and net profit was EUR 11 million (2018: EUR 14 million). The consolidated gross profit margin was 75% (2018: 74%).

The Group's real estate, distribution, overheads and other revenue and other expenses accounted for 41.5% (2018: 41.5%) of the sales revenue.

	2019	2018
€ million		
Revenue	30.233	29.182
Expenses related to investment properties, incl. marketing costs	-9.387	-9.099
Interest expense and interest income	-1.922	-1.747
Net rental revenue less finance costs	**18.924**	**18.336**
Management fees	-1.408	-1.231
Other revenue and expenses	-1.963	-1.780
Profit before change in the value of investment property, change in the success fee liability and income tax expense	**15.553**	**15.325**

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

As at 31.12.2019, the Group's total assets amounted to EUR 263 million (31.12.2018: EUR 263 million), including investment property at fair value and non-current assets totaling EUR 241 million (31.12.2018: EUR 243 million).

	31.12.2019	31.12.2018
€ million		
Investment property	188.198	190.620
Property, plant and equipment	52.876	52.337
Other non-current assets	0.013	0.022
Current assets, excluding cash	1.226	1.260
Net debt	-100.564	-105.892
Net asset value (NAV)	141.7498	138.3461
Net asset value (NAV) per share, in euros	15.3846	15.0152

The net asset value of EfTEN Kinnisvarafond II AS increased by 2.5% (2018: 9.9%), including the dividend payment made in June 2019 and the related income tax expense in the amount of EUR 9.2 (2018: 7.8) million. Without dividend distribution, NAV would have increased 8.2% (2018: 14.3%). Return on investment (ROIC) was 11.3% (2018: 15.9%). At the end of the reporting period, the weighted average interest rate of the Group's loan agreements was 1.26% (31 December 2018: 1.17%).

12 months	31.12.2019	31.12.2018
ROE, % (net profit of the period / average equity of the period) x 100	7.9	11.5
ROA, % (net profit of the period / average assets of the period) x 100	4.2	5.9
ROIC, % (net profit of the period / average invested capital of the period) [1] x 100[1]	11.3	15.9
DSCR (EBITDA/(interest expenses + scheduled loan payments)	3.6	3.7

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

Real estate portfolio

EfTEN Kinnisvarafond II AS has entered the retention phase and no new investments were made during the financial year. As at 31.12.2019, the Group has six investments

Investment property	Address	Type	Net leasable area (m2)	Date of purchase
€ million				
Radisson Blu Sky hotel	Rävala pst 3/ Kuke tn 2 Tallinn Estonia	hotel	24,499	Jan. 15
Duntes Biroji office building	Duntes 6, Riga Latvia	office building	12,650	Nov. 15
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	shopping center	11,736	Feb. 16
Domina shopping center	Ieriku 3, Riga Latvia	shopping center	47,493	Jul. 16
Kaunas Terminal logistics center	Terminalo 8 and 10, Kaunas Lithuania	logistics center	28,298	Aug. 17
Marienthali center	Mustamäe tee 16, Tallinn Estonia	office and shopping center	14,021	Apr. 18
Total			**138,697**	

The weighted average maturity of the Group's investment property leases is 3.3 (31.12.2018: 3.5) years and as at 31.12.2019 the Group has a total of 399 (31.12.2018: 395) leases. The rental income of each lease shall not exceed 10% of the consolidated rental income.

Valuation of investment property

EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in June and in December. During 2019 and 2018, the Group's investment property has been valued by Colliers International Advisors OÜ.

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

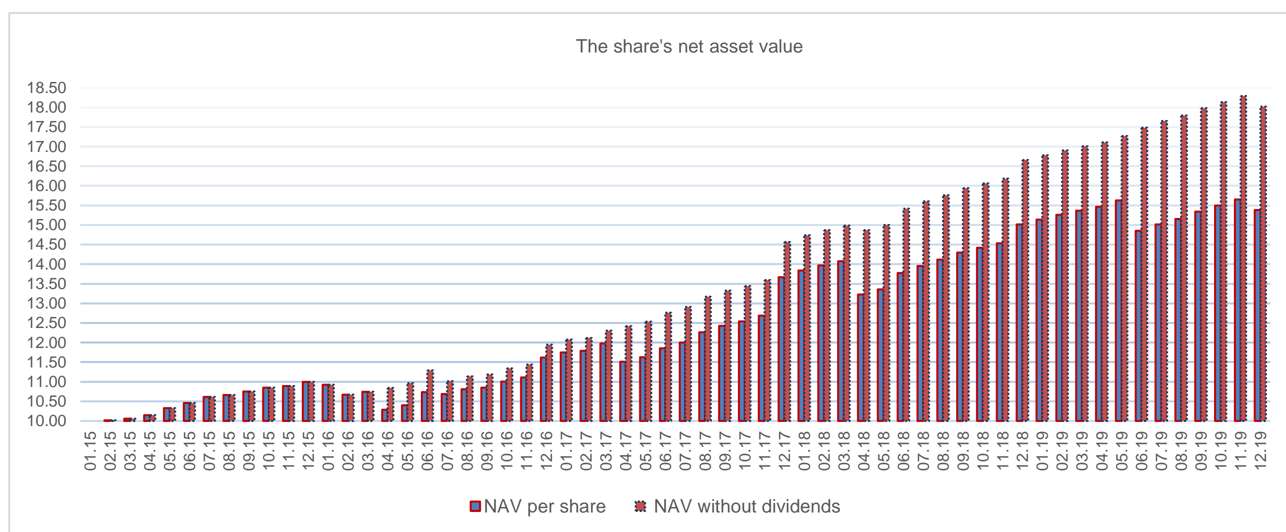
In January 2015, the Group acquired the hotel and office building at Rävala pst.3 / Kuke tn.2 and uses it in its own business operations and therefore regignises it as a property, plant and equipment.

Information on shares

As at 31.12.2019, payments made to the share capital of EfTEN Kinnisvarafond II AS total EUR 92.14 million:

	31.12.2019	31.12.2018
Number of shares at the beginning of the period	**9,213,756**	**8,071,756**
Shares issued during the period	0	1,142,000
Number of shares at end of period	**9,213,756**	**9,213,756**

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
NAV per share, EUR	15.3846	15.0152	13.6665	11.6175	10.9968	10.0000
NAV increase per year	2.46%	9.87%	17.64%	5.64%	9.97%	-
NAV increase per 2 years	12.57%	29.25%	24.28%	16.18%	-	-
NAV increase per 3 years	32.43%	36.54%	36.67%	-	-	-
NAV increase per 4 years	39.90%	50.15%	-	-	-	-
NAV increase per 5 years	53.85%					



The dividend policy of EfTEN Kinnisvarafond II AS requires that the Group pays 80% gross dividends to its shareholders each year. In 2019 net dividends paid to shareholders totaled EUR 8.1 (2018: 7.0) million.

The fund expects to pay a net dividend of EUR 8.1 million in 2020, which is 9% of paid-in equity.

Shareholder structure of EfTEN Kinnisvarafond II AS as at 31.12.2019

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

Management

In 2019, one shareholder meeting was held. The Annual General Meeting held on 11 June 2019 approved the Annual Report for the year 2018, decided to pay a net dividend of EUR 8,108,105 (EUR 0.88 per share) and extended the mandate of the members of the Supervisory Board. No extraordinary general meetings were held in 2019.

There were no changes in the Supervisory Board of the Fund in 2019. The Fund's Supervisory Board since its inception includes: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. It is the task of the Supervisory Board to make arrangements for the management of the Fund in accordance with the Articles of Association and the Management Agreement and to decide on the conduct of transactions outside the normal course of business. The mandate of the members of the Supervisory Board of the Fund was extended by a resolution adopted at the Annual General Meeting of Shareholders until 28 November 2024.

There have also been no changes in the membership of the Management Board of the Fund and since its establishment Viljar Arakas and Tõnu Uustalu have been members of the Management Board of the Fund. The Management Board supervises the activities of the management company related to the fund to the extent and pursuant to the procedure provided for in the management agreement and supervises the activities of the depositary to the extent and pursuant to the procedure provided for in the depositary agreement.

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

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE YEAR 2019

CONSOLIDATED INCOME STATEMENT

	Notes	2019	2018
€ thousand			
Revenue	4	30,233	29,182
Cost of services and goods sold	5	-7,706	-7,492
Gross profit		**22,527**	**21,690**
Marketing costs	6	-1,680	-1,607
General and administrative expenses	7	-2,568	-4,537
Gain / loss from revaluation of investment properties	14	-4,284	1,371
Other income	8	43	74
Other expenses	8	-57	-7
Operating profit		**13,981**	**16,985**
Finance income		1	5
Finance costs	9	-1,923	-1,752
Profit before income tax		**12,059**	**15,238**
Income tax expense	10	-1,029	-880
Total net profit for the financial year		**11,030**	**14,357**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019	2018
€ thousand			
Net profit for the financial year		11,030	14,357
Other comprehensive profit/ -loss:			
Revaluation of non-current assets	15	488	5,991
Profit/ -loss from revaluation of hedging instruments	19	-7	-252
Total other comprehensive profit/ -loss		**481**	**5,739**
Total comprehensive income for the financial year		**11,511**	**20,096**

Notes on pages 10 to 39 are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019	31.12.2018
€ thousand			
ASSETS			
Cash and cash equivalents	11	20,381	18,922
Receivables and accrued income	12	1,001	1,024
Prepaid expenses	13	109	111
Inventories		116	125
Total current assets		**21,607**	**20,183**
Long-term receivables		6	14
Investments in securities		8	8
Investment property	14	188,198	190,620
Property, plant and equipment	15	52,876	52,337
Total non-current assets		**241,088**	**242,978**
TOTAL ASSETS		**262,695**	**263,161**
LIABILITIES AND EQUITY			
Borrowings	16	14,682	26,045
Derivative instruments	19	962	955
Payables and prepayments	17	2,609	2,577
Total current liabilities		**18,253**	**29,577**
Borrowings	16	97,221	88,923
Other long-term liabilities	17	1,489	1,543
Success fee liability	18	3,906	4,695
Deferred income tax liability	10	76	76
Total non-current liabilities		**102,692**	**95,237**
Total liabilities		**120,945**	**124,814**
Share capital	21	92,138	92,138
Share premium	21	5,861	5,861
Statutory reserve capital	21	2,391	1,673
Hedging reserve	19	-962	-955
Revaluation reserve	15	7,126	6,638
Retained earnings		35,196	32,992
Total equity		**141,750**	**138,346**
TOTAL LIABILITIES AND EQUITY		**262,695**	**263,161**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019	2018
€ thousand			
Net profit		**11,030**	**14,357**
Adjustments to net profit:			
Finance income		-1	-5
Finance costs	9	1,923	1,752
Gains/-losses from investment property revaluation	14	4,284	-1,371
Gains / losses on the sale of investment properties	8	35	0
Change in the success fee liability	7	-789	1,458
Depreciation, amortisation and impairment	15	350	363
Income tax expense	10	1,029	880
Total adjustments with non-cash changes		**6,830**	**3,077**
Cash flow from operations before changes in working capital		**17,860**	**17,435**
Change in receivables and payables related to operating activities		-58	-163
Change in inventory		9	-12
Net cash generated from operating activities		**17,811**	**17,260**
Purchase of property, plant and equipment	15	-401	-266
Purchase of investment property	14	-1,897	-27,406
Acquisitions of subsidiaries, net cash flow	2	0	98
Interest received		1	1
Net cash generated from investing activities		**-2,297**	**-27,573**
Loans received	16	0	14,900
Scheduled loan repayments	16	-3,076	-2,939
Interest paid		-1,913	-1,713
Shares issued	21	0	14,960
Dividends paid		-8,108	-7,022
Income tax paid on dividends	10	-958	-825
Net cash generated from financing activities		**-14,055**	**17,361**
NET CASH FLOW		**1,459**	**7,048**
Cash and cash equivalents at the beginning of the period	11	**18,922**	**11,874**
Change in cash and cash equivalents		1,459	7,048
Cash and cash equivalents at the end of the period	11	**20,381**	**18,922**

Notes on pages 10 to 39 are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
EUR, thousands							
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**-703**	**647**	**26,654**	**110,313**
Issue of shares	11,420	3,540	0	0	0	0	**14,960**
Provisions for statutory reserve	0	0	997	0	0	-997	**0**
Dividends paid	0	0	0	0	0	-7,022	**-7,022**
Total transactions with owners	**11,420**	**3,540**	**997**	**0**	**0**	**-8,019**	**7,938**
Net profit for the period	**0**	**0**	**0**	**0**	**0**	**14,357**	**14,357**
Revaluation of property, plant and equipment	0	0	0	0	5,991	0	**5,991**
Loss from revaluation of hedging instruments	0	0	0	-252	0	0	**-252**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**-252**	**5,991**	**14,357**	**20,096**
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**-955**	**6,638**	**32,992**	**138,347**
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**-955**	**6,638**	**32,992**	**138,347**
Provisions for statutory reserve	0	0	718	0	0	-718	**0**
Dividends paid	0	0	0	0	0	-8,108	**-8,108**
Total transactions with owners	**0**	**0**	**718**	**0**	**0**	**-8,826**	**-8,108**
Net profit for the period	**0**	**0**	**0**	**0**	**0**	**11,030**	**11,030**
Revaluation of property, plant and equipment	0	0	0	0	488	0	**488**
Loss on revaluation of hedging instruments	0	0	0	-7	0	0	**-7**
Total comprehensive income for the period	**0**	**0**	**0**	**-7**	**488**	**11,030**	**11,511**
Balance as at 31.12.2019	**92,138**	**5,861**	**2,391**	**-962**	**7,126**	**35,196**	**141,750**

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

Notes on pages 10 to 39 are an integral part of the consolidated financial statements.

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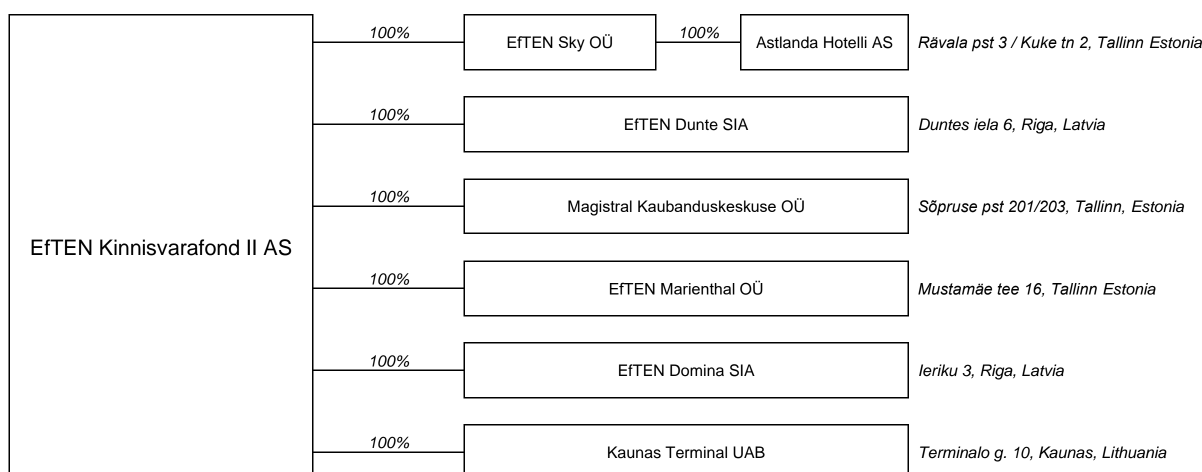
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond II AS and its subsidiaries for the year ended 31.12.2019 have been signed by the Management Board on 28 February 2020. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board is approved on the annual general meeting of shareholders. These consolidated financial statements are part of the annual report that is to be approved by the shareholders and serve as a basis for the decision concerning the distribution of profit. Shareholders may decide not to approve the annual report, which has been prepared by the Management Board and approved by the Supervisory Board, and may demand that a new annual report be prepared.

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

The structure of EfTEN Kinnisvarafond IIAS Group as at 31.12.2019 is as follows:



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

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

In the preparation of the financial reports, the cost method has been used as a basis, except for land and buildings that have been revalued and recognized using the revaluation method, as described in the respective accounting policies and investment property, that has been recognized at fair value.

1.1 Changes in the accounting policies and presentation

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became mandatory for the Group's annual periods beginning at 1 January 2019:

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

The new standard sets out the principles for recording, measuring, presenting and disclosing leases. As a result of all leases, the lessee obtains the right to use the asset from the commencement of the lease and, in the case of lease payments over a period, to finance. Consequently, IFRS 16 eliminates the classification of operating leases as operating and finance leases, as IAS 17 does, and instead introduces a single accounting model for lessees. Lessees must (a) record assets and liabilities for all leases with a term of more than 12 months, unless the leased asset is of low value; and (b) recognize in the income statement depreciation on leased assets and interest expense on lease liabilities. The principles of IFRS 16 for lessors remain substantially unchanged from those of IAS 17, that is, the lessor continues to subdivide its leases into operating and finance leases and to treat these types of leases differently.

As the Group has no leases with a term of more than 12 months as a lessee, the standard is not relevant to the Group.

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Amendments to IFRSs 2015-2017

The amendments that are limited in scope affect four standards. IFRS 3 clarified that an acquirer should reassess its previous interest in a jointly controlled entity when it acquires control of that business. In contrast, IFRS 11 now explicitly states that an investor should not reassess its previous interest in acquiring or losing joint control over a jointly controlled operation. The amendment to IFRS 3 will not have any impact on the Group's financial statements.

The revised IAS 12 clarifies that the income tax effect of dividends should be recognized in the manner in which the distributable profit is generated, for example, in the income statement or other comprehensive income. It is now understood that this requirement applies in all circumstances when payments made from financial instruments classified as equity are treated as distributions, and not only when the tax effects result from the application of different tax rates to distributed and undistributed profits. The Group recognizes derivative financial instruments (interest rate swaps) at fair value through profit or loss, but as such derivatives are only available in Estonia and Latvia, these financial instruments have no effect on income tax expense.

Revised IAS 23 now provides explicit guidance that loans taken to finance the construction of a particular asset should not be withdrawn from the general borrowing cost until the construction of that particular asset is substantially completed. The revised standard does not have a significant impact on the Group's financial statements.

IFRIC 23, Income Tax Inconsistency

IAS 12 sets out how to account for current period and deferred tax, but not how to account for the effect of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty about tax treatment. It is for the enterprise to decide whether to deal with each uncertain tax treatment separately or in combination with one or more other tax treatments, depending on which method better predicts the resolution of the uncertainty. The enterprise must expect the tax administration to verify the tax records that it is entitled to audit and that, at the time of such verification, the tax authority will know all relevant information. If the enterprise concludes that the tax administration is unlikely to accept the uncertain tax treatment, the effect of the uncertainty should be taken into account when estimating taxable profit or loss, tax base, unused tax losses, unused tax benefits or tax rates, whichever method is most appropriate. The company estimates that it will better predict the resolution of uncertainty. Effects arising from changes in the underlying data and circumstances, or from new information affecting the entity's judgments or estimates, should, by interpretation, be accounted for as changes in accounting estimates. Examples of changes in data and circumstances or new information that may result in a change in judgment or judgment include, but are not limited to, a control procedure or other action by the tax authority, a change in the rules established by the tax authority, or Unless the tax administration agrees or disagrees with a particular tax treatment, it is unlikely that it will be treated in isolation as a change in facts or circumstances or as new information that could affect decisions or estimates under that interpretation. The Group estimates that the adoption of the standard will not have a significant impact on the financial statements of the Group.

New Standards, Interpretations and Amendments

New or revised standards and interpretations have been issued that become mandatory for the Group for periods beginning on or after 1 January 2020, and which the Group has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes a new chapter on measurement, guidance on financial performance reporting, revised concepts and guidance (eg on liability) and clarifications on the role of critical areas in financial reporting, such as diligence, conservatism, management uncertainty.

The amendments will not have a material impact on the Group's financial statements.

'Materiality concept' - Amendments to IAS 1 and IAS 8

The amendments clarify the concept of materiality and how to apply the concept by including in the definition the guidance that was previously included in other standards. The explanatory notes to the definition have also been updated. As a result of the changes, the concept of materiality is consistent across IFRSs. Information is important if its omission, misrepresentation, or concealment could, with reasonable assumption, influence decisions made by major users of an enterprise's general purpose financial statements based on those statements.

The amendments will not have a material impact on the Group's financial statements.

Standards not yet adopted

Standards on sale or transfer of assets between investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by IASB; not yet adopted by the EU).

The amendments remove inconsistencies between the requirements of IFRS 10 and IAS 28 governing the sale or transfer of assets between an investor and its associate or joint venture. The primary effect of the change is that the gain or loss is fully recognized when the transaction involves a business. When a transaction

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involves assets that do not constitute a business, part of the gain or loss is recognized even if those assets are owned by the subsidiary and the subsidiary's shares are transferred in the transaction.

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

Definition of Business Practices - Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments have adjusted the definition of a business. A business must have inputs and a meaningful process that together make a significant contribution to the ability to create outputs. The new guidance provides a framework for assessing when an input and a meaningful process exist, including for early-stage companies that have not produced outputs. If there are no outputs, an organized workforce is required to classify as a business. The concept of output has been narrowed and now focuses on providing goods and services to customers and generating investment and other income; the term no longer includes cost savings and other economic benefits. It is also no longer necessary to assess whether market participants are able to replace missing parts or integrate acquired activities and assets. An entity may perform a "concentration test" - acquired assets do not meet the business definition if substantially all of the fair value of the acquired gross assets is concentrated on a single asset (or set of similar assets).

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

1.2 Summary of the most important accounting principles

Management’s critical estimates and judgements

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

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

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

Estimation uncertainty

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

a) Valuation of propoerty, plant and equipment in the revaluation method

As of 31.12.2019, the management has assessed the value of property, plant and equipment recognized by the revaluation method (fair value less depreciation and write-downs) based on the valuation of the market value of the object by an independent expert. The Group owns land and buildings (the Radisson Blu Sky Hotel), which is recognized using the revaluation method. The fair value is estimated using Colliers International Advisors OÜ's valuation of the hotel market value. The Group's independent valuer has estimated the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and current market conditions. As at 31.12.2019, the carrying amount of property, plant and equipment included in the revaluation method was included in Note 15.

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

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

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

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c) Determination of the fair value of investment property

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

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

d) Business combinations and acquisitions of assets

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

Classification of real estate

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

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

Investment company

The management of the Group has assessed its activities to meet the definition of an investment company and considers that EfTEN Kinnisvarafond II AS does not meet the definition of an investment company as it has the characteristics of a real estate company rather than a pure investment company. Although investors of EfTEN Kinnisvarafond II AS expect both an increase in the value of their assets and a return on their current economic activity, EfTEN Kinnisvarafond II AS also carries a significant part of its investment risks that are typical of a typical real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. For the parent company of EfTEN Kinnisvarafond II AS, the fair value measurement is indirect - the fair value is the value of assets held in subsidiaries of EfTEN Kinnisvarafond II AS, which results in the fair value of the subsidiary not necessarily being the ultimate market price of the subsidiary. The Group also estimates its financial performance on the basis of rental income, profit margins, volume of assets and other financial indicators of the real estate business, which cannot be measured solely by the fair value of the subsidiary.

Consolidation

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

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

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

The subsidiaries are recognized in the consolidated financial statements using the acquisition method.

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

Segment reporting

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

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

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

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

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

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

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

Revenue accounting policies

Revenue is the revenue generated by the Company in the ordinary course of business. Revenue is recognized at the transaction price. The Transaction Price is the total fee the Company is entitled to receive for the delivery of the promised Services to the Customer less the amounts collected on behalf of third parties. An entity recognizes revenue when control of a good or service is transferred to a customer.

The Group's sales revenue includes rental income, management fees, marketing fees and gains on intermediation costs.

Lease income from operating leases is recognized on a straight-line basis over the lease term. If the Group agrees with a lessee on a lease term, the lease expense is also recognized on a straight-line basis over the lease term, reducing the lease income.

Management fees and marketing fees are recognized in the period in which control of the services is transferred to the customer, ie in the period of delivery of the service.

Some management fees may include different service components. In such cases, the Group assesses whether they give rise to a number of performance obligations. Where such different performance obligations exist, the total transaction fee shall be allocated to each performance obligation on the basis of a separate selling price. In the absence of a separate selling price, it is derived from the estimated cost plus margin.

The Group acts as an agent for the resale of utility and administrative expenses, so such revenues are not recognized on a gross basis but are offset against related expenses.

Financing component

The Company does not have any contracts in which the period between delivery of the promised goods or services to the customer and receipt of payment from the customer is longer than one year. Consequently, the Company does not adjust the transaction price for the time value of money.

Cash and cash equivalents

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

Financial assets

Investments and ohter financial assets

(i) Classification

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

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

(ii) Recognition and derecognition

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

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

Debt instruments

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

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

As 31 December 2019 and 31 December 2018, all the Company’s financial assets were classified in this category:

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

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

Equity instruments
The Company does not have any investments in equity instruments.

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

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

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

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.

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

Property, plant and equipment

Property, plant and equipment are assets with a useful life of over one year if it is probable that future economic benefits will flow from their use.

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

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

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

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

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

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

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

Buildings	2.5-10%
Machines & Equipment	7-10%
Furnishings	15-20%
Computers	20-33%

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

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

Gains and losses on disposal of property, plant and equipment determined by subtracting residual value from sales proceeds are recognized in other income and expenses in the income statement.

Investment property

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

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

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

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

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

Financial liabilities

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

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in their net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received

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(less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method. Interest expenses on financial liabilities are recognised on the line "finance income" and "finance costs" in the income statement on an accrual basis. Interest expenses on financing the development of assets from the start of the development period until the acceptance of completed assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset as borrowing costs.

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

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

Success fee liability

EfTEN Kinnisvarafond II AS and EfTEN Capital AS have entered into a management agreement according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the difference between the sales and acquisition price of investment property above a hurdle rate of 7% on an annual basis. If the actual return on an object is less than 7% per annum during the lifetime of the investment, the difference between the effective return on investment and the hurdle rate will be deducted from the sales price so that the yield before the performance fee would be at least 7%. According to the management agreement, the success fee is payable upon termination of the fund.

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

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

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

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Subsidiaries in Latvia and Lithuania

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

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

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

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

2 Subsidiaries

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2019	31.12.2018
Parent company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
Astlanda Hotelli AS	Estonia	Hotel's operator company, Rävala pst 3 / Kuke tn 2, Tallinn, Estonia	100	100
EfTEN Dunte SIA	Latvia	Duntes 6, Riga, Latvia	100	100
Magistral Kaubanduskeskuse OÜ	Estonia	Sõpruse pst 201/203, Tallinn, Estonia	100	100
EfTEN Domina SIA	Latvia	Ieriku 3, Riga, Latvia	100	100
Kaunas Terminal UAB	Lithuania	Terminalo g. 10, Kaunas, Lithuania	100	100
EfTEN Marienthal OÜ	Estonia	Mustamäe tee 16, Tallinn Estonia	100	100

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

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

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3 Segment reporting

SEGMENT RESULTS

	Retail		Office		Logics		Hotels and restaurants		Non-allocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
€ thousand												
Revenue (Note 4), incl.	**13,229**	**12,838**	**3,808**	**3,311**	**1,629**	**1,519**	**11,567**	**11,515**	**0**	**0**	**30,233**	**29,183**
Estonia	3,099	2,851	1,893	1,422	0	0	11,567	11,515	0	0	16,559	15,789
Latvia	10,130	9,986	1,915	1,888	0	0	0	0	0	0	12,045	11,875
Lithuania	0	0	0	0	1,629	1,519	0	0	0	0	1,629	1,519
Operating income, net, incl.	**11,560**	**11,229**	**3,480**	**3,026**	**1,605**	**1,485**	**5,882**	**5,950**	**0**	**0**	**22,527**	**21,690**
Estonia	3,021	2,745	1,623	1,191	0	0	5,882	5,950	0	0	10,526	9,887
Latvia	8,539	8,483	1,857	1,835	0	0	0	0	0	0	10,396	10,318
Lithuania	0	0	0	0	1,605	1,485	0	0	0	0	1,605	1,485
Operating profit, incl.	**6,009**	**9,557**	**3,253**	**2,690**	**1,122**	**1,751**	**3,717**	**3,104**	**-120**	**-119**	**13,981**	**16,985**
Estonia	3,260	3,063	1,608	930	0	0	3,717	3,104	-120	-119	8,465	6,978
Latvia	2,749	6,495	1,645	1,760	0	0	0	0	0	0	4,394	8,255
Lithuania	0	0	0	0	1,122	1,751	0	0	0	0	1,122	1,751
EBITDA, incl.	**9,271**	**9,061**	**3,149**	**2,814**	**1,505**	**1,367**	**4,055**	**4,310**	**-120**	**-119**	**17,860**	**17,434**
Estonia	2,580	2,320	1,515	1,178	0	0	4.055	4,310	-120	-119	8,030	7,689
Latvia	6,691	6,741	1,634	1,636	0	0	0	0	0	0	8,325	8,378
Lithuania	0	0	0	0	1,505	1,367	0	0	0	0	1,505	1,367
Operating profit											**13,981**	**16,985**
Net financial expense											**-1,922**	**-1,747**
Profit before income tax expense											**12,059**	**15,238**
Income tax expense (Note 10)											-1,029	**-880**
NET PROFIT FOR THE FINANCIAL YEAR											**11,030**	**14,357**

SEGMENT ASSETS

	Retail		Office		Logics		Hotels and restaurants		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
€ thousand										
Investment property (Note 14)										
Estonia	34,147	33,245	18,893	18,705	0	0	0	0	53,040	51,950
Latvia	92,880	96,025	24,378	24,275	0	0	0	0	117,258	120,300
Lithuania	0	0	0	0	17,900	18,370	0	0	17,900	18,370
Total investment property	**127,027**	**129,270**	**43,271**	**42,980**	**17,900**	**18,370**	**0**	**0**	**188,198**	**190,620**
Property, plant and equipment (Note 15)										
Estonia	2	1	6,582	6,003	0	0	46,219	46,260	52,803	52,264
Latvia	73	73	0	0	0	0	0	0	73	73
Lithuania	0	0	0	0	0	0	0	0	0	0
Total property, plant and equipment	**75**	**74**	**6,582**	**6,003**	**0**	**0**	**46,219**	**46,260**	**52,876**	**52,337**
Other non-current assets									14	22
Net debt									-100,564	-105,892
Other short-term assets									1,226	1,260
NET ASSETS									**141,750**	**138,346**

In 2019 and in 2018, no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that made the property investment is located.

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

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4 Revenue

Areas of activity	2019	2018
€ thousand		
Rental income from office premises	3,478	3,026
incl. rental income from investment property	*3,209*	*2,734*
incl. rental income from property, plant and equipment	*269*	*292*
Rental income from commercial and service premises	11,020	10,547
incl. rental income from investment property	10,942	10,475
incl. rental income from property, plant and equipment	78	73
Rental income from warehousing premises	1,629	1,513
incl. rental income from investment property	1,629	1,513
Other sales revenue from rental premises	2,530	2 580
Hotel accommodation	8,166	8,146
Hotel catering income	2,754	2,759
Hotel conference income, other income	648	610
Other sales revenue	8	1
Total revenue by areas of activity (Note 3)	**30,233**	**29,182**

Revenue by geographical area	2019	2018
€ thousand		
Estonia	16,559	15,788
Latvia	12,045	11,875
Lithuania	1,629	1,519
Total revenue by geographical area	**30,233**	**29,182**

5 Cost of services and goods sold

Cost of services and goods sold	2019	2018
€ thousand		
Repair and maintenance of rental premises	-1,318	-1,209
Direct costs of hotel accommodation	-1,002	-972
Direct costs of hotel catering	-935	-940
Hotel license fees	-361	-367
Other direct costs of operations	-189	-200
Wages and salaries of operations, incl. taxes	-2,204	-2,080
Management costs of operations	-706	-699
Property insurance	-71	-72
Land tax	-420	-397
Other administrative expenditure	-87	-76
Depreciation of property, plant and equipment (Note 15)	-348	-362
Improvement costs	-38	-69
Impairment of receivables	-27	-51
Total cost of services and goods sold	**-7,706**	**-7,492**

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6 Marketing costs

Marketing costs	2019	2018
€ thousand		
Commission expenses on rental premises	-30	-46
Wages and salaries, incl. taxes	-185	-183
Advertising, promotional events	-1,139	-1,059
Corporative marketing	-326	-318
Total marketing costs	**-1,680**	**-1,607**

7 General and administrative expenses

General and administrative expenses	2019	2018
€ thousand		
Management services (Note 23)	-1,408	-1,231
Office expenses	-200	-229
Wages and salaries, incl. taxes	-1,267	-1,121
Consulting expenses	-328	-324
Change in success fee liability (Note 18)	789	-1,458
Other general and administrative expenses	-153	-172
Depreciation of property, plant and equipment (Note 15)	-1	-1
Total general and administrative expenses	**-2,568**	**-4,537**

8 Other operating income and expenses

Other operating income	2019	2018
€ thousand		
Gains from changes in the fair value of investment properties (Note 14)	0	1,371
Fines and penalties received	16	18
Other income	27	56
Total other operating income	**43**	**1,445**

Other operating expenses	2019	2018
€ thousand		
Impairment loss on the fair value of investment property (Note 14)	-4,284	0
Other expenses	-57	-7
Total other operating expenses	**-4,341**	**-7**

9 Financial costs

Financial costs	2019	2018
€ thousand		
Interest expenses, incl.	-1,923	-1,752
Interest expense on borrowings	-1,514	-1,351
Intrest expense on swap transactions (Note 19)	-409	-401
Total financial costs	**-1,923**	**-1,752**

10 Income tax

	2019	2018
€ thousand		
Income tax expenses on the profit of subsidiaries in Lithuania	-71	-55
Income tax expenses on dividends	-958	-825
Total income tax expence	**-1,029**	**-880**

As at 31.12.2019, the Group has a deferred tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 76 thousand (31.12.2018: EUR 76 thousand). Deferred tax expense payment obligation arises after the expiration of the tax depreciation period.

11 Cash and cash equivalents

	31.12.2019	31.12.2018
€ thousand		
Demand deposits	20,351	18,888
Cash in hand	30	34
Total cash and cash equivalents (Note 20)	**20,381**	**18,922**

12 Receivables and accrued income

Short-term receivables

	31.12.2019	31.12.2018
€ thousand		
Receivables from customers		
Trade receivables from customers	822	583
Doubtful receivables	-61	-36
Total receivables from customers	**761**	**547**
Other short-term receivables		
Other short-term receivables	125	45
Total other short-term receivables	**125**	**45**
Accrued income		
Other accrued income	115	432
Total accrued income	**115**	**432**
Total receivables	**1,001**	**1,024**

Receivables from customers	31.12.2019	31.12.2018
€ thousand		
Not expired	379	348
Expired, incl.	**443**	**235**
Up to 30 days	*268*	*185*
30-60 days	*66*	*11*
More than 60 days	*109*	*39*
Doubtful debts	-61	-36
Total receicables from customers	**761**	**547**

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13 Prepaid expenses

	31.12.2019	31.12.2018
€ thousand		
Advance payments to suppliers	16	4
Prepayments for insurance	5	5
Prepayments for utilities intermediation	57	73
Future expenses	31	29
Total prepayments	**109**	**111**

14 Investment property

As at 31.12.2019, the Group owns two investment properties in Estonia, two in Latvia and one in Lithuania:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value at 31.12.2019	Share of market value of the Fund's assets
€ thousand						
Duntes Biroji office building	Duntes 6, Riga Latvia	12,650	Nov. 15	24,209	24,378	9%
Magistrali shopping center	Sõpruse pst 201/203 Tallinn Estonia	11,736	Feb. 16	24,078	27,850	11%
Domina shopping center	Ieriku 3, Riga Latvia	47,493	Jul. 16	85,769	92,880	35%
Kaunas Terminal logistics center	Terminalo 8 ja 10, Kaunas Lithuania	28,298	Aug. 17	16,165	17,900	7%
Marienthali center	Mustamäe tee 16, Tallinn Estonia	14,021	Apr. 18	24,837	25,190	10%
Total		**114,198**		**175,058**	**188,198**	**72%**

The following changes have occurred in the Group's investment property in 2019:

	Completed investment property	Prepayments for investment property	**Total investment property**
EUR, thousands			
Balance as at 31.12.2017	**162,059**	**31**	**162,090**
Acquisitions and developments	27,038	121	**27,159**
Gain (loss) on changes in the fair value (note 8)	1,371	0	**1,371**
Balance as at 31.12.2018	**190,468**	**152**	**190,620**
Balance as at 31.12.2018	**190,468**	**152**	**190,620**
Acquisitions and developments	1,897	0	**1,897**
Reclassifications	152	-152	**0**
Profit / loss on sales	-35	0	**-35**
Gain (loss) on changes in the fair value (note 8)	-4,284	0	**-4,284**
Balance as at 31.12.2019	**188,198**	**0**	**188,198**

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

	2019	2018
Rental income earned on investment property	15,781	14,722
Expenses directly attributable to management of investment property	-1,806	-1,706
Prepayments for investment property	0	152
Carrying amount of investment property pledged as collateral to borrowings as at 31 December	188,198	190,468

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

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

Payments from non-cancellable operating leases	31.12.2019	31.12.2018
€ thousand		
Up to 1 year	13,298	13,210
1-5 years	27,766	27,492
Over 5 years	6,649	7,872
Total	**47,713**	**48,574**

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 31.12.2019 and 31.12.2018 was determined using the discounted cash flow method.

The following assumptions were used to determine fair value:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent, EUR/m2
€ thousand						
Office premises	43,270	Discounted cash flows	3,416	7.60%-8.5%	7.0%-7.5%	10.27
Logistics premises	17,900	Discounted cash flows	1,642	8.6%	8.5%	4.57
Retail premises	127,028	Discounted cash flows	10,826	7.7%-8.5%	7.0%-7.6%	14.01
Total	**188,198**					

As at 31.12.2018:

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

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

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

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Fair value sensitivity analysis

The table provided below illustrates as at 31 December 2019 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	Effect to decrease to value	Effect to increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Õiglane väärtus*		
Office premises	Change in rental income +/- 10%	*-3,321*	*4,646*	Change in the capitalisation rate	-0.5%	*46,525*	*45,580*	*44,657*
					0.0%	*44,170*	*43,270*	*42,402*
					0.5%	*42,111*	*41,262*	*40,443*
Logistics premises	Change in rental income +/- 10%	*-1,910*	*1,890*	Change in the capitalisation rate	-0.5%	*19,060*	*18,670*	*18,300*
					0.0%	*18,260*	*17,900*	*17,550*
					0.5%	*17,560*	*17,210*	*16,880*
Retail premises	Change in rental income +/- 10%	*-17,491*	*16,045*	Change in the capitalisation rate	-0.5%	*137,465*	*134,489*	*131,595*
					0.0%	*129,832*	*127,028*	*124,303*
					0.5%	*123,196*	*120,547*	*117,975*

As at 31.12.2018:

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

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

15 Property, plant and equipment

	Land and buildings[1]	Depreciable buildings	Machines and devices	Other property, plant and equipment	Prepayments	Total
€ thousand						
Residual value as at 31.12.2018	**50,703**	**912**	**242**	**460**	**20**	**52,337**
Cost as at 31.12.2018	50,703	1,500	483	1,340	20	*54,046*
Accumulated depreciaton as at 31.12.2018	0	-588	*-241*	*-880*	*0*	*-1,709*
Acquisitions and developments	324	0	41	28	8	401
Reclassification	0	0	0	13	-13	0
Revaluation through other coprehensive income	488	0	0	0	0	488
Depreciation cost	0	-150	-55	-145	0	-350
Residual value as at 31.12.2019	**51,515**	**762**	**228**	**356**	**15**	**52,876**
Cost as at 31.12.2019	51,515	1,500	524	1,381	15	*54,935*
Accumulated depreciaton as at 31.12.2019	0	*-738*	*-296*	*-1,025*	*0*	*-2,059*

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

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

	Land and buildings	Depreciable buildings
Residual value as at 31.12.2018	**44,065**	**912**
Cost as at 31.12.2018	44,065	1,500
Accumulated depreciaton as at 31.12.2018	0	-588
Acquisitions and developments	324	0
Depreciation cost	0	-150
Residual value as at 31.12.2019	**44,389**	**762**
Cost as at 31.12.2019	44,389	1,500
Accumulated depreciaton as at 31.12.2019	0	-738

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

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

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

The Group owns the Radisson Blu Sky hotel, for which its final value is assessed at each balance sheet date. The valuation of the final value is based on Colliers International Advisors OÜ's valuation of the hotel market value. The group's independent valuer has estimated the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and market conditions. As a result of the valuation of the final value, it has been concluded that the asset will not be sold at a significantly lower value than its book value as of 31.12.2019 because it is located in a very good location in the center of Tallinn and the hotel is new and does not require large investments. If the cost method had been used, the residual value of land and buildings (including depreciable buildings) as at 31.12.2019 would have been EUR 45,151 thousand (31.12.2018: EUR 44,977 thousand).

Prerequisites and basics of finding fair value of land and buildings

The Group's only object recognized as land and buildings- Radisson Blu Sky Hotel - is rated by an independent valuer. The fair value of land and buildings recognized in the Group's report as at 31.12.2019 is based on the discounted cash flow method. The following assumptions have been used to find the fair value:

	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent, EUR/m2
€ thousand						
Radisson Blu Sky hotel	52,277	Discounted cash flows	4,180	8.1%	7.0%	14.21
Total	**52,277**					

As at 31.12.2018:

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

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Sensitivity analysis of fair value

The table below illustrates the sensitivity of the fair value of land and buildings recorded in the Group's balance sheet as at 31.12.2019 to the key assumptions of estimates:

	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	**Effect to decrease to value**	**Effect to increase to value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Radisson Blu Sky hotel	Change in rental income +/- 10%	*-5,400*	*5,400*	Change in the capitalisation rate	-0.5%	*56,177*	*55,077*	*53,977*
					0.0%	*53,377*	*52,277*	*51,177*
					0.5%	*50,877*	*49,877*	*48,877*

As at 31.12.2018:

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

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

	2019	2018
€ thousand		
Income from hotel operations	11,567	11,515
Direct costs of operations	-5,460	-5,318
Rental income on property, plant and equipment	347	364
Direct costs related to property, plant and equipment management	-114	-120
Depreciation of property, plant and equipment	-363	-337
The carrying amount of property, plant and equipment pledged as collateral for loan commitments as at 31 December	52,277	51,615

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

Payments from non-cancellable operating leases	**31.12.2019**	31.12.2018
€ thousand		
Up to 1 year	365	228
2-5 years	1,190	462
Over 5 years	212	337
Total	**1,767**	**1,027**

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16 Borrowings

As at 31 December 2019, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement (€ thousand)	Loan balance as at 31.12.2019	Contract term	Interest rate as at 31.12.2019	Loan collateral (Notes 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.23	1.248%	Mortgage - Rävala 3, Astlanda Hotelli AS security	52,277	16.2%
SEB	Latvia	4,420	3,796	30.11.20	1.300%	Mortgage - Duntes iela 6, Riga Latvia	24,378	2.7%
SEB	Latvia	9,780	8,350	30.11.20	1.300%			5.9%
SEB	Estonia	14,900	14,279	17.04.23	1.835%	Mortgage - Mustamäe tee 16, Tallinn Estonia	25,190	10.1%
Danske	Estonia	12,000	10,412	25.02.21	1.350%	Mortgage - Sõpruse pst 201/203, Tallinn Estonia	27,850	7.3%
Luminor	Latvia	27,360	24,692	25.06.21	0.849%	Mortgage - Ieriku 3, Riga Latvia	92,880	17.4%
Luminor	Latvia	20,640	18,594	25.06.21	1.300%			13.1%
Luminor	Lithuania	9,720	8,867	30.06.22	1.210%	Mortgage - Terminalo 8 ja 10, Kaunas Lithuania	17,900	6.3%
Total		**121,820**	**111,990**				**240,475**	**79%**

Short-term borrowings	**31.12.2019**	31.12.2018
€ thousand		
Repayments of long-term bank loans in the next period	14,726	26,076
Discounted contract fees on bank loans	-44	-31
Total short-term borrowings	**14,682**	**26,045**

Long-term borrowings	**31.12.2019**	31.12.2018
€ thousand		
Total long-term borrowings	**111,903**	**114,969**
incl. current portion of borrowings	14,682	26,045
Bank loans	14,726	*26,076*
Discounted contract fees on bank loans	-44	*-31*
incl. non-current portion of borrowings, incl.	97,221	88,923
Bank loans	97,264	88,991
Discounted contract fees on bank loans	-43	-67

Bank loans are divided as follows according to repayment date:

Repayment of bank loans according to repayment dates	**31.12.2019**	31.12.2018
€ thousand		
Less than 1 year	14,726	26,076
2-5 years	97,264	88,991
Total repayments of bank loans	**111,990**	**115,067**

In 2019, the following changes occurred in bank loan balances:

Lender	Loan balance as at 31.12.2018	Loan repayments	Loan balance as at 31.12.2019
EUR, thousands			
SEB	23,000	0	23,000
SEB	3,952	-156	3,796
SEB	8,694	-344	8,350
SEB	14,652	-373	14,279
Danske Bank	10,834	-422	10,412
Luminor Bank	44,726	-1,440	43,286
Luminor Bank	9,208	-341	8,867
Total	**115,067**	**-3,076**	**111,990**

For additional information on borrowings, please see Note 20.

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17 Payables and prepayments

Short-term payables and prepayments

	31.12.2019	31.12.2018
€ thousand		
Trade payables from non-current assets	0	8
Other trade payables	727	653
Total trade payables	**727**	**660**
Tax liabilities		
Value added tax	296	306
Corporate income tax	26	89
Personal income tax	93	79
Social tax	199	181
Other tax liabilities	24	21
Total tax liabilities	**638**	**676**
Accruals		
Interest liabilities	25	29
Payables to employees	254	209
Tenant security deposits	483	471
Other accrued liabilities	365	372
Total accrued expenses	**1,127**	**1,082**
Prepayments		
Prepayments received from buyers	115	154
Other deferred income	2	5
Total prepayments	**117**	**159**
Total payables and prepayments	**2,609**	**2,577**

Long-term payables

	31.12.2019	31.12.2018
€ thousand		
Tenants security deposits	1,489	1,543
Total other long-term payables	**1,489**	**1,543**

For additional information on payables, please see Note 20.

18 Success fee liability

As at 31 December 2019, the Group has calculated a success fee liability in the amount of EUR 3,906 thousand (as at 31 December 2018: EUR 4,695 thousand). The accrual-based calculation of the success fee is based on estimates of the fair value of investment properties as of the balance sheet date. The change in success fee is included in the Group's general and administrative expenses (Note 7).

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19 Derivatives

As at 31.12.2019, the Group had three interest rate swaps to fix the interest rate on long-term borrowings for a nominal amount of EUR 56,560 thousand (31.12.2018: three contracts with a nominal value of EUR 57,722 thousand).
The terms and conditions of interest rate swaps follow the repayment schedule of the hedged loan and are accounted for as a cash flow hedge.
The maturity of derivative transactions is 2021 and 2022, with a base interest rate of 1 or 3 months EURIBOR. The Group's floating interest rate is fixed at 0-0.65% according to the interest rate swap.
The fair value of derivative financial instruments is based on the quotation of the counterparty banks, as at 31.12.2019 the fair value of the derivative transaction was negative in the amount of EUR 962 thousand (31.12.2018: negative in the amount of EUR 955 thousand).
The Group's interest expense on interest rate swaps in 2019 was EUR 409 thousand (2018: EUR 401 thousand) (Note 9).

Further information on derivatives is provided in Note 20.

20 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash, trade receivables, other receivables and trade payables and debts on interest derivatives used for hedging interest rate risks.

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

Carrying amounts of financial instruments

	Note	31.12.2019	31.12.2018
€ thousand			
Financial assets - measured at amortised cost			
Cash and cash equivalents	11	20,381	18,922
Trade receivables	12	761	547
Total financial assets measured at amortised cost		**21,142**	**19,469**
Financial liabilities measured at amortised cost			
Borrowings	16	111,903	114,969
Trade payables	17	727	660
Tenant security deposits	17	1,972	2,014
Success fee liabilities	18	3,906	4,695
Accrued expenses	17	365	372
Total financial liabilities measured at amortised cost		**118,873**	**122,710**
Derivative instruments (interest rate swaps)	19	962	955
Total financial liabilities measured at fair value		**962**	**955**
Total financial liabilities		**119,835**	**123,665**

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

The following changes in the carrying amounts of financial liabilities occurred in 2019:

			Non-monetary Change		
	As at 31.12.2018	Change in cash flows	Change in fair value	Other non-monetary movements	As at 31.12.2019
€ thousand					
Borrowings	114,969	-3,066	0	0	111,903
Trade payables	660	67	0	0	727
Tenant security deposits	2,014	-42	0	0	1,972
Accrued expenses	372	-7	0	0	365
Success fee liabilities	4,695	0	0	-789	3,906
Derivative instruments (interest rate swaps)	955	0	7	0	962
Total financial liabilities	**123,665**	**-3,048**	**7**	**-789**	**119,835**

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

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

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

Market risk

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

Interest rate risk

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

As at 31.12.2019, 87% of the Group's loan agreements are based on floating interest rates (31.12.2018: 87%), of which 79% of the borrowings are related to 1-month EURIBOR (31.12.2018: 79%) and 8% to 3-month EURIBOR (31.12.2018: 8%). The 1-month EURIBOR fluctuated between -0.366% and -0.455% in 2019 (2018: -0.363% to -0.372%) and the 3-month EURIBOR fluctuated between -0.308% and -0.418% (2018: -0.309% to -0.329%).

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The fund's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 3-5 years.

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

(1) Assets held as collateral for a loan contract with a cash flow risk are unlikely to be sold before the maturity of the fund (i.e., before 2025);
(2) The loan agreement for which the cash flow risk is hedged shall be extended upon maturity up to the maturity date of the swap contract so that the cash flows of the loan agreements overlap with the cash flows of the payment schedules underlying the swap contract.

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

					Fair value, € thousand	
	Country	Nominal amount of the contract, € thousand	Fixed interest rate	Maturity of the contract	31.12.2019	31.12.2018
SEB	Estonia	23,000	1-month EURIBOR at 0.65%	30.08.2022	-658	-662
Luminor	Latvia	24,693	1-month EURIBOR at 0%	25.06.2021	-156	-162
Luminor	Lithuania	8,867	3-month EURIBOR at 0.35%	30.06.2022	-148	-131
Total		**56,560**			**-962**	**-955**

As at 31.12.2019, the borrowings related to the swap agreement accounted for 51% of the Group's total borrowings (31.12.2018: 50%).

The Group recognizes interest rate swaps on the basis of *hedge accounting*. The fair value of the Group's interest rate swaps as at 31.12.2019 was negative in the total amount of 962 thousand euros (31.12.2018: negative in the total amount of 955 thousand euros) (Note 19).

Liquidity risk

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

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

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- Volume and pace of real estate development activities;
- Financing structure.

The Group's objective is to manage net cash flows so that no more than 60% of the cost of the investment is invested in the equity and the debt-to-equity ratio is higher than 3.0. As at 31.12.2019, the Group's interest-bearing debt accounted for 46% (31.12.2018: 47%) of the cash-generating investment property and the debt-to-equity ratio was 3.6 (2018: 3.7).

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 31.12.2019	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	224	760	13,698	97,221	0	**111,903**
Interest payments	155	459	1,201	2,245	0	**4,060**
interest rate derivatives liabilities	0	0	0	962	0	**962**
Interest payables	25	0	0	0	0	**25**
Trade payables	727	0	0	0	0	**727**
Success fee liability	0	0	0	0	3,906	**3,906**
Tenant security deposits	3	257	223	1,269	220	**1,972**
Accrued expenses	365	0	0	0	0	**365**
Total financial liabilities	**1,499**	**1,476**	**15,122**	**101,697**	**4,126**	**123,920**

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

Credit risk

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

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

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

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

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Accounts receivable are illustrated by the table below:

Trade receivables	31.12.2019	31.12.2018
€ thousand		
Undue	379	348
Past due, incl.	**443**	**235**
up to 30 days	*268*	*185*
30-60 days	*66*	*11*
more than 60 days	*109*	*39*
Doubtful receivables	-61	-36
Total trade receivables	**761**	**547**

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

	31.12.2019	31.12.2018
€ thousand		
Cash and cash equivalents	20,381	18,922
Trade receivables	761	547
Total maximum credit risk	**21,142**	**19,469**

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	31.12.2019	31.12.2018
A1	0	2,668
Aa2	5,754	0
Aa3	10,582	16,220
Baa1	4,015	0
Total	**20,351**	**18,888**

Capital management

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

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

Fair value

The valuation methods used to analyse the Group's assets and liabilities measured at fair value have been defined as follows:

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

Level 3 – unobservable inputs at the market.

As at 31.12.2019 and 31.12.2018, the Group does not have any assets at fair value that would be included in the Level 1 group when determining the value. All of the Group's investment properties (Note 14) and property, plant and equipment recognized at revaluation method (Note 15) are stated at fair value and are classified in Level 3 according to the valuation method. All the Group's borrowings and derivatives for hedging interest rate risk are included in the Level 2 group. To hedge interest rate risk, the Group has entered into interest rate swaps (Note 19), the fair value of which is obtained by discounting the cash flows of interest rate swaps so that incoming and outgoing cash flows are estimated and discounted at zero rate. The Group uses the information received from credit institutions that are contractual counterparties to recognize interest rate swaps at fair value.

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21 *Share capital*

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

As at 31.12.2019, the registered share capital of EfTEN Kinnisvarafond II AS is 92,138 thousand euros. As at 31.12.2019, the share capital consisted of 9,213,756 shares with a nominal value of 10 euros. Without amending the Articles of Association, the company has the right to increase the share capital to 100,100 thousand euros.

During the reporting period, 718 thousand euros of retained earnings were transferred to mandatory legal reserve (2018: 997 thousand euros).

See Note 27 for additional information on share capital.

22 *Contingent liabilities*

Contingent income tax liability

	31.12.2019	31.12.2018
€ thousand		
The company's retained earnings as at December 31	35,196	32,992
Potential income tax liability	7,039	6,598
The amount that can be paid out as dividends	28,157	26,394

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 31.12.2019 and 31.12.2018.

Potential liabilities arising from the tax audit

Estonia

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

Latvia and Lithuania

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

23 *Related party transactions*

EfTEN Kinnisvarafond II AS considers the following as related parties:

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

The Group purchased management services from EfTEN Capital AS for the reporting period in the amount of EUR 1,408 thousand (in 2018: EUR 1,231 thousand) (Note 7) and accounting and brokerage services for the amount of EUR 68 thousand (in 2018: EUR 86 thousand) from EfTEN Capital AS subsidiaries and associates.

During the reporting period, the Group had 157 (149 in 2018) employees, who received a total of EUR 3,656 (2018: EUR 3,384) thousand in fees including related taxes. No remuneration was paid to the members of the Management Board or Supervisory Board during the reporting period. The members of the Management Board work for EfTEN Capital AS, a company providing management services to the Group, and the expenses related to the activities of the Management Board member are included in the management services.

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24 *Parent company's separate income statement*

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

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

	2019	2018
€ thousand		
Revenue	1,371	1,202
Gross profit	**1,371**	**1,202**
General and administrative expenses	-1,492	-1,321
Other operating income		
Operating profit	**-121**	**-119**
Gain from subsidiaries	3,253	12,967
Dividend income	8,126	7,023
Finance income	253	225
Profit before income tax	**11,511**	**20,096**
Net profit for the financial year	**11,511**	**20,096**

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25 Parent company's separate balance sheet

	31.12.2019	31.12.2018
€ thousand		
ASSETS		
Cash and cash equivalents	3,624	3,431
Receivables and accrued income	153	193
Total current assets	**3,777**	**3,624**
Non-current assets		
Shares of subsidiaries	129,582	126,328
Long-term receivables	8,408	8,408
Total non-current assets	**137,990**	**134,736**
TOTAL ASSETS	**141,767**	**138,360**
LIABILITIES AND EQUITY		
Short-term liabilities		
Payables and prepayments	17	13
Total short-term liabilities	**17**	**13**
Total liabilities	**17**	**13**
EQUITY		
Share capital	92,138	92,138
Share premium	5,861	5,861
Statutory reserve capital	2,391	1,673
Retained earnings	41,360	38,675
Total equity	**141,750**	**138,347**
TOTAL LIABILITIES AND EQUITY	**141,767**	**138,360**

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26 Parent company's separate statement of cash flows

	2019	2018
€ thousand		
Cash flows from operating activities		
Net profit	**11,511**	**20,096**
Adjustments to net profit:		
Finance income and expenses	-253	-225
Gain/-loss on the fair value adjustment of subsidiaries	-3,253	-12,967
Dividends received	-8,126	-7,023
Total adjustments	**-11,632**	**-20,215**
Cash flow from operations before changes in working capital	**-121**	**-119**
Change in receivables and payables related to operating activities	21	26
Net cash generated from operating activities	**-100**	**-93**
Cash flows from investing activities		
Acquisition of subsidiaries	0	-10,004
Loans granted	0	-3,000
Repayment of loans granted	275	0
Dividends received	8,126	7,023
Interest received	0	54
Net cash flows from investing activities	**8,401**	**-5,928**
Cash flows from investing activities		
Shares issued	0	14,960
Dividends paid	-8,108	-7,022
Net cash generated from financing activities	**-8,108**	**7,938**
NET CASH FLOW	**193**	**1,917**
Cash and cash equivalents at the beginning of the period	**3,431**	**1,514**
Change in cash and cash equivalents	193	1,917
Cash and cash equivalents at the end of the period	**3,624**	**3,431**

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27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
EUR, thousands					
Balance as at 31.12.2017	**80,718**	**2,321**	**676**	**26,598**	**110,313**
Shares issued	11,420	3,540	0	0	**14,960**
Dividends paid	0	0	0	-7,022	**-7,022**
Transfers to statutory reserve capital	0	0	997	-997	**0**
Net profit for the financial year	0	0	0	20,096	**20,096**
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**38,675**	**138,347**
Balance as at 31.12.2018	**92,138**	**5,861**	**1,673**	**38,675**	**138,347**
Dividends paid	0	0	0	-8,108	-8,108
Transfers to statutory reserve capital	0	0	718	-718	0
Net profit for the financial year	0	0	0	11,511	11,511
Balance as at 31.12.2019	**92,138**	**5,861**	**2,391**	**41,360**	**141,750**

See Note 21 for additional information on the share changes.

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

	31.12.2019	31.12.2018
€ thousand		
Parent company's unconsolidated equity	141,750	138,347
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-129,582	-126,328
Value of subsidiaries under the equity method (plus)	129,582	126,328
Total	**141,750**	**138,347**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of EfTEN Kinnisvarafond II AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond II AS and its subsidiaries (together the Group) as at 31 December 2019, 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.

What we have audited

We audited the Group's consolidated financial statements that comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 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.

Independence

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. The other information comprises the Management report (but does not include 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.

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Translation note:

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.

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

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

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

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

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

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

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

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

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

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- 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.

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/signed/	/signed/
Lauri Past Auditor’s certificate no.567	Rando Rand Auditor’s certificate no.617

28 February 2020
Tallinn, Estonia

Translation note:

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

Proposal for profit allocation

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

Retained earnings as at 31.12.2019	35,196,251
Allocation to statutory reserve capital	551,495
Dividend distribution	8,108,105
Retained earnings after allocation	26,536,651

/signed digitally/

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Viljar Arakas

Member of the Management Board

/signed digitally/

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Tõnu Uustalu

Member of the Management Board

28 February 2020

Signatures of the members of the Management Board and Supervisory Board to the 2019 annual report

We hereby confirm the correctness of data presented in the 2019 annual report of EfTEN Kinnisvarafond II AS.

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

Allocation of income according to EMTA classificators

	EMTAK code	2019	Revenue %	Main activity
€ thousand				
Fund management	66301	1,371	100%	Yes