Annual Report 2019

Usaldusfond EfTEN Real Estate Fund 4

Commercial register number: 14588404

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MANAGEMENT REPORT

Financial overview

Usaldusfond EfTEN Real Estate Fund 4 (the Fund) is an investment fund focused on commercial real estate investments in the Baltics. The Fund was established on October 17, 2018 and as of 31.12.2019 EfTEN Real Estate Fund 4 has made three real estate investments in Estonia and Lithuania through its subsidiaries totaling EUR 95 million. After the balance sheet date, in January 2020, the Fund closed its fourth transaction by acquiring a logistics center in Latvia with a fair value at acquisition of EUR 16.5 million.

In its first reporting period, the Fund has entered into binding capital raising agreements totaling EUR 147.4 million, of which EUR 58.1 million has been received by the Fund as of 31.12.2019.

The Fund's net profit for the first year of operation totals EUR 5.7 million and the volume of assets EUR 65.3 million.

Key financial ratios

12 months	31.12.2019
ROE,% (net profit for the period / average equity for the period) * 100	18.0
ROA,% (net profit for the period / average assets for the period) * 100	17.6
ROIC,% (net profit for the period / weighted average invested capital for the period) * 100	18.4

Investments

As at 31.12.2019, the Fund's subsidiaries have made the following investments in real estate:

Subsidiary	Real estate portfolio	Location	Time of acquisition	Leasable area, m2	Acquisition cost, € in thousands	Fair value, € in thousands	NOI 12.2018-12.2019	Expected NOI, 12 months	Yield
Kadrioru Ärikeskus OÜ	Kadrioru Business center	Tallinn, Estonia	10.2018	6,582	16,854	16,700	1,269	1,185	7.1%
EfTEN Ryo UAB	Ryo Shopping center	Panevėžys, Lithuania	11.2018	24,264	47,000	49,200	4,737	3,995	8.1%
EfTEN River UAB	River office and retail center	Kaunas, Lithuania	07.2019	18,400	31,846	32,600	851	2,364	7.3%
Total				**49,246**	**95,700**	**98,500**	**6,857**	**7,544**	**7.7%**

The Fund's subsidiaries earned a total of EUR 3.4 million in free cash flow in their first reporting periood. A total of EUR 3.2 million, which is 7.6% of the capital raised for cash-generating investments in the first financial year, can be paid out to investors after deducting subsidiary income tax expense.

After the balance sheet date, in January 2020, the Fund's subsidiary acquired a 100% shareholding in a Latvian company that owns a logistics building in the Ķekava rural municipality near Riga, which includes both logistics and office space. This is the Fund's first investment in the logistics segment. In order to complete the transaction, the Fund granted a loan to its Latvian subsidiary in December 2019 in the amount of EUR 12.6 million and increased the share capital of the subsidiary by EUR 4.25 million.

The Fund has no employees and no remuneration was paid during the financial year to the members of the Management Board of EfTEN Neljas GP OÜ, a general partner of the Fund.

1 Free cash flow is calculated by deducting the annuity and interest payments on loans from EBITDA

Statement of Fund investments

Name	Location	Time of acquisition	Acquisition cost	Market value	Percentage of the market value of the Fund's assets
€ thousands					
Subsidiaries					
Kadrioru Ärikeskus OÜ	Tallinn, Estonia	October 18th	1,928	2,475	4%
EfTEN Ryo UAB	Panevėžys, Lithuania	November 18th	20,561	23,681	36%
EfTEN River UAB	Kaunas, Lithuania	July 19th	12,906	14,408	22%
EfTEN Logistics SIA	Riga, Latvia	July 19th	4,254	4,163	6%
Subsidiaries total			**39,649**	**44,727**	**69%**

Name	Location	Loan maturity	Interest rate	Market value	Percentage of the market value of the Fund's assets
€ thousands					
Loans given					
Kadrioru Ärikeskus OÜ	Tallinn, Estonia	25.11.23	4.0%	5,775	9%
EfTEN Logistics SIA	Riga, Latvia	31.12.24	3.85%	12,600	19%
Loans given total				**18,375**	**28%**

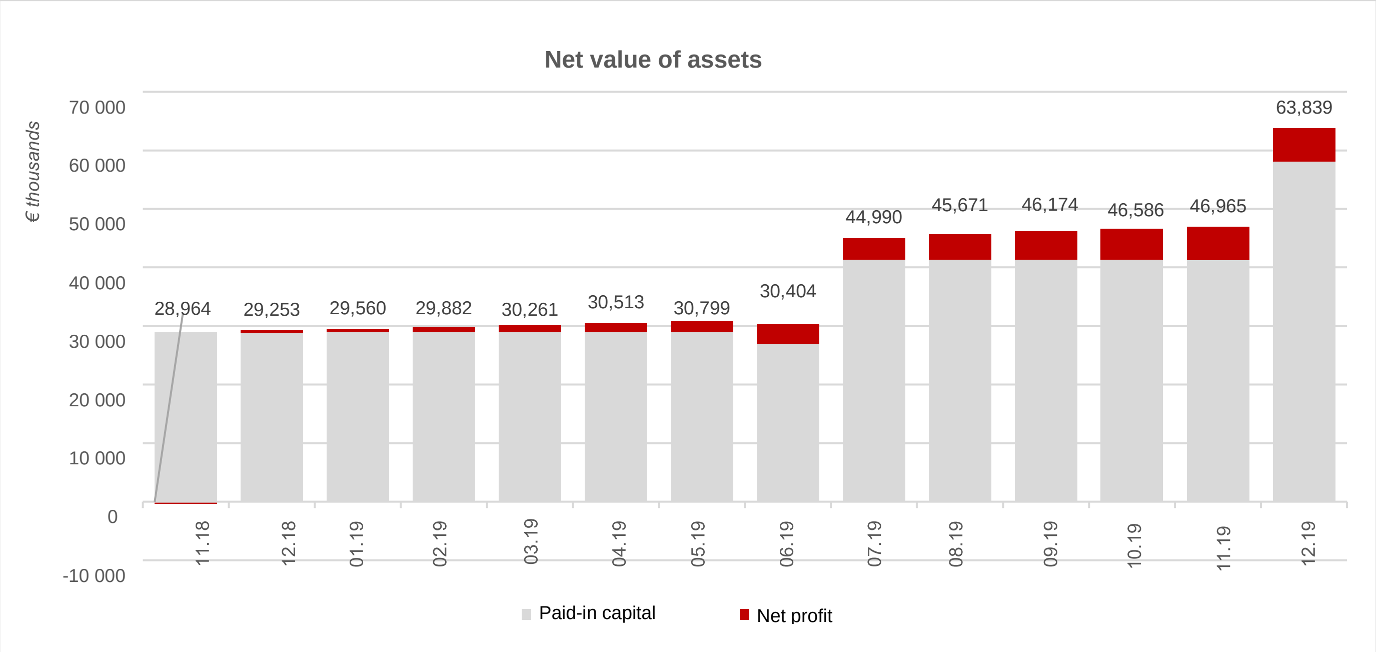
Name				Total market value	Percentage of the market value of the Fund's assets
€ thousands					
Demand deposits					
Swedbank				2,144	3%
Total of demand deposits				**2,144**	**3%**

Name				Total market value	Percentage of the market value of the Fund's assets
€ thousands					
Other claims					
Interest receivable				30	0.0%
Total other claims				**30**	**0.0%**

TOTAL ASSETS				**65,275**	**100%**
Fund’s liabilities				-1,437	-2%
NET VALUE OF FUND’S ASSETS				**63,839**	**98%**

NET VALUE OF ASSETS

As at 31.12.2019, the net value of asset of the Fund is EUR 63,839 thousand.



As of 31.12.2019, the Fund has a total of 34 investors. The owners of more than 10% of the fund are listed in the table below:

Investor	31.12.2019
Swedbank Latvia pensionfunds	21.7%
EBRD	20.0%
SEB pension funds	14.9%
LHV pension funds	13.6%
Swedbank Estonia pension funds	12.7%

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	17.10.2018-31.12.2019
€ thousands		
Revenue	5	527
Gross profit		**527**
General and administrative expenses	6	-692
Operating profit		**-165**
Profit / loss from subsidiaries	7	7,078
Interest income	8	261
Finance costs	9	-1,435
Profit before income tax		**5,739**
Net profit for the period		**5,739**
Total comprehensive income for the period		**5,739**

The notes on pages 10 to 21 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019
€ thousands		
ASSETS		
Cash and cash equivalents	10	2,144
Receivables and accrued income	11	30
Total current assets		**2,174**
Long-term receivables	11	18,375
Shares in subsidiaries	4	44,727
Total non-current assets		**63,102**
TOTAL ASSETS		**65,276**
LIABILITIES AND NET ASSET VALUE		
Payables and prepayments		2
Total current liabilities		**2**
Success fee liability	12	1,435
Total non-current liabilities		**1,435**
Total liabilities (excluding net asset value of the Fund owned by limited and general partners)		**1,437**
Net asset value of the Fund owned by limited and general partners	14	**63,839**
TOTAL LIABILITIES AND NET ASSET VALUE		**65,276**

The notes on pages 10 to 21 are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

	Notes	17.10.2018-31.12.2019
€ thousands		
Net profit for the period		**5,739**
Adjustments to net profit:		
Profit / loss from subsidiaries	7	-7,078
Interest income	8	-261
Change in success fee liability	12	1,435
Total adjustments with non-cash changes		**-5,904**
Cash flow from operating activities before changes in working capital		**-165**
Change in receivables and payables related to operating activities		1
Net cash flow generated from operating activities		**-164**
Acquisition of subsidiaries	4	-39,649
Loans granted	11	-18,375
Dividends received	7	2,000
Interest received		232
Net cash flow generated from investing activities		**-55,792**
Contributions to capital received	14	60,100
Returns of capital	14	-2,000
Net cash flow generated from financing activities		**58,100**
NET CASH FLOW		**2,144**
Cash and cash equivalents at beginning of period	**10,13**	**0**
Change in cash and cash equivalents		2,144
Cash and cash equivalents at end of period	**10,13**	**2,144**

The notes on pages 10 to 21 are an integral part of these financial statements.

STATEMENT OF CHANGES IN THE NET ASSET VALUE OF THE FUND

	Notes	17.10.2018-31.12.2019
€ thousands		
Net asset value of the Fund owned by limited and general partners at the beginning of the periood		**0**
Capital contributions	14	60,100
Returns of capital	14	-2,000
Net change in capital		**58,100**
Net profit		5,739
Net asset value of the Fund owned by limited and general partners at the end of the period		**63,839**

See Note 14 for additional information on paid-in capital.

The notes on pages 10 to 21 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Usaldusfond EfTEN Real Estate Fund 4 (hereafter 'the Fund') is a real estate investment fund established in October 2018 investing in cash-generating commercial real estate. The Fund is a closed-ended, alternative investment fund. The Fund is guided by a core and core plus investment strategy. Usaldusfond EfTEN Real Estate Fund 4 invests in the Baltic region.

The Fund's investment activities is managed by EfTEN Capital AS. The general partner of the Fund is EfTEN Neljas GP OÜ.

The Annual Report of Usaldusfond EfTEN Real Estate Fund 4 for the financial year ended 31 December 2019 was signed by the Management Board on 28 February 2020.

The Fund is registered and operating in Estonia.

2 Confirmation of conformity and general principles for the preparation of the report

According to the Investment Funds Act and The Regulation No. 8 of The Ministry of Finance "The financial statement disclosure requirements of a Fund" (adopted on 18 January 2017) the financial statements of the Fund are prepared using the accounting principles and information presentation methods set out in International Financial Reporting Standards (hereinafter IFRS) adopted by the European Commission, taking also into account the procedure for determining the net asset value of the Fund according to the Investment Funds Act § 54 (11) and other specifications set out in the above-mentioned regulation. The requirements provided for in the Accounting Act have also been taken into account.

In preparing its report, the Fund has followed the requirements of IFRS to the extent that is not in conflict with the Investment Funds Act and The Regulation No. 8 of The Ministry of Finance requirements. In case of conflict, the Fund has followed the Investment Funds Act and The Regulation No. 8 of The Ministry of Finance (The financial statement disclosure requirements of a Fund). The accounting policies used in the preparation of the financial statements are described in more detail below.The financial statements of the Fund are presented in thousands of euros.

The financial statements have been prepared under the historical cost convention, unless otherwise stated.

New standards, interpretations, and their changes

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 (effective for annual periods beginning on or after 1 January 2020). 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 Fund's financial statements.

'Materiality concept' - Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). 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 Fund's financial statements.

"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 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 will not have a material impact on the Fund'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 amendments will not have a material impact on the Fund's financial statements.

Other new or amended standards or interpretations that are not yet effective are not expected to have a material impact on the Fund.

3 Summary of significant accounting policies

Significant Management Decisions and Estimates

The preparation of 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) Investments in subsidiaries: determination of fair value

The Fund's investments in subsidiaries are measured at each balance sheet date at fair value. As no subsidiary of the Fund is listed on the stock exchange, the fair value of the subsidiary is based on the assets and liabilities of the subsidiary at the balance sheet date, which are to a large extent measured at fair value. The major assets of subsidiaries include cash and cash equivalents, trade receivables and investment property, and liabilities include trade payables, success fee liability, borrowings and other minor liabilities. Investment property is measured at each balance sheet date at its fair value. Since the foundation the real estate investments of the Fund's subsidiaries are valued by Colliers International Advisors OÜ. The independent valuer evaluates the Fund's subsidiaries' investment properties on an individualized basis using the discounted cash flow method. All of the Fund's subsidiaries investment properties earn rental income, so the method used best reflects the fair value of the investment property, such as the comparative method. Cash flow projections for all items are updated to determine fair value, and discount rates and exit rates are differentiated based on the location of the items, their technical condition, and the risk level of the tenants. Due to changes in the commercial real estate market in the Baltic States and favorable financing conditions, discount rates are still relatively low, ranging from 7.9% to 9%, depending on the location and quality of the property. Exit yields have remained at the same level, ranging from 7.0% to 9.0%.

For more information on the assumptions and sensitivity used in the assessments, see Note 15.

Investment company

The Fund's terms and conditions and agreements with investors assume that the Fund will primarily provide investors with returns (including capital gains and dividends) on commercial real estate investments. According to the agreements concluded with the Fund's investors, investors expect a return of at least 8% from the Fund as a whole. In order to ensure the clearest understanding of the Fund's performance, the Fund measures the results of operations of its subsidiaries and the value of their equity at fair value.

The Fund is registered as a limited partnership fund, which allows investors to raise capital and make payments with less restrictions than other types of company (such as public limited fund). As at 31 December 2019, the Fund has entered into financial liability agreements with investors in the amount of EUR 147,438 thousand, of which the Fund has used EUR 58,100 thousand. The agreements with the investors stipulate that the investor is obliged to pay the amounts required for the investments to the Fund not less than 10 working days after receiving a notification from the management company. In the event that the Fund's capital cannot be invested, the amounts paid will be returned to the investors within 30 days.

Dividends, repayments of capital, repayments of owner loans and interest received from subsidiaries are paid to the investors in accordance with the agreements concluded no later than 30 days after their receipt into the Fund's accounts.

Due to the above, the Fund complies with the definition of an investment company (IFRS 10 § 31). In accordance with IFRS 10, para. 31 an entity does not consolidate its subsidiaries but recognizes them at fair value through profit or loss in accordance with IFRS 9.

Investments in subsidiaries

The Fund's financial statements include investments in subsidiaries at fair value. The subsidiary is initially recognized at cost and subsequently measured at fair value through profit or loss. Dividends declared by subsidiaries are recognized when the Fund becomes entitled to the dividends.

All business combinations are accounted for by the Fund using the purchase price method.

Revenue recognition

Revenue is income that arises in the ordinary course of business of the Fund. Revenue is recognized at the transaction price. Transaction price is the total fee that the Fund is entitled to receive for the delivery of permitted services to the client, less any amounts collected on behalf of third parties. The Fund recognizes revenue when control of a good or service is transferred to a customer.

The Fund's revenue includes the Fund's management fees.

Financing component

The Fund does not have any contracts with a period of more than one year between the delivery of the promised goods or services and the receipt of payment from the client. Consequently, the Fund does not adjust the transaction price for the time value of money.

<u>Financial income</u>

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

Cash and cash equivalents

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

Financial assets

(i) Classification

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

The classification depends on the Fund’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 Fund 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 Fund 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 Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (for example investments in subsidiaries), 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 Fund’s business model for managing the asset and the cash flow characteristics of the asset. All Fund’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 all the Fund's financial assets were classified in this category:

- cash and cash equivalents;
- trade receivables;
- loans granted.

Assets that do not meet the criterion of cost or fair value through other comprehensive income (OCI) are recognized at fair value through profit or loss.

(iv) Impairment

The Fund assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. 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 Fund 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 Fund uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Financial liabilities

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

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

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

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

Success fee liability

Usaldusfond EfTEN Real Estate Fund 4, EfTEN Capital AS and EfTEN Neljas GP OÜ (a 100% subsidiary of EfTEN Capital AS) have entered into a limited partnership fund agreement, according to which EfTEN Capital AS has the right to receive a success fee for amounts exceeding investors' contributions and preferred returs (8% of contributions per year). 80% of investors' contributions and disbursements exceeding the preferential rate of return are paid to investors and 20% to EfTEN Capital AS. The Fund recognizes a potential expected success fee liability at each balance sheet date, taking into account the contributions to the Fund at the balance sheet date, the profits earned and the fair value of subsidiaries. The potential success fee liability calculation is based on the assumption that all of the Fund's profits and subsidiaries can be sold at least at their book values. The success fee liability will be paid to the Management Company after the Fund's investors have been repaid all the paid-in capital and the preferred returs.

Periodic costs arising from changes in the success fee are recognized in the Fund's financial expenses (see Note 9).

Provisions and contingent liabilities

Provisions are recognized in the balance sheet only when the entity has a legal or constructive obligation as a result of events that existed at the balance sheet date, and its fulfillment will probably require the asset to be disposed of in a reliable amount in the future.

Contingent liabilities also include liabilities arising from events that have occurred on the balance sheet date, the realization of which is unlikely to be realized by management.

Income tax

Fund is registered as a limited partnership fund under the Investment Funds Act. The limited partnership fund is a tax transparent company under the Income Tax Act and is therefore not liable to income tax.
Tax transparency means that the income earned by the Fund's subsidiaries is directly attributed to the Fund's investors and is taxed as if they had earned income directly from the subsidiaries. The income of subsidiaries of the Fund is subject to taxation in accordance with the tax laws of the country in which the subsidiary is located.

Paid-in capital

The Fund's investors have committed an investment obligation to the Fund and the maximum amount of the commitment is given in Note 15. Pursuant to the agreement between the Fund and investors (partnership agreement), the Fund requires investors to pay the investment obligation as necessary by submitting a written application to the investors.

The Fund's investors (limited partners) are liable to the Fund with a maximum investment obligation and, in accordance with the Commercial Code, are liable for the obligations assumed by the Fund up to the maximum amount of the investment obligation.

The Management Company (general partner) has also made the maximum investment obligation, but pursuant to the Commercial Code, the general partner is liable to the Fund with all its assets.

Investors' contributions (limited partners and general partners) are recognized as a liability in the financial statements, as upon liquidation of the Fund there is an obligation to return to investors their proportionate share of the Fund's net assets, investors' contributions to the Fund are not registered as capital and investors' liabilities are not identical.

4 Subsidiaries

Name of the subsidiary	Country of location	Investment property owned by a subsidiary	Fund participation,% 31.12.2019
Parent company			
Usaldusfond EfTEN Real Estate Fund 4	Estonia		
Subsidiaries			
Kadrioru Ärikeskus OÜ	Estonia	Kadrioru Business center, Tallinn	100
EfTEN Ryo UAB	Lithuania	Ryo Shopping center, Panevėžys	100
EfTEN River UAB	Lithuania	River office building, River Shopping center, Kaunas	100
EfTEN Logistics SIA	Latvia	Ownership of EfTEN Logistics 1 SIA acquired after the balance sheet date	100

All subsidiaries are engaged in rental activity of the investment property. Subsidiaries are not listed on the stock exchange.

During the reporting period, the Fund has invested in the following subsidiaries:

€ thousands	Kadrioru Ärikeskus OÜ	EfTEN Ryo UAB	EfTEN River UAB	EfTEN Logistics SIA	Total
Date of acquisition of the subsidiary	29.10.18	29.11.18	16.07.19	11.07.19	
Ownership interest acquired, %	100	100	100	100	
Fair value at the beginning of the period	**0**	**0**	**0**	**0**	**0**
Acquisitions	1,928	20,561	12,906	4,254	**39,649**
Fair value gain (Note 7)	547	5,120	1,502	-91	**7,078**
Dividends paid (Note 7)	0	-2,000	0	0	**-2,000**
Fair value at the end of the period	**2,475**	**23,681**	**14,408**	**4,163**	**44,727**

During the reporting period the Fund established two subsidiaries (Kadrioru Ärikeskus OÜ and EfTEN Logistics SIA), paying a total of EUR 6,182 thousand in the equity of the subsidiaries. In addition, the Fund provided loans to these companies in the total amount of EUR 18,375 thousand (see Note 11).

During the reporting period, the Fund acquired 100% of the shares in EfTEN Ryo UAB and EfTEN River UAB from third parties.

The fair value of EfTEN Ryo UAB at the date of acquisition was as follows

	Fair value
Cash	2,041
Receivables and prepayments	51
Investment properties	47,000
Bank loans	-24,500
Other current liabilities and tenants' deposits	-913
Deferred tax liability	-3,118
Fair value of net assets	**20,561**
Acquisition cost	20,561
Goodwill	**0**

The fair value of EfTEN River UAB at the date of acquisition was as follows:

	Fair value
Cash	459
Receivables and prepayments	68
Investment properties	31,644
Property, plant and equipment	92
Bank loans	-16,100
Other current liabilities and tenants' deposits	-543
Deferred tax liability	-2,714
Fair value of net assets	**12,906**
Acquisition cost	12,906
Goodwill	**0**

The Fund's investments in subsidiaries are measured at each balance sheet date at fair value. As no subsidiary of the Fund is listed on the stock exchange, the fair value of the subsidiary is based on the assets and liabilities of the subsidiary at the balance sheet date, which are to a large extent measured at fair value. The major assets of subsidiaries include cash and cash equivalents, trade receivables and investment property, and liabilities include trade payables, success fee liability, borrowings and other minor liabilities. Investment property is measured at each balance sheet date at its fair value. Since the foundation the real estate investments of the Fund's subsidiaries are valued by Colliers International Advisors OÜ. The independent valuer evaluates the Fund's subsidiaries' investment properties on an individualized basis using the discounted cash flow method. All of the Fund's subsidiaries investment properties earn rental income, so the method used best reflects the fair value of the investment property, such as the comparative method. Cash flow projections for all items are updated to determine fair value, and discount rates and exit rates are differentiated based on the location of the items, their technical condition, and the risk level of the tenants. The carrying amounts of the assets and liabilities of other subsidiaries do not differ materially from their fair values, which is why the inputs used to determine the fair value of investment properties are of paramount importance in determining the fair value of the subsidiary as a whole. The table below shows the results of the sensitivity analysis for the most important inputs of the subsidiaries' investment properties.

Subsidiary	**Key inputs to the fair value of investment property owned by a subsidiary**						**Impact of changes in the fair value of investment property on the fair value of a subsidiary**			
	Fair value	Rent per year	Discount rate	Exit yield	10% annual growth in rental income	10% annual decrease in rental income	Increase in dicount rate by 0.5 percentage points	Decrease in dicount rate by 0.5 percentage points	Increase in exit yield by 0.5 percentage points	Decrease in exit yield by 0.5 percentage points
€ thousands										
Kadrioru Ärikeskus OÜ	2,475	1,240	8.0%	7.0%	1,700	-1,800	-300	300	-800	900
EfTEN Ryo UAB	23,681	4,458	9.0%	9.0%	5,500	-5,500	-900	1,000	-1,700	2,000
EfTEN River UAB	14,408	2,336	7.9%	7.0% - 7.75%	3,600	-3,600	-700	700	-1,500	1,700
Total	**40,564**	**8,034**			**10,800**	**-10,900**	**-1,900**	**2,000**	**-4,000**	**4,600**

The table above does not reflect the effect of the fair value of investment property on the fair value of EfTEN Logistics SIA as the investment property was acquired by this subsidiary after at the balance sheet date, in January 2020.

The valuation methods used to analyse the Fund'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, the Fund had no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Fund's investments in subsidiaries are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy.

5 Revenue

Areas of activity	**17.10.2018-31.12.2019**
€ thousands	
Management fee (Note 16)	527
Total revenue by areas of activity	**527**

Geographical areas	**17.10.2018-31.12.2019**
€ thousands	
Estonia	125
Lithuania	402
Total revenue by geographical area	**527**

6 General and administrative expenses

General and administrative expenses	17.10.2018-31.12.2019
€ thousand	
Management fee (Note 16)	-527
Legal advice	-101
Consultation costs	-50
Regulatory costs	-14
Total general and administrative expenses	**-692**

7 Profit / loss from subsidiaries

	17.10.2018-31.12.2019
€ thousands	
Gain / loss on subsidiaries at fair value	5,078
Dividends received	2,000
Total profit / loss from subsidiaries (Note 4)	**7,078**

8 Interest income

	17.10.2018-31.12.2019
€ thousands	
Interest income on loans granted to subsidiaries (Note 11)	261
Total interest income	**261**

9 Financial expenses

Finacial expenses	17.10.2018-31.12.2019
€ thousands	
Success fee expense (Note 12)	-1,435
Total finacial expenses	**-1,435**

10 Cash and cash equivalents

	31.12.2019
€ thousand	
Demand deposits	2,144
Total cash and cash equivalents (Note 13)	**2,144**

11 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2019
€ thousand	
Interest receivable	30
Total accrued income	**30**
Total receivables and accrued income (Note 13)	**30**

Long-term receivables

	31.12.2019
€ thousands	
Loans to subsidiaries (Note 4 and 13)	18,375
Total long-term receivables	**18,375**

As of 31.12.2019, two long-term loans have been granted to subsidiaries. One loan in the amount of EUR 5,775 thousand bears interest at 4% per annum and its maturity date is in 2023. The second loan in the amount of EUR 12,600 thousand bears interest at 3.85% per annum and the maturity date is in 2024. All loans are issued in euros. See see also Note 17 to related parties..

12 Success fee liability

The Fund has included a success fee expense reserve in other financial expenses in the amount of EUR 1,435 thousand (see also Note 9). According to the limited partnership fund agreement, the management company is entitled to receive a success fee for amounts exceeding the investors' contributions and the preferred return (the preferred return is 8% of the contributions per year). 80% of investors' contributions and disbursements in excess of the preferred return rate are paid to investors and 20% to the management company. The potential success fee reserve has been determined taking into account the contributions made to the Fund by the balance sheet date, the earned profit and the fair value of the subsidiaries. The success fee is paid to the Management Company after all the initially paid-in capital and preference have been returned to the Fund's investors.

13 Financial instruments, financial risk management

The Fund's main financial assets are investments in subsidiaries and loans granted. The Fund's balance sheet also includes cash and short-term deposits, other receivables and reserve for potential success fee.

The table below shows the breakdown of the Fund's financial assets and financial liabilities by type of financial instrument.

Carrying amounts of financial instruments

	Notes	31.12.2019
€ thousands		
Financial assets - loans and receivables at amortized cost		
Cash and cash equivalents	10	2,144
Loans granted	11	18,375
Other receivables	11	30
Total financial assets - loans and receivables at amortized cost		**20,549**
Financial assets at fair value through profit or loss		
Investments in subsidiaries	4	44,727
Total financial assets at fair value through profit or loss		**44,727**
Financial liabilities at amortized cost		
Success fee reserve	12	1,435
Total financial liabilities at amortized cost		**1,435**
Total financial liabilities		**1,435**

The fair values of financial assets and financial liabilities at amortized cost presented in the table above are not materially different from their fair values.

The Fund's risk management is based on the principle that risks are taken in a balanced manner, taking into account the rules established by the Fund and implementing risk mitigation measures as appropriate, thereby achieving a stable return on the Fund and increasing the value of investors' assets. When making new investment decisions, the ability of subsidiaries to provide returns to investors at the level expected by investors is carefully assessed, taking into account the solvency of subsidiaries' customers, the 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 Fund and growth even after the financial liabilities have been met.

In investing the Fund's assets, the risk expectations of the Fund'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 Fund considers a financial risk to be risk that arises directly from making investments in subsidiaries that own investment properties, 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 the risk of changes in the fair value of financial instruments due to changes in market prices. The Fund's financial instruments, which are mainly affected by changes in market prices, are investments in shares of other companies and lending to these companies.

The Fund's policy is to manage market risks through diversification and to select investments in a manner consistent with the Fund's terms and conditions and agreements with investors. The Fund's investment strategy requires the Fund's subsidiaries to own or acquire commercial real estate investments covered by long-term leases located in the Baltic States and classified according to international standards as either Core or Core plus. The Fund does not invest in residential real estate or in development projects.

At least 80% of the Fund's assets are invested in units of real estate investment companies and up to 20% are invested in bank deposits. The Fund may not hold more than 25% in any single investment and no more than 50% in any sector except during the investment period of the Fund.

Interest rate risk

Interest rate risk is the risk of changes in the future cash flows of financial instruments arising from changes in market interest rates. Changes in market interest rates mainly affect long-term floating rate of borrowings of the Fund's subsidiaries, where a rise in interest rates may result in a decrease in income from the subsidiary.

Liquidity risk

Liquidity risk arises from a potential change in financial position that would reduce the ability of the Fund to service its liabilities in a timely and correct manner. The Fund's liquidity is primarily affected by fluctuations in cash flow from its subsidiaries and risks:

- Decrease or volatility in the rental income of the Fund's subsidiaries, which in turn reduces the Fund's ability to generate positive net cash flows;
- Vacancy rate of the subsidiaries of the Fund in rental premises;
- The maturity mismatch between the Fund's subsidiaries and the Fund's assets and liabilities and flexibility in changing them;
- Marketability of the Fund's long-term assets;
- The volume and pace of the Fund's investments;
- The Fund's risks in raising capital.

The purpose of the fund is to manage the net cash flow so that no more than 40% of the assets of the acquired subsidiary are raised from investors when acquiring subsidiaries.

The Fund's financing policy stipulates that the Fund may borrow on a short-term basis (up to a maximum of 180 days) in order to provide short-term liquidity. Guarantees and short-term loans granted by the Fund to its subsidiaries may not at any time exceed 25% of the paid-in capital of the Fund.

The table below summarizes the maturity profile of the Fund's financial liabilities (undiscounted cash flows):

As at 31.12.2019	Under 1 month	2-4 months	4 to12 months	2 to 5 years	over 5 years	**Total**
€ thousands						
Payables to suppliers	2	0	0	0	0	**2**
Success fee liability	0	0	0	0	1,435	**1,435**
Total financial liabilities	**2**	**0**	**0**	**0**	**1,435**	**103,614**

Credit risk

Credit risk refers to the risk arising from the inability of counterparties to carry out their obligations to the Fund. The Fund is exposed to credit risk as a result of its investments and transactions with financial institutions, including loans granted and cash and deposits in accounts.

The Fund's activities to prevent and minimize cash flow from credit risk include the day-to-day management and direction of its subsidiaries, which allow for the implementation of operationally necessary measures.

The maximum credit risk of the Fund is shown in the table below:

	31.12.2019
€ thousands	
Cash and cash equivalents (Note 10)	2,144
Loans granted (Note 11)	18,375
Total maximum credit risk	**20,519**

Bank account balances included in the Fund's cash and cash equivalents are classified by bank ratings (Moody's long-term) as follows:

Reiting as at 31.12.2019	**Balance as at 31.12.2019**
Aa2	2,144

Capital management

The purpose of the Fund's capital management is to ensure the Fund's ability to continue as a going concern in order to provide investors with a return on investment and maintain an optimal capital structure.

The Fund will continue to invest in subsidiaries whose main cash flow is from real estate investments and will raise new capital to make investments. The Fund invests directly in the equity of its subsidiaries and provides loans to subsidiaries to make investments. The amount of capital required is calculated on an individual basis for each investment taking into account the amount of net cash flow from the particular investment. The Fund invests not less than 40% of the value of the assets of the subsidiary in its equity when acquiring subsidiaries.

After making the investment, the cash flow of any subsidiary's cash-generating property must not be less than 120% of the loan annuity payments. According to the management of the Fund, the existing investment portfolio allows to pay the investors a total of EUR 3,200 thousand, ie 5% of the invested capital of the Fund as of 31.12.2019, on the basis of the cash flow earned from subsidiaries during the first year of operation.

14 Contributed capital

The fund was established on 17.10.2018. The first contributions to the fund were made in the period 26.10.2018-09.11.2018 in the amount of EUR 2,424 thousand, therefore the paid-in capital has not been rcognised in the balance sheet at the time of compiling the Fund's opening balance sheet (17.10.2018).

During the reporting period, the Fund's investors contributed a total of EUR 60,100 thousand to the Fund and returned EUR 2,000 thousand to the Fund's investors. As of 31.12.2019, the paid-in capital of the Fund was EUR 58,100 thousand. As of 31.12.2019, financial liability agreements have been concluded between the Fund and the investors of the Fund, according to which investors pay a total of EUR 147,438 thousand to the Fund for the acquisition of subsidiaries, ie at the end of the reporting period another EUR 89,338 thousand could be raised from investors.

The owners of more than 10% of the Fund are listed in the table below:

Investor	31.12.2019
Swedbank Latvia pension funds	21.7%
EBRD	20.0%
SEB pension funds	14.9%
LHV pension funds	13.6%
Swedbank Estonia pension funds	12.7%

15 Events after the balance sheet date

The subsidiary of the Fund acquired a 100% shareholding in a Latvian company which owns a logistics building in the Ķekava rural municipality near Riga, which includes logistics and office space. This is the Fund's first investment in the logistics segment. In December 2019, the Fund granted a loan to its Latvian subsidiary in the amount of EUR 12,600 thousand and increased the share capital of the subsidiary by EUR 4,250 thousand.

16 Transactions with related parties

Usaldusfond EfTEN Real Estate Fund 4 recognizes as related parties:

- persons holding more than 10% of the paid-in capital of the Fund;

- subsidiaries of Usaldusfond EfTEN Real Estate Fund 4;

- EfTEN Neljas GP OÜ (general partner);

- EfTEN Neljas GP (general partner) board members;

- EfTEN Capital AS (the Management Company).

During the reporting period the Fund purchased management services from EfTEN Capital AS in the amount of EUR 527 thousand (Note 5). During the reporting period, the Fund sold management services to its subsidiaries in the amount of EUR 527 thousand (Note 5). The Fund did not purchase or sell to other related parties any other goods or services during the reporting period.

During the reporting period, the Fund lent a total of EUR 18,375 thousand to its subsidiaries (Note 4 and Note 11) and received interest income on loans of EUR 261 thousand (Note 8). The Fund received dividends from its subsidiaries during the reporting period in the amount of EUR 2,000 thousand (Note 7).

No remuneration was calculated or paid to the members of the Management Board of the Fund's general partner.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Usaldusfond EfTEN Real Estate Fund 4

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Usaldusfond EfTEN Real Estate Fund 4 (the Fund) managed by EfTEN Capital AS (the Management Company) as at 31 December 2019, and its financial performance and its cash flows for the financial year (17 October 2018 to 31 December 2019) then ended in accordance with the Investment Funds Act and International Financial Reporting Standards as adopted by the European Union.

What we have audited

We have audited the Fund's financial statements that comprise:

- the statement of comprehensive income for the financial year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of cash flows for the year then ended; and
- the statement of changes in the net asset value of the Fund for the year then ended;
- the notes to the 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 Fund's 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 Fund 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 Company's Management Board is responsible for the other information. The other information comprises the Management report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the Fund's financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 Fund's 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 Fund's 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 Company's Management Board and those charged with governance for the Fund's financial statements

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

In preparing the Fund's financial statements, the Management Company's Management Board is responsible for assessing the Fund'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 Company's Management Board either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the Fund's 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 this financial statements of the Fund.

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 Fund's 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Company's Management Board.

Translation note:

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- Conclude on the appropriateness of the Management Company's 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 Fund'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 Fund's 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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Fund's financial statements, including the disclosures, and whether the Fund's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AS PricewaterhouseCoopers

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

28 February 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.

MANAGEMENT SIGNATURES TO THE FINANCIAL STATEMENTS

We hereby declare that the information provided in the annual report of Usaldusfond EfTEN Real Estate Fund 4 for the period ended 31 December 2019 are correct.

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Viljar Arakas
Member of the Management Board of EfTEN Neljas GP OÜ

/digitally signed/

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Tõnu Uustalu
Member of the Management Board of EfTEN Neljas GP OÜ

PROPOSAL FOR PROFIT ALLOCATION

The Management Board of EfTEN Neljas GP OÜ, Usaldusfond EfTEN Real Estate Fund 4 general partner, proposes to the General Meeting of Shareholders to distribute the profit for the reporting period ended 31 December 2019 as follows (in euros):

Retained earnings as at 31.12.2019	5,738,592
Dividend distribution	3,200,000
Retained earnings after allocation	2,538,592

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Viljar Arakas

Member of the Management Board of EfTEN Neljas GP OÜ

/digitally signed/

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Tõnu Uustalu

Member of the Management Board of EfTEN Neljas GP OÜ