Consolidated Annual Report 2019

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

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MANAGEMENT REPORT

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond AS for the year 2019 was EUR 15.816 (2018: 15.641) million, an increase of 1.1% compared to 2018. The Group's net profit for the same period was EUR 9.321 million (2018: EUR 10.783 million). Net profit decreased significantly in 2019 due to changes in the fair value of investment properties and higher income tax expense on dividends.

Consolidated gross margin was 93% in 2019. (2018: same), which means that costs directly attributable to property management (including land tax, insurance, maintenance and improvement costs) accounted for 7% of sales in both 2019 and 2018.

The Group's real estate costs, marketing costs, general and other income and expenses in 2019 accounted for 17.5% of sales revenue. The same figure for 2018 remained at 17.0%.

	2019	2018
EUR million		
Rental revenue, other fees from investment properties	15.816	15.641
Expenses related to investment properties, incl. marketing costs	-1.346	-1.363
Interest expense and interest income	-2.138	-1.996
Net rental revenue less finance costs	**12.332**	**12.282**
Management fees	-1.054	-1.174
Other revenue and expenses	-0.371	-0.128
Profit before change in the value of investment property, profits/losses from joint ventures and income tax expense	**10.907**	**10.980**

As at 31.12.2019, the Group's total assets amounted to 208.470 million euros (31.12.2018: 215.246 million euros), including the fair value of real estate investments at 93.3% (31.12.2018: 89.8%).

	31.12.2019	31.12.2018
EUR million		
Investment property	194.528	193.212
Other non-current assets	3.639	4.132
Current assets, excluding cash	0.411	0.767
Net debt	-91.050	-92.845
Net asset value (NAV)	107.528	105.266
Net asset value (NAV) per share, in euros	2.7297	2.6721

Access to flexible financing conditions helps to increase the Group's competitiveness. In 2020, the maturity of the Group's four long-term loan agreements in the total amount (balance on 31 December 2019) is EUR 13.011 million, therefore the coverage ratio of the Group's current liabilities as of 31 December 2019 is 0.6. The fair value of collateral for these loan agreements is EUR 29.028 million, including LTV (Loan to value) of 39% -51% as at the end of 2019. Similarly, all maturing loans are secured by real estate investments with a strong cash flow and a tenant base, thus in the opinion of the Group's management, it is unlikely that the refinancing of these loans would be difficult and would cause liquidity problems for the Group.

In 2019, the maturity date of the Group's four loan agreements in the total amount (balance on 31 December 2018) was EUR 37,019 thousand, therefore the coverage ratio of the Group's current liabilities as of 31 December 2018 was only 0.4. All these loan agreements were refinanced in 2019.

At the end of the year, the average interest rate of the Group's loan contracts (including interest rate swap agreements) was 2.29% (2018: 2.11%) and LTV (Loan to Value) of rental income generating real estate investments is 48% (2018: 49%). As of 31.12.2019, 52.0% of the Group's loan agreements are related to fixed Euribor levels of 0.60% -0.67% (31.12.2018: 50.0%).

12 months	31.12.2019	31.12.2018
ROE, % (net profit of the period / average equity of the period) x 100	8.8	10.1
ROA, % (net profit of the period / average assets of the period) x 100	4.4	4.9
ROIC, % (net profit of the period / average invested capital of the period) x 100[1]	17.9	17.6
EBITDA (EUR thousand)	13,031	13,003
EBITDA margin, %	82%	83%
EBIT (EUR thousand)	12,697	13,253
EBIT margin, %	80%	85%
Liquidity ratio (current assets / current liabilities)	0.6	0.4
DSCR (EBITDA/(interest expenses + scheduled loan payments)	2.4	2.6

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

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. As at the end of 2019, the Group had 19 (2018: same) commercial investment property with a fair value at the balance sheet date of EUR 194.528 million and an acquisition cost of EUR 174.035 million. In addition, the Group's joint venture owns the Palace Hotel in Tallinn, whose fair value as at 31.12.2019 was EUR 11.100 million (31.12.2018: EUR 11.060 million). The Group's real estate portfolio is divided by sectors as follows:

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

Investment property, as at 31.12.2019	Group's ownership interest, %	Cost of acquisition	Fair value	Net leasable area	Rental revenue per annum	Occupancy, %	Average length of lease agreement
Tallinn Cold Storage (Tallinna Külmhoone)	100	6,237	6,500	6,863	563	100	2,5
Kuuli 10/Punane 73	100	9,171	10,470	15,197	852	100	8,2
Betooni 1a	100	7,347	7,900	10,678	682	100	1,3
Betooni 6	100	9,751	8,970	16,838	753	96	2,0
Nordic Technology Park	100	20,725	20,747	42,230	1,787	99	3,5
Total warehouse and logistics premises		**53,231**	**54,587**	**91,806**	**4,637**	**99**	**3,7**
Võru Rautakesko	100	3,270	2,880	3,120	249	100	3,2
UKU Centre	100	10,548	12,390	7,866	985	98	3,9
Mustika Centre	100	31,236	36,500	27,244	2,938	98	3,7
RAF Centrs	100	8,713	8,900	6,177	823	99	3,0
Depo shopping centre in Jelgava	100	2,323	2,323	*under development*			
Tammsaare tee Rautakesko	100	12,945	14,770	9,120	1,271	100	2,2
Total retail premises		**69,035**	**77,763**	**53,527**	**6,266**	**99**	**3,3**
Lauteri 5	100	3,368	5,190	3,942	420	96	2,0
Pärnu mnt 102	100	12,404	16,130	9,178	1,229	97	2,1
Pärnu mnt 105	100	7,880	7,800	4,778	635	98	1,9
Kadaka road 63	100	7,411	8,990	7,610	770	92	2,5
Terbata office building	100	9,724	9,308	4,843	672	100	0,8
Menulio 11 Police Building	100	6,042	7,850	5,620	644	92	3,8
Total office premises		**46,829**	**55,268**	**35,971**	**4,370**	**96**	**1,9**
Rakvere Police Building (government)	100	4,940	6,910	5,744	679	100	5,8
Hotel Palace (hotels)[1]	50	10,961	11,100	4,870	770	100	
Total		**184,996**	**205,628**	**191,918**	**16,722**	**98**	**3,0**

[1] Hotel Palace belongs to the Group's joint venture with a 50% share, therefore the Group does not consolidate this investment property and rental income line by line. Therefore, these figures are not included in consolidated investment property or sales revenue.

As at 31.12.2019, the Group has a total of 326 (2018: 331) tenants. Contractual revenue from 12 clients represents 44.9% of the consolidated rental income.

Customer	% of the consolidated rental revenue
Kesko Senukai Estonia AS	9.9%
Prisma Peremarket AS	9.2%
Logistika Pluss OÜ	5.6%
DHL Logistics Estonia OÜ	4.8%
Livonia Print SIA	4.7%
Riigi Kinnisvara AS	4.5%
Premia Tallinna Külmhoone AS	3.7%
Eesti Energia AS	3.5%
Vlniaus apskrities vyriausiasis policijos komisariatas	2.8%
Kinnisvaravalduse AS	2.2%
Icefire OÜ	2.1%
Dukascopy Bank SA Sveices Konfederacija	1.9%
Others	55.1%

Valuation of investment property

EfTEN Kinnisvarafond revalues its investment properties twice a year – in June and in December. Since 2014, the Group's investment property has been valued by Colliers International Advisors OÜ. As a result of revaluation, the total value of investment property decreased by 0.2% (2018: increased 0.1%) and the Group recognised a loss from fair value adjustment on investment property in the amount of EUR 0.334 million (2018: gain EUR 0.239 million).

The independent appraiser of the Group values the investment properties individually with the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. Compared to 2018, the exit yields and discount rates in the Group's investment portfolio remained on the same level for most of the investment properties. Smaller shifts down have occured on those properties, where the properties have been improved as a result of the development work, an anchor tenant has extended its lease term or where the yields are lower due to actual market transactions. In 2019, exit yields stayed within the range of 7.0%-8.25% (2018: 7%-8.7%). Discount rates in 2019 remained within the range of 7.9%-9% (2018: 7.9%-9.5%).

Information on shares

As at 31.12.2019, the total amount of paid-in contributions to EfTEN Kinnisvarafond AS share capital is EUR 52.071 million (31.12.2018: EUR 61.131 million), including share capital of EUR 19.696 million and share premium of EUR 32.375 million. The number of shares as at 31.12.2019 was 39,391,371 (31 December 2018: same).

In September 2018, the general meeting of EfTEN Kinnisvarafond AS decided to reduce the Fund's share capital by reducing the nominal value of the share from EUR 0.6 to EUR 0.5. The share capital was reduced by a total of EUR 3.939 million as a result of that decision and, as a result, a total of EUR 9.060 million was paid to shareholders in January 2019.

As at 31.12.2019, the net asset value per share (NAV) of EfTEN Kinnisvarafond was EUR 2.73. The net asset value of EfTEN Kinnisvarafond AS increased by 2.2% over the year. Without the distribution of dividends and the related income tax expense, the Fund's NAV would have increased 10% in 2019.

EUR thousands	31.12.2019	31.12.2018
Net asset value calculated in accordance with IFRS	107,528	105,266
Number of shares at the balance sheet date	39,391,371	39,391,370
IFRS net asset value per share, in euros	2.73	2.67

In addition to the net asset value calculated in accordance with the above IFRS, EfTEN Kinnisvarafond AS also calculates the net asset value recommended by EPRA (European Public Real Estate Association) to provide investors with the most appropriate net asset value. EPRA Guidance requires a long-term economic strategy for real estate companies, so temporary differences in situations where asset sales are unlikely to occur in the near future will blur the transparency of the fund's net asset value. Therefore, the deferred income tax expense on investment property and the fair value of financial instruments (interest rate swaps) are eliminated from the net asset value calculated in accordance with IFRS from EPRA net worth.

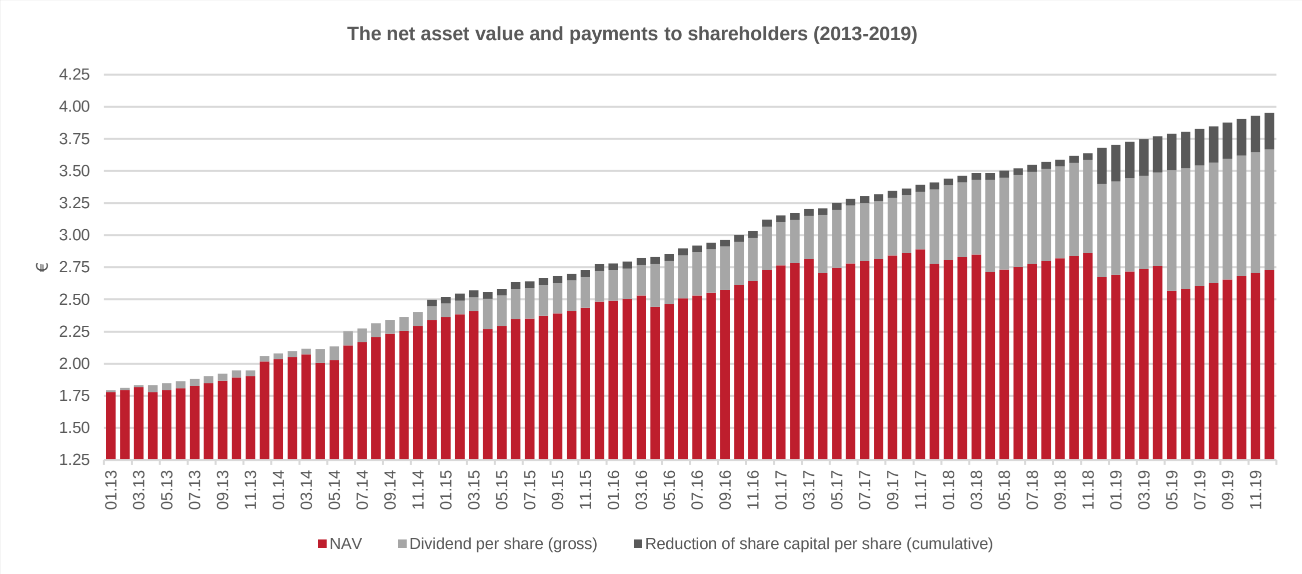
EUR thousands	**31.12.2019**	**31.12.2018**
Net asset value calculated in accordance with IFRS	107,528	105,266
Exclusion of deferred income tax on investment property	478	395
Exclusion of the fair value of financial instruments	1,151	1,182
EPRA net asset value	**109,157**	**106,843**
Number of shares at the balance sheet date	39,391,371	39,391,369
EPRA net asset value per share, in euros	**2.77**	**2.71**
EPRA NAV growth, in euros	0.06	-0.10
Dividend paid per share, in euros	0.18	0.15
Income tax on dividends paid per share, in euros	0.032	0.029
Reduction of share capital per share, in euros	0.00	0.23
Period earnings per share, in euros	**0.271**	**0.30**
Accounted earnings per share for the period, growth %	**10.0%**	**10.8%**

The dividend policy of EfTEN Kinnisvarafond AS stipulates that the Group will pay 80% of its free cash flow to shareholders (gross) as dividends each year.

During 2019, the Group generated free cash flow of EUR 7.615 million (12 months of 2018: EUR 8.090 million). According to the dividend policy, EfTEN Kinnisvarafond would be able to pay shareholders a net dividend of EUR 5.153 million on this year's dividend. At the same time, the Group's cash balance at the end of 2019 enables to pay out dividends beyond its dividend policy, which is why the Fund's Board will propose to the Supervisory Board in spring 2020 a dividend of EUR 5.515 million (14 cents per share). In 2019 EfTEN Kinnisvarafond AS decided to announce a (net) dividend to its shareholders totaling EUR 7.090 million, ie 18 cents per share.

	2019	**2018**
EUR thousands		
Operating profit	**12,697**	**13,253**
Adjustment for revaluation gains on investment property	334	-239
Adjustment for depreciation of fixed assets	6	4
Adjustment for non-monetary change in success fee	14	-15
EBITDA	**13,051**	**13,003**
Interest expenses	-2,139	-1,997
Repayment of bank loans	-3,297	-2,916
Free cash flow	**7,615**	**8,090**
80% of free cash flow	6,092	6,472
Income tax on dividends	-939	-1,294
Potential net dividend according to dividend policy	**5,153**	**5,178**
Number of shares at end of period	39,391,371	39,391,371
Potential net dividend according to dividend policy per share, in euros	**0.13**	**0.13**
Potential additional cash flow[1]	362	2,420
Income tax on dividends from additional cash flow	0	-484
Potential net dividend with additional cash flow	**5,515**	**7,114**
Potential net dividend per share, in euros	**0.14**	**0.18**

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



Shareholder structure of EfTEN Kinnisvarafond AS as at 31.12.2019

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

Planned merger with EfTEN Real Estate Fund III AS

After the balance sheet date, 14 January 2020, EfTEN Real Estate Fund III AS (the merging fund) and EfTEN Kinnisvarafond AS (the merged fund) entered into a merger agreement. The balance sheet date of the merger is 1 April 2020, ie from that date the assets, liabilities, equity, income and expenses of EfTEN Kinnisvarafond AS are recognised in the financial statements of EfTEN Real Estate Fund III AS. A precondition for the merger is, among other things, the approval decision of the general meetings of shareholders of both funds.ˇ

The boards of the merging funds estimate that the broader market sentiment is positive for real estate investments. The merger will result in a fund of approximately EUR 350 million, comprising 29 commercial buildings across the Baltic States. The merger will increase the diversification of assets and reduce the share of individual investment and lessens risks for both the merging funds and their investors (shareholders). EfTEN Real Estate Fund III AS and EfTEN Kinnisvarafond AS follow similar investment principles and the investment strategy and risk profile of the merged entity will not be changed after the merger.

For the purpose of the merger, a share issue of EfTEN Real Estate Fund III AS to the shareholders of EfTEN Kinnisvarafond AS will take place, the volume of which will be calculated based on the net asset value of EfTEN Kinnisvarafond AS EPRA as of 31.03.2020.

Management

On 21.05.2019, the Annual General Meeting of Shareholders was held, which unanimously approved the Annual Report for the financial year 2018 and decided to pay a net dividend of EUR 7,090,447 (18 cents per share). There were no extraordinary general meetings in 2019.

The Fund's Supervisory Board has seven members: Arti Arakas (Chairman of the Supervisory Board), Jaan Pillesaar, Siive Penu, Laire Piik, Sander Rebane, Tauno Tats and Kristo Oidermaa. There were no changes in the Supervisory Board members in 2019. 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 Fund has two Management Board members: Viljar Arakas and Tõnu Uustalu. There have been no changes in the Management Board members. The Management Board shall supervise, to the extent and in the manner prescribed by the management contract, the activities of the management company in relation to the fund and to the extent and pursuant to the depositary contract as well as other third parties related to the management of the fund.

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

CONSOLIDATED INCOME STATEMENT

	Notes	2019	2018
€ thousand			
Revenue	4,5	15,816	15,641
Cost of services sold	6	-1,102	-1,117
Gross profit		**14,714**	**14,524**
Marketing costs	7	-244	-246
General and administrative expenses	8	-1,419	-1,457
Gain / loss from revaluation of investment properties	15	-334	239
Other income and expenses		-20	204
Operating profit	**4**	**12,697**	**13,253**
Profit/ loss from joint ventures	9	113	719
Finance income		1	1
Finance costs	10	-2,139	-1,997
Profit before income tax		**10,672**	**11,976**
Income tax expense	11	-1,351	-1,193
Net profit for the financial year	**4,12**	**9,321**	**10,783**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2018	2018
€ thousand			
Net profit for the financial year		9,321	10,783
Other comprehensive profit/ -loss:			
Profit/ -loss from revaluation of hedging instruments	19	31	-87
Total other comprehensive profit/ -loss		**31**	**-87**
Total comprehensive income for the financial year		**9,352**	**10,696**
Revenue per shre	**12**		
-basic		0.24	0.27
-diluted		0.24	0.27

Notes on pages 12 to 39 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019	31.12.2018
€ thousand			
ASSETS			
Cash and cash equivalents	13	9,892	17,135
Receivables and accrued income	14	367	722
Prepaid expenses		39	31
Inventories		5	14
Total current assets		**10,303**	**17,902**
Long-term receivables	14	19	51
Investments in joint ventures	3	3,558	4,044
Investment property	4,15	194,528	193,212
Property, plant and equipment		62	37
Total non-current assets		**198,167**	**197,344**
TOTAL ASSETS		**208,470**	**215,246**
LIABILITIES AND EQUITY			
Borrowings	16	16,225	39,445
Derivative instruments	19	1,151	1,182
Payables and prepayments	17	786	9,821
Total current liabilities		**18,162**	**50,448**
Borrowings	16	77,190	54,300
Other long-term liabilities	17	1,053	792
Success fee liability	18	4,059	4,045
Deferred income tax liability	11	478	395
Total non-current liabilities		**82,780**	**59,532**
Total liabilities		**100,942**	**109,980**
Share capital	20	19,696	23,635
Share premium	20	32,375	37,496
Statutory reserve capital	20	4,084	3,544
Share capital reduction reserve	20	0	-9,060
Hedging reserve	19	-1,151	-1,182
Retained earnings	21	52,524	50,833
Total equity	4	**107,528**	**105,266**
TOTAL LIABILITIES AND EQUITY		**208,470**	**215,246**

Notes on pages 12 to 39 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Lisad	2019	2018
€ thousand			
Net profit		**9,321**	**10,783**
Adjustments to net profit:			
Gain/-loss from joint ventures	9	-113	-719
Interest income		-1	-1
Finance costs	10	2,139	1,997
Gains/-losses from investment property revaluation	15	334	-239
Change in the success fee liability	8	14	-15
Depreciation, amortisation and impairment		13	10
Income tax expense	11	1,351	1,193
Total adjustments with non-cash changes		**3,737**	**2,226**
Cash flow from operations before changes in working capital		**13,058**	**13,009**
Change in receivables and payables related to operating activities		637	-1,491
Net cash generated from operating activities		**13,695**	**11,518**
Purchase of property, plant and equipment		-38	-5
Purchase of investment property	15	-1 620	-5,734
Proceeds from sale of investment property	15	0	1,750
Dividends received	3,9	600	0
Interest received		1	1
Net cash generated from investing activities		**-1,057**	**-3,988**
Loans received	16	3,000	5,165
Loan repayments on sale and refinancing of investment properties	16	0	-662
Scheduled loan repayments	16	-3,297	-2,916
Interest paid		-2,166	-1,992
Reduction of share capital	20	-9,060	0
Dividends paid	19	-7,090	-9,851
Income tax paid on dividends	11	-1,268	-2,119
Net cash generated from financing activities		**-19,881**	**-12,375**
NET CASH FLOW		**-7,243**	**-4,845**
Cash and cash equivalents at the beginning of the period	**13**	**17,135**	**21,980**
Change in cash and cash equivalents		-7,243	-4,845
Cash and cash equivalents at the end of the period	**13**	**9,892**	**17,135**

Notes on pages 12 to 39 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Share capital reduction reserve	Hedging reserve	Retained earnings	**Total**
EUR, thousands							
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**-1,095**	**46,322**	**109,382**
Reduction of share capital	0	0	0	-3,939	0	0	**-3,939**
Reduction of share premium	0	0	0	-5,121	0	0	**-5,121**
Announced dividends	0	0	0	0	0	-5,751	**-5,751**
Transfers to statutory reserve capital	0	0	520	0	0	-520	**0**
Total transactions with owners	**0**	**0**	**520**	**-9,060**	**0**	**-6,271**	**-14,811**
Net profit for the financial period	0	0	0	0	0	10,783	**10,783**
Other comprehensive loss	0	0	0	0	-87	0	**-87**
Total comprehensive income	**0**	**0**	**0**	**0**	**-87**	**10,783**	**10,696**
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**-1,182**	**50,833**	**105,266**
Reduction of share capital	-3,939	-5,121	0	9,060	0	0	**0**
Dividends announced	0	0	0	0	0	-7,090	**-7,090**
Transfers to statutory reserve capital	0	0	540	0	0	-540	**0**
Total transactions with owners	**-3,939**	**-5,121**	**540**	**9,060**	**0**	**-7,630**	**-7,090**
Net profit for the financial period	0	0	0	0	0	9,321	**9,321**
Other comprehensive gain	0	0	0	0	31	0	**31**
Total comprehensive income	**0**	**0**	**0**	**0**	**31**	**9,321**	**9,352**
Balance as at 31.12.2019	**19,696**	**32,375**	**4,084**	**0**	**-1,151**	**52,524**	**107,528**

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

Notes on pages 12 to 39 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond AS and its subsidiaries for the financial year ended 31 December 2018 were 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 by the General Meeting of Shareholders. These consolidated financial statements form part of the annual report for approval by the shareholders and are one of the bases for deciding on the distribution of profits. Shareholders have the right not to approve the annual report prepared by the Management Board and approved by the Supervisory Board and to request the preparation of a new annual report.

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

The structure of EfTEN Kinnisvarafond AS Group as at 31.12.2019 is as follows (see also Note 3):

EfTEN Kinnisvarafond AS

SUBSIDIARIES

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

JOINT VENTURES

		Investment property:
50%	EfTEN SPV11 OÜ	*Hotel Palace*

2 Statement of compliance and basis for preparation

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

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

The financial statements have been prepared under the historical cost convention, unless otherwise stated (for example, investment property is carried at fair value).

2.1 Changes in the accounting policies and presentation

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became mandatory for the Group from January 1, 2019.

IFRS 16, „Leases“

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

„Annual Improvements to IFRSs 2015-2017 cycle“

The amendments with limited 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 Group's control over the joint venture has not changed since the acquisition of the joint venture, therefore 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 Group did not have any loans taken to finance the construction of the asset in 2019 and 2018, therefore the amendment has no impact on the Group's financial statements.

Long-Term Investments in Associates and Joint Ventures - Amendments to IAS 28

The amendment clarifies that when an investor's share of losses of an equity investment exceeds the amount of the investment, the carrying amount of long-term loans, preference shares and similar instruments , the requirements of IFRS 9 shall be applied to those instruments.

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

IFRIC 23, Income tax uncertainty

IAS 12 sets out how to account for the 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

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 January 2020 or after, 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

New standards that have yet to be 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 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 Group will analyze and disclose the impact of this change after implementation.

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 will analyze and disclose the impact of this change after implementation.

2.2 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

2.2.1 Estimation uncertainty

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

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

Investment property is measured at each balance sheet date at its fair value. Since 2014 Colliers International Advisors OÜ evaluates the Group's investment properties. The Group's independent valuer evaluates investment property on an individualized basis using the discounted cash flow method. All of the Group's investment properties earn (or are beginning to earn) rental income, which is why 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 Baltic commercial real estate market and favorable financing conditions, discount rates are still relatively low, ranging from 7.9% to 9% (2018: 7.9% to 9.5%), depending on the location and quality of the property. Exit yields have also remained at the same level, ranging from 7.0% to 8.25% (2018: 7.0% to 8.7%).

Additional information on assumptions and sensitivity used in the assessments is provided in Note 15.

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

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

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

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

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

2.2.2 Investment company

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond AS does not meet the definition of an investment company, since it has characteristics of a real estate company rather than of a purely investment firm. Although also the investors of EfTEN Kinnisvarafond AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. In addition, in accordance with IFRS 10, an investment firm should make direct investments in companies, which are valued at fair value. In case of the parent company of EfTEN Kinnisvarafond AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond AS are assessed for fair value, thereby obtaining the fair value of the subsidiary, which may not necessarily be the final market price of the subsidiary. The Group's business activities are also assessed based on rental income, profit margins, volume of assets and other financial ratios characteristic to real estate companies, which cannot be made only on the basis of a fair value of the subsidiary.

Consolidation

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

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

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

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

New subsidiaries (business combinations) are accounted for in the interim consolidated financial statements using the acquisition method.

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

Segment reporting

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

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

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

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

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

Investments in subsidiaries and joint ventures in the separate balance sheet of the parent company

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

Revenue recognition

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, administrative fees, marketing fees, and profits from utility and administrative expenses.

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

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

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

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

Financing component

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

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

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

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

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

Debt instruments
The further recognition of debt instruments depends on the Company's business model for managing financial assets and the contractual cash flows of the financial asset.
All debt instruments of the Company are classified in the adjusted acquisition cost category.

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

As of 31.December 2018 and 31.December 2019, all financial assets of the Group were classified in this category:
- cash and cash equivalents;
- claims against buyers;
- contractual assets;
- other financial assets.

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

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

(iv) impairment
The Company assesses the expected credit loss of debt instruments that reflect debt instruments at amortized cost and fair value through profit or loss on the basis of future information. The depreciation method applied depends on whether the credit risk has increased significantly.

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

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

Derivative instruments

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

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

Cash flow hedge

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

Investment property

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

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

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

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

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

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

Financial liabilities

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

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

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

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

Success fee liability

EfTEN Kinnisvarafond AS and EfTEN Capital AS have entered into a management agreement according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the difference between the sales and acquisition price of investment property above a hurdle rate of 10% on an annual basis. The success fee is calculated on a cumulative basis on all investment properties, i.e. if there is any investment property that is sold at a price below the cost of its acquisition, the success fees accrued on properties sold at a profit is decreased in the amount of 20% of the losses on sale of those properties sold below acquisition cost. According to the management agreement, the success fee is payable upon termination of the fund.

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property. Period expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 8).

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

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

Subsidiaries in Latvia and Lithuania

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

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

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

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

3 *Subsidiaries and joint ventures*

Company name	Country of domicile	Investment property	Group's ownership interest, % 31.12.2019	31.12.2018
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Narva mnt 59 Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Centre Viljandi	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105 Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102 Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka road 63, Talinn	100	100
EfTEN SPV10 OÜ	Estonia	In liquidation	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare road Rautakesko	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinn Cold Storage	100	100
EfTEN SPV16 OÜ	Estonia	Narva Prisma	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6, Tallinn	100	100
EfTEN Jelgava SIA	Latvia	RAF Centre, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Techology Park. Riga	100	100
EfTEN Terbata SIA	Latvia	Lāčplēša iela 20A, Riga	100	100
Auras Centrs SIA	Latvia	Depo	100	100
EfTEN Menulio UAB	Lithuania	Menulio Police Building	100	100
Joint ventures				
EfTEN SPV11 OÜ	Estonia	Palace Hotel	50	50

All subsidiaries and joint ventures are involved in the acquisition and leasing of investment properties. No shares in any of the subsidiaries or joint ventures are quoted on the stock exchange.

As at 31.12.2019, the Group owned one joint venture, whose main financial information is presented in the table below:

EfTEN SPV11 OÜ	**31.12.2019**	**31.12.2018**
€ thousands		
Cash and cash equivalents	363	1,502
Other current assets	1,127	131
Total current assets	**1,490**	**1,633**
Investment property	11,100	11,060
Total non-current assets	**11,100**	**11,060**
TOTAL ASSETS	**12,590**	**12,693**
Short-term borrowings	163	4,589
Other short-term liabilities	11	17
Total short-term liabilities	**174**	**4,606**
Long-term borrowings	5,302	0
Total lõng-term liabilities	**5,302**	**0**
TOTAL LIABILITIES	**5,476**	**4,606**
NET ASSETS	**7,114**	**8,087**
Revenue	742	739
Net income	**227**	**1,439**

In 2019 and 2018, the following changes have occurred in investments in joint ventures:

	31.12.2019	31.12.2018
Carrying value at the beginning of period	**4,044**	**3,325**
Dividends paid	-600	0
Profit from joint ventures using the equity method (Note 9)	113	719
Carrying value at the end of period	**3,557**	**4,044**

The net assets of EfTEN SPV11 OÜ as at 31.12.2019 are a total of EUR 7,114 thousand (31 December 2018: EUR 8,087 thousand). The Group owns 50% of the joint venture and the value of the interest in the group balance sheet is therefore equal to the net assets of the joint venture.

4 *Segment reporting*

SEGMENT RESULT

	Office		Storage and manufacturing		Retail		Government		Unallocated		Total	
For year	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
€ thousands												
Revenue (note 5), incl.	**4,072**	**4,277**	**4,761**	**4,729**	**6,312**	**5,977**	**671**	**658**	**0**	**0**	**15,816**	**15,641**
Estonia	2,763	2,844	2,820	2,822	5,516	5,300	671	658	0	0	11,770	11,624
Latvia	636	707	1,941	1,907	796	677		0	0	0	3,373	3,291
Lithuania	673	726	0	0	0	0		0	0	0	673	726
Net revenue, incl.	**3,727**	**3,789**	**4,483**	**4,456**	**5,692**	**5,479**	**568**	**554**	**0**	**0**	**14,470**	**14,278**
Estonia	2,485	2,484	2,694	2,726	5,045	4,964	568	554	0	0	10,792	10,728
Latvia	600	681	1,789	1,730	647	515	0	0	0	0	3,036	2,926
Lithuania	642	624	0	0	0	0	0	0	0	0	642	624
Operating profit, incl.	**3,598**	**4,220**	**4,205**	**3,233**	**4,413**	**5,428**	**618**	**589**	**-137**	**-217**	**12,697**	**13,253**
Estonia	2,567	2,783	2,655	1,771	4,390	4,957	618	589	-137	-217	10,093	9,883
Latvia	411	727	1,550	1,462	23	471	0	0	0	0	1,984	2,660
Lithuania	620	710	0	0	0	0	0	0	0	0	620	710
EBITDA, incl.	**3,419**	**3,494**	**4,111**	**4,069**	**5,105**	**5,024**	**562**	**549**	**-137**	**-217**	**13,060**	**12,919**
Estonia	2,307	2,330	2,495	2,517	4,675	4,677	562	549	-137	-217	9,902	9,856
Latvia	525	596	1,616	1,552	430	347	0	0	0	0	2,571	2,495
Lithuania	587	568	0	0	0	0	0	0	0	0	587	568
Operating profit											**12,697**	**13,253**
Profit /-loss from joint ventures (Note 9)											113	719
Net finance expenses (Note 10)											-2,138	-1,996
Profit before income tax											**10,672**	**11,976**
Income tax expenses (Note 11)											-1,351	-1,193
Net profit for the financial year											**9,321**	**10,783**

SEGMENT ASSETS

	Office		Storage and manufacturing		Retail		Government		Total	
As at balance sheet day	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18
€ thousands										
Investment property (Note 15)										
Estonia	38,110	37,450	33,840	33,640	66,540	66,360	6,910	6,840	145,400	144,290
Latvia	9,308	9,416	20,747	20,659	11,223	11,067	0	0	41,278	41,142
Lithuania	7,850	7,780	0	0	0	0	0	0	7,850	7,780
Total investment property	**55,268**	**54,646**	**54,587**	**54,299**	**77,763**	**77,427**	**6,910**	**6,840**	**194,528**	**193,212**
Other non-current assets									3,639	4,132
Net debt									-91,050	-92,845
Other current assets									411	767
NET ASSETS									**107,528**	**105,266**

In 2019 and 2018, the business segments did not enter into any transactions between themselves. The Group's main income comes from real estate investments located in the same countries as the subsidiary investing in real estate.

In 2019, 10% of the Group's consolidated rental income came from Kesko Senukai Estonia OÜ, which leases retail and office space on three properties owned by the Group's subsidiaries. The remaining tenants' share of the consolidated income is less than 10%.

5 Revenue

Areas of activity	2019	2018
€ thousand		
Rental income from office premises	3,914	4,102
Rental income from government institutions	671	658
Rental income from retail premises	6,082	5,753
Rental income from warehousing and logistics premises	4,485	4,488
Rental income from parking premises	170	139
Other sales revenue	494	501
Total revenue by areas of activity (Note 15)	**15,816**	**15,641**

Geographical areas	2019	2018
€ thousand		
Estonia	11,770	11,624
Latvia	3,373	3,291
Lithuania	673	726
Total revenue by geographical areas	**15,816**	**15,641**

6 Cost of services sold

	2019	2018
€ thousand		
Repair and maintenance of rental premises	-418	-436
Property insurance	-57	-56
Land tax and real-estate tax	-173	-171
Improvement costs	-289	-250
Utilities for vacant spaces	-133	-108
Depreciation	-8	-7
Impairment losses on doubtful receivables	-4	0
Other expenses of services sold	-20	-89
Total cost of services sold (Note 15)	**-1,102**	**-1,117**

7 Marketing costs

	2019	2018
€ thousand		
Commission expenses on rental premises	-43	-114
Advertising, promotional events	-201	-132
Total marketing costs	**-244**	**-246**

8 General and administrative expenses

	2019	2018
€ thousand		
Management services (Note 22)	-1,054	-1,174
Office expenses	-29	-33
Wages and salaries, incl. taxes	-94	-57
Consulting expenses	-161	-135
Regulatory expenses	-58	-65
Change in success fee liability (Note 18)	-14	15
Other general and administrative expenses	-3	-4
Depreciation	-6	-4
Total general and administrative expenses	**-1,419**	**-1,457**

9 Profit/loss from joint ventures

	2019	2018
€ thousand		
Profit/ loss from joint ventures using the equity method (Note 3)	113	719
Total profit/loss from joint ventures	**113**	**719**

10 Financial costs

	2019	2018
€ thousand		
Interest expenses, incl.	-2,139	-1,997
Interest expense on borrowings	-1,639	-1,517
Interest expense on derivatives (-)/ reduction of expense (+)	-500	-480
Total financial costs	**-2,139**	**-1,997**

11 Income tax

	2019	2018
€ thousand		
Income tax expenses on dividends	-1,268	-1,105
Deferred income tax expense	-83	-88
Total income tax expense (Note 4)	**-1,351**	**-1,193**

As at 31.12.2019, the Group has a deferred tax liability related to the calculation of the Lithuanian subsidiary's tax depreciation in the amount of EUR 478 thousand (31.12.2018: EUR 395 thousand).

Deferred income tax expense arises at the end of the tax amortization period. As of January 1, 2018, a new income tax law came into force in Latvia, according to which the time of calculating and paying income tax expenses was linked to the time of profit distribution, similarly to the Estonian regulation. Due to the change, the deferred tax liability and the deferred tax asset of the Group's Latvian subsidiaries were eliminated. The amendment did not have a material impact on the Group's profit.

12 Share profit

	2019	2018
Comprehensive income for the period, € *thousand*	9,321	10,783
Weighted average number of shares over the period, in pcs	39,391,371	39,391,371
Earnings per share, in euros	0.24	0.27
Dividend per share, in euros	0.18	0.15

13 Cash and cash equivalents

	31.12.2019	31.12.2018
€ thousand		
Demand deposits (Note 19)	9,892	17,134
Cash	0	1
Total cash and cash equivalents (Note 19)	**9,892**	**17,135**

14 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2019	31.12.2018
€ thousand		
Receivables from customers	269	457
Allowance for doubtful trade receivables	-5	-3
Total trade receivables (Note 19)	**264**	**454**
Prepaid taxes and receivables for reclaimed value-added tax	12	9
Other accrued income	91	259
Total accrued income	**103**	**268**
Total receivables (Note 19)	**367**	**722**

Non-current receivables

	31.12.2019	31.12.2018
€ thousand		
Prepayments and receivables related to real estate development projects (Note 15)	19	51
Total non-current receivables	**19**	**51**

15 Investment property

As at 31.12.2019, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value as at 31.12.2019	Share of market value of the Fund's assets
€ thousand						
Tallinn Cold Storage	Betooni 4. Tallinn	6,863	September 08	6,237	6,500	3%
Võru Rautakesko	Kreutzwaldi 89. Võru	3,120	September 08	3,270	2,880	1%
UKU Centre	Tallinna 41. Viljandi	7,866	August 10	10,548	12,390	6%
Rakvere Police Building	Kreutzwaldi 5a. Rakvere	5,744	November 10	4,940	6,910	3%
Lauteri 5	Lauteri 5. Tallinn	3,942	December 10	3,368	5,190	2%
Pärnu mnt 102	Pärnu mnt 102. Tallinn	9,178	December 11	12,404	16,130	8%
Pärnu mnt 105	Pärnu mnt 105. Tallinn	4,778	December 11	7,880	7,800	4%
Mustika Centre	Tammsaare road 116	27,244	July 12	31,236	36,500	18%
RAF Centre	Riga mnt 48. Jelgava	6,177	March 13	8,713	8,900	4%
Kadaka road 63	Kadaka road 63. Tallinn	7,610	January 13	7,411	8,990	4%
Kuuli 10/Punane 73	Kuuli 10/Punane 73. Tallinn	15,197	July 13	9,171	10,470	5%
Tammsaare road Rautakesko	Tammsaare road 49. Tallinn	9,120	July 13	12,945	14,770	7%
Betooni 1a	Betooni 1a. Tallinn	10,678	June 14	7,347	7,900	4%
Betooni 6	Betooni 6. Tallinn	16,838	June 14	9,751	8,970	4%
Terbata office building	Lacpleca 20a. Riga	4,843	December 14	9,724	9,308	4%
Nordic Technology Park	Jūrkalnes 15/25. Riga, Latvia	42,230	August 14	20,725	20,747	10%
Menulio Police Building	Menulio 11. Vilnius	5,620	December 15	6,042	7,850	4%
Depo Shopping Centre	Jelgava. Latvia	development stage	January 15	2,323	2,323	1%
Total		**187,048**		**174,035**	**194,528**	**93%**

In addition to the real estate investments listed in the table above, EfTEN SPV11 OÜ, a 50% -owned joint venture of the Group, owns real estate investments at Vabaduse väljak 3 / Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as of 31.12.2019 is 11,100 thousand euros (31.12.2018: 11,060 thousand euros).

The following changes have taken place in the Group's investment properties in 2019 and 2018:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 31.12.2017 (Note 4)	**2,317**	**187,125**	**189,442**
Acquisition and development	6	5,425	**5,431**
Disposals [1]	0	-1,900	**-1,900**
Gain/loss on changes in the fair value[2]	0	239	**239**
Balance as at 31.12.2018 (Note 4)	**2,323**	**190,889**	**193,212**
Acquisition and development	**0**	**1,650**	**1,650**
Gain/loss on changes in the fair value[2]	**0**	**-334**	**-334**
Balance as at 31.12.2019 (Note 4)	**2,323**	**192,205**	**194,528**

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

[2] The change in the value of real estate investments in 2019 and 2018 was mainly caused by smaller changes in real estate investment cash flow forecasts and changes in discount rates and exit yields in the real estate market.

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

As at 31 December or for the year	2019	2018
Rental income earned on investment property (Note 5)	15,322	15,140
Expenses directly attributable to management of investment property (Note 6)	-1,102	-1,117
Prepayments for investment property (Note 14)	19	51
Carrying amount of investment property pledged as collateral to borrowings (Note 16)	192,205	190,889

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

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

Payments from non-cancellable operating lease agreements	**31.12.2019**	31.12.2018
€ thousand		
Less than 1 year	12,978	11,985
2-5 years	21,395	20,460
Over 5 years	5,078	4,401
Total	**39,451**	**36,846**

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

In 2019:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/m2
€ thousand						
Office premises	55,268	Discounted cash flows	4,286	7.9%-8.5%	7.0%-8.0%	10.3
Storage and manufacturing premises	54,587	Discounted cash flows	4,773	8.6%-9.5%	7.8%-8.7%	4.3
Retail premises	75,440	Discounted cash flows	6,092	8.1%-9.2%	7.5%-8.5%	8.3
Government	6,910	Discounted cash flows	676	8.9%	8.2%	9.7
Investment property in development phase	2,323	Comparable offerings	-	-	-	-
Total	**194,528**					

In 2018:

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

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

- Rental income: real growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;

- Capitalisation rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates **as at 31.12.2019** 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 estimates			Sensitivity to discount rate and exit yield				
	Assessment	**Effect of decrease to value**	**Effect of increase to value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Office premises	Change in rental income +/- 10%	*-5,938*	*5,962*	Change in the exit yield	-0.5%	*59,290*	*58,100*	*56,930*
					0.0%	*56,400*	*55,268*	*54,180*
					0.5%	*53,890*	*52,800*	*51,750*
Storage and manufacturing premises	Change in rental income +/- 10%	*-5,963*	*5,967*	Change in the exit yield	-0.5%	*58,290*	*57,110*	*55,960*
					0.0%	*55,700*	*54,587*	*53,480*
					0.5%	*53,410*	*52,340*	*51,300*
Retail premises	Change in rental income +/- 10%	*-8,096*	*8,067*	Change in the exit yield	-0.5%	*80,661*	*79,050*	*77,474*
					0.0%	*76,929*	*75,122*	*73,911*
					0.5%	*73,647*	*72,195*	*70,786*
Government	Change in rental income +/- 10%	*-810*	*830*	Change in the exit yield	-0.5%	*7,390*	*7,220*	*7,070*
					0.0%	*7,050*	*6,910*	*6,650*
					0.5%	*6,780*	*6,650*	*6,520*

As at 31.12.2018:

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

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

16 Borrowings

As at 31.12.2019, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2019	Contract term	Interest rate as at 31.12.2019	Loan collateral (Note 15)	Value of collateral	Share of the Fund's net asset value
SEB	Estonia	4,300	0	30.04.22	1.70%	mortgage - Betooni 4, Tallinn	6,500	3.0%
DnB Nord	Estonia	2,239	1,458	15.12.20	1.70%	mortgage - Kreutzwaldi 89, Võru	2,880	1.4%
SEB	Estonia	2,514	1,929	13.06.21	1.80%	mortgage - Lauteri 5, Tallinn	5,190	1.8%
SEB	Estonia	7,029	5,128	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	12,390	4.8%
Swedbank	Estonia	4,133	3,027	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,910	2.8%
Swedbank	Estonia	4,153	3,823	30.08.23	1.80%	mortgage - Pärnu mnt 105, Tallinn	7,800	3.6%
Swedbank	Estonia	8,508	8,146	30.08.23	1.70%	mortgage - Pärnu mnt 102, Tallinn	16,130	7.6%
SEB	Estonia	20,000	16,671	31.08.19	1.33%	mortgage - Tammsaare road 116, Tallinn	36,500	15.5%
SEB	Estonia	4,740	3,767	29.12.20	1.47%	mortgage - Kadaka road 63, Tallinn	8,990	3.5%
Swedbank	Estonia	15,622	14,685	25.06.23	1.69%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,240	13.7%
SEB	Latvia	12,060	10,405	08.08.19	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,747	9.7%
SEB	Estonia	9,300	9,114	26.06.22	1.95%	mortrage- Betooni 1a, Betooni 6, Tallinn	16,870	8.5%
SEB	Latvia	4,561	3,881	17.04.22	3.00%	mortgage - Rigas Street 48, Jelgava	8,900	3.6%
Swedbank	Latvia	5,850	4,708	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,308	4.4%
Swedbank	Lithuania	3,786	3,078	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,850	2.9%
EfTEN SPV 11 OÜ	Estonia	500	500	12.06.20	3.00%	-	0	0.5%
Total		**109,295**	**93,538**				**192,205**	**87.0%**

As at 31.12.2018, the Group has the following borrowings:

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

Short-term borrowings	**31.12.2019**	31.12.2018
€ thousand		
Other Short term loans	500	0
Repayments of long-term bank loans in the next period	15,772	39,487
Discounted contract fees on bank loans	-47	-42
Total short-term borrowings	**16,225**	**39,445**

Other short-term loans as at 31.12.2019 in the amount of EUR 500 thousand consist of a loan from the joint venture. The interest rate of the loan agreement is 3% per annum and the repayment term is 12.06.2020.

Long-term borrowings	31.12.2019	31.12.2018
€ thousand		
Total long-term borrowings	**92,915**	**93,745**
Incl. current portion of borrowings	15,725	39,445
Incl. non-current portion of borrowings, incl.	77,190	54,300
Bank loans	*77,266*	*54,347*
Discounted contract fees on bank loans	-76	-47

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	31.12.2019	31.12.2018
€ thousand		
Less than 1 year	16,272	39,487
2-5 years	77,266	54,347

Cash flows of borrowings	2019	2018
€ thousand		
Balance at the beginning of period	**93,745**	**92,155**
Bank loans received	3,000	5,165
Bank loans returned on refinancing and sale of investments	0	-662
Annuity payments on bank loans	-3,297	-2,916
Discounted change of contract fees	-33	3
Balance at the end of period	**93,415**	**93,745**

For additional information on borrowings, please see Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2019	31.12.2018
€ thousand		
Other trade payables	96	138
Total trade payables	**96**	**138**
Other payables	59	19
Total other payables	**59**	**19**
Value added tax	265	292
Personal income tax	2	2
Social tax	4	4
Land tax and real-estate tax	7	28
Other tax liabilities	1	2
Total tax liabilities	**279**	**328**
Interest payable	35	30
Payables to employees	8	5
Dividend payables[1]	0	9,060
Tenant security deposits	254	188
Other accrued liabilities	27	42
Total accrued expenses	**324**	**9,325**
Prepayments received from buyers	20	0
Other deferred income	8	11
Total prepayments	**28**	**11**
Total payables and prepayments (Note 19)	**786**	**9,821**

[1] In September 2018, the Extraordinary General Meeting of the Fund decided to reduce the Fund's share capital by EUR 3,939,137 by reducing the nominal value of the share and to pay the shareholders a total of EUR 9,060,015 (EUR 0.23 per share). In December 2018, the Fund applied to the Commercial Register for a reduction of share capital. The Fund made cash transfers to shareholders on 7 May 2019. See also Note 20 for the reduction of share capital.

Long-term payables

	31.12.2019	31.12.2018
€ thousand		
Tenant security deposits	1,053	792
Total other long-term payables (Note 19)	**1,053**	**792**

18 Success fee liability

As of 31.12.2019, the Group has calculated the success fee liability as follows:

	2019	2018
€ thousand		
Balance at the beginning of the period	**4,045**	**5,369**
Calculated success fee on increase in value of investment property (Note 8)	14	-15
Paid success fees	0	-1,309
Balance at the end of the period	**4,059**	**4,045**

The extraordinary general meeting of EfTEN Kinnisvarafond AS held in September 2018 decided to pay the management company a performance fee of EUR 1,309 thousand for the assets sold at the time of the general meeting due to the extension of the fund's term.

The basis for accruing success fees is the fair value estimates of investment properties as at 31.12.2019 and 31.12.2018. Expenses from the change in the success fee are recognized in the Group's administrative expenses (see Note 8).

19 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	31.12.2019	31.12.2018
€ thousand			
Financial assets - loans and receivables measured at amortised cost			
Cash and cash equivalents	13	9,892	17,135
Trade receivables	14	264	454
Total financial assets measured at amortised cost		**10,156**	**17,589**
Financial liabilities measured at amortised cost			
Borrowings	16	93,415	93,745
Trade payables	17	96	138
Tenant security deposits	17	1,307	980
Other accruals	17	70	9,137
Success fee liabilities	18	4,059	4,045
Total financial liabilities measured at amortised cost		**98,947**	**108,045**
Financial liabilities on fair value			
Derivatives (interest swap agreements)		1,151	1,182
Total financial liabilities on fair value		**1,151**	**1,182**
Total financial liabilities		**100,098**	**109,227**

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 Group's risk management is based on the principle that risks are taken in a balanced manner, taking into account the rules established by the Group and implementing risk mitigation measures as appropriate, which ensure a stable profitability of the Group and increase the value of its shareholders' assets. When making new investment decisions, the solvency of prospective clients, the length of leases, the potential for substitution of tenants, and the risks of rising interest rates are carefully assessed. The terms of financing agreements are matched to the net cash flow of a particular property, which ensures that the Group maintains and maintains sufficient cash flow after meeting its financial obligations.

Investing in the assets of the Group is based on the risk expectations of the Group investors, therefore excessive risk-taking is unacceptable and appropriate measures must be taken to manage the risks.

The Group considers financial risk to be the risk that arises directly from investing in real estate, including market risk, liquidity risk and credit risk, thereby reducing the financial capacity of the company 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 that arise from changes in market interest rates. Changes in market interest rates mainly affect the Group's long-term floating rate loans.

As at 31.12.2019, all of the Group's loan agreements are based on floating interest rates, of which 66% (31.12.2018: 75%) are related to 1-month EURIBOR and 24% to 3-month EURIBOR (31.12. 2018: 25%). The 1-month Euribor fluctuated between -0.474% and -0.362% in 2019 (2018: -0.372% to -0.363%). ie the maximum change for the year was 11.2 basis points (2018: 0.9 basis points). 78% (2018: 69%) of EfTEN Real Estate Fund's loan portfolio has a 0% floor for the protection of negative EURIBOR, ie in case of negative EURIBOR the loan margin will not decrease.

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

Due to the current low level of interest rates and market expectations that interest rates will remain in the near future, hedging of interest rate risk is particularly important in the long term. The management of the Fund assesses the major impact of a possible rise in interest rates over a 2-4 year period.

Due to the long-term nature of the Group's real estate investments and long-term loan commitments, the management of EfTEN Kinnisvarafond AS decided in 2015 to hedge the long-term floating interest rate of the loan portfolio by 50% floating interest rate (1-month Euribor and 3-month Euribor). It was decided to hedge the risk with interest rate swap contracts, where the floating interest rate of the subsidiary's loan contract was swapped for a fixed interest rate. It was decided to enter into interest rate swap contracts subject to the following three conditions:

(1) The real estate investment underlying the loan agreement for which the cash flow risk is hedged is unlikely to be sold before the fund maturity date (ie before 2022);

(2) the nominal amount of the swap contracts at the time of the conclusion of the contracts does not exceed 50% of the total EfTEN Real Estate Fund's consolidated loan portfolio;

(3) Loan contracts for which the cash flow risk is hedged shall be extended at maturity until the maturity of the swap contracts so that the cash flows of the loan agreements coincide with the cash flows of the payment schedules underlying the swap agreements.

To hedge interest rate risk, six interest rate swap contracts were concluded in 2015 for a total amount of EUR 53,440 thousand, with five contracts fixing a 1-month Euribor at 0.64% -0.67% and one contract fixing a 3-month Euribor at 0.685%. In 2016, the payment schedules of the three loan agreements related to these swap agreements were extended, and the payment schedules of the derivatives contracts were amended accordingly to ensure the efficiency of the swap agreements. As a result of the change, the fixed interest rate of the three interest rate swaps was lowered, and as of 31.12.2016 Euribor was at fixed levels of 0.6% -0.67% (31.12.2018: same). The maturity of all interest rate swaps is 2022. The nominal amount of interest rate swaps as at 31.12.2019 was EUR 48,541 thousand, ie 52% of the total loan portfolio (31 December 2018: EUR 46,915 thousand, ie 50.0% of the total loan portfolio).

The Group recognizes interest rate swaps on the basis of hedge accounting. The fair value of the Group's interest rate swaps as of 31.12.2019 was negative in the total amount of EUR 1,151 thousand (31.12.2018: EUR 1,182 thousand) and the gain from the change in fair value was EUR 31 thousand (2018: loss of EUR 87 thousand). For more information on finding the fair value of interest rate swaps, see 'Fair value' below.

Liquidity risk

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

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

The objective of the Group is to manage its net cash flows, so to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 31.12.2019, the Group's interest-bearing liabilities accounted for 49% of rental income generating investment property (31.12.2018: same) and the debt coverage ratio was 2.4 (2018: 2.6).

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	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	285	857	15,130	77,266	0	**93,538**
Interest payments	140	416	1,048	2,940	0	**4,544**
Interest payable	35	0	0	0	0	**35**
Trade payables	96	0	0	0	0	**96**
Tenant security deposits	63	68	123	809	243	**1,307**
Accrued expenses	35	0	0	0	0	**35**
Success fee liabilities	0	0	0	0	4,059	**4,059**
Total financial liabilities	**654**	**1,341**	**16,301**	**81,015**	**4,302**	**103,614**

As at 31.12.2018	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	270	810	38,403	54,351	0	**93,834**
Interest payments	126	375	807	2,196	0	**3,504**
Interest payable	30	0	0	0	0	**30**
Trade payables	138	0	0	0	0	**138**
Tenant security deposits	19	83	86	549	243	**980**
Accrued expenses	47	9,060	0	0	0	**9,107**
Success fee liabilities	0	0	0	0	4,045	**4,045**
Total financial liabilities	**630**	**10,328**	**39,296**	**57,096**	**4,288**	**111,638**

In 2020, the maturity of the Group's four long-term loan agreements in the total amount (balance on 31 December 2019) is EUR 13.011 thousand, therefore the coverage ratio of the Group's current liabilities as of 31 December 2019 is 0.6. The fair value of collateral for these loan agreements is EUR 29,028 thousand, including LTV (Loan to value) of 39% -51% as at the end of 2019. Similarly, all maturing loans are secured by real estate investments with a strong cash flow and a tenant base, thus in the opinion of the Group's management, it is unlikely that the refinancing of these loans would be difficult and would cause liquidity problems for the Group.

In 2019, the maturity date of the Group's four loan agreements in the total amount (balance on 31 December 2018) was EUR 37,019 thousand, therefore the coverage ratio of the Group's current liabilities as of 31 December 2018 was only 0.4. All these loan agreements were refinanced in 2019.

Credit risk

Credit risk refers to the risk that counterparties fail to meet their obligations to the Group. The Group is exposed to credit risk as a result of its business activities (mainly trade receivables) and transactions with financial institutions, including cash on accounts and deposits.

The Group's action to prevent and minimize cash flow from credit risk is to monitor and direct the customer's payment behavior on a day-to-day basis, enabling operational measures to be taken. Similarly, client contracts provide in most cases for payment of rent at the beginning of the calendar month, which gives sufficient time to monitor the payment discipline of the clients and to have sufficient liquidity in the cash accounts at the date of annuity payments on the finance contracts. To mitigate the risk, the Group has entered into an agreement with one of the anchor tenants under which the finance institution of the lessee is obliged to guarantee the lease payments throughout the lease period. Most leases also give rise to an obligation to pay a deposit, which the Group is entitled to settle as a result of the lessee's default.

Group companies generally only enter into lease agreements with counterparties previously recognized as creditworthy.

An analysis of the client on this subject shall be made before the conclusion of the lease contract. If there is a risk that the lessee will become insolvent, the Group assesses each receivable individually and determines whether it is unlikely that the receivable will become receivable. In general, receivables that are overdue for more than 180 days are considered unlikely to be collected, unless the Group has a reasonable amount of receivables or has a payment schedule..

Accounts receivable are illustrated by the table below:

	31.12.2019	31.12.2018
Undue	202	237
Past due, incl.	**66**	**220**
up to 30 days	*46*	*209*
30-60 days	*7*	*5*
more than 60 days	*13*	*6*
Allowance for doubtful receivables	-4	-3
Total trade receivables (Note 14)	**264**	**454**

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

	31.12.2019	31.12.2018
€ thousand		
Cash and cash equivalents (Note 13)	9,892	17,135
Trade receivables (Note 14)	264	454
Total maximum credit risk	**10,156**	**17,589**

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
A2	0	1,191
Baa1	108	237
Aa2	4,202	15,706
Aa3	5,582	0
Total	**9,892**	**17,134**

Capital management

The Group treats borrowings and equity as capital.

The Group's objective in capital management is to secure the Group's ability to continue as a going concern in order to ensure return on investment for its shareholders and to maintain an optimal capital structure.

The Group invests in cash-generating real estate and raises equity to make investments. The Group's investment policy requires that at least 30% of the equity is invested in new real estate projects. The required amount of equity is calculated individually for each investment taking into account the volume and proportion of the net cash flows and loan payments of the particular investment.

After making the investment, the net operating profit on any cash-generating property cannot be less than 120% of the loan annuity.

The Group's free cash flow allows investors to pay dividends on average 4-6% of the value of invested equity. In 2019, a total of EUR 7,090 thousand (18 euros per share) was distributed to investors. In addition, in spring 2019, investors were paid a total of EUR 9,060 thousand (23 cents per share) as a result of the reduction of share capital. In 2020, the Management Board of EfTEN Kinnisvarafond will propose to the shareholders a dividend of EUR 5,515 thousand, ie 14 cents per share.

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 has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

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

20 Share capital

The amount of registered share capital of EfTEN Kinnisvarafond AS as at 31.12.2019 was EUR 19,696 thousand (31 December 2018: EUR 23,635 thousand). As at 31.12.2019, the share capital consisted of 39,391,371 shares (31.12.2018: same) with the nominal value of 0.5 euros (31.12.2018: 0.6 euros). Without amending the Articles of Association, the company is entitled to increase the share capital to EUR 60,137 thousand.

In September 2018, the general meeting of EfTEN Kinnisvarafond AS decided to reduce the Fund's share capital by reducing the nominal value of the share from EUR 0.6 to EUR 0.5. As a result of this decision, the share capital decreased by a total of EUR 3,939 thousand and the share premium by EUR 5,121 thousand. Thus, upon the reduction of the share capital, payments were made to the shareholders in the amount of EUR 9,060 thousand. As at 31.12.2018 EfTEN Kinnisvarafond AS had filed an application with the Commercial Register for reduction of share capital and the Commercial Register made a corresponding entry on 7 January 2019. As at 31.12.2018, the reduction of share capital was recorded in the financial statements as a liability because it was certain that third parties did not have any objections or claims against the fund regarding the planned transaction. The payments to the shareholders were made by EfTEN Kinnisvarafond AS in 2019 (Note 12).

In 2019, EfTEN Kinnisvarafond AS allocated 5% of its 2018 comprehensive income, i.e. EUR 540 thousand to the statutory reserve (2018: 5%, i.e. EUR 520 thousand).

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

21 Contingent liabilities

Contingent income tax liability

	31.12.2019	31.12.2018
€ thousand		
The company's retained earnings	52,524	50,833
Potential income tax liability	10,505	10,167
The amount that can be paid out as dividends	42,019	40,666

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.

22 Related party transactions

EfTEN Kinnisvarafond AS considers the following as related parties:

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

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

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

- the joint venture EfTEN SPV11 OÜ;

- EfTEN Capital AS (the Management Company).

The Group purchased management services from EfTEN Capital AS in 2019 in the amount of EUR 1,054 thousand (2018: EUR 1,174 thousand) (see Note 8). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell other goods or services to related parties in 2019 or 2018.

In December 2019, the Group signed a loan agreement with the joint venture EfTEN SPV11 OÜ in the amount of EUR 500 thousand. The loan will be repaid no later than June 2020. The interest rate under the loan agreement is 3% per annum.

In 2019, a dividend of EUR 600,000 was received from the EfTEN SPV 11 OÜ joint venture.

The Group had four employees in 2019 and 2018, who were paid a total of EUR 74 thousand (2018: EUR 37 thousand) including related taxes. In addition, the Group's Latvian and Lithuanian subsidiaries paid labor taxes of EUR 20 thousand in 2019 (2018: same). No remuneration was paid to the members of the Management Board or Supervisory Board in 2019 or 2018. The members of the Management Board of the Group 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.

23 Events after the balance sheet date

Merger with EfTEN Real Estate Fund III AS

After the balance sheet date, 14 January 2020, EfTEN Real Estate Fund III AS (the merging fund) and EfTEN Kinnisvarafond AS (the merged fund) entered into a merger agreement. The balance sheet date of the merger is 1 April 2020, ie from that date the assets, liabilities, equity, income and expenses of EfTEN Kinnisvarafond AS are recognised in the financial statements of EfTEN Real Estate Fund III AS. A precondition for the merger is, among other things, the approval decision of the general meetings of shareholders of both funds.ˇ

The boards of the merging funds estimate that the broader market sentiment is positive for real estate investments. The merger will result in a fund of approximately EUR 350 million, comprising 29 commercial buildings across the Baltic States. The merger will increase the diversification of assets and reduce the share of individual investment and lessens risks for both the merging funds and their investors (shareholders). EfTEN Real Estate Fund III AS and EfTEN Kinnisvarafond AS follow similar investment principles and the investment strategy and risk profile of the merged entity will not be changed after the merger.

For the purpose of the merger, a share issue of EfTEN Real Estate Fund III AS to the shareholders of EfTEN Kinnisvarafond AS will take place, the volume of which will be calculated based on the net asset value of EfTEN Kinnisvarafond AS EPRA as of 31.03.2020. The shareholders of EfTEN Kinnisvarafond pay for the shares as a non-monetary contribution on the basis of the share exchange ratio. The share replacement ratio is calculated by dividing the EPRA net asset value per share of EfTEN Kinnisvarafondi AS by the EPRA net asset value per share of EfTEN Real Estate Fund III AS.

As a result of the merger, EfTEN Kinnisvarafond AS will cease to operate as a separate company and its assets and liabilities will be transferred to EfTEN Real Estate Fund III AS.

24 Parent company's separate income statement

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

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

	2019	2018
€ thousand		
Revenue	990	1,827
Gross profit	**990**	**1,827**
General and administrative expenses	-1,124	-2,041
Operating profit	**-134**	**-214**
Gain/-loss from subsidiaries	9,381	10,343
Gain/-loss from joint ventures	114	719
Interest income	64	94
Interest expense	-73	-249
Profit before income tax	**9,352**	**10,693**
Net profit for the period	**9,352**	**10,693**

25 Parent company's separate balance sheet

	31.12.2019	31.12.2018
€ thousand		
ASSETS		
Cash and cash equivalents	1,336	3,022
Receivables and accrued income	1,294	13,201
Total current assets	**2,630**	**16,223**
Shares of subsidiaries	100,634	98,570
Shares of joint ventures	3,558	4,044
Long-term receivables	2,156	2,086
Total non-current assets	**106,348**	**104,700**
TOTAL ASSETS	**108,978**	**120,923**
Borrowings	500	5,719
Payables and prepayments	950	9,938
Total current liabilities	**1,450**	**15,657**
Total liabilities	**1,450**	**15,657**
Share capital	19,696	23,635
Share premium	32,375	37,496
Statutory reserve capital	4,084	3,544
Share capital reduction reserve	0	-9,060
Retained earnings	51,373	49,651
Total equity	**107,528**	**105,266**
TOTAL LIABILITIES AND EQUITY	**108,978**	**120,923**

26 Parent company's separate statement of cash flows

	2019	2018
€ thousand		
Cash flows from operating activities		
Net profit	**9,352**	**10,693**
Adjustments to net profit:		
Interest income and interest expenses	8	154
Gain/-loss on the fair value adjustment of subsidiaries and joint ventures	-1,577	-5,393
Dividends received	-7,918	-5,670
Change in the success fee liability	0	790
Cash flow from operations before changes in working capital	**-135**	**574**
Change in receivables and payables related to operating activities	-48	-1,355
Net cash generated from operating activities	**-183**	**-781**
Cash flows from investing activities		
Reduction of share capital of subsidiaries	5,316	0
Loans granted	-88	-4,232
Repayment of loans granted	1,000	2,862
Dividends received	7,918	8,613
Interest received	1	3
Net cash flows from investing activities	**14,147**	**7,246**
Cash flows from investing activities		
Received loans	500	0
Repayment of loans received	0	-1,000
Interest paid	0	-30
Dividends paid	-9,060	-9,851
Income tax on dividends paid	0	-220
Reduction of share capital	-7,090	0
Net cash generated from financing activities	**-15,650**	**-11,101**
NET CASH FLOW	**-1,686**	**-4,636**
Cash and cash equivalents at the beginning of the period	**3,022**	**7,658**
Change in cash and cash equivalents	-1,686	-4,636
Cash and cash equivalents at the end of the period	**1,336**	**3,022**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Reduction of unregistred share capital and share premium	Retained earnings	**Total**
€ thousand						
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**45,229**	**109,384**
Reduction of share capital				**-3,939**		**-3,939**
Reduction of share premium				**-5,121**		**-5,121**
Dividends paid	0	0	0	0	-5,751	**-5,751**
Transfers to statutory reserve capital	0	0	520	0	-520	**0**
Comprehensive income for the financial year	0	0	0	0	10,693	**10,693**
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**49,651**	**105,266**
Registration of reduction of share capital	-3,939	-5,121	0	9,060	0	0
Dividends paid	0	0	0	0	-7,090	-7,090
Transfers to statutory reserve capital	0	0	540	0	-540	0
Comprehensive income for the financial year	0	0	0	0	9,352	9,352
Balance as at 31.12.2019	**19,696**	**32,375**	**4,084**	**0**	**51,373**	**107,528**

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

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

	31.12.2019	31.12.2018
€ thousand		
Parent company's unconsolidated equity	107,528	105,266
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-104,192	-102,614
Value of subsidiaries and joint ventures under the equity method (plus)	104,192	102,614
Total	**107,528**	**105,266**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of EfTEN Kinnisvarafond AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond AS 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.

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:

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Proposal for profit allocation

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

Retained earnings as at 31.12.2019	52,524,001
Allocation to statutory reserve capital	470,000
Dividend distribution	5,514,792
Retained earnings after allocation	46,539,209

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Viljar Arakas

Member of the Management Board

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Tõnu Uustalu

Member of the Management Board

28 February 2019

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 AS.

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

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Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board

Allocation of income according to EMTA classificators

	EMTAK code	2019	Revenue %	Main activity
€ thousand				
Fund management	66301	990	100%	Yes