Consolidated Annual Report 2020

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

Beginning of financial year: 01.01.2020

End of financial year: 31.12.2020

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee

Website address: www.eften.ee

Table of contents

MANAGEMENT REPORT

Covid-19 impact

The main economic event of 2020 was not an economic event – unexpected arrival and spread of coronavirus. The virus wave that reached the Baltics in February 2020, closed the economy and put a significant strain on the fund's cash flows but only in short term. The fund's management found temporary solutions with the tenants, which usually resulted in a temporary rent discount for 3-4 months and an equivalent extension of the lease period. The second wave of virus, which started in the fall was significantly worse in medical terms compared to the outbreak in spring, however, the companies had a much calmer attitude towards the second wave compared to the first wave. Coronavirus will definitely have an effect to fund's cash flows in the first quarter of 2021, but the positive news related to vaccine give hope that since the second quarter of 2021 we can hope for the permanent return of ordinary rhythm of life. Since the fund's portfolio does not include investments in hotels or entertainment segment the economic effect of Covid-19 to fund's cash flows was modest.

The temporary setback was mainly reflected in decrease of the fair value of fund's investment properties but European Commission's economic recovery plan, national measures of Baltic states and steps taken by European Central Bank give reason to predict that the setback in value of real estate is temporary and the real estate values will recover. This position is assured by the developments in residential real estate market in the Baltics where sales prices practically did not decrease and the effect of corona crisis was reflected in temporary, few-months long decrease in the number of transactions. Generally, the faster dynamics of residential real estate reflects in large-scale commercial real estate within delay of 3-4 quarters.

Financial overview

The impact of the Covid-19 restrictions imposed by the Baltic States in 2020 on the business results of EfTEN Kinnisvarafond's real estate portfolio remained modest. EfTEN Kinnisvarafond AS's consolidated sales revenue totalled EUR 15.513 million in 2020 (2019: EUR 15.816), decreasing by 1.9% compared to 2019. Net operating income (NOI) totalled EUR 14.277 million in 2020, decreasing by 1.3% year-on-year. The relatively moderate impact of the coronavirus restrictions is due to the diversification of the fund's real estate portfolio by sector and the fact that there are no large shopping centres in Latvia or Lithuania and hotel Palace is a joint venture with 50% ownership, whose loss in the same proportion, amounting to 618 thousand euros, is recognised in the fund's consolidated financial expense.

	2020	2019	*Change*
€ million			
Rental revenue, other fees from investment properties	15.513	15.816	*-1.9%*
Expenses related to investment properties, incl. marketing costs	-1.236	-1.346	*-8.2%*
Net operating income	**14.277**	**14.470**	***-1.3%***
Interest expense and interest income	-2.300	-2.138	*7.6%*
Net rental revenue less finance costs	**11.977**	**12.332**	***-2.9%***
Management fees	-0.996	-1.054	*-5.5%*
Other income and expenses	-0.267	-0.371	*-28.0%*
Profit before change in the value of investment property, profits/losses from joint ventures and income tax expense	**10.714**	**10.907**	***-1.8%***

The Group's net profit in 2020 was EUR 3.065 million (2019: EUR 9.879 million). Net profit decreased in 2020, mainly due to the change in the fair value of investment properties, which in turn was mainly due to the more conservative cash flow forecasts in the real estate portfolio in 2021 and 2022.

As at 31.12.2020, the Group's total assets amounted to EUR 203.505 million (31.12.2019: EUR 208.470 million), including the fair value of real estate investments at 93.1% (31.12.2019: 93.3%).

	31.12.2020	31.12.2019
€ million		
Investment property	189.510	194.528
Other non-current assets	2.632	3.639
Cash and cash equivalents	10.946	9.892
Current assets, excluding cash	0.417	0.411
Net debt	-86.089	-91.760
Net asset value (NAV)	106.470	106.818
Net asset value (NAV) per share, in euros	2.7029	2.7117

Access to flexible financing terms helps to increase the Group's competitiveness. In 2020, the Group extended four loan agreements and increased the total amount of one loan agreement by 1.2 million euros, using the received funds from additional investments in existing facilities.

The average interest rate of the Group's loan agreements (incl. interest rate swap agreements) at the end of the year is 2.34% (2019: 2.29%) and the LTV (Loan to Value) of real estate investments generating rental income is 48% (2019: same). As of 31.12.2020, 43.3% of the Group's loan agreements are related to fixed Euribor levels of 0.60% -0.67% (31.12.2019: 52.0%).

Main financial ratios

12 months	31.12.2020	31.12.2019
ROE, % (net profit of the period / average equity of the period) x 100	2.9	8.8
ROA, % (net profit of the period / average assets of the period) x 100	1.5	4.4
ROIC, % (net profit of the period / average invested capital of the period) x 100[1]	5.9	17.9
EBITDA (EUR thousand)	13,022	13,031
EBITDA margin, %	84%	82%
EBIT (EUR thousand)	6,698	12,697
EBIT margin, %	43%	80%
Liquidity ratio (current assets / current liabilities)	1.6	0.6
DSCR (EBITDA/(interest expenses + scheduled loan payments)	2.4	2.4

[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 2020, the Group has 19 (2019: same) commercial investment properties with a fair value of EUR 189.510 million as at the balance sheet date and an acquisition cost of EUR 176.865 million. In addition, the Group's joint venture owns the Palace Hotel in Tallinn, whose fair value as at 31.12.2020 was EUR 10.010 million (31.12.2019: EUR 11.100 million). The Group's real estate portfolio is divided by sectors as follows:

- warehouse and logistics premises 28%; 5 investments
- retail premises 38%; 6 investments
- office premises 26%; 6 investments
- other (hotel and government) 8%; 2 investments

Investment property as at 31.12.2020	Group's ownership interest, %	Acquisition cost	Fair value	Net leasable area	Rental revenue per annum	Occupancy, %	Average length of lease agreement
Tallinn Cold Storage (Tallinna Külmhoone)	100	6,237	6,490	6,863	563	100	1.5
Kuuli 10/Punane 73	100	9,171	10,880	15,197	852	100	7.4
Betooni 1a	100	7,347	8,040	10,678	682	100	1.3
Betooni 6	100	9,751	8,710	16,838	753	95	2.6
Nordic Technology Park	100	20,725	21,854	42,230	1,787	99	5.3
Total warehouse and logistics premises		**53,231**	**55,974**	**91,806**	**4,637**	**99**	**4.2**
Võru K-Rauta	100	3,270	2,860	3,120	249	100	2.2
UKU Centre	100	10,563	12,100	7,866	985	98	3.0
Mustika Centre	100	31,236	34,770	27,244	2,938	98	2.8
RAF Centrs	100	8,713	8,425	6,177	823	99	3.1
Depo shopping centre in Jelgava	100	2,323	2,317		*in development*		
Tammsaare tee K-Rauta	100	12,945	14,370	9,120	1,271	100	1.2
Total retail premises		**69,050**	**74,842**	**53,527**	**6,266**	**99**	**2.5**
Lauteri 5	100	3,368	5,160	3,942	420	96	2.0
Pärnu mnt 102	100	12,521	15,380	9,178	1,229	95	1.4
Pärnu mnt 105	100	7,880	7,340	4,778	635	90	1.8
Kadaka tee 63	100	7,411	7,810	7,610	770	94	0.2
Terbata office building	100	9,724	8,754	4,843	672	82	3.1
Menulio 11 Police Building	100	6,042	7,360	5,620	644	92	2.8
Total office premises		**46,946**	**51,804**	**35,971**	**4,370**	**92**	**1.8**
Rakvere Police Building (government)	100	4,942	6,890	5,744	679	100	4.8
Hotel Palace (hotels) [1]	50	10,961	10,010	4,870	770	100	
Total		**185,130**	**199,520**	**191,918**	**16,722**	**98**	**2.9**

[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 31.12.2020, the Group has a total of 320 (2019: 326) tenants. Contractual revenue from 12 clients represents 55,9% of the consolidated rental income.

Tenant	% of the consolidated rental revenue
Kesko Senukai Estonia AS	10.00%
Prisma Peremarket AS	9.20%
Livonia Print SIA	6.90%
Logistika Pluss OÜ	5.60%
Riigi Kinnisvara AS	4.50%
DHL Logistics Estonia OÜ	4.40%
Premia Tallinna Külmhoone AS	3.70%
Eesti Energia AS	3.00%
Vilnius County Police Headquarters	2.70%
Kinnisvaravalduse AS	2.20%
Icefire OÜ	2.10%
Plesko Real Estate SIA	1.60%
Others	44.10%

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. The total value of investment properties decreased by 4.0% in 2020 as a result of revaluations (2019: decreased by 0.2%) and the Group incurred a loss of 7.848 million euros (2019: 0.334 million euros) from the change in the fair value of investment properties.

The Group's independent appraiser evaluates investment properties individually using the discounted cash flow method. The cash flow projections for 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 facilities, the technical condition and the risk level of the tenants. Compared to 2019, the exit yield and discount rates of the Group's real estate portfolio remained relatively at the same level in most real estate properties in the reporting year, but due to the uncertainty arising from the Covid-19 effect, the cash flow forecasts for 2021 and 2022 are significantly more conservative. Exit yields stayed within the range of 6.75-8.25% in 2020 (2019: 7.0% -8.7%) and discount rates remained within the range of 8.0% -9.0% in 2020 (2019: 7.9% -9.0%).

Information on shares and net asset value

As at 31.12.2020, the total amount of paid-in contributions to EfTEN Kinnisvarafond AS share capital is EUR 52.071 million (31.12.2019: the same), including the share capital of 19.696 million euros and the share premium of 32.375 million euros. The number of shares as at 31.12.2020 was 39,391,371 (31.12.2019: the same).

As at 31.12.2020, the net asset value per share (NAV) of EfTEN Kinnisvarafond was 2.70 euros. The net asset value of the share of EfTEN Kinnisvarafond AS decreased by 0.3% during the year. Without the distribution of dividends and the associated income tax expense, the fund's NAV would have increased by 3.9% in 2020.

€ thousand	31.12.2020	31.12.2019
Net asset value calculated in accordance with IFRS	106,470	106,818
Number of shares at the balance sheet date	39,391,371	39,391,371
IFRS net asset value per share, in euros	2.70	2.71

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.

€ thousand	31.12.2020	31.12.2019[1]
Net asset value calculated in accordance with IFRS	106,470	106,818
Exclusion of deferred income tax on investment properties	470	478
Exclusion of the fair value of financial instruments	711	1,151
EPRA net asset value	**107,651**	**108,447**
Number of shares at the balance sheet date	39,391,371	39,391,371
EPRA net asset value per share, in euros	**2.73**	**2.75**
EPRA NAV growth, in euros	-0.02	0.04
Dividend paid per share, in euros	0.10	0.18
Income tax on dividends paid per share, in euros	0.018	0.032
Earnings per share for the period, in euros	**0.096**	**0.253**
Earnings per share for the period, growth %	**3.5%**	**9.3%**

[1] In connection with the decision of the IFRS Interpretations Committee regarding the recognition of deferred income tax liabilities in Estonia and Latvia, EfTEN Kinnisvarafond AS has changed the accounting principles in 2020. Due to the change, the net asset value calculated in accordance with IFRS requirements as of 31.12.2019 decreased by 710 thousand euros and the net asset value of EPRA per share as of 31.12.2019 decreased by 0.02 euros.

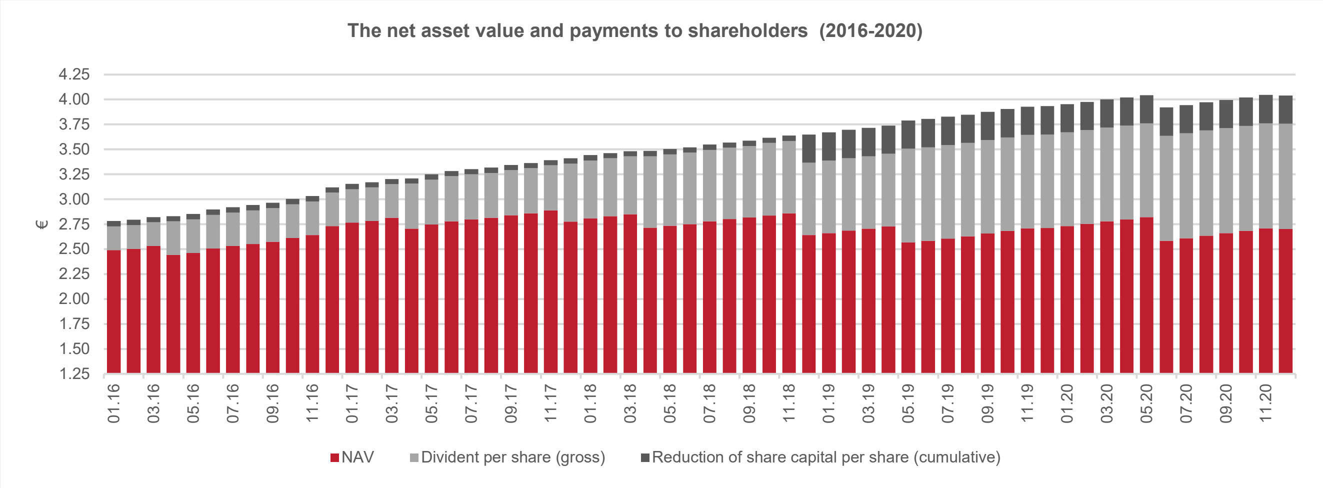
The dividend policy of EfTEN Kinnisvarafond AS stipulates that the Group will pay 80% of its free cash flow to shareholders as (gross) dividends each year.

During 2020, the Group generated free cash flow of EUR 7.358 million (12 months of 2019: EUR 7.615 million). According to the dividend policy, EfTEN Kinnisvarafond would be able to pay shareholders a net dividend of EUR 5.164 million for current year's profit. At the same time, the Group's cash balance at the end of 2020 enables to pay out dividends beyond its dividend policy, which is why the Fund's Board will propose to the Supervisory Board in spring 2021 a dividend of EUR 5.397 million (13.7 cents per share).

In the spring of 2020, due to the Covid-19 emergency situation, the Management Board of EfTEN Real Estate Fund was forced to change the original profit distribution proposal and the general meeting decided to pay net dividends of EUR 3.852 million (10 cents per share), i.e. EUR 1.663 thousand (four cents per share) less than originally planned.

	2020	2019
€ thousand		
Operating profit	**6,698**	**12,697**
Adjustment for loss from revaluation of investments properties	7,848	334
Adjustment for depreciation of fixed assets	8	6
Adjustment for non-monetary change in success fee	-1,532	14
EBITDA	**13,022**	**13,051**
Interest expenses	-2,301	-2,139
Repayment of bank loans	-3,363	-3,297
Free cash flow	**7,358**	**7,615**
80% of free cash flow	5,886	6,092
Income tax on dividends	-722	-939
Potential net dividend according to dividend policy	**5,164**	**5,153**
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]	233	362
Potential net dividend with additional cash flow	**5,397**	**5,515**
Potential net dividend per share, in euros	**0.137**	**0.140**

[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 31.12.2020

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

Management

By the decision of the Supervisory Board of 20.02.2020, the date of the annual general meeting of shareholders was set for 17.03.2020, on which date the general meeting was not held due to emergency situation. After the end of the emergency situation, the Supervisory Board appointed a new time for the new Annual General Meeting of Shareholders for 29.06.2020. On that date, the Annual General Meeting of Shareholders was held and the annual report for 2019 was unanimously approved, it was decided to pay a net dividend in the amount of EUR 3,852,476 (9.78 euro cents per share) and a new version of the articles of association was approved. The procedure for evaluating non-monetary contribution in the event of non-monetary contribution was established in the articles of association. In addition, shareholders' opportunities for electronic voting and approving a decision without calling a conventional meeting were expanded and clarified in the articles of association. There were no extraordinary general meetings of shareholders in 2020.

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 2020. 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	2020	Adjusted 2019[1]
€ thousand			
Revenue	4,5	15,513	15,816
Cost of services sold	6	-996	-1,102
Gross profit		**14,517**	**14,714**
Marketing costs	7	-240	-244
General and administrative expenses	8	213	-1,419
Gain / loss from revaluation of investment properties	15	-7,848	-334
Other income and expenses		56	-20
Operating profit	**4**	**6,698**	**12,697**
Profit/ loss from joint ventures using equity method	9	-618	113
Interest income		1	1
Finance costs	10	-2,301	-2,139
Profit before income tax		**3,780**	**10,672**
Income tax expense	11	-715	-793
Net profit for the financial year	**4,12**	**3,065**	**9,879**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		2020	Adjusted 2019
€ thousand			
Net profit for the financial year		3,065	9,879
Other comprehensive profit/ -loss:			
Profit/ -loss from revaluation of hedging instruments	19	440	31
Total other comprehensive profit/ -loss		**440**	**31**
Total comprehensive income for the financial year		**3,505**	**9,910**
Revenue per share	12		
-basic		0.08	0.25
-diluted		0.08	0.25

[1] In the income statement for 2019, income tax expense and net profit have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 2.2.

Notes on pages 11 to 39 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2020	Adjusted 31.12.2019[1]	Adjusted 01.01.2019[1]
€ thousand				
ASSETS				
Cash and cash equivalents	13	10,946	9,892	17,135
Receivables and accrued income	14	378	367	722
Prepaid expenses		34	39	31
Inventories		5	5	14
Total current assets		**11,363**	**10,303**	**17,902**
Long-term receivables	14	123	19	51
Investments in joint ventures	3	2,440	3,558	4,044
Investment property	4,15	189,510	194,528	193,212
Property, plant and equipment		69	62	37
Total non-current assets		**192,142**	**198,167**	**197,344**
TOTAL ASSETS		**203,505**	**208,470**	**215,246**
LIABILITIES AND EQUITY				
Borrowings	16	5,342	16,225	39,445
Derivative instruments	19	711	1,151	1,182
Payables and prepayments	17	1,039	786	9,821
Total current liabilities		**7,092**	**18,162**	**50,448**
Borrowings	16	85,442	77,190	54,300
Other long-term liabilities	17	782	1,053	792
Success fee liability	18	2,527	4,059	4,045
Deferred income tax liability	11	1,192	1,188	1,663
Total non-current liabilities		**89,943**	**83,490**	**60,800**
Total liabilities		**97,035**	**101,652**	**111,248**
Share capital	20	19,696	19,696	23,635
Share premium	20	32,375	32,375	37,496
Statutory reserve capital	20	4,554	4,084	3,544
Hedging reserve	19	-711	-1,151	-1,182
Retained earnings	21	50,556	51,814	49,565
Total equity	4	**106,470**	**106,818**	**103,998**
TOTAL LIABILITIES AND EQUITY		**203,505**	**208,470**	**215,246**

[1] In the 2019 statement of financial position, the deferred income tax liability and retained earnings have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 2.2.

Notes on pages 11 to 39 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2020	Adjusted 2019[1]
€ thousand			
Net profit		**3,065**	**9,879**
Adjustments to net profit:			
Gain/-loss from joint ventures using equity method	9	618	-113
Interest income		-1	-1
Finance costs	10	2,301	2,139
Gains/-losses from investment property revaluation	15	7,848	334
Change in the success fee liability	8	-1,528	14
Depreciation, amortisation and impairment		22	13
Income tax expense	11	715	793
Total adjustments with non-cash changes		**9,975**	**3,179**
Cash flow from operations before changes in working capital		**13,040**	**13,058**
Change in receivables and payables related to operating activities		-97	637
Net cash generated from operating activities		**12,943**	**13,695**
Purchase of property, plant and equipment		-30	-38
Purchase of investment property	15	-2,811	-1,620
Reduction of capital of joint ventures	3	500	0
Loans granted	14	-50	0
Dividends received	3,9	0	600
Interest received		1	1
Net cash generated from investing activities		**-2,390**	**-1,057**
Loans received	16	1,209	3,000
Loan repayments at maturity	16	-500	0
Scheduled loan repayments	16	-3,363	-3,297
Interest paid		-2,283	-2,166
Reduction of share capital	20	0	-9,060
Dividends paid	19	-3,852	-7,090
Income tax paid on dividends	11	-710	-1,268
Net cash generated from financing activities		**-9,499**	**-19,881**
NET CASH FLOW		**1,054**	**-7,243**
Cash and cash equivalents at the beginning of the period	**13**	**9,892**	**17,135**
Change in cash and cash equivalents		1,054	-7,243
Cash and cash equivalents at the end of the period	**13**	**10,946**	**9,892**

[1] In the cash flow statement for 2019, net profit and net profit adjustments have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 2.

Notes on pages 11 to 39 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Share capital reduction reserve	Hedging reserve	Retained earnings	**Total**
€ thousand							
Balance as at 01.01.2019[1]	**23,635**	**37,496**	**3,544**	**-9,060**	**-1,182**	**50,833**	**105,266**
Impact of deferred tax adjustment (Note 2)	-	-	-	-	-	-1,268	**-1,268**
Adjusted balance as at 01.01.2019	**23,635**	**37,496**	**3,544**	**-9,060**	**-1,182**	**49,565**	**103,998**
Reduction of share capital	-3,939	-5,121	0	9,060	0	0	**0**
Announced dividends	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	9,879	**9,879**
Other comprehensive gain	0	0	0	0	31	0	**31**
Total comprehensive income	**0**	**0**	**0**	**0**	**31**	**9,879**	**9,910**
Balance as at 31.12.2019[1]	**19,696**	**32,375**	**4,084**	**0**	**-1,151**	**51,814**	**106,818**
Dividends announced	0	0	0	0	0	-3,852	**-3,852**
Transfers to statutory reserve capital	0	0	470	0	0	-470	**0**
Total transactions with owners	**0**	**0**	**470**	**0**	**0**	**-4,322**	**-3,852**
Net profit for the financial period	0	0	0	0	0	3,065	**3,065**
Other comprehensive gain	0	0	0	0	440	0,	**440**
Total comprehensive income	**0**	**0**	**0**	**0**	**440**	**3,065**	**3,505**
Balance as at 31.12.2020	**19,696**	**32,375**	**4,554**	**0**	**-711**	**50,557**	**106,471**

[1] In the consolidated statement of changes in equity for 2019 as of 31.12.2018 and 31.12.2019, the figures of retained earnings have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 2.

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

Notes on pages 11 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 2020 have been signed by the Management Board on 2 March 2021. 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 approved 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 demand the preparation of a new report.

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

The structure of EfTEN Kinnisvarafond AS Group as at 31.12.2020 is as follows (see also Note 3):

EfTEN Kinnisvarafond AS	SUBSIDIARIES				JOINT VENTURE	
				Investment property:		*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 tee 63*		
100%	EfTEN SPV12 OÜ			*Tammsaare tee K-Rauta, Tallinn; Kuuli 10, Tallinn*		
100%	EfTEN SPV14 OÜ			*Võru K-Rauta*		
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*		
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, 2020.

Amendments to the Conceptual Framework for Financial Reporting. The revised conceptual framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance (e.g. the concept of liability) and clarifications on the role of key areas in financial reporting, such as diligence, conservatism, measurement uncertainty in the use of resources entrusted to management.

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

Definition of a business – Amendments to IFRS 3

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

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

Definition of materiality – Amendments to IAS 1 and IAS 8

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

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

Standards not yet adopted

Classification of liabilities as current or non-current – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management’s expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. ‘Settlement’ is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity’s own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

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

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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

2.2 *Changes in accounting policies*

IAS 12.52A states that if income tax is payable on dividends rather than on profits, no income tax expense or liability is recognized until the profits are distributed (dividends are declared). In connection with the decision of the IFRS Interpretations Committee in June 2020, according to which, regardless of the article above, a deferred income tax liability for retained earnings in subsidiaries must be recognized in the consolidated financial statements, unless it is not planned to be distributed in the foreseeable future (IAS12.39-40). EfTEN Kinnisvarafond II AS has a valid dividend policy, according to which 80% of the fund's consolidated cash flow is distributed annually (gross) as a dividend, therefore the Group is obliged to recognize a deferred income tax liability on each balance sheet date in the amount that would result from applying dividend policy to distribute the annual profit. Due to the decision of the IFRS Interpretations Committee regarding the recognition of deferred income tax liability, the Group has made the following adjustments in the main financial statements of previous periods:

CONSOLIDATED CONDENSED INCOME STATEMENT

	12 months 2019		
	Initial	**Adjusted**	***Difference***
€ thousands			
Operating profit	**12,697**	**12,697**	***0***
Profit before income tax	**10,672**	**10,672**	***0***
Income tax expense	-1,351	-793	*558*
Total comprehensive income for the reporting period	**9,321**	**9,879**	***558***
Earnings per share			
-basic	0,24	0,25	*0,01*
-diluted	0,24	0,25	*0,01*

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION

	31.12.2019			01.01.2019		
	Initial	Adjusted	*Difference*	Initial	Adjusted	*Difference*
€ thousands						
Total current assets	10,303	10,303	0	17,902	17,902	0
Total fixed assets	198,167	198,167	*0*	197,344	197,344	*0*
TOTAL ASSETS	**208,470**	**208,470**	***0***	**215,246**	**215,246**	***0***
Total current liabilities	18,162	18,162	*0*	50,448	50,448	*0*
Deferred income tax liability	478	1,188	*710*	395	1,663	*1268*
Total non-current liabilities	82,780	83,490	*710*	59,532	60,800	*1,268*
TOTAL LIABILITIES	**100,942**	**101,652**	***710***	**109,980**	**111,248**	***1,268***
Retained earnings	**52,524**	**51,814**	***-710***	**50,833**	**49,565**	***-1,268***
TOTAL EQUITY	**107,528**	**106,818**	***-710***	**105,266**	**103,998**	***-1,268***
TOTAL LIABILITIES AND EQUITY	**208,470**	**208,470**	***0***	**215,246**	**215,246**	***0***

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	31.12.2019			01.01.2019		
	Initial	Adjusted	*Change*	Initial	Adjusted	*Change*
€ thousands						
Share capital	19,696	19,696	*0*	23,635	23,635	*0*
Share premium	32,375	32,375	*0*	37,496	37,496	*0*
Statutory reserve capital	2,933	2,933	*0*	-6,698	-6,698	*0*
Retained earnings	52,524	**51,814**	*-710*	50,833	49,565	*-1,268*
Total equity	**107,528**	**106,818**	***-710***	**105,266**	**103,998**	***-1,268***

2.3 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.

2.3.1 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) Investment properties: determination of the fair value

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 appraiser evaluates investment property on an individualized basis using the discounted cash flow method. All of the Group's investment properties earn (or will earn when finished) rental income, which is why the method used compared to alternatives (such as comparative method) best reflects the fair value of the investment property. Cash flow projections for all items are updated to determine fair value, and discount rates and exit yields 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 favourable financing conditions, discount rates are still relatively low, ranging from 8% to 9% (2019: 7.9% to 9%), depending on the location and quality of the property. Exit yields have also remained at the same level, ranging from 7.0% to 8.0% (2019: 7.0% to 8.25%).

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

b) Judgments concerning the existence of control or significant influence over the entities

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 are owned by the Group 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) Business combinations and acquisitions of assets

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

2.3.2 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
Office premises	Pärnu mnt 105, Tallinn		
Office premises	Pärnu mnt 102, Tallinn		
Office premises	Kadaka tee 63		
Storage and production premises	Kuuli 10, Tallinn	Nordic Technology Park, Riga	
Storage and production premises	Premia Cold Storage, Tallinn		
Storage and production premises	Betooni 1a, Tallinn		
Storage and production premises	Betooni 6, Tallinn		
Retail premises	UKU Centre, Viljandi	RAF Centrs, Jelgava	
Retail premises	Mustika Centre, Tallinn	Depo, Jelgava	
Retail premises	Tammsaare tee Rautakesko		
Retail premises	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 24), 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 an income generated in the course of Company’s ordinary business activities. Revenue is recognized at the transaction price. The transaction price is the consideration to which the Company is entitled 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 on 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 performance obligations. If such different performance obligations exist, then the total transaction fee is allocated to each performance 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, i.e. 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 2019 and 31.December 2020, 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.

Due to the nature of the taxation system, a company registered in Estonia does not incur deferred income tax assets or liabilities, except for a possible deferred income tax liability from the company's investments in subsidiaries, associates and joint ventures and branches.

Subsidiaries in Latvia

In Latvia, from 1 January 2018, profits made after 2017 will be taxed at a rate of 20/80. The transitional rules of the Act allow for a reduction in the profit payable on dividends if the company has unused tax losses or certain provisions as of 31 December 2017.

As a result of the implementation of the Income Tax Act effective from 2018, there are no longer differences between the tax accounting and carrying amounts of assets and liabilities in Latvia, and therefore deferred income tax assets and liabilities to Latvian subsidiaries are not recognized. All deferred income tax assets and liabilities assumed in previous periods were derecognised in 2017 and the corresponding income tax expense / income was recognized in the income statement.

Subsidiaries in 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.

Recognition of deferred income tax liability in consolidated financial statements

The Group's deferred income tax liability arises for companies located in countries where the profit for the financial year is taxed.

The Group's deferred income tax liability also arises from investments in Estonian and Latvian subsidiaries and associates, unless the Group can control the timing of the reversal of taxable temporary differences and their reversal is not probable in the foreseeable future. Examples of reversals of taxable temporary differences are the payment of dividends, the sale or liquidation of an investment and other transactions. As the Group controls the dividend policies of its subsidiaries, it is also able to control the timing of the reversal of temporary differences associated with that investment. If the parent has decided not to distribute the profit of the subsidiary in the foreseeable future, it does not recognize a deferred income tax liability. If the parent estimates that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured at the planned dividend payment, provided that there are sufficient funds and equity to pay the dividend at the reporting date. In measuring deferred income tax liabilities, the Group uses tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply to taxable temporary differences when they are expected to reverse.

3 Subsidiaries and joint ventures

Company name	Country of domicile	Investment property	Group's ownership interest, % 31.12.2020	Group's ownership interest, % 31.12.2019
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 in 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 in Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka tee 63, Tallinn	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare tee K-Rauta	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinna 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 shopping centre, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Technology 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	Hotel Palace	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 31.12.2020, the Group owned one joint venture, whose main financial information is presented in the table below:

EfTEN SPV11 OÜ	31.12.2020	31.12.2019
€ thousands		
Cash and cash equivalents	229	363
Other current assets	39	1,127
Total current assets	**268**	**1,490**
Investment property	10,010	11,100
Total non-current assets	**10,010**	**11,100**
TOTAL ASSETS	**10,278**	**12,590**
Short-term borrowings	163	163
Other short-term liabilities	14	11
Total short-term liabilities	**177**	**174**
Long-term borrowings	5,221	5,302
Total long-term liabilities	**5,221**	**5,302**
TOTAL LIABILITIES	**5,398**	**5,476**
NET ASSETS	**4,880**	**7,114**
Revenue	114	742
Net income	**-1,235**	**227**

In 2020 and 2019, the following changes have occurred in investments in joint ventures:

	31.12.2020	31.12.2019
Carrying value at the beginning of period	**3,558**	**4,044**
Dividends received and share capital reduction	-500	-600
Profit from joint ventures using the equity method (Note 9)	-618	113
Carrying value at the end of period	**2,440**	**3,558**

The net assets of EfTEN SPV11 OÜ as at 31.12.2020 are a total of EUR 4,880 thousand (31 December 2019: EUR 7,114 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	
per year	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
€ thousands												
Revenue (note 5), incl.	**4,007**	**4,072**	**4,766**	**4,761**	**6,063**	**6,312**	**677**	**671**	**0**	**0**	**15,513**	**15,816**
Estonia	2,773	2,763	2,745	2,820	5,254	5,516	677	671	0	0	11,449	11,770
Latvia	569	636	2,021	1,941	809	796	0	0	0	0	3,399	3,373
Lithuania	665	673	0	0	0	0	0	0	0	0	665	673
Net operating income, incl.	**3,639**	**3,727**	**4,481**	**4,483**	**5,588**	**5,692**	**569**	**568**	**0**	**0**	**14,277**	**14,470**
Estonia	2,569	2,485	2,645	2,694	4,917	5,045	569	568	0	0	10,700	10,792
Latvia	508	600	1,836	1,789	671	647	0	0	0	0	3,015	3,036
Lithuania	562	642	0	0	0	0	0	0	0	0	562	642
Operating profit, incl.	**171**	**3,598**	**3,647**	**4,205**	**2,460**	**4,413**	**545**	**618**	**-125**	**-137**	**6,698**	**12,697**
Estonia	217	2,567	2,623	2,655	2,382	4,390	545	618	-125	-137	5,642	10,093
Latvia	-67	411	1,024	1,550	78	23	0	0	0	0	1,035	1,984
Lithuania	21	620	0	0	0	0	0	0	0	0	21	620
EBITDA, incl.	**3,392**	**3,419**	**4,126**	**4,111**	**5,087**	**5,105**	**563**	**562**	**-125**	**-137**	**13,043**	**13,060**
Estonia	2,460	2,307	2,472	2,495	4,576	4,675	563	562	-125	-137	9,946	9,902
Latvia	422	525	1,654	1,616	511	430	0	0	0	0	2,587	2,571
Lithuania	510	587	0	0	0	0	0	0	0	0	510	587
Operating profit											**6,698**	**12,697**
Profit /-loss from joint ventures (Note 9)											-618	113
Net finance expenses (Note 10)											-2,301	-2,138
Profit before income tax											**3,780**	**10,672**
Income tax expenses (Note 11)											-715	-793
Net profit for the financial year											**3,065**	**9,879**

SEGMENT ASSETS

	Office		Storage and production		Retail		Government		Total	
As at the balance sheet date	**31.12.20**	31.12.19	**31.12.20**	31.12.19	**31.12.20**	31.12.19	**31.12.20**	31.12.19	**31.12.20**	31.12.19
€ thousands										
Investment properties (Note 15)										
Estonia	35,690	38,110	34,120	33,840	64,100	66,540	6,890	6,910	140,800	145,400
Latvia	8,754	9,308	21,854	20,747	10,742	11,223	0	0	41,350	41,278
Lithuania	7,360	7,850	0	0	0	0	0	0	7,360	7,850
Total investment properties	**51,804**	**55,268**	**55,974**	**54,587**	**74,842**	**77,763**	**6,890**	**6,910**	**189,510**	**194,528**
Other non-current assets									2,632	3,639
Net debt									-86,089	-91,760
Other current assets									417	411
NET ASSETS									**106,470**	**106,818**

In 2020 and 2019, 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 2020, 11% 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	**2020**	2019
€ thousand		
Rental income from office premises	3,817	3,914
Rental income from government institutions	677	671
Rental income from retail premises	5,848	6,082
Rental income from warehousing and logistics premises	4,390	4,485
Rental income from parking premises	173	170
Other sales revenue	608	494
Total revenue by areas of activity (Note 15)	**15,513**	**15,816**

Geographical areas	**2020**	2019
€ thousand		
Estonia	11,449	11,770
Latvia	3,399	3,373
Lithuania	665	673
Total revenue by geographical areas	**15,513**	**15,816**

6 Cost of services sold

	2020	2019
€ thousand		
Repair and maintenance of rental premises	-409	-418
Property insurance	-56	-57
Land tax and real-estate tax	-181	-173
Improvement costs	-121	-289
Utilities for vacant spaces	-119	-133
Depreciation	-14	-8
Impairment losses on doubtful receivables	-11	-4
Other expenses of services sold	-85	-20
Total cost of services sold (Note 15)	**-996**	**-1,102**

7 Marketing costs

	2020	2019
€ thousand		
Commission expenses on rental premises	-84	-43
Advertising, promotional events	-156	-201
Total marketing costs	**-240**	**-244**

8 General and administrative expenses

	2020	2019
€ thousand		
Management services (Note 22)	-996	-1,054
Office expenses	-26	-29
Wages and salaries, incl. taxes	-96	-94
Consulting expenses	-135	-161
Regulatory expenses	-52	-58
Change in success fee liability (Note 18)	1,528	-14
Other general and administrative expenses	-2	-3
Depreciation	-8	-6
Total general and administrative expenses	**213**	**-1,419**

9 Profit/loss from joint ventures

	2020	2019
€ thousand		
Profit/ loss from joint ventures using the equity method (Note 3)	-618	113
Total profit/loss from joint ventures	**-618**	**113**

10 Financial costs

	2020	2019
€ thousand		
Interest expenses, incl.	-2,301	-2,139
Interest expense on borrowings	-1,745	-1,639
Interest expense on derivatives (-)/ reduction of expense (+)	-556	-500
Total financial costs	**-2,301**	**-2,139**

11 Income tax

€ thousand	2020	2019
Income tax expenses on dividends	-722	-710
Deferred income tax expense	7	-83
Total income tax expense (Note 4)	**-715**	**-793**

[1]In connection with the decision of the IFRS Interpretations Committee on the recognition of deferred income tax liability IAS12, the Group has made adjustments to the income tax expense of previous periods and to the deferred income tax liability. See Note 2.2 for more information.

As at 31.12.2020 and 31.12.2019, the Group has deferred income tax liability in the following amounts:

€ thousand	31.12.2020	31.12.2019
Deferred income tax liability (dividends)	722	710
Deferred income tax liability (Lithuania)	470	478
Total deferred income tax liability	**1,192**	**1,188**

12 Share profit

	2020	2019
Comprehensive income for the period, *€ thousand*	**3,065**	9,879
Weighted average number of shares over the period, in pcs	**39,391,371**	39,391,371
Earnings per share, in euros	**0.08**	0.25
Dividend per share, in euros	**0.10**	0.18

13 Cash and cash equivalents

€ thousand	31.12.2020	31.12.2019
Demand deposits	10,946	9,892
Total cash and cash equivalents (Note 19)	**10,946**	**9,892**

14 Receivables and accrued income

Short-term receivables and accrued income

€ thousand	31.12.2020	31.12.2019
Receivables from customers	344	269
Allowance for doubtful trade receivables	-14	-5
Total trade receivables (Note 19)	**330**	**264**
Prepaid taxes and receivables for reclaimed value-added tax	1	12
Other accrued income	47	91
Total accrued income	**48**	**103**
Total receivables (Note 19)	**378**	**367**

Non-current receivables

	31.12.2020	31.12.2019
€ thousand		
Loans granted	50	0
Prepayments and receivables related to real estate development projects (Note 15)	73	19
Total non-current receivables	**123**	**19**

As at 31.12.2020, the loans granted include loan receivables with an interest rate of 4% per annum and a maturity of 31.08.2022.

15 Investment properties

As at 31.12.2020, 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 31.12.2020	Share of market value of the Fund's assets
€ thousand						
Tallinna Cold Storage	Betooni 4, Tallinn	6,863	sept..08	6,237	6,490	3%
Võru K-Rauta	Kreutzwaldi 89, Võru	3,120	sept..08	3,270	2,860	1%
UKU Centre	Tallinna 41, Viljandi	7,866	aug..10	10,563	12,100	6%
Rakvere Police Building	Kreutzwaldi 5a, Rakvere	5,744	nov..10	4,942	6,890	3%
Lauteri 5	Lauteri 5, Tallinn	3,942	dec..10	3,368	5,160	3%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	9,178	dec..11	12,521	15,380	8%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	4,778	dec..11	8,147	7,340	4%
Mustika centre	Tammsaare tee 116	27,244	jul..12	31,496	34,770	17%
RAF Centrs	Riia mnt 48, Jelgava	6,177	mar..13	8,732	8,425	4%
Kadaka tee 63	Kadaka tee 63, Tallinn	7,610	jan..13	7,411	7,810	4%
Kuuli 10/Punane 73	Kuuli 10/Punane 73, Tallinn	15,197	jul..13	9,171	10,880	5%
Tammsaare tee K-Rauta	Tammsaare tee 49, Tallinn	9,120	jul..13	12,945	14,370	7%
Betooni 1a	Betooni 1a, Tallinn	10,678	Jun..14	7,347	8,040	4%
Betooni 6	Betooni 6, Tallinn	16,838	Jun..14	9,842	8,710	4%
Terbata office building	Lacpleca 20a, Riga	4,843	dec..14	9,781	8,754	4%
Nordic Technology Park	Jūrkalnes 15/25, Riga, Latvia	42,230	aug..14	22,614	21,854	11%
Menulio Police Building	Menulio 11, Vilnius	5,620	dec..15	6,161	7,360	4%
Depo Shopping Centre	Jelgava, Latvia	Development stage	jan..15	2,317	2,317	1%
Total		**187,048**		**176,865**	**189,510**	**93%**

In addition to the investment properties listed in the table above, the Group's 50% joint venture EfTEN SPV11 OÜ owns investment property at Vabaduse väljak 3 / Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as of 31.12.2020 is 10,010 thousand euros (31.12.2019: 11,100 thousand euros).

The following changes have taken place in the Group's investment properties in 2020 and 2019:

	Investment property in the development stage	Completed investment property	**Total investment property**
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	0	-334	**-334**
Balance as at 31.12.2019 (Note 4)	**2,323**	**192,205**	**194,528**
Acquisition and development	0	2,830	**2,830**
Gain/loss on changes in the fair value[1]	0	-7,848	**-7,848**
Balance as at 31.12.2020 (Note 4)	**2,323**	**187,187**	**189,510**

[1] The decline in the value of investment property in 2020 was mainly caused by the more conservative cash flow projections in 2021 and 2022 resulting from the Covid-19 crisis.

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	2020	2019
Rental income earned on investment property (Note 5)	14,905	15,322
Expenses directly attributable to management of investment property (Note 6)	-996	-1,102
Prepayments for investment property (Note 14)	0	19
Carrying amount of investment property pledged as collateral to borrowings (Note 16)	187,187	192,205

All rental income generating investment properties of EfTEN 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	31.12.2020	31.12.2019
€ thousand		
Less than 1 year	12,958	12,978
2-5 years	20,843	21,395
Over 5 years	3,514	5,078
Total	**37,315**	**39,451**

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 31.12.2020 and 31.12.2019 was determined with the discounted cash flow method. The following assumptions were used to determine fair value:

In 2020:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/m2
€ thousand						
Office premises	51,804	Discounted cash flows	3,943	8.0%-8.5%	6.75%-8.0%	10.1
Storage and production premises	55,974	Discounted cash flows	4,887	8.5%-9.0%	7.5%-8.25%	4.4
Retail premises	72,519	Discounted cash flows	6,228	8.4%-9.0%	7.5%-8.0%	8.5
Government	6,890	Discounted cash flows	677	8.9%	8.0%	9.8
Investment property in development phase	2,323	Comparable offerings	-	-	-	-
Total	**189,510**					

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 production 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**					

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 31.12.2020 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions::

Sector	Fair value	Sensitivity to management estimates		Sensitivity in independent valuation			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate +50 bp	Exit yield +50bp	Exit yield -50bp
€ thousand							
Office premises	51,804	*5,686*	*-5,674*	*-1,044*	*1,076*	*-2,354*	*2,706*
Storage and production premises	55,974	*6,206*	*-6,204*	*-1,084*	*1,136*	*-2,274*	*2,606*
Retail premises	72,519	*8,115*	*-8,126*	*-1,448*	*1,471*	*-3,109*	*3,525*
Government	5,983	*840*	*-840*	*-130*	*140*	*-270*	*310*
TOTAL	**186,280**	**20,847**	**-20,844**	**-3,706**	**3,823**	**-8,007**	**9,147**

As at 31.12.2019

Sector	Fair value	Sensitivity to management estimates		Sensitivity in independent valuation			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate +50 bp	Exit yield +50bp	Exit yield -50bp
€ thousand							
Office premises	55,268	*5,962*	*-5,938*	*-1,088*	*1,132*	*-2,468*	*2,832*
Storage and production premises	54,587	*5,967*	*-5,963*	*-1,107*	*1,113*	*-2,247*	*2,523*
Retail premises	75,440	*8,067*	*-8,096*	*-1,529*	*1,489*	*-3,245*	*3,610*
Government	6,910	*830*	*-810*	*-260*	*140*	*-260*	*310*
TOTAL	**192,205**	**20,826**	**-20,807**	**-3,984**	**3,874**	**-8,220**	**9,275**

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

16 Borrowings

As at 31.12.2020, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2020	Contract term	Interest rate as at 31.12.2020	Loan collateral (Note 15)	Value of collateral	Share of the fund's net asset value
SEB	Estonia	4,300	3,108	30.04.22	1.70%	mortgage - Betooni 4, Tallinn	6,490	2.9%
DnB Nord	Estonia	2,239	1,354	15.12.23	2.75%	mortgage - Kreutzwaldi 89, Võru	2,860	1.3%
SEB	Estonia	2,514	1,929	13.06.21	1.80%	mortgage - Lauteri 5, Tallinn	5,160	1.8%
SEB	Estonia	7,029	4,821	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	12,100	4.5%
Swedbank	Estonia	4,133	2,912	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,890	2.7%
Swedbank	Estonia	4,153	3,707	30.08.23	1.80%	mortgage - Pärnu mnt 105, Tallinn	7,340	3.5%
Swedbank	Estonia	8,508	7,912	30.08.23	1.70%	mortgage - Pärnu mnt 102, Tallinn	15,380	7.4%
SEB	Estonia	20,000	16,313	31.08.22	1.66%	mortgage - Tammsaare tee 116, Tallinn	34,770	15.3%
SEB	Estonia	4,740	3,679	29.12.24	1.82%	mortgage - Kadaka tee 63, Tallinn	7,810	3.5%
Swedbank	Estonia	15,622	14,164	25.06.23	1.69%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,250	13.3%
SEB	Latvia	12,060	10,182	08.08.24	2.15%	mortgage - Jurkalnes iela 15/25, Riia	21,854	9.6%
SEB	Estonia	9,300	8,742	26.06.22	1.95%	mortgage - Betooni 1a, Betooni 6, Tallinn	16,750	8.2%
SEB	Latvia	4,561	3,795	17.04.22	1.70%	mortgage - Rigas Street 48, Jelgava	8,425	3.6%
Swedbank	Latvia	5,850	4,207	30.04.22	2.70%	mortgage - Lacpleca 20, Riia	8,754	4.0%
Swedbank	Lithuania	4,100	4,058	07.12.25	2.40%	mortgage - Menulio 11, Vilnius	7,360	3.8%
Total		**109,109**	**90,883**				**187,193**	**85.4%**

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	3,216	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	31.08.22	1.75%	mortgage - Tammsaare tee 116, Tallinn	36,500	15.5%
SEB	Estonia	4,740	3,767	29.12.20	1.39%	mortgage - Kadaka tee 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	08.08.24	2.15%	mortgage - Jurkalnes iela 15/25, Riia	20,747	9.7%
SEB	Estonia	9,300	9,114	26.06.22	1.95%	mortgage - Betooni 1a, Betooni 6, Tallinn	16,870	8.5%
SEB	Latvia	4,561	3,881	17.04.22	1.70%	mortgage - Rigas Street 48, Jelgava	8,900	3.6%
Swedbank	Latvia	5,850	4,708	30.04.20	1.90%	mortgage - Lacpleca 20, Riia	9,308	4.4%
Swedbank	Lithuania	3,786	3,078	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,850	2.9%
EfTEN SPV11 OÜ	Estonia	500	500	12.06.20	3.00%	-	0	0.5%
Total		**109,295**	**93,538**				**192,205**	**87.0%**

Short-term borrowings	**31.12.2020**	31.12.2019
€ thousand		
Other short term loans	0	500
Repayments of long-term bank loans in the next period	5,388	15,772
Discounted contract fees on bank loans	-46	-47
Total short-term borrowings	**5,342**	**16,225**

Other short-term loans as of 31.12.2019 in the amount of 500 thousand euros consisted of a loan taken from the joint venture. The interest rate of the loan agreement was 3% per annum and the loan was repaid in 2020.

Long-term borrowings	**31.12.2020**	31.12.2019
€ thousand		
Total long-term borrowings	**90,784**	**92,915**
Incl. current portion of borrowings	5,342	15,725
Incl. non-current portion of borrowings, incl.	85,442	77,190
Bank loans	*85,496*	*77,266*
Discounted contract fees on bank loans	-54	*-76*

Bank loans are broken down by maturity as follows:

Cash flows of borrowings	**2020**	2019
€ thousand		
Balance at the beginning of period	**93,415**	**93,745**
Bank loans received	1,209	3,000
Bank loans returned on refinancing and sale of investments	-500	0
Annuity payments on bank loans	*-3,363*	-3,297
Discounted change of contract fees	*23*	-33
Balance at the end of period	**90,784**	**93,415**

For additional information on borrowings, please see Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2020	31.12.2019
€ thousand		
Other trade payables	117	96
Total trade payables	**117**	**96**
Other payables	282	59
Total other payables	**282**	**59**
Value added tax	278	265
Personal income tax	2	2
Social tax	5	4
Land tax and real-estate tax	41	7
Other tax liabilities	5	1
Total tax liabilities	**331**	**279**
Interest payable	31	35
Payables to employees	9	8
Tenant security deposits	201	254
Other accrued liabilities	38	27
Total accrued expenses	**279**	**324**
Prepayments received from buyers	15	20
Other deferred income	15	8
Total prepayments	**30**	**28**
Total payables and prepayments (Note 19)	**1,039**	**786**

Long-term payables

	31.12.2020	31.12.2019
€ thousand		
Tenant security deposits	782	1,053
Total other long-term payables (Note 19)	**782**	**1,053**

18 Success fee liability

As of 31.12.2020, the Group has calculated the success fee liability as follows::

	2020	**2019**
€ thousand		
Balance at the beginning of the period	**4,059**	**4,045**
Increase / decrease in success fee related to change in value of investments properties	-1,532	14
Balance at the end of the period	**2,527**	**4,059**

The accrual-based calculation of success fees is based on estimates of the fair value of investment properties as of 31.12.2020 and 31.12.2019. Expenses / income from the change in performance fee are included in the Group's general and 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	31.12.2020	31.12.2019
€ thousand			
Financial assets - loans and receivables measured at amortised cost			
Cash and cash equivalents	13	10,946	9,892
Trade receivables	14	330	264
Total financial assets measured at amortised cost		**11,276**	**10,156**
Financial liabilities measured at amortised cost			
Borrowings	16	90,784	93,415
Trade payables	17	117	96
Tenant security deposits	17	983	1,307
Other accruals	17	78	70
Success fee liabilities	18	2,527	4,059
Total financial liabilities measured at amortised cost		**94 489**	**98,947**
Financial liabilities at fair value			
Derivatives (interest swap agreements)		711	1,151
Total financial liabilities at fair value		**711**	**1,151**
Total financial liabilities		**95,200**	**100,098**

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.

Intressirisk

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 31.12.2020, all of the Group's loan agreements are based on floating interest rates, of which 61% (31.12.2019: 66%) are related to 1-month EURIBOR and 24% to 3-month EURIBOR (31.12.2019: 24%). The 1-month Euribor fluctuated between -0.582% and -0.379% in 2020 (2019: -0.474 to -0.362%). i.e. the maximum change for the year was 20.3 basis points (2019: 11.2 basis points). 78% (2019: same) of EfTEN Real Estate Fund's loan portfolio has a 0% floor for the protection of negative EURIBOR, i.e. in case of negative EURIBOR the loan margin will not decrease

Due to the current low level of interest rates and market expectations that interest rates will remain in the near future, hedging interest rate risk is particularly important in the long run. The fund's management estimates the most significant impact of a possible rise in interest rates in a 2-4 year perspective.

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 (i.e. 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;

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 mitigate interest rate risk, six interest rate swap agreements were concluded in 2015 in the total nominal amount of 53,440 thousand euros, whereas five agreements fixed the 1-month Euribor at 0.64% -0.67% and one agreement fixed the 3-month Euribor at 0.685%. In 2016, the payment schedules of three loan agreements related to these swap agreements were extended, whereas the payment schedules of derivative contracts were changed accordingly in order to ensure the efficiency of the swap agreements. In the course of the change, the fixed interest rate of the three interest rate swaps decreased, therefore as of 31.12.2016 Euribor was at fixed levels of 0.6% -0.67% (31.12.2020: the same).

In August 2020, one subsidiary of the Group terminated one interest rate swap agreement with Danske Bank prematurely, the fair value of which was 121 thousand euros upon termination. Upon termination of the swap agreement, the Fund's subsidiary paid the bank a total of 84 thousand euros, i.e. 37 thousand euros less than the fair value of the interest rate swap obligation.

All other interest rate swaps expire in 2022. The nominal amount of interest rate swaps as of 31.12.2020 was 39,269 thousand euros, i.e. 43% of the total loan portfolio (31.12.2019: 48,541 thousand euros, i.e. 52.0% of the total loan portfolio).

The Group recognizes interest rate swaps on a hedge accounting basis. The fair value of the Group's interest rate swaps as at 31.12.2020 was negative in the total amount of 711 thousand euros (31.12.2019: 1,151 thousand euros) and the gain on the change in fair value was 440 thousand euros (2019: profit 31 thousand euros). Additional information on determining the fair value of interest rate swaps is provided in the 'Fair value' section 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 Group's objective is to manage net cash flows in such a way that no more than 70% of the acquisition cost of the investment is involved in making real estate investments and the Group's debt coverage ratio is higher than 1.2. As at 31 December 2020, the share of the Group's interest-bearing debt liabilities in rental income-generating investment properties was 49% (31 December 2019: 49%) and the debt coverage ratio was 2.4 (2019: the same).

The financing policy of the Group specifies that loan agreements for raising debt are entered into on a long-term basis, also taking into consideration the maximum duration of the lease agreements on these properties. The table below summarises the information on the maturities of the Group’s financial liabilities (undiscounted cash flows):

As at 31.12.2020	Less than 1 month	2-4 months	Between 4-12 months	Between 2 and 5 years	Over 5 years	Total
€ thousand						
Interest-bearing liabilities	281	845	4,258	85,500	0	**90,884**
Interest payments	142	422	1,087	2,221	0	**3,872**
Interest payable	31	0	0	0	0	**31**
Trade payables	117	0	0	0	0	**117**
Tenant security deposits	9	105	87	467	315	**983**
Accrued expenses	47	0	0	0	0	**47**
Success fee liabilities	0	0	0	0	2,527	**2,527**
Total financial liabilities	**627**	**1,372**	**5,432**	**88,188**	**2,842**	**98,461**

As at 31.12.2019	Less than 1 month	2-4 months	Between 4-12 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**

Working capital statement

	31.12.2020	31.12.2019
€ thousand		
Cash and cash equivalents	10,946	9,892
Receivables and accrued income (Note 14)	378	367
Prepaid expenses	34	39
Total current assets	**11,358**	**10,298**
	,	,
Current portion of long-term liabilities (Note 16)	-5,342	-16,225
Short-term debts and advances (Note 17)	-1,039	-786
Total current liabilities	**-6,381**	**-17,011**
Total working capital	**4,977**	**-6,713**

In June 2021, one of the Group's loan agreements in the total amount of 1,929 thousand euros will expire (balance as at 31 December 2020). The rental cash flow of the collateral of the loan agreement is stable and the LTV of the loan is 37%, which is why the Group's management is convinced that there will be no obstacles to extending the expiring loan.

In 2020, the maturity of the Group's four long-term loan agreements in the total amount (balance on 31 December 2019) was 13,011 thousand euros, therefore the coverage ratio of the Group's current liabilities as of 31 December 2019 was only 0.6. All these loan agreements were extended in 2020.

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 behaviour 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.

In case 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:

	31.12.2020	31.12.2019
Undue	242	202
Past due, incl.	**102**	**66**
up to 30 days	*62*	*46*
30-60 days	*19*	*7*
more than 60 days	*21*	*13*
Allowance for doubtful receivables	-14	-4
Total trade receivables (Note 14)	**330**	**264**

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

	31.12.2020	31.12.2019
€ thousand		
Cash and cash equivalents (Note 13)	10,946	9,892
Trade receivables (Note 14)	330	264
Total maximum credit risk	**11,276**	**10,156**

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 31.12.2020	**Balance as at 31.12.2020**
Aa2	4,643
Aa3	6,190
Baa1	113
	10,946

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 paying dividends to investors on average 4-6% of the value of invested equity. In 2020, dividends totalling 3,852 thousand euros (9.8 cents per share) were distributed to investors. In 2019, a total of 7,090 thousand euros (18 cents per share) was distributed to investors. In addition, a total of 9,060 thousand euros (23 cents per share) was paid to investors in the spring of 2019 as a result of the share capital reduction. In 2021, the Management Board of EfTEN Kinnisvarafond will propose to the shareholders to pay dividends of 5,397 thousand euros, i.e. 13.7 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 31.12.2020 and 31.12.2019, 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 registered share capital of EfTEN Kinnisvarafond AS of 31.12.2020 was 19,696 thousand euros (31.12.2019: the same). As of 31.12.2020, the share capital consisted of 39,391,371 shares (31.12.2019: the same) with a nominal value of 0.5 euros (31.12.2019: the same). Without amending the articles of association, the company has the right to increase the share capital to 60,137 thousand euros.

In 2020, EfTEN Kinnisvarafond AS transferred 470 thousand euros of the consolidated profit of 2019 to the statutory reserve capital (2019: 5%, i.e. 540 thousand euros).

For additional information on parent company's unconsolidated equity, please see Note 26.

21 Contingent liabilities

Contingent income tax liability

	31.12.2020	31.12.2019[1]
€ thousand		
The company's retained earnings	50,556	51,814
Potential income tax liability	10,111	10,363
The amount that can be paid out as dividends	40,445	41,451

Due to the change in accounting policy, the company's retained earnings as of 31.12.2019 have changed. See Note 2.1 for more information.

The calculation of the maximum possible income tax liability is based on the assumption that the net dividends to be distributed and the total income tax expense related to their payment may not exceed the distributable profit as of 31.12.2020 and 31.12.2019.

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 2020 in the amount of EUR 996 thousand (2019: EUR 1,054 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 interest rate under loan agreement was 3% per annum and the loan was repaid in 2020. Joint venture reduced its share capital in 2020, as a result of which EfTEN Kinnisvarafond AS received 500 thousand euros as well.

In 2019, a dividend of EUR 600,000 was received from the EfTEN SPV 11 OÜ joint venture. In 2020, the joint venture did not pay dividends.

The Group had four employees in 2020 and 2019, who were paid a total of EUR 76 thousand (2019: EUR 74 thousand) including related taxes. In addition, the Group's Latvian and Lithuanian subsidiaries paid payroll taxes of EUR 20 thousand in 2020 (2019: same). No remuneration was paid to the members of the Management Board or Supervisory Board in 2020 or 2019. 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 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.

	2020	2019[1]
€ thousand		
Revenue	946	990
Gross profit	**946**	**990**
General and administrative expenses	-1,070	-1,124
Operating profit	**-124**	**-134**
Gain/-loss from subsidiaries	4,194	9,939
Gain/-loss from joint ventures	-618	114
Interest income	62	64
Interest expense	-8	-73
Profit before income tax	**3,506**	**9,910**
Net profit for the period	**3,506**	**9,910**

[1] In the parent company's income statement for 2019, the profit / loss from subsidiaries has been changed compared to the figures presented in the previous year. The change in accounting policy is described in Note 2.2 to the report.

24 Parent company's separate balance sheet

	31.12.2020	31.12.2019[1]
€ thousand		
ASSETS		
Cash and cash equivalents	2,158	1,336
Receivables and accrued income	1,399	1,294
Total current assets	**3,557**	**2,630**
Shares of subsidiaries	100,263	99,924
Shares of joint ventures	2,440	3,558
Long-term receivables	2,366	2,156
Total non-current assets	**105,069**	**105,638**
TOTAL ASSETS	**108,626**	**108,268**
Borrowings	1,200	500
Payables and prepayments	954	950
Total current liabilities	**2,154**	**1,450**
Total liabilities	**2,154**	**1,450**
Share capital	19,696	19,696
Share premium	32,375	32,375
Statutory reserve capital	4,554	4,084
Retained earnings	49,847	50,663
Total equity	**106,472**	**106,818**
TOTAL LIABILITIES AND EQUITY	**108,626**	**108,268**

[1] In the balance sheet of the parent company as of 31.12.2019, retained earnings and investments in the subsidiary have changed. The impact of the change in accounting policies on the Group's financial indicators is described in Note 2.2 to the report.

25 *Parent company's separate statement of cash flows*

	2020	2019
€ thousand		
Cash flows from operating activities		
Net profit	**3,506**	**9,910**
Adjustments to net profit:		
Interest income and interest expenses	-54	8
Gain/-loss on the fair value adjustment of subsidiaries and joint ventures	278	-2,135
Dividends received	-3,854	-7,918
Cash flow from operations before changes in working capital	**-124**	**-135**
Change in receivables and payables related to operating activities	-44	-48
Net cash generated from operating activities	**-168**	**-183**
Cash flows from investing activities		
Reduction of share capital of subsidiaries	505	5,316
Loans granted	-210	-88
Repayment of loans granted	0	1,000
Dividends received	3,854	7,918
Interest received	0	1
Net cash flows from investing activities	**4,149**	**14,147**
Cash flows from investing activities		
Received loans	1,200	500
Repayment of loans received	-500	0
Interest paid	-7	0
Dividends paid	-3,852	-9,060
Reduction of share capital	0,	-7,090
Net cash generated from financing activities	**-3,159**	**-15,650**
NET CASH FLOW	**822**	**-1 686**
Cash and cash equivalents at the beginning of the period	**1,336**	**3,022**
Change in cash and cash equivalents	822	-1,686
Cash and cash equivalents at the end of the period	**2,158**	**1,336**

26 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Reduction of unregistered share capital and share premium	Retained earnings	Total
€ thousand						
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**48,383**	**103,998**
Registration of share capital reduction	-3,939	-5,121		9,060		**0**
Dividends paid					-7,090	**-7,090**
Transfers to statutory reserve capital	0	0	540	0	-540	**0**
Comprehensive income for the financial year					9,910	**9,910**
Balance as at 31.12.2019	**19,696**	**32,375**	**4,084**	**0**	**50,663**	**106,818**
Dividends paid	0	0	0	0	-3,852	-3,852
Transfers to statutory reserve capital	0	0	470	0	-470	0
Comprehensive income for the financial year	0	0	0	0	3,506	3,506
Balance as at 31.12.2020	**19,696**	**32,375**	**4,554**	**0**	**49,847**	**106,472**

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:

	31.12.2020	31.12.2019
€ thousand		
Parent company's unconsolidated equity	106,472	106,818
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-102,703	-103,482
Value of subsidiaries and joint ventures under the equity method (plus)	102,701	103,482
Total	**106,470**	**106,818**

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 2020, and the Group's consolidated financial performance and 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

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement and statement of other 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report and Distribution of revenue according to the Estonian Classification of Economic Activities (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.

AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

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.
- 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

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.

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

2 March 2021
Tallinn, Estonia

Translation note:

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

Proposal for profit allocation

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

Retained earnings as at 31.12.2020	50,557,000
Allocation to statutory reserve capital	180,000
Dividend distribution	5,397,000 (13.7 cents per share)
Retained earnings after allocation	44,980,000

/signed digitally/

____

Viljar Arakas

Member of the Management Board

/signed digitally/

____

Tõnu Uustalu

Member of the Management Board

2. March 2021

Signatures of the members of the Management Board and Supervisory Board to the 2020 annual report

We hereby confirm the correctness of data presented in the 2020 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		

/allkirjastatud digitaalselt/	/allkirjastatud digitaalselt/
__________________	__________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board

Distribution of revenue according to the Estonian Classification of Economic Activities

	EMTAK code	2020	Revenue %	Main activity
€ thousand				
Fund management	66301	946	100%	yes