Consolidated Annual Report 2021

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

Beginning of financial year: 01.01.2021

End of financial year: 31.12.2021

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee

Website address: www.eften.ee

Table of contents

MANAGEMENT REPORT

The Fund manager's comment on the year 2021 results

Due to the differentiation of the real estate portfolio, we were able to state again in 2021 that the impact of the Covid-19 crisis on the financial results of EfTEN Kinnisvarafond AS is small. Despite the fact that the group's subsidiary successfully sold the office building at Kadaka tee 63 (former main building of Elektrilevi) in May 2021, the sales revenue of the consolidated fund still increased, mainly due to the leasing of vacant premises in Jurkalnes Technology Park in Riga, which was occupied by Livonia Print at full capacity.

To give an example on the other end of the scale, in terms of unsuccess, the Palace hotel that is owned by the funds associate and has received numerous recognitions, has been on the verge of survival similarly to whole HORECA sector during the year due to coronavirus crisis. True, doing so as a leader compared to the market's average – hotels' revenue generating index RGI was 1.38 in 2021 (RGI 1.0 would indicate market's average). Last year, the Palace Hotel was voted the best hotel in Estonia by World Leading Hotels for the sixth year in a row and was the first hotel to receive such recognition for so many years in a row. In addition, Palace joined the Radisson Individuals program, being the first hotel in the Baltics to join the program. However, when comparing the results of 2021 with the results of pre-covid 2019, last year the total sales revenue of the Palace was still twice lower.

The sale of Kadaka tee 63 was the most significant change in the asset portfolio last year. The investor's actual IRR, taking into account the actual cash flow, remained at 14% for this project.

Financial overview

EfTEN Kinnisvarafond AS's consolidated revenue for the 12 months of 2021 amounted to EUR 15.626 million (12 months 2020: EUR: 15.513 million), increasing by 0.7% compared to 2020. Net operating income (NOI) totalled EUR 14.406 million in 2021 million (2020: EUR 14.277 million), increasing by 0.9% year-on-year. The Group's net profit for the same period amounted to EUR 16.096 million (2020: EUR 3.065 million).

	2021	2020
€ million		
Rental revenue, other fees from investment properties	15.626	15.513
Expenses related to investment properties, incl. marketing costs	-1.220	-1.236
Net rental income	**14.406**	**14.277**
Net rental income margin	*92%*	*92%*
Interest expense and interest income	-2.180	-2.300
Net rental revenue less interest income and expense	**12.226**	**11.977**
Management fees	-0.997	-0.996
Other revenue and expenses	-0.244	-0.267
Profit before change in the value of investment property, change in success fee liability, profit and loss from the joint venture and income tax expense	**10.985**	**10.714**

Prior to changes in the fair value of investment properties, profits / losses of joint ventures and income tax expense in 2021, the Group earned a total profit of 10.985 million euros (2.5% more than in the previous year). The net rental income margin of the Fund's real estate investments was 92% (same as in the previous year), i.e. expenses directly related to the management of real estate accounted for 8% of sales revenue.

As at 31.12.2021, the Group's total assets amounted to EUR 204.948 million (31.12.2020: EUR 203.505 million), including the fair value of real estate investments that accounted for 93.0% (31.12.2020: 93.1%).

	31.12.2021	31.12.2020
€ million		
Investment property	190.512	189.510
Other non-current assets	2.854	2.632
Cash and cash equivalents	11.010	10.946
Current assets, excluding cash	0.572	0.417
Net debt	-80.311	-86.089
Net asset value (NAV)	113.627	106.470
Net asset value (NAV) per share, in euros	2.9488	2.7029

Main financial ratios

12 months	31.12.2021	31.12.2020
ROE, % (net profit of the period / average equity of the period) x 100	14.6	2.9
ROA, % (net profit of the period / average assets of the period) x 100	7.9	1.5
ROIC, % (net profit of the period / average invested capital of the period) x 100[1]	32.4	5.9
Revenue (€ thousand)	15,626	15,513
Rental income (€ thousands)	15,016	14,905
EBITDA (€ thousand)	13,190	13,040
EBITDA margin, %	84%	84%
EBIT (€ thousand)	19,256	6,698
EBIT margin, %	123%	43%
Liquidity ratio (current assets / current liabilities)	0.3	1.6
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.

EPRA performance indicators

The recommended guidelines of the European Public Real Estate Association (EPRA) are based on the principle that the disclosures should be more comparable and transparent between real estate companies.

Although the Group has partially applied EPRA guidelines in previous reports to calculate performance ratios, then in the current report EPRA ratios are aggregated to ensure better overview.

The management of EfTEN Kinnisvarafond AS monitors IFRS net profit adjusted for non-monetary changes, which reflects the performance of the Group's operating activities more accurately than the net profit calculated in accordance with IFRS. Adjusted net income in this way is based on EPRA's best practice recommendations, which, unlike IFRS net income, does not include non-monetary and estimated changes, for example change in the fair value of investment property, changes in deferred tax liabilities related to investment property and changes in the fair value of derivatives.

As of this year, EfTEN Kinnisvarafond AS calculates the net asset value of EPRA on the basis of two indicators: EPRA net reinstatement value (EPRA NRV) and EPRA net disposal value (EPRA NDV), which replace the previously disclosed EPRA NAV figures.

EPRA performance indicators

As of the balance sheet date or per year	31.12.2021	31.12.2020	*Change*
EPRA profit, € thousands	9,775	9,928	*-2%*
EPRA earnings per share, in euros	0.25	0.25	*0%*
EPRA NRV (net reinstatement value), € thousands	114,397	107,651	*6%*
EPRA NRV per share, in euros	2.97	2.73	*9%*
EPRA NDV (net disposal value), € thousands	113,627	106,470	*7%*
EPRA NDV per share, in euros	2.95	2,70	*9%*
EPRA NIY (net initial yield)	7.1%	7.3%	*-2%*
EPRA Topped-up NIY (adjusted net initial yield)	7.4%	7.6%	*-2%*
EPRA cost ratio, including direct vacancy costs	13%	13%	*-2%*
EPRA cost ratio, excluding direct costs related to vacancy	12%	12%	*1%*
EPRA vacancy rate	2.0%	2.6%	*-23%*

Definitions and calculations of EPRA's recommended performance indicators are provided below:

Definitions of EPRA indicators and disclosure objectives

EPRA indicator		Definition	Purpose
EPRA profit		Operating profit	A key indicator of a company's business that illustrates its ability to pay dividends
EPRA net asset value	**EPRA net reinstatement value (EPRA NRV)**	The indicator assumes that the real estate company will never sell its assets. Indicates the value required to rebuild the business.	The purpose of the indicators is to provide stakeholders with indicators of the net asset value in different scenarios. The net asset value calculated in accordance with IFRS is adjusted to calculate the indicator.
	EPRA net tangible assets (EPRA NTA)	The indicator assumes that a real estate company both buys and sells its assets, which results in a certain level of deferred income tax liability.	
	EPRA net disposal value (EPRA NDV)	The indicator expresses the net asset value in a situation where a real estate company sells its assets and the deferred income tax liability, financial instruments and certain other adjustments are deducted in full.	
EPRA net initial yield (EPRA NIY)		Annualized rental income at the reporting date less administrative costs of the investment property (ownership costs) divided by the market value of the investment property plus the estimated costs of the purchaser.	Benchmark for external valuations of the real estate portfolio. The indicator should help investors evaluate the valuations of different real estate portfolios.
Adjusted EPRA net initial yield (EPRA "Topped-up' NIY		EPRA's net initial yield, that is adjusted for the end of lease-free periods or the end of other rental incentives (such as discounts, changes in rents).	
EPRA vacancy rate		Estimated rental income from vacant premises divided by the estimated rental income from the entire real estate portfolio.	Vacancy measure based on estimated rental income.
EPRA cost ratios		Administrative and operating expenses (including and excluding expenses directly related to the vacancy) divided by gross rental income.	A key indicator that helps measure changes in a company's costs.

EPRA indicator calculations

EPRA profit

€ thousands		2021	2020
Net profit (IFRS)		**16,096**	**3,065**
Adjustments:			
	Change in fair value of investment property	-7,614	7,848
	Change in success fee liability related to changes in the fair value of investment property	1,523	-1,528
	Change in fair value of investment property effect on profit / loss from joint venture	-302	550
	Deferred income tax expense related to EPRA adjustments	72	-7
EPRA profit		**9,775**	**9,928**
Weighted average number of shares during the period		38,922,215	39,391,371
EPRA earnings per share, in euros		**0.25**	**0.25**

EPRA net asset value indicators as at 31.12.2021

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**113,627**	**113,627**	**113,627**
Adjustments:			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	543	543	-
Fair value of derivatives	227	227	-
Net asset value	**114,397**	**114,397**	**113,627**
Number of fully diluted shares	38,533,217	38,533,217	38,533,217
Net asset value per unit, in euros	**2.97**	**2.97**	**2.95**

EPRA net asset value indicators as at 31.12.2020

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**106,470**	**106,470**	**106,470**
Adjustments: ,			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	470	470	-
Fair value of derivatives	711	711	-
Net asset value ,	**107,651**	**107,651**	**106,470**
Number of fully diluted shares	39,391,371	39,391,371	39,391,371
Net asset value per unit, in euros	**2.73**	**2.73**	**2.70**

EPRA net yield indicators

€ thousands	2021	2020
Investment property ,	190,512	189,510
Investment property in development (minus)	-2,332	-2,317
Finished investment property	**190,512**	**189,510**
Annualized rental income from rental agreements in force as at balance sheet date	15,411	15,491
Expense related to investment properties not covered by tenants	-1,860	-1,681
Annualized net rental income	**13,551**	**13,810**
Nominal effect from the end of rental exemptions or other rental stimuluses	627	588
Adjusted annual net rental income	**14,178**	**14,398**
EPRA net initial yield (NIY)	**7.1%**	**7.3%**
EPRA topped-up net initial yield (topped-up NIY)	**7.4%**	**7.6%**

EPRA vacancy rate

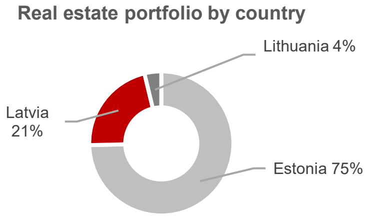
€ thousands	2021	2020
Estimated rental income from vacant premises	305	407
Estimated rental income for the entire real estate portfolio	15,158	15,633
EPRA vacancy rate	**2.0%**	**2.6%**

EPRA cost ratios

€ thousands	2021	2020
Cost of sales	-1,066	-996
Other sales revenue paid by tenants to cover expenses	610	608
Marketing costs	-154	-240
Other administrative expense, excluding change in success fee liability		-1,315
Total costs, including direct costs related to the vacancy	**-1,921**	**-1,943**
Direct vacancy costs	-147	-203
Total costs excluding direct costs related to the vacancy	**-1,774**	**-1,740**
Rental income (gross)	**15,016**	**14,905**
EPRA cost ratio, including direct vacancy costs	**13%**	**13%**
EPRA cost ratio, excluding direct costs related to vacancy	**12%**	**12%**

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. As at the end of 2021, the Group has 17 (2020: 18) commercial investment properties with a fair value of EUR 190.512 million as at the balance sheet date and an acquisition cost of EUR 171.019 million (31.12.2020: EUR 176.865 million). In addition, the Group's joint venture owns the Palace Hotel in Tallinn, which has a fair value of EUR 10.620 million as of 31.12.2021 (31.12.2020: EUR 10.010 million). The Group's real estate portfolio is divided by sectors and countries as follows:



Investment property as of 31.12.2021	Group's ownership interest, %	Acquisition cost	Fair value	Net leasable area	Expected rental revenue per annum	Occupancy, %	Average length of lease agreement
Premia Cold Storage, Tallinn	100	6,237	6,860	6,863	544	100	5.5
Kuuli 10, Tallinn	100	9,171	11,390	15,197	858	100	6.4
Betooni 1a, Tallinn	100	7,347	8,630	10,678	688	100	5.3
Betooni 6, Tallinn	100	9,902	9,040	16,838	747	98	2.1
Jurkalne Technology Park, Riga	100	23,010	23,200	42,230	2,053	99	5.1
Total warehouse and logistics premises		**55,667**	**59,120**	**91,806**	**4,890**	**99**	**4.9**
Võru Rautakesko	100	3,270	2,870	3,120	252	100	1.2
UKU Centre, Viljandi	100	10,779	12,460	7,866	1,015	100	4.5
Mustika Centre, Tallinn	100	31,839	36,250	27,244	3,022	98	4.6
RAF Centrs, Jelgava	100	8,738	8,860	6,177	795	99	2.2
Depo shopping centre, Jelgava	100	2,332	2,332		*In development*		
Tammsaare rd. Rautakesko, Tallinn	100	12,945	15,280	9,120	1,213	100	10.2
Total retail premises		**69,903**	**78,052**	**53,527**	**6,297**	**99**	**5.3**
Lauteri 5, Tallinn	100	3,417	5,560	3,942	411	96	1.4
Pärnu mnt 102, Tallinn	100	12,521	16,160	9,178	1,150	99	1.7
Pärnu mnt 105, Tallinn	100	8,170	7,840	4,778	571	90	1.7
Terbata office building, Riga	100	9,837	9,070	4,843	616	82	2.3
Menulio 11, Vilnius	100	6,385	7,580	5,620	732	92	2.4
Total office premises		**40,330**	**46,210**	**28,361**	**3,480**	**93**	**1.9**
Rakvere police and rescue joint building (national)	100	5,119	7,130	5,744	745	100	3.8
Hotel Palace, Tallinn (hotels)[1]	50	10,967	10,620	4,870	362	100	8.7
Total		**181,986**	**201,132**	**184,308**	**15,774**	**98**	**4.3**

[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.

In 2021, the Group earned a total rental income of EUR 15.016 million. Rental income calculated on a comparable basis totalled EUR 14.850 million in 2021, which is 4% more than in 2020. In 2021, the Group granted a total of EUR 371 thousand in discounts related to the Covid-19 crisis, i.e. without these discounts, the Group's rental income in 2021 would have been 2.5% higher. As at 31 December 2021, the Group's subsidiaries had current discounts for the calendar month in the amount of 33 thousand euros.

Comparable rental income by business segment

€ thousands	Fair value 31.12.2021	Rental income 2021	Rental income 2020	Change	Change, %
Office	46,210	3,330	3,276	54	2%
Logistics	59,120	4,831	4,409	422	10%
Retail	75,720	5,987	5,860	127	2%
National	7,130	702	677	25	4%
Total comparable assets and rental income	**188,180**	**14,850**	**14,222**	**628**	**4%**
Sold assets and rental income	0	166	683	-517	-76%
Assets under development	2,332	0	0	0	
Total real estate portfolio and rental income	**190,512**	**15,016**	**14,905**	**111**	1%

Comparable rental income by country

€ thousands	Fair value 31.12.2021	Rental income 2021	Rental income 2020	Change	Change, %
Estonia	139,470	10,810	10,553	257	2%
Latvia	41,130	3,387	3,029	358	12%
Lithuania	7,580	653	640	13	2%
Total comparable assets and rental income	**188,180**	**14,850**	**14,222**	**628**	**4%**
Sold assets and rental income	0	166	683	-517	-76%
Assets under development	2,332	0	0	0	
Total real estate portfolio and rental income	**190,512**	**15,016**	**14,905**	**111**	1%

52.3% of the consolidated rental income is accounted for by the contractual income of 9 customers:

Client	% of consolidated rental revenue
Kesko Senukai Estonia AS	10.8%
Prisma Peremarket AS	9.3%
Livonia Print SIA	8.4%
Logistika Pluss OÜ	5.6%
DHL Logistics Estonia OÜ	4.8%
Riigi Kinnisvara AS	4.8%
Premia Tallinna Külmhoone AS	3.5%
Vilniaus apskrities vyriausiasis policijos komisariatas	2.7%
Checkout Technology LTD Estonia branch	2.3%
Other	47.7%

EfTEN Kinnisvarafond AS evaluates 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 increased by 4.0% in 2021 as a result of revaluations (2020: decreased by 4.0%) and the Group earned a profit of 7.614 million euros (2020: loss of 7.848 million euros) from the change in the fair value of investment properties. The increase in the value of investment properties in 2021 was a result of the expected increase in annualized net rental income as well as the decrease in the discount rate and exit yield at most of the objects.

Changes in valuation assumptions

		Change				
		Fair value				
31.12.2021 or per year	Fair value	€ thousands	%	Annualized net rental income %	Discount rate, percentage points	Capitalization rate, percentage points
€ thousands						
Logistics						
Tallinna Cold Storage	6,860	370	5.7%	-3.9%	-0.70	-0.50
Kuuli 10/Punane 73	11,390	510	4.7%	1.7%	-0.30	-0.50
Betooni 1a	8,630	590	7.3%	2.8%	-0.30	-0.30
Betooni 6	9,040	270	3.1%	-0.4%	-0.70	-0.30
Nordic Technology Park	23,200	950	4.3%	3.3%	0.30	-0.25
Total logistics	**59,120**	**2,690**	**4.8%**			
Retail						
Võru Rautakesko	2,870	10	0.3%	2.8%	-0.30	0.00
UKU Centre	12,460	144	1.2%	6.7%	0.10	-0.20
Mustika Centre	36,250	1,137	3.2%	12.0%	-0.30	0.00
RAF Centrs	8,860	429	5.1%	-4.8%	0.20	0.00
Tammsaare road Rautakesko	15,280	910	6.3%	-4.6%	-0.90	-0.40
Total retail	**75,720**	**2,630**	**3.6%**			
Office						
Lauteri 5	5,560	351	6.7%	4.9%	-0.40	-0.50
Pärnu mnt 102	16,160	780	5.1%	-0.4%	-0.40	-0.50
Pärnu mnt 105	7,840	477	6.5%	4.6%	-0.40	-0.30
Terbata office building	9,070	260	3.0%	-3.8%	-0.10	-0.25
Menulio 11 police building	7,580	-4	-0.1%	19.3%	0.00	-0.25
Total office	**46,210**	**1,864**	**4.2%**			
National						
Rakvere police and rescue joint building	7,130	63	0.9%	11.2%	-0.20	0.00
Total real estate portfolio	**188,180**	**7,247**	**4.0%**	**1.8%**		

The table above does not include the figures for the Kadaka tee 63 office building sold in 2021, the Palace hotel owned by the joint venture or the Depo shopping centre under development.

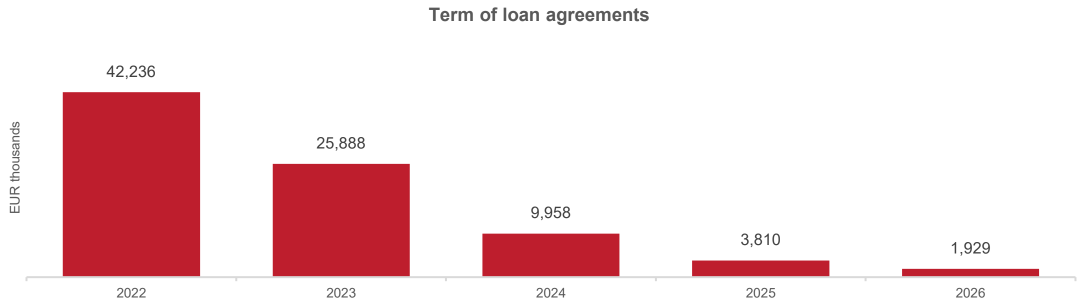
Financing

In June 2021, the Group's subsidiary extended one loan agreement in the total amount of 1,929 thousand euros (balance on 31 December 2020). The terms of the loan agreements were not changed upon extension.

In 2022, the maturity date of seven loan agreements of the Group's subsidiaries, the balance of which as of 31.12.2021 totals 42,236 thousand euros. The LTV of the expiring loan agreements is in the range of 36% - 47%, and all real estate investments used as collateral for the loans have a strong rental cash flow, which means that the management estimates that there will be no obstacles to extending the agreements.

The average interest rate of the Group's loan agreements (incl. taking into account interest rate swap agreements) is 2.31% at the end of the year (2020: 2.34%). As of 31 December 2021, 44.2% (31 December 2020: 46.0%) of the Group's loan agreements are related to fixed Euribor levels of 0.60% -0.65% (interest rate swap agreements have been set to hedge the interest rate risk). All interest rate swap agreements expire in 2022.

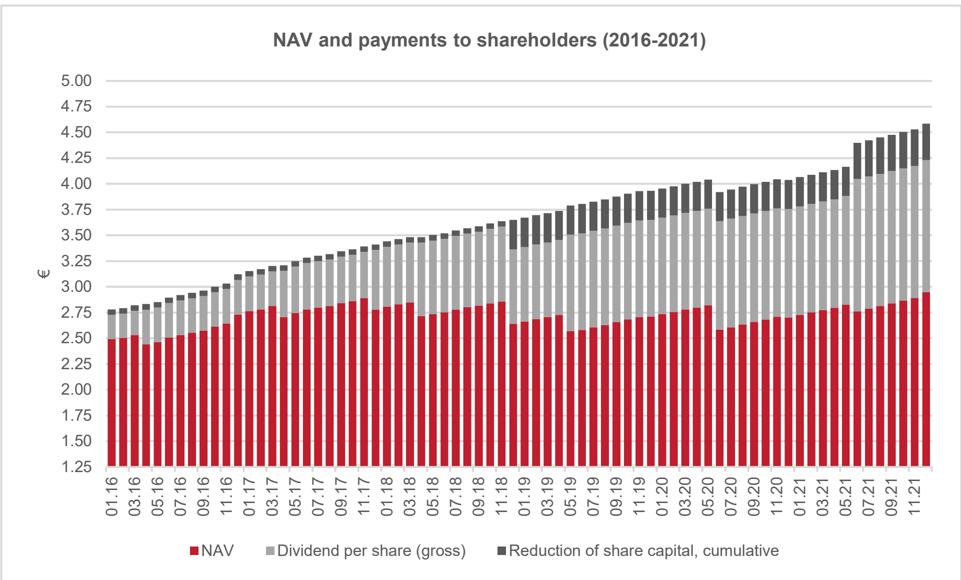
As of 31.12.2021, the special conditions (covenants) of all loan agreements have been met at the prescribed levels.



Information on shares and net asset value

As at 31.12.2021, the total amount of paid-in contributions to EfTEN Kinnisvarafond AS share capital is EUR 49.671 million (31.12.2020: 52.071 million euros), including the share capital of 19.267 million euros (31.12.2020: 19.696 million euros) and the share premium of 30.404 million euros (31.12.2020: 32.375 million euros). The number of shares as at 31.12.2021 was 38,533,271 (31.12.2020: 39,391,371). The change in the number of shares is due to the decision of the general meeting of EfTEN Kinnisvarafond AS in June 2021 to reduce the share capital of the fund by 429 thousand euros (858,154 shares). Upon the reduction of the share capital in December 2021, a total of 2,400 thousand euros was paid out to the shareholders.

The net asset value (NAV) of EfTEN Kinnisvarafond AS was 2.95 euros as of 31.12.2021 (31.12.2020: 2.70 euros). The net asset value of EfTEN Kinnisvarafond AS increased by 9.3% during the year. Without the distribution of dividends and the related income tax expense, the NAV of the fund would have increased by 16.8% in 2021.



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

During 2021, the Group generated free cash flow of EUR 7.621 million (12 months of 2020: EUR 7.358 million). According to the dividend policy, EfTEN Kinnisvarafond AS would be able to pay shareholders a net dividend of EUR 5.106 million for current year's profit. At the same time, the Group's cash balance at the end of 2021 enables to pay out dividends beyond its dividend policy, which is why the Fund's Management Board will propose to the Supervisory Board in spring 2021 a dividend of EUR 5.657 million (14.68 cents per share).

	2021	2020
EUR thousands		
Operating profit	**19,256**	**6,698**
Adjustment for revaluation gains on investment property	-7,614	7,848
Adjustment for depreciation and write-downs of fixed assets	25	22
Adjustment for non-monetary change in success fee	1,523	-1,528
EBITDA	**13,190**	**13,040**
Interest expense	-2,186	-2,301
Repayments of bank loans	-3,383	-3,363
Free cash flow	**7,621**	**7,376**
80% of free cash flow	6,097	5,901
Dividend tax expense	-991	-722
Potential net dividend according to dividend policy	**5,106**	**5,179**
Number of shares at end of period	38,533,217	39,391,371
Potential net dividend according to dividend policy per share, in euros	**0.13**	**0.13**
Potential additional cash flow1	551	233
Dividend income tax expense on additional cash flows	0	0
Potential net dividend with additional cash flow	**5,657**	**5,412**
Potential net dividend per share, in euros	**0.1468**	**0.137**

[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 is not intended to be invested or kept in daily business to ensure liquidity.

Structure of shareholders of EfTEN Kinnisvarafond AS as of 31.12.2021

	Participation in share capital, %
LHV Pensionifondid	46.5%
Trio Holding OÜ	11.1%
Ambient Sound Investments OÜ	5.8%
Swedbank Pensionifondid	3.7%
Luminor Pensionifondid	3.1%
Others	29.8%

Other information

Information on the Group's financial instruments and financial risk mitigation objectives, as well as on risks related to changes in interest rates, is provided in Note 19 to the consolidated financial statements.

The structure of the consolidation group is presented in Note 1 to the consolidated financial statements.

Management

EfTEN Kinnisvarafond AS is an investment fund established as a public limited company with one type of registered shares with a nominal value of 0.5 euros per share. Each share entitles the shareholder to one vote at the general meeting. The share entitles the shareholder to participate in the general meeting of shareholders and in the distribution of profit and the assets remaining after the termination of and fund, as well as other rights prescribed by law and the articles of association. The General Meeting is the highest management body of EfTEN Kinnisvarafond AS. During the reporting year, the annual general meeting of shareholders was held on 15.06.2021, in which 82.84% of the votes represented by shares participated. The annual report for 2020 was approved unanimously, it was decided to pay a net dividend in the amount of 7,023,481 euros (17.83 eurocents per share), to reduce the share capital by cancelling shares in the amount of 429,077 euros and to pay a success fee of 153,436 euros to the management company. Following the reduction of the share capital approved at the General Meeting, the share capital of the fund is 19,266,608.5 euros. In connection with the reduction of the share capital, a total of 2,399,999 euros was paid to the shareholders in proportion to the number of shares they own. There were no extraordinary general meetings of shareholders in 2021.

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 2021. 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. No changes were made in matters falling within the competence of the Council. No agreements have been concluded with the members of the Supervisory Board. No remuneration has been paid to the members of the Supervisory Board and there are no decisions to pay any remuneration or benefits (including non-monetary) to the members of the Supervisory Board in the future.

The Fund has two Management Board members: Viljar Arakas and Tõnu Uustalu. There were no changes in the Management Board members in 2021. 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. No separate contracts have been concluded with the members of the Management Board. No remuneration has been paid to the members of the Management Board and there are no decisions to pay any remuneration or benefits (including non-monetary) to the members of the Management Board in the future. Viljar Arakas, a member of the Management Board, is also a member of the Management Board of the Management Company and the Management Company has entered into a contract with the Management Board. Tõnu Uustalu, a member of the Management Board, is also the head of the investment department of the management company, with whom the management company has entered into an employment contract.

Pursuant to the management agreement and the fund's articles of association, the fund's management company is EfTEN Capital AS. The management company is remunerated in accordance with the fund's articles of association and the management agreement in force between the fund and the management company.

EfTEN Kinnisvarafond AS informs investors of significant circumstances in accordance with the principles set out in the articles of association. In addition to the semi-annual and annual reports, the fund also discloses the net asset value of the fund's shares to shareholders on a monthly basis, which is then also available on the management company's website. The fund communicates regularly with its shareholders. A general meeting of shareholders is convened at least once a year, where the management board has an overview of the fund's activities as a separate agenda item and where each shareholder can ask questions to the members of the management board and supervisory board. There were no changes in the information provided to shareholders in 2021.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	2021	2020
€ thousands			
Revenue	4,5	15,626	15,513
Cost of sales	6	-1,066	-996
Gross profit		**14,560**	**14,517**
Marketing costs	7	-154	-240
General and administrative expenses	8	-2,834	213
Gain/ loss from revaluation of investment properties	15	7,614	-7,848
Other operating income and expense		70	56
Operating profit	**4**	**19,256**	**6,698**
Profit/ loss from joint ventures using equity method	9	339	-618
Interest income		6	1
Finance costs	10	-2,186	-2,301
Profit before income tax		**17,415**	**3,780**
Income tax expense	11	-1,319	-715
Net profit for the financial year	**4,12**	**16,096**	**3,065**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		2021	2020
€ thousands			
Net profit for the financial year		16,096	3,065
Other comprehensive income/ -loss:			
Profit/ -loss from revaluation of hedging instruments	19	484	440
Total other comprehensive income/ -loss		**484**	**440**
Total comprehensive income for the financial period		**16,580**	**3,505**
Revenue per share	12		
- basic		0.41	0.08
- diluted		0.41	0.08

Notes on pages 15 to 43 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2021	31.12.2020
€ thousands			
ASSETS			
Cash and cash equivalents	13	11,010	10,946
Receivables and accrued income	14	493	378
Prepaid expenses		74	34
Inventory		5	5
Total current assets		**11,582**	**11,363**
Long-term receivables		0	123
Joint venture	3	2,779	2 440
Investment property	4,15	190,512	189,510
Tangible and intangible assets		75	69
Total non-current assets		**193,366**	**192,142**
TOTAL ASSETS		**204,948**	**203,505**
LIABILITIES AND EQUITY			
Borrowings	16	43,983	5,342
Derivative instruments	19	227	711
Payables and prepayments	17	1,133	1,039
Total current liabilities		**45,343**	**7,092**
Borrowings	16	39,785	85,442
Other long-term debt	17	763	782
Success fee	18	3,896	2,527
Deferred income tax liability	11	1,534	1,192
Total non-current liabilities		**45,978**	**89,943**
Total liabilities		**91,321**	**97,035**
Share capital	20	19,267	19,696
Share premium		30,404	32,375
Statutory reserve capital	20	4,734	4,554
Hedging reserve	19	-227	-711
Retained earnings	21	59,449	50,556
Total equity	4	**113,627**	**106,470**
TOTAL LIABILITIES AND EQUITY		**204,948**	**203,505**

The notes on pages 15-43 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2021	2020
€ thousands			
Net profit		**16,096**	**3,065**
Adjustments of net profit:			
Profit / loss from joint ventures using the equity method	9	-339	618
Interest income		-6	-1
Finance expense	10	2,186	2,301
Gains/ losses on revaluation of investment property	15	-7 614	7,848
Change in success fee liability	8	1,523	-1,528
Depreciation and impairment of fixed assets		25	22
Income tax expense	11	1,319	715
Total adjustments with non-cash changes		**-2 906**	**9,975**
Cash flow from operations before changes in working capital		**13,190**	**13,040**
Change in receivables and payables related to operating activities		-266	-97
Total cash flow generated from operating activities		**12,924**	**12,943**
Purchase of property, plant and equipment and intangible assets		-30	-30
Purchase of investment property	15	-1,420	-2,811
Disposals of investment property	15	8,246	0
Reduction of capital of joint ventures	3	0	500
Loans granted		-125	-50
Repayments of loans granted		75	0
Interest received		2	1
Total cash flow generated from investment activities		**6,748**	**-2,390**
Loans received	16	0	1,209
Repayments of loans upon refinancing	16	-3,679	-500
Scheduled loan repayments	16	-3,383	-3,363
Interest paid		-2,145	-2,283
Issue of shares	20	-2,400	0
Dividends paid	19	-7,023	-3,852
Income tax on dividends paid		-978	-710
Total cash flow generated from financing activities		**-19,608**	**-9,499**
TOTAL CASH FLOW		**64**	**1,054**
Cash and cash equivalents at the beginning of period	**13**	**10,946**	**9,892**
Change in cash and cash equivalents		64	1,054
Cash and cash equivalents at the end of period	**13**	**11,010**	**10,946**

The notes on pages 15-43 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share Premium	Statutory reserve capital	Hedging reserve	Retained earnings	**Total**
€ thousands						
Balance as at 31.12.2019	**19,696**	**32,375**	**4,084**	**-1,151**	**51,814**	**106,818**
Dividends declared	0	0	0	0	-3,852	**-3,852**
Provision for reserve capital	0	0	470	0	-470	**0**
Total transactions with owners	**0**	**0**	**470**	**0**	**-4,322**	**-3,852**
Net profit for the financial period	0	0	0	0	3,065	**3,065**
Other comprehensive income	0	0	0	440	0	**440**
Total comprehensive income for the period	**0**	**0**	**0**	**440**	**3,065**	**3,505**
Balance as at 31.12.2020	**19,696**	**32,375**	**4,554**	**-711**	**50,556**	**106,470**
Decrease of share capital	-429	-1,971	0	0	0	**-2,400**
Dividends declared	0	0	0	0	-7,023	**-7,023**
Provision for reserve capital	0	0	180	0	-180	**0**
Total transactions with owners	**-429**	**-1,971**	**180**	**0**	**-7,203**	**-9,423**
Net profit for the financial period	0	0	0	0	16,096	**16,096**
Other comprehensive income	0	0	0	484	0	**484**
Total comprehensive income for the period	**0**	**0**	**0**	**484**	**16,096**	**16,580**
Balance as at 31.12.2021	**19,267**	**30,404**	**4,734**	**-227**	**59,449**	**113,627**

Further information on the share capital can be found in note 20.

The notes on pages 15-43 form an integral part of these financial statements.

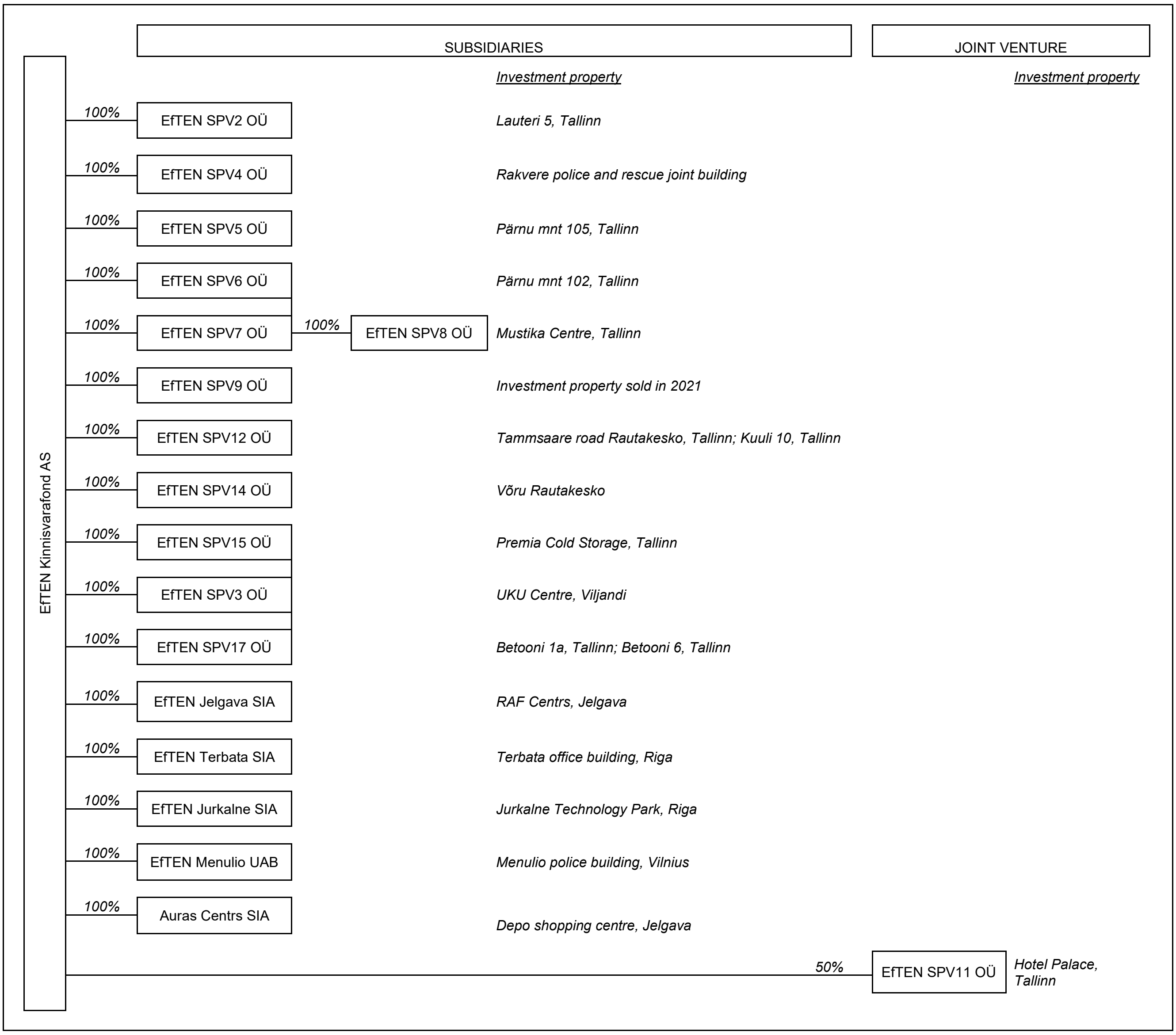
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond AS and its subsidiaries for the year ended 31 December 2021 have been signed by the Management Board on 25 February 2022. 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 in Estonia and operating in Estonia.

The structure of the EfTEN Kinnisvarafond AS group as of 31.12.2021 is as follows (see also Note 3):



2 *Summary of significant accounting policies*

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 Group's financial statements 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).

2.1.1 Adoption of New or Revised Standards and Interpretations

From 1 January 2021, the Group did not become obliged to adopt new or amended standards and interpretations related to the disclosure of financial information in the Group's areas of activity.

Standards adopted in the next reporting period

„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

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

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.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

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 will analyse and disclose the effect of this change after its implementation.

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.

The Group will analyse and disclose the effect of this change after its implementation.

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.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

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

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Group will analyse and disclose the effect of this change after its implementation.

Amendments to IAS 8: Definition of Accounting Estimates

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

The amendment to IAS 8 clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates.

The Group will analyse and disclose the effect of this change after its implementation.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

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

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group will analyse and disclose the effect of this change after its implementation.

2.1.2 Summary of significant accounting policies

Management's critical estimates and judgements

The presentation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make estimates and judgments that affect the recognition and measurement of assets and liabilities at the balance sheet date, the presentation of contingent assets and liabilities and their probability of realization; and income and expenses of the reporting period.

Although management reviews its judgments and estimates on an ongoing basis and is based on past experience and the best available knowledge of probable future events, actual results may differ from those estimates.

The most important management decisions that affect the information presented in the financial statements concern the following areas of accounting:

Estimation uncertainty

Management makes its estimates based on experience and facts that have become known to it no later than the date of the annual report. Therefore, for assets and liabilities presented at the balance sheet date and the related income and expenses, there is a risk that these estimates will need to be adjusted in the future. The areas where there is a higher than usual risk of an adjustment due to estimation uncertainty are described below.

a) <u>Investment property: determination of fair value</u>

Investment property is measured at its fair value at each balance sheet date. Since 2014, the Group's real estate investments have been valued by Colliers International Advisors OÜ. The Group's independent appraiser evaluates investment properties individually using the discounted cash flow method. All of the Group's investment properties earn (or will earn) rental income, so the method used best represents the fair value of the investment property from the alternatives (for example, the comparative 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 level of risk of the tenants. Compared to the previous year, the exit yields used in the valuations of EfTEN Kinnisvarafond's real estate portfolio have slightly decreased, now in the range of 6.5% -8.0% (2020: 6.75% -8.25%). See Note 15 for additional information on the assumptions and sensitivities used in the estimates.

b) <u>Estimates related to control or significant influence over other companies</u>

The Group owns 100% of shares of all the subsidiaries and the members of control organs of the subsidiaries are only the members of the parent company's management board. Thus, the group has full control over its subsidiaries to distribute profit and make management decisions.

The Group owns 50% of shares in joint ventures and members of the joint venture's management board are the same as the Group's parent company's management board. According to agreement, all decisions in joint venture are made in approval of both shareholders, thus, the Group has joint control over joint venture.

Investment company

The management of the Group has assessed the compliance of its activities with the definition of an investment company and finds that EfTEN Kinnisvarafond AS does not meet the definition of an investment company, as it has the characteristics of a real estate company rather than a purely investment company. Although the investors of EfTEN Kinnisvarafond AS also expect both an increase in the value of assets and a profit from current economic activities from their capital investment, EfTEN Kinnisvarafond AS also takes a significant part of development risks in its investments, which are characteristic of a conventional real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. In the case of the parent company of EfTEN Kinnisvarafond AS, the fair value measurement is indirect - the fair value of the assets located in the subsidiaries of EfTEN Kinnisvarafond AS is obtained, thereby obtaining the fair value of the subsidiary, which may not be the final market price of the subsidiary. The Group's economic activity is also assessed on the basis of rental income, profit margins, volume of assets and other financial indicators characterizing real estate companies, which cannot be done only on the basis of the fair value of the subsidiary.

Consolidation

The consolidated financial statements include the financial statements of EfTEN Kinnisvarafond AS and its subsidiaries consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated 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.

Joint venture is an entity where two or more parties (incl. parent company) have joint control over its economic activity according to contractual agreement. Joint ventures are accounted for using the equity method.

The subsidiaries use the same accounting principles 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 financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

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

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

Segment reporting

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

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

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

	Estonia	**Latvia**	**Lithuania**
Office	Lauteri 5, Tallinn	Terbata office building, Riga	Menulio 11, Vilnius
	Pärnu mnt 105, Tallinn		
	Pärnu mnt 102, Tallinn		
Logistics	Kuuli 10, Tallinn	Jurkalne Technology Park, Riga	
	Premia Cold Storage, Tallinn		
	Betooni 1a, Tallinn		
	Betooni 6, Tallinn		
Retail	UKU Centre, Viljandi	RAF Centrs, Jelgava	
	Mustika Centre, Tallinn	Depo shopping centre, Jelgava	
	Tammsaare road Rautakesko, Tallinn		
	Võru Rautakesko		
National	Rakvere police and rescue joint building		

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

Investments in subsidiaries and joint venture 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 venture are measured at fair value. Dividends paid by subsidiaries and joint venture are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

Revenue is income arising in the course of the Company’s ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a good or service to a customer.

The Group's revenue includes rental income, administration fees, marketing fees, and utility and administrative agency fees.

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

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

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

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

Financing component

The Company has no agreements where the period between the delivery of the goods or services promised to the customer and the receipt of payment from the customer would be longer than one year. Consequently, the Company does not adjust the transaction price 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
The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

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

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

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

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

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

As at 31 December 2020 and 31 December 2021, all the Company's financial assets were classified in this category:
- cash and cash equivalents;
- trade receivables;
- contractual assets;
- other financial assets.

Assets that do not meet the criterion of acquisition cost or change in fair value through comprehensive income are recognized at fair value through profit or loss. Gains or losses arising from changes in the fair value of debt instruments are recognized in the income statement in the income statement as financial income and expenses. Such fair value gains and losses also include contractual interest earned on the respective instruments.

Equity instruments

The Company does not have any investments in equity instruments.

(iv) Impairment

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

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

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

Derivative instruments

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

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

Cash flow hedges

The effective portion of the change in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement in 'Financial income' or 'Financial expenses'. Amounts accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss. The gain or loss relating to the effective portion of a variable rate credit hedging instrument is recognized in the income statement under 'Interest expense'. If the hedging instrument expires or is sold, or if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss accumulated in equity to that extent remains in equity and is recognized in profit or loss when the transaction takes place. When a future transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is recognized immediately in profit or loss.

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 meter 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 operating income and other operating 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 operating income and other operating 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 and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortised cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.

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

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

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

Success fee liability

A management agreement has been entered into between EfTEN Kinnisvarafond AS and EfTEN Capital AS, according to which EfTEN Capital AS receives a success fee of 20% between the sale and purchase price of real estate investments if the hurdle rate is at least 10% on an annual basis. The success fee is calculated for all investment properties in total, i.e. if an investment property is sold below the acquisition price, 20% of the loss on the sale of the properties sold below the acquisition price is deducted from the success fee. According to the management agreement, the success fee is payable upon termination of the fund.

The accrual-based calculation of success fees is based on estimates of the fair value of investment properties. Period expenses from the change in success fee are included in the Group's general and administrative expenses (see Note 8).

Provisions and contingent liabilities

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

Contingent liabilities also include liabilities arising from events occurring on the balance sheet date, the management of which, in the opinion of the management, is unlikely to materialize.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are treated as operating leases.

In the case of an operating lease, the lessor recognizes the leased asset in its balance sheet. Operating lease payments receivable and payable are accrued on a straight-line basis over the lease term.

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

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.

Latvian subsidiaries

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. ˇ

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.

Lithuanian subsidiaries

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 % 31.12.2021	31.12.2020
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Tallinn	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere police and rescue joint building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105, Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102, Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	(Kadaka tee 63, sold in 2021)	100	100
EfTEN SPV12 OÜ	Estonia	Tammsaare road Rautakesko, Tallinn; Kuuli 10, Tallinn	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Premia Cold Storage, Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Centre, Viljandi	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Tallinn; Betooni 6, Tallinn	100	100
EfTEN Jelgava SIA	Latvia	RAF Centrs, Jelgava	100	100
EfTEN Jurkalne SIA	Latvia	Jurkalne Technology Park, Riga	100	100
EfTEN Terbata SIA	Latvia	Terbata office building, Riga	100	100
Auras Centrs SIA	Latvia	Depo shopping centre, Jelgava	100	100
EfTEN Menulio UAB	Lithuania	Menulio 11, Vilnius	100	100
Joint ventures				
EfTEN SPV11 OÜ	Estonia	Hotel Palace, Tallinn	50	50

All subsidiaries and joint ventures are engaged in the acquisition and leasing of investment properties. The shares of no subsidiary or joint venture are listed on a stock exchange.

As at 31 December 2021, the Group owned one joint venture, the main financial indicators of which are set out in the table below:

EfTEN SPV11 OÜ	**31.12.2021**	**31.12.2020**
€ thousands		
Cash and cash equivalents	139	229
Other current assets	72	39
Total current assets	**211**	**268**
Investment property	10,620	10,010
Total non-current assets	**10,620**	**10,010**
TOTAL ASSETS	**10,831**	**10,278**
Short-term borrowings	68	163
Other current liabilities	26	14
Total current liabilities	**94**	**177**
Long-term borrowings	5,180	5,221
Total long-term borrowings	**5,180**	**5,221**
TOTAL LIABILITIES	**5,274**	**5,398**
NET ASSETS	**5,557**	**4,880**
Sales revenue	335	114
Net profit /- loss	**677**	**-1,235**

In 2021 and 2020, the following changes have taken place in investments in joint ventures:

	31.12.2021	31.12.2020
Carrying amount at the beginning of the period	**2,440**	**3,558**
Dividends received and reduction of share capital	0	-500
Profit / loss from joint ventures using the equity method (Note 9)	339	-618
Carrying amount at the end of the period	**2,779**	**2,440**

EfTEN SPV11 OÜ's 100% net assets as of 31.12.2021 total 5,557 thousand euros (31.12.2020: 4,880 thousand euros). The Group owns 50% of the joint venture and the value of the interest in the Group's balance sheet is therefore equal to the net assets of the joint venture.

4 *Segment reporting*

SEGMENT RESULTS

	Office		Logistics		Retail		National		Unallocated		Total	
per year	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
€ thousands												
Revenue (note 5), incl.	**3,535**	**4,007**	**5,185**	**4,766**	**6,204**	**6,063**	**702**	**677**	**0**	**0**	**15,626**	**15,513**
Estonia	2,282	2,773	2,849	2,745	5,367	5,254	702	677	0	0	11,200	11,449
Latvia	578	569	2,336	2,021	837	809	0	0	0	0	3,751	3,399
Lithuania	675	665	0	0	0	0	0	0	0	0	675	665
Net operating income, incl.	**3,244**	**3,639**	**4,896**	**4,481**	**5,674**	**5,588**	**592**	**569**	**0**	**0**	**14,406**	**14,277**
Estonia	2,073	2,569	2,722	2,645	5,017	4,917	592	569	0	0	10,404	10,700
Latvia	562	508	2,174	1,836	657	671	0	0	0	0	3,393	3,015
Lithuania	609	562	0	0	0	0	0	0	0	0	609	562
Operating profit, incl.	**4,793**	**171**	**6,688**	**3,647**	**7,255**	**2,460**	**636**	**545**	**-116**	**-125**	**19,256**	**6,698**
Estonia	3,563	217	3,938	2,623	6,381	2,382	636	545	-116	-125	14,402	5,642
Latvia	682	-67	2,750	1,024	874	78	0	0	0	0	4,306	1,035
Lithuania	548	21	0	0	0	0	0	0	0	0	548	21
EBITDA, incl.	**3,009**	**3,392**	**4,536**	**4,126**	**5,175**	**5,087**	**586**	**563**	**-116**	**-125**	**13,190**	**13,043**
Estonia	1,982	2,460	2,546	2,472	4,644	4,576	586	563	-116	-125	9,642	9,946
Latvia	474	422	1,990	1,654	531	511	0	0	0	0	2,995	2,587
Lithuania	553	510	0	0	0	0	0	0	0	0	553	510
Operating profit											**19,256**	**6,698**
Profit / loss from subsidiaries and joint ventures (Note 9)											339	-618
Net financial expense											-2,180	-2,300
Profit before income tax											**17,415**	**3,780**
Income tax expense (Note 11)											-1,319	-715
NET PROFIT FOR THE REPORTING PERIOD											**16,096**	**3,065**

SEGMENT ASSETS

	Office		Logistics		Retail		National		Total	
As at the end of the period	**31.12.21**	31.12.20	**31.12.21**	31.12.20	**31.12.21**	31.12.20	**31.12.21**	31.12.20	**31.12.21**	31.12.20
€ thousands										
Investment property										
Estonia	29,560	35,690	35,920	34,120	66,860	64,100	7,130	6,890	139,470	140,800
Latvia	9,070	8,754	23,200	21,854	11,192	10,742	0	0	43,462	41,350
Lithuania	7,580	7,360	0	0		0	0	0	7,580	7,360
Total investment property (note 15)	**46,210**	**51,804**	**59,120**	**55,974**	**78,052**	**74,842**	**7,130**	**6,890**	**190,512**	**189,510**
Other non-current assets									2,854	2,632
Net debt (liabilities less cash)									-80,311	-86,089
Other current assets									572	417
NET ASSETS									**113,627**	**106,470**

There were no transactions between business segments in 2021 and 2020. The Group's main income is generated from investment properties located in the same countries as the investment property subsidiary.

10.8% of the Group's consolidated rental income in 2021 was received from Kesko Senukai Estonia OÜ, which leases retail and office space on three properties owned by the Group's subsidiaries. The share of income of other tenants in the consolidated income is less than 10%.

5 Revenue

Activity	2021	2020
€ Thousands		
Rental income from office premises	3,361	3,817
Rental income from public institutions	702	677
Rental income from retail premises	5,976	5,848
Rental income from warehousing and logistics premises	4,805	4,390
Rental income from parking space	172	173
Other sales revenue	610	608
Total revenue by segments of activity (Notes 4 and 15)	**15,626**	**15,513**

Geographical areas	2021	2020
€ thousands		
Estonia	11,200	11,449
Latvia	3,751	3,399
Lithuania	675	665
Total revenue by geographical area (Note 4)	**15,626**	**15,513**

6 Cost of services sold

	2021	2020
€ thousands		
Repair and maintenance of rental premises, other administration	-500	-409
Property insurance	-44	-56
Land tax and real estate tax	-198	-181
Improvement costs	-125	-121
Utility costs of vacant premises	-128	-119
Depreciation	-17	-14
Allowance from doubtful accounts	-14	-11
Other cost of services sold	-40	-85
Total cost of services sold (Note 15)	**-1,066**	**-996**

7 Marketing costs

Marketing costs	2021	2020
€ thousands		
Commission expenses on rental premises	-19	-84
Advertising, advertising events	-133	-156
Corporate marketing	-2	0
Total marketing costs	**-154**	**-240**

8 General and administrative expenses

General and administrative expenses	2021	2020
€ thousands		
Management services (Note 22)	-997	-996
Office expenses	-31	-26
Wages and salaries, incl. taxes (Note 22)	-122	-96
Consulting expenses	-88	-135
Regulator expense	-52	-52
Change in success fee liability (Note 18)	-1,523	1,528
Other general administrative expenses	-13	-2
Depreciation costs	-8	-8
Total administrative expense	**-2,834**	**213**

9 Profit/ loss from joint ventures

Profit/ loss from joint ventures	2021	2020
€ thousands		
Profit/ loss from joint ventures using the equity method (Notes 3, 4)	339	-618
Total profit/ loss from joint ventures	**339**	**-618**

10 Finance expense

Finance expense	2021	2020
€ thousands		
Interest expenses, incl.	-2,186	-2,301
Interest expense from loans	-1,708	-1,745
Interest expense from derivatives (-)/ cost reductions (+)	-478	-556
Total finance expense	**-2,186**	**-2,301**

11 Income tax

	2021	2020
€ thousands		
Deferred income tax expense on dividends	-1,247	-722
Deferred income tax expense (Lithuania)	-72	7
Total income tax expense (Note 4)	**-1,319**	**-715**

As at 31.12.2021 and 31.12.2020, the Group has deferred income tax liability in following amounts:

	31.12.2021	31.12.2020
€ thousands		
Deferred income tax liability (dividends)	991	722
Deferred income tax liability (Lithuania)	543	470
Total deferred income tax liability	**1,534**	**1,192**

12 Earnings per share

	31.12.2021	31.12.2020
Net profit for the period, € thousands	16,096	3,065
Weighted average number of shares over the period, in pcs	38,922,215	39,391,371
Earnings per share, in euros	0.41	0.08
Dividends per share, in euros	0.18	0.10

13 Cash and cash equivalents

	31.12.2021	31.12.2020
€ thousands		
Current accounts	11,010	10,946
Total cash and cash equivalents (Note 19)	**11,010**	**10,946**

14 Receivables and accrued income

Current receivables and accrued income

	31.12.2021	31.12.2020
€ thousands		
Receivables from customers	329	344
Allowance for doubtful accounts	-9	-14
Total trade receivables (Note 19)	**320**	**330**
Loans granted	100	0
Other current receivables	7	0
Total other current receivables	**107**	**0**
Advances and refunds of VAT	14	1
Other accrued income	52	47
Total accrued income	**66**	**48**
Total receivables (Note 19)	**493**	**378**

As of 31.12.2021, 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 of 31.12.2021, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m2)	Date of acquisition	Acquisition cost	Market value as at 31.12.2021	Share of market value of the fund's asset
€ thousands						
Premia Cold Storage	Betooni 4, Tallinn	6,863	Sept. 08	6,237	6,860	3%
Võru Rautakesko	Kreutzwaldi 89, Võru	3,120	Sept. 08	3,270	2,870	1%
UKU Centre	Tallinna 41, Viljandi	7,866	Aug. 10	10,779	12,460	6%
Rakvere police and rescue joint building	Kreutzwaldi 5a, Rakvere	5,744	Nov. 10	5,119	7,130	3%
Lauteri 5	Lauteri 5, Tallinn	3,942	Dec. 10	3,417	5,560	3%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	9,178	Dec. 11	12,521	16,160	8%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	4,778	Dec. 11	8,170	7,840	4%
Mustika Centre	Tammsaare tee 116, Tallinn	27,244	July. 12	31,839	36,250	18%
RAF Centrs	Riga 48, Jelgava	6,177	March 13	8,738	8,860	4%
Kuuli 10	Kuuli 10/Punane 73, Tallinn	15,197	July. 13	9,171	11,390	6%
Tammsaare road Rautakesko	Tammsaare tee 49, Tallinn	9,120	July. 13	12,945	15,280	7%
Betooni 1a	Betooni 1a, Tallinn	10,678	June. 14	7,347	8,630	4%
Betooni 6	Betooni 6, Tallinn	16,838	June. 14	9,902	9,040	4%
Terbata office building	Lacpleca 20a, Riga	4,843	Dec. 14	9,837	9,070	4%
Jurkalne Technology Park	Jūrkalnes 15/25, Riga	42,230	Aug. 14	23,010	23,200	11%
Menulio 11	Menulio 11, Vilnius	5,620	Dec. 15	6,385	7,580	4%
Depo shopping centre	Jelgava, Latvia	In development	Jan. 15	2,332	2,332	1%
Total		**179,438**		**171,019**	**190,512**	**93%**

In addition to the above real estate investments, the Group's 50% joint venture EfTEN SPV11 OÜ owns real estate investments at Vabaduse väljak 3 / Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as at 31 December 2021 is 10,620 thousand euros (31 December 2020: 10,010 thousand euros).

In 2021 and 2020, the following changes have taken place in the Group's real estate investments:

	Real estate investments under development	Finished investment properties	**Total real estate investments**
Balance as at 31.12.2019	**2,323**	**192,205**	**194,528**
Capitalized improvements	-6	2,836	**2,830**
Gain/ loss on change in fair value	0	-7,848	**-7,848**
Balance as at 31.12.2020 (note 4)	**2,317**	**187,193**	**189,510**
Capitalized improvements	15	1,619	**1,634**
Disposals[1]	0	-8,246	**-8,246**
Gain/ loss on change in fair value	0	7,614	**7,614**
Balance as at 31.12.2021 (note 4)	**2,332**	**188,180**	**190,512**

[1] In May 2021, the subsidiary of the concert sold the office building at Kadaka tee 63 (the former main building of Elektrilevi).

The Group's income statement and balance sheet include the following income and expenses and balances related to investment properties:

As of 31 December, or per year	**2021**	2020
Rental income from investment properties (Note 5)	15,016	14,905
Costs directly related to the management of investment properties (Note 6)	-1,066	-996
Amounts outstanding from the acquisition of real estate investments (Note 17)	214	0
Book value of investment properties pledged as collateral for loan liabilities	188,180	187,187

All real estate investments that generate rental income for EfTEN Kinnisvarafond AS are pledged as collateral for long-term bank loans.

The lease agreements concluded between EfTEN Kinnisvarafond AS and the tenants comply with the terms of the uninterruptible operating lease agreements. Revenue from these leases is distributed as follows:

Payments receivable from uninterruptable operating leases	31.12.2021	31.12.2020
€ thousands		
Up to 1 year	13,283	12,958
2-5 years	27,357	20,843
Over 5 years	9,924	3,514
Total	**50,564**	**37,315**

Assumptions and basis for determining the fair value of investment properties

The Group's investment properties are valued by an independent appraiser. The fair value of all investment properties reported in the Group's financial statements as of 31.12.2021 and 31.12.2020 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 31.12.2021:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/m2
€ thousands						
Office	46,210	Discounted cash flows	3,480	7.8%-8.2%	6.5%-7.75%	10.9
Logistics	59,120	Discounted cash flows	4,889	8.2%-9.3%	7.0%-8.0%	4.5
Retail	75,714	Discounted cash flows	9,296	8.0%-9.2%	7.5%-8.0%	7.6
National	7,130	Discounted cash flows	745	8.7%	8.0%	10.8
Real estate investments under development	2,338	Comparable offers	-	-	-	-
Total	**190,512**					

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/m2
€ thousands						
Office	51,804	Discounted cash flows	3,943	8.0%-8.5%	6.75%-8.0%	10.1
Logistics	55,974	Discounted cash flows	4,887	8.5%-9.0%	7.5%-8.25%	4.4
Retail	72,519	Discounted cash flows	6,228	8.4%-9.0%	7.5%-8.0%	8.5
National	6,890	Discounted cash flows	677	8.9%	8.0%	9.8
Real estate investments under development	2,323	Comparable offers	-	-	-	-
Total	**189,510**					

Independent expert estimates for the fair value of investment properties are based on the following:

- Rental income: prices and real growth rates resulting from existing leases are used;

- Vacancy: the actual vacancy of an investment property, considering the risks associated with the object;

- Discount rate: calculated based on the weighted average cost of capital (WACC) related to investment property;

- Exit yield: based on the estimated level of return at the end of the expected deposit period, considering the foreseeable market situation and the risks associated with the object.

Fair value sensitivity analysis

The table below illustrates the sensitivity of the fair value of investment properties recognized in the Group's balance sheet as of 31.12.2021 to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate		Sensitivity to independent appraisal			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield rate +50bp	Exit yield rate -50bp
€ thousands							
Office	46,210	*4,980*	*-5,000*	*-940*	*960*	*-2,250*	*2,580*
Logistics	59,120	*6,430*	*-6,430*	*-1,170*	*1,190*	*-2,580*	*2,940*
Retail	75,714	*8,606*	*-8,611*	*-1,529*	*1,568*	*-3,316*	*3,770*
National	7,130	*870*	*-880*	*-140*	*140*	*-280*	*310*
Total	**188,174**	**20,886**	**-20,921**	**-3,779**	**3,858**	**-8,426**	**9,600**

As at 31.12.2020

Sector	Fair value	Sensitivity to management estimate		Sensitivity to independent appraisal			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield rate +50bp	Exit yield rate -50bp
€ thousands							
Office	51,804	*5,686*	*-5,674*	*-1,044*	*1,076*	*-2,354*	*2,706*
Logistics	55,974	*6,206*	*-6,204*	*-1,084*	*1,136*	*-2,274*	*2,606*
Retail	72,519	*8,115*	*-8,126*	*-1,448*	*1,471*	*-3,109*	*3,525*
National	6,890	*840*	*-840*	*-130*	*140*	*-270*	*310*
Total	**187,187**	**20,847**	**-20,844**	**-3,706**	**3,823**	**-8,007**	**9,147**

Level three inputs have been used to determine the fair value of all the Group's investment properties.

16 Borrowings

As at 31.12.2021, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2021	Contract term	Interest rate as at 31.12.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
SEB	Estonia	4,300	3,000	30.04.22	1.70%	mortgage - Betooni 4, Tallinn	6,860	2.6%
Luminor	Estonia	2,239	1,217	15.12.23	2.75%	mortgage - Kreutzwaldi 89, Võru	2,870	1.1%
SEB	Estonia	2,514	1,929	13.06.26	1.80%	mortgage - Lauteri 5, Tallinn	5,560	1.7%
SEB	Estonia	7,029	4,453	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	12,460	3.9%
Swedbank	Estonia	4,133	2,797	25.10.22	1.50%	mortgage - Kreutzwaldi 5a, Rakvere	7,130	2.5%
Swedbank	Estonia	4,153	3,474	30.08.23	1.80%	mortgage - Pärnu mnt 105, Tallinn	7,840	3.1%
Swedbank	Estonia	8,508	7,657	30.08.23	1.70%	mortgage - Pärnu mnt 102, Tallinn	16,160	6.7%
SEB	Estonia	20,000	15,955	31.08.22	1.56%	mortgage - Tammsaare tee 116, Tallinn	36,250	14.0%
Swedbank	Estonia	15,622	13,539	25.06.23	1.69%	mortgage - Tammsaare tee 49, Tallinn; Kuuli 10/ Punane 73, Tallinn	26,670	11.9%
SEB	Estonia	9,300	8,370	26.06.22	1.95%	mortgage - Betooni 1a, Tallinn; Betooni 6, Tallinn	17,670	7.4%
Swedbank	Lithuania	4,100	3,810	07.12.25	2.40%	mortgage - Menulio 11, Vilnius	7,580	3.4%
SEB	Latvia	4,561	3,693	17.04.22	1.70%	mortgage - Riga 48, Jelgava	8,860	3.3%
Swedbank	Latvia	5,850	3,969	31.07.22	2.70%	mortgage - Lacpleca 20, Riga	9,070	3.5%
SEB	Latvia	12,060	9,959	08.08.24	2.15%	mortgage - Jurkalnes 15/25, Riga	23,200	8.8%
Total		**104,369**	**83,822**				**188,180**	**73.8%**

As at 31.12.2020, the Group had the following loan commitments:

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 (note15)	Value of collateral	Loan balance's 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, Riga	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, Riga	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%**

Short-term borrowings	31.12.2021	31.12.2020
€ thousands		
Repayments of long-term loans during the next reporting period	44,016	5,388
Discounted contract fees for bank loans	-33	-46
Total short-term borrowings	**43,983**	**5,342**

Long-term borrowings	31.12.2021	31.12.2020
€ thousands		
Total long-term borrowings	**83,768**	**90,784**
incl. current portion of borrowings	43,983	5,342
incl. non-current portion of borrowings, incl.	39,785	85,442
Bank loans	*39,806*	*85,496*
Discounted contract fees on bank loans	-21	*-54*

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	31.12.2021	31.12.2020
€ thousands		
Up to 1 year	44,016	5,388
2-5 years	39,806	85,496
Total repayments of bank loans	**83,822**	**90,884**

Cash flows of borrowings	2021	2020
€ thousands		
Balance at the beginning of period	**90,784**	**93,415**
Bank loans received	0	1,209
Repaid loans at maturity date	-3,679	-500
Annuity payments on bank loans	*-3,383*	-3,363
Change of discounted contract fees	*46*	23
Balance as at the end of period	**83,768**	**90,784**

Additional information on loan liabilities is also provided in Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2021	31.12.2020
€ thousands		
Payable to suppliers	207	117
Payable to suppliers for improvements in investment property (Note 15)	214	0
Total payables to suppliers	**421**	**117**
Other payables	120	282
Total other payables	**120**	**282**
VAT	217	278
Corporate income tax	4	0
Personal income tax	3	2
Social tax	7	5
Land tax, real estate tax	13	41
Other tax liabilities	5	5
Total tax payables	**249**	**331**
Interest payable	26	31
Payable to employees	15	9
Tenants' security deposits	225	201
Other accrued liabilities	48	38
Total accrued liabilities	**314**	**279**
Prepayments received from buyers	1	15
Other prepaid income	28	15
Total prepayments	**29**	**30**
Total payables and prepayments	**1,133**	**1,039**

Long-term payables

	31.12.2021	31.12.2020
€ thousands		
Tenants' security deposits	763	782
Total other long-term payables	**763**	**782**

For additional information on payables and prepayments, please see Note 19.

18 Success fee liability

As of 31.12.2021, the Group has calculated the success fee liability as follows:

	2021	2020
€ in thousands		
Balance at the beginning of the period	**2,527**	**4,059**
Decrease / increase in success fee due to changes in the value of investment properties (Note 8)	1,523	-1,532
Success fee paid	-154	0
Balance at the end of the period (Note 19)	**3,896**	**2,527**

The accrual-based calculation of success fees is based on the estimates of the fair value of investment properties as of 31.12.2021 and 31.12.2020. Expenses / income from the change in success fee are included in the Group's general and administrative expenses.

19 *Financial instruments, management of financial risks*

The Group's main financial liabilities are borrowings taken to finance the Group's investment properties. The Group's balance sheet also includes cash and short-term deposits, trade receivables, other receivables and payables.

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

Carrying amounts of financial instruments

	Notes	31.12.2021	31.12.2020
€ thousands			
Financial assets - loans and receivables			
Cash and cash equivalents	13	11,010	10,946
Trade receivables	14	320	330
Total financial assets		**11,330**	**11,276**
Financial liabilities measured at amortised cost			
Borrowings	16	83,768	90,784
Trade payables	17	421	117
Tenant security deposits	17	988	983
Other accrued liabilities	17	89	78
Success fee liability	18	3,896	2,527
Total financial liabilities measured at amortised cost		**89,162**	**94,489**
Financial liabilities at fair value			
Derivatives (interest rate swaps)		227	711
Total financial liabilities at fair value		**227**	**711**
Total financial liabilities		**89,389**	**95,200**

The fair values of financial assets and financial liabilities carried at amortized cost in the table above do not differ materially from their fair values.

The Group's risk management is based on the principle that risks must be taken in a balanced manner, taking into account the rules established by the Group and implementing risk mitigation measures as appropriate, which achieves the Group's stable profitability and shareholder value growth. When making new investment decisions, the solvency of future customers, the length of lease agreements, the possibility of tenant substitutability and the risks of rising interest rates are carefully assessed. The terms of the financing agreements are adjusted to correspond to the net cash flow of a specific real estate object, which ensures the preservation and growth of sufficient free cash of the Group even after the fulfilment of financial obligations.

The investment of the Group's assets is based on the risk expectations of the Group's investors, therefore excessive risk-taking is unacceptable and appropriate measures must be applied 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 company's financial strength or reducing the value of investments.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The change in market interest rates mainly affects the Group's long-term floating rate borrowings.

As of 31.12.2021, all of the Group's loan agreements have been concluded on the basis of floating interest, of which 64% (31.12.2020: 61%) is related to 1-month EURIBOR, 20% of floating interest-based loan liabilities are related to 3-month EURIBOR (31.12. 2020: 24%) and the remaining loan agreements with 6-month EURIBOR. The 1-month Euribor fluctuated between -0.648% and -0.545% in 2021 (2020: -0.582 to -0.379%). i.e. the maximum change during the year was 10.3 basis points (2020: 20.3 basis points). 81% (2020: 78%) of EfTEN Kinnisvarafond AS's loan portfolio is subject to a 0% floor to protect against negative EURIBOR, i.e. in the event of a negative EURIBOR, the loan margin for these loan liabilities will not decrease.

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

Due to the long-term nature of the Group's real estate investments and long-term loan liabilities related to investments, the management of EfTEN Kinnisvarafond AS decided in 2015 to cover the risk of long-term floating interest rate growth by fixing a 50% floating interest rate (1-month Euribor and 3-month Euribor). It was decided to hedge the risk with interest rate swap agreements, where the floating interest rate of the subsidiary's loan agreement was exchanged for a fixed interest rate. It was decided to enter into interest rate swaps subject to the following three conditions:

(1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold in the 10-year perspective;

(2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EfTEN Kinnisvarafond AS;

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

In order 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 the 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 three interest rate swap agreements decreased, therefore as of 31.12.2016 Euribor was at fixed levels of 0.6% -0.67% (31.12.2021: 0.6% -0.65%).

In August 2020, one subsidiary of the Group prematurely terminated one interest rate swap agreement with Danske Bank, 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 liability.

In May 2021, one subsidiary of the Group terminated one interest rate swap agreement with SEB Bank prematurely. Upon termination of the swap agreement, the Fund's subsidiary paid the bank a total of 66 thousand euros.

All other interest rate swaps expire in 2022. As of 31 December 2021, the nominal amount of interest rate swaps totalled 34,601 thousand euros, i.e. 41.3% of the total loan portfolio (31 December 2020: 39,269 thousand euros, i.e. 43.3% 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 December 2021 was negative in the total amount of 227 thousand euros (31 December 2020: 711 thousand euros) and the gain on change in fair value was 484 thousand euros (2020: profit 440 thousand euros). Additional information on finding the fair value of interest rate swaps is provided in the 'Fair Value' section below.

Liquidity risk

Liquidity risk arises from a potential change in financial position that would reduce the Group's ability to service its liabilities in a timely and correct manner. The Group's liquidity is primarily 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 goal is to manage net cash flows so 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 of 31 December 2021, the share of the Group's interest-bearing debt in investment income generating rental income was 45% (31 December 2020: 49%) and the debt coverage ratio was 2.4 (2020: the same).

The Group's financing policy stipulates that loan agreements to raise borrowed capital are entered into on a long-term basis, taking into account the maximum length of leases encumbering real estate properties. The table below summarizes the information on the timeliness of the realization of the Group's financial liabilities (undiscounted cash flows):

As at 31.12.2021	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
€ thousands						
Interest-bearing liabilities	282	4,506	39,229	39,805	0	**83,822**
Interest payments	129	385	682	944	0	**2,140**
Interest payables	26	0	0	0	0	**26**
Trade payables	421	0	0	0	0	**421**
Tenant security deposits	29	85	111	404	359	**988**
Other accrued liabilities	63	0	0	0	0	**63**
Success fee obligations	0	0	0	0	3,896	**3,896**
Total financial liabilities	**950**	**4,976**	**40,022**	**41,153**	**4,255**	**91,356**

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

Statement of working capital

	31.12.2021	31.12.2020
€ thousands		
Cash and cash equivalents (note 13)	11,010	10,946
Receivables and accrued income (Note 14)	493	378
Prepaid expenses	74	34
Total current assets	**11,577**	**11,358**
	,	,
Short-term portion of long-term liabilities (Note 16)	-43,983	-5,342
Short-term payables and prepayments (Note 17)	-1,133	-1,039
Total current liabilities	**-45,116**	**-6,381**
Total working capital	**-33,539**	**4,977**

As of 31.12.2021, the Group's working capital is negative due to the loan agreements to be extended in 2022. The maturity date is 2022 in seven loan agreements with a total balance of 42,236 thousand euros as of 31.12.2021. The LTV of the expiring loan agreements is in the range of 36% - 47%, and all real estate investments used as collateral for the loans are supported by the rental cash flow, which means that the management estimates that there will be no obstacles to extending the agreements.

In June 2021, the Group's subsidiary extended one loan agreement in the total amount of 1,929 thousand euros (balance on 31 December 2020). The terms of the loan agreements were not changed upon extension.

Credit risk

Credit risk is the risk that counterparties will fail to meet their obligations to the Group. The Group is exposed to credit risk due to its business activities (mainly trade receivables) and transactions with financial institutions, including cash in bank accounts and deposits.

The Group's activities to prevent and minimize the decrease in cash flows arising from credit risk are to monitor and direct the payment behaviour of customers on a daily basis, which enables the implementation of operationally necessary measures. Customer agreements also provide for the payment of rent payments at the beginning of the calendar month in most cases, which provides sufficient time to monitor customers' payment discipline and to have sufficient liquidity in cash accounts on the day of the annuity payments of financing agreements. The terms of most leases give rise to an obligation to pay a security deposit, at the expense of which the Group has the right to write off debts arising from the insolvency of the lessee. For some leases, the deposit may be replaced by a bank guarantee.

Group companies generally only enter into lease agreements with counterparties previously recognized as creditworthy. The client's analysis of this is made before concluding the lease agreement.

If it becomes apparent that there is a risk that the lessee will become insolvent, the Group assesses each receivable individually and decides to recognize the receivables as doubtful. In general, receivables that are overdue for more than 180 days are considered unlikely to be collected, unless the Group has sufficient assurance that the receivable will be received or a payment schedule has been agreed for the receivables.

Trade receivables are illustrated by the table below:

	31.12.2021	31.12.2020
Undue	242	242
Past due, incl.	**86**	**102**
up to 30 days	*63*	*62*
30-60 days	*10*	*19*
more than 60 days	*13*	*21*
Allowance for doubtful accounts	-8	-14
Total trade receivables (Note 14)	**320**	**330**

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

	31.12.2021	31.12.2020
€ thousands		
Cash and cash equivalents (Note 13)	11,010	10,946
Trade receivables (Note 14)	320	330
Total maximum credit risk	**11,330**	**11,276**

Balances and deposits in bank accounts of the Group's cash and cash equivalents and short-term deposits are divided by bank rating (Moody's long-term) as follows:

Rating 31.12.2021	**Balance as at 31.12.2021**	**Balance as at 31.12.2020**
Aa2	3,452	4,643
Aa3	7,491	6,190
Baa1	67	113
	11,010	**10,946**

Capital management

The Group assesses borrowings and equity as capital.

The purpose of the Group's capital management is to ensure the Group's ability to continue as a going concern in order to ensure a return on shareholders' investment and to maintain an optimal capital structure. The Group invests in cash-generating real estate and raises new equity to make investments.

The Group's investment policy stipulates that at least 30% of equity is invested in new real estate projects. The required amount of equity is calculated for each investment individually, taking into account the volume and proportion of the net cash flows and loan payments of a specific investment.

After the investment has been made, the net operating profit of any cash-generating property must not be less than 120% of the loan annuity payments.

The Group's free cash flow allows paying an average of 4-6% of the value of invested equity to investors. In 2021, dividends totalling 7,023 thousand euros (17.83 cents per share) were distributed to investors. In addition, in 2021, the fund reduced its share capital in the amount of 2,400 thousand euros due to the sale of the Kadaka tee 63 office building and the return of invested capital to investors. In 2020, dividends totalling 3,852 thousand euros (9.8 cents per share) were distributed to investors.

Fair value

The valuation methods used in the analysis of the Group's assets and liabilities carried at fair value are defined as follows:

Level 1 - stock exchange prices;

Level 2 - assets and liabilities related to prices quoted directly or indirectly on a traded market;

Level 3 - prices on the non-tradable market.

As of 31.12.2021 and 31.12.2020, the Group does not have any assets at fair value that would belong to the Level 1 group in determining the value. All of the Group's investment properties are carried at fair value and belong to the Level 3 Group in accordance with the valuation method. All of the Group's loan liabilities and derivative securities entered into to hedge interest rate risk belong to the Level 2 group.

To mitigate interest rate risk, the Group has entered into interest rate swaps, the fair value of which is obtained by discounting the cash flows of interest rate swaps so that incoming and outgoing cash flows are determined and discounted using a zero-rate in accordance with EURIBOR market expectations. The Group uses information received from counterparty credit institutions to recognize interest rate swaps at fair value.

20 Share capital

The general meeting of EfTEN Kinnisvarafond AS decided in June 2021 to reduce the share capital of the fund by 429 thousand euros (858,154 shares).

Upon the reduction of the share capital, a total of 2,400 thousand euros was paid to the shareholders in December 2021. The registered share capital of EfTEN Kinnisvarafond AS as of 31 December 2021 was 19,267 thousand euros (31 December 2020: 19,696 thousand euros). As of 31 December 2021, the share capital consisted of 38,533,217 shares (31 December 2020: 39,391,371 shares) with a nominal value of 0.50 euros (31 December 2020: the same). Without amending the articles of association, the company has the right to increase the share capital to 60,137 thousand euros.

In 2021, EfTEN Kinnisvarafond AS transferred 180 thousand euros of the comprehensive income for 2020 to the statutory reserve capital (2020: 470 thousand euros).

Information on the unconsolidated equity of the parent company is also provided in Note 26.

21 Contingent liabilities

Contingent tax liability

	31.12.2021	31.12.2020
€ thousands		
Retained earnings (Note 15)	59,449	50,556
Potential income tax liability	11,890	10,111
Dividends can be paid out	47,559	40,445

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 31.12.2021 and 31.12.2020.

Pending legal cases

Rest Art Group OÜ filed a claim for damages against EfTEN SPV7 OÜ in the amount of 67 thousand euros, and a claim for compensation for statutory default interest and court costs calculated from the main claim. The action is based on the alleged damage caused by the seizure of goods located on the leased space used by Rest Art Group OÜ on 28.04.2010 on the basis of lease agreements concluded between OÜ Combinent (previous owner and lessor) and Rest Art Group OÜ.

With the application of 06.09.2012, EfTEN SPV7 OÜ extraordinarily cancelled the lease agreements in connection with the lessee's indebtedness and exercised the lessor's right of lien and took possession of the movable property located in the store and warehouse premises to cover the indebtedness. Although Rest Art OÜ had breached its obligations arising from the lease agreements, EfTEN SPV7 OÜ was ready to resolve the situation in a constructive manner, including the return of the disputed movable property. Rest Art Group OÜ did not want to take back the things of Rest Art Group OÜ, but already then looked for different excuses to justify the refusal. Apparently you saw an opportunity to earn here and therefore decided to file exaggerated claims against EfTEN SPV7 OÜ instead of accepting low-value movable property.

On 16 October 2015, Rest Art Group OÜ filed an action and proceedings were initiated in civil case no. 2-15-15514 (we have described this in the report of EfTEN SPV7 OÜ in previous years). Civil case no. 2-15-15514 terminated the decision of the Tallinn Circuit Court of 24.11.2017, in which the court found that the claim for damages of Rest Art Group OÜ / Donum (a partner whose belongings were partly located in the allegedly rented premises) was unfounded because they unreasonably refused to accept the cases. (EfTEN SPV7 OÜ repeatedly offered this opportunity) and Rest Art Group OÜ / Donum was delayed in receiving the items from 01.01.2013 at the latest. The judgment of the Tallinn Circuit Court of 24.11.2017 entered into force on 31.01.2018.

EfTEN SPV7 OÜ then turned to Rest Art Group OÜ, once again expressing its readiness to hand over things as a matter of urgency. Donum then submitted a letter of claim to EfTEN SPV7 OÜ on 12.03.2018, in which it expressed a wish to accept the things, but at the same time unreasonably refused to recognize the financial claims of EfTEN SPV7 OÜ, which arose from the storage of things (our cost of storing things). EfTEN SPV7 OÜ was not provided with any documents certifying the ownership of the items. EfTEN SPV7 OÜ needed documents to make sure that it handed over the things to their rightful owner. Otherwise, Rest Art Group OÜ would have submitted another searched claim, alleging that the things were handed over to the wrong person. As EfTEN SPV7 OÜ wished to resolve the situation as a matter of urgency in order to avoid further costs, on 03.04.2018 EfTEN SPV7 OÜ expressed its readiness to transfer things without reimbursement of storage costs (offering a compromise), provided that Rest Art Group OÜ / Donum accepts things as a matter of urgency and reliably prove the ownership of Donum. Subsequently, in an e-mail dated 17.04.2018, Donum stated that he still did not want to accept the things and instead retroactively approves the disposition of things made by EfTEN SPV7 OÜ on 18.10.2012 (SPV7 once sold the property, but this transaction was reversed) and must from that time on 18.10.2012 for the moment of causing damage to Donum, from which Donum has the right to demand compensation for the value of the things in the amount of 66,783.54 euros. Then, on 25.04.2018, Donum's representative expressed his readiness to accept things, and then some time later he announced that he still could not accept things, because the deadline for doing so was allegedly over. Despite Donum's contradictory behaviour, EfTEN SPV7 OÜ was still ready to hand over the things, while warning that if Donum continued to refuse, EfTEN SPV7 OÜ would have no choice but to transfer the things at a public auction. In May and June 2019, public auctions took place, with a starting price of 12,284 euros (1st auction) and 6,143 euros (2nd auction), respectively. The starting price of the first auction was determined on the basis of an asset valuation report ordered by EfTEN SPV7 OÜ from an external appraiser. EfTEN SPV7 OÜ also forwarded announcements about auctions to Rest Art Group OÜ and Donum. The auctions failed because no bids were submitted. In July 2019, Donum suddenly showed interest in the case again and wanted to discuss the possibilities of receiving the case from the defendant. EfTEN SPV7 OÜ was once again ready to discuss the transfer of things and made specific proposals. Although Donum agreed in principle in the e-mails of July 2019, Donum then disappeared and no longer replied to the defendant's letters. In October 2019, EfTEN SPV7 OÜ put the things up for the third auction. The defendant also informed Donum of the auction. The third auction turned out to be successful and things were acquired by ART MILL OÜ on the basis of a sales contract on 21.10.2019 at the price of 2675 euros + VAT.

Rest Art Group OÜ then filed an action on March 22, 2021, which EfTEN SPV7 OÜ now disputes in full. Rest Art Group OÜ is trying to enforce a (expired) claim for damages for the second time through a court, which has already been rejected by a court decision that has already entered into force. Therefore, EfTEN SPV7 OÜ is of the opinion that the proceedings should be terminated, as a court decision has entered into force in a dispute between the same parties on the same claim, which precludes recourse to a new court in the same case. In addition, EfTEN SPV7 OÜ is of the opinion that this is an outdated claim, as the limitation period for the claim for compensation for the alleged damage claimed in the action began to run no later than 18.10.2012. At the time of filing the action (22.03.2021), eight years and five months had passed since the transaction on 18.10.2012, and thus the claim which is the subject of the action has expired pursuant to § 150 (1) of the CCP. EfTEN SPV7 OÜ also relies on the objection of limitation in the court proceedings and considers that the action must therefore be dismissed.

22 Transactions with related parties

EfTEN Kinnisvarafond AS recognizes as related parties:

- EfTEN Kinnisvarafond AS's members of the management board and companies owned by the members of the management board;

- EfTEN Kinnisvarafond AS's members of the supervisory board and companies owned by the members of the supervisory board;

- EfTEN Kinnisvarafond AS's employees and companies owned by employees;

- Joint venture EfTEN SPV11 OÜ;

- EfTEN Capital AS-i (fund manager).

In 2021, the Group purchased management service in the amount of EUR 997 thousand from EfTEN Capital AS (2020: EUR 996 thousand), see note 8. EfTEN Kinnisvarafond AS did not sell or purchase any goods or services from other related parties in 2021 and 2020.

In 2021 and 2020, the Group had 3 employees, whose remuneration with taxes was calculated in the amount of EUR 99 thousand (2020: EUR 76 thousand), see note 8. In addition, the Group's Latvian and Lithuanian subsidiaries paid payroll taxes in the amount of EUR 23 thousand in 2021 (2020: EUR 20 thousand). No remuneration was calculated nor paid to the Group's management or supervisory board members. The Group's management board members work at EfTEN Capital AS who provides management service to the Group and expenses related to the activities of the management board member are included in the management fee.

23 Parent company's income statement

Pursuant to the Estonian Accounting Act, the separate unconsolidated primary financial statements of the consolidating entity (parent company) must be disclosed in the notes to the consolidated financial statements. The primary financial statements of the parent company have been prepared in accordance with the same accounting policies as used in the preparation of the consolidated financial statements. The accounting policies for subsidiaries have been changed in the parent's separate financial statements as annexed to the consolidated financial statements in accordance with the requirements of IAS 27 Consolidated and Separate Financial Statements.

In the separate primary financial statements of the parent company, which are presented in the notes to these consolidated financial statements, investments in subsidiaries and joint ventures are accounted for using the fair value method.

	2021	2020
€ thousands		
Revenue	947	946
Gross profit	**947**	**946**
General administrative expenses	-1,063	-1,070
Operating profit	**-116**	**-124**
Profit / loss from subsidiaries	16,304	4,194
Profit / loss from joint ventures	339	-618
Interest income	68	62
Interest expense	-15	-8
Profit before income tax	**16,580**	**3,506**
Net profit for the period	**16,580**	**3,506**

24 Parent company's statement of financial position

	31.12.2021	31.12.2020
€ thousands		
ASSETS		
Cash and cash equivalents	555	2,158
Receivables and accrued income	1,804	1,399
Total current assets	**2,359**	**3,557**
Non-current assets		
Shares in subsidiaries	107,353	100,263
Shares in joint ventures	2,778	2,440
Long - term receivables	2,090	2,366
Total non-current assets	**112,221**	**105,069**
TOTAL ASSETS	**114,580**	**108,626**
Borrowings	0	1,200
Payables	948	954
Total short-term liabilities	**948**	**2,154**
Total liabilities	**948**	**2,154**
Share capital	19,267	19,696
Share premium	30,404	32,375
Statutory reserve capital	4,734	4,554
Retained earnings	59,227	49,847
Total equity	**113,632**	**106,472**
TOTAL LIABILITIES AND EQUITY	**114,580**	**108,626**

25 *Parent company's statement of cash flows*

	2021	2020
€ thousands		
Cash flows from operating activities		
Net profit	**16,580**	**3,506**
Adjustments to net profit:		
Finance income and interest expense	-53	-54
Gain/loss on the fair value adjustment of subsidiaries and joint ventures	-9,829	278
Dividends received	-6,814	-3,854
Cash flow from operating activities before changes in working capital	**-116**	**-124**
Change in receivables and payables related to operating activities	-52	-44
Total cash flow generated from operating activities	**-168**	**-168**
Cash flows from investing activities		
Acquisition of subsidiaries	2,400	0
Decrease in subsidiaries' share capital	0	505
Loans granted	-145	-210
Repayment of loans granted	135	0
Dividends received	5,614	3,854
Interest received	1	0
Total cash flow generated from investing activities	**8,005**	**4,149**
Cash flows from financing activities		
Loans received	0	1,200
Repayment of loans received	0	-500
Interest paid	-17	-7
Dividends paid	-7,023	-3,852
Issue of shares	-2,400	0
Total cash flow generated from financing activities	**-9,440**	**-3,159**
TOTAL CASH FLOW	**-1,603**	**822**
Cash and cash equivalents at the beginning of the period	**2,158**	**1,336**
Change in cash and cash equivalents	-1,603	822
Cash and cash equivalents at the end of the period	**555**	**2,158**

26 *Parent company's separate statement of changes in equity*

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
€ thousands					
As at 31.12.2019	**19,696**	**32,375**	**4,084**	**50,663**	**106,818**
Payment of dividends	0	0	0	-3,852	**-3,852**
Provisions in reserve capital	0	0	470	-470	**0**
Net profit for the period	0	0	0	3,506	**3,506**
As at 31.12.2020	**19,696**	**32,375**	**4,554**	**49,847**	**106,472**
Decrease of share capital	-429	-1,971	0	0	-2,400
Payment of dividends	0	0	0	-7,023	-7,023
Provisions to reserve capital	0	0	180	-180	0
Net profit for the period	0	0	0	16,580	16,580
As at 31.12.2021	**19,267**	**30,404**	**4,734**	**59,227**	**113,632**

Additional information on changes in shares is provided in Note 20

The adjusted unconsolidated equity of the parent company (to take account of compliance with the requirements established in the Commercial Code) is as follows:

	31.12.2021	31.12.2020
€ thousands		
Parent company's unconsolidated equity	113,632	106,472
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-110,131	-102,703
Value of subsidiaries and joint ventures under the equity method (plus)	110,126	102,701
Total	**113,627**	**106,470**

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 2021, 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 income statement and consolidated statement of other comprehensive income for the year then ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- 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 annual 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.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:
- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report that we obtained prior to the date of this auditor's report. 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.

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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

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

28 February 2022
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.

Profit Allocation Proposal

The Management Board proposes to the general meeting of EfTEN Kinnisvarafond AS to distribute the profit as follows (in euros):

Retained earnings as of 31.12.2021	59,449,046
Distribution of dividends	5,656,676 (14.68 cents per share)
Retained earnings after provisions	53,792,370

/signed digitally/

____

Viljar Arakas

Member of the Management Board

/signed digitally/

____

Tõnu Uustalu

Member of the Management Board

25 February 2022

Signatures of the members of the Management Board and the Supervisory Board to the annual report for 2021

We hereby confirm the accuracy of the information provided in the 2021 annual report of EfTEN Kinnisvarafond AS.

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

/signed digitally/	/signed digitally/
___________________	___________________
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	2021	Revenue %	Main activity
€ thousands				
Fund management	66301	947	100%	yes