Consolidated Annual Report 2022

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of financial year: 01.01.2022

End of financial year: 31.12.2022

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MANAGEMENT REPORT

The Fund manager's comment on the year 2022 results

In 2022, major changes took place in the European and Baltic commercial real estate market. The rapid acceleration of the inflation rate prompted the central banks to end the so-called zero interest policy that had lasted for almost ten years. While at the beginning of 2022 the EURIBOR rate used as the basis for most loans issued in euro was negative, by the end of the year the 6-month EURIBOR rose to 2.7% and the 1-month EURIBOR to 1.9%. In the real estate sector, where investments are usually made with financial leverage, this meant a significant increase in borrowing costs and a decrease in transaction activity.

In the real estate market of the Baltic countries, the use of loan money has generally been lower compared to the so-called developed European countries. Mainly because of this, the rise in interest rates here did not immediately lead to a fall in real estate prices. In particular, the increase in interest rates was accompanied by a significant decrease in the number of real estate transactions in this region. The uncertainty and low transaction activity of the commercial real estate market in the Baltic countries will probably remain in the first half of 2023.

After nearly two years of thorough renovation, the fund reopened the Radisson Hotel in Tallinn in the spring of 2022. It became the first Radisson Collection hotel in the Baltics. In addition, a new entertainment-oriented business direction was opened in the largest investment of the fund in the Riga Domina shopping center. This year, the management company's priority is to improve the daily economic activity of the investments opened and expanded last year and to reduce the vacancy in the Marienthal office building.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS in 2022 was 18.762 million euros (2021: 14.941 million euros), increasing by 26% compared to 2021. The rental income of the Radisson Collection hotel, which was reopened in April 2022 after renovations, gave 10% of the increase in sales revenue. The net rental income in 2022 was 14.959 million euros (2021: 12,199 million euros). The group's net profit for 2022 was 7.704 million euros (2021: 9.923 million euros) and the fund earned EBITDA of 13.109 million euros (2021: 11.720 million euros).

	2022	2021
€ millions		
Revenue	18.762	14.941
Expenses related to investment properties, incl. marketing costs	-3.803	-2.741
Net sales revenue	**14.959**	**12.199**
Net sales margin	*80%*	*82%*
Interest income and expense	-3.452	-2.750
Management fees	-1.460	-1.363
Other income and expenses	-0.359	0.650
Profit before change in the value of investment property, change in the success fee liability and income tax expense	**10.485**	**9.553**

The structure of the consolidation group and the direct and indirect ownership of the consolidating unit in units being consolidated is outlined in Note 1.

Until 31.03.2022 EfTEN Kinnisvarafond II AS had a 100% ownership in Astlanda Hotelli AS, the operating company of the Radisson Collection hotel. As of 01.04.2022 Astlanda Hotelli AS was merged with the parent company EfTEN Sky OÜ, the merging company was EfTEN Sky OÜ. Until the merging, the operating results of the hotel have been consolidated in the fund's report.

As of 31.12.2022, the group's total assets amounted to 272.204 million euros (31.12.2021: 260.684 million euros), including investment property at fair value, and property, plant and equipment totalling 256.459 million euros (31.12.2021: 250.186 million euros). The net asset value of EfTEN Kinnisvarafond II AS increased by 3.1% over the year (2021: increased by 7.5%).

	31.12.2022	31.12.2021
€ million		
Investment property	256.410	190.990
Property, plant and equipment	0.049	59.196
Other non-current assets	0.126	0.008
Cash and cash equivalents	13.536	8.456
Current assets, excluding cash	2.083	2.034
Net debt (cash and cash equivalents minus liabilities)	-112.038	-110.042
Net asset value (NAV)	146.6300	142.1860
Net asset value (NAV) per share, in euros	15.9142	15.4318

As of the end of the reporting period, the weighted average interest rate of the Group's loan agreements was 3.94% (31.12.2021: 2.18%, with interest swap agreements 2.52%) and the LTV (Loan to Value) was 46% (31.12.2021: 44%).

Key financial ratios

Per year	31.12.2022	31.12.2021
ROE, % *(net profit of the period / average equity of the period)) x 100*	5.2	7.2
ROA, % *(net profit of the period / average assets of the period) x 100*	2.8	3.9
ROIC, % *(net profit of the period / average invested capital of the period[1]) x 100*	7.4	10.1
Revenue (€ thousand)	18.762	14.941
EBITDA (€ thousand)	13.109	11.720
EBITDA margin, %	69.9	78.4
Liquidity ratio *(current assets / current liabilities)*	0.4	0.7
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*	1.9	2.1

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

The principles and objectives used of the asset risk management for the group are described in Note 20.

Interest rate risks occurred during the financial year and during the period of preparation of the report are described in Note.

Real estate portfolio

The portfolio of EfTEN Kinnisvarafond II AS includes 6 individual investments, the fair value of which as of the end of 2022 is a total of 256.410 million euros (2021: 250.120 million euros). In connection with reaching the fund's operating volume, the fund no longer continues to acquire new objects and has entered the holding phase.

Investment property, *as of 31.12.2022*	Address	Type	Fair value of investment (thousand €)	Net leasable area (m^2)	Annual lease revenue (thousand €)	Utilization (%)	Average lease length (in years)
Duntes Biroji office building	Duntes 6, Riga Latvia	office building	25,300	16,035	1,858	97	1.27
Magistral shopping centre	Sõpruse pst 201/203 Tallinn Estonia	shopping centre	29,600	11,773	2,462	100	4.00
Domina shopping centre	Ieriku 3, Riga Latvia	shopping centre	94,180	54,338	8,033	97	3.14
Kaunas Terminal logistics centre	Terminalo 8 and 10, Kaunas Lithuania	logistics centre	18,390	28,708	1,513	96	4.01
Marienthal centre	Mustamäe tee 16, Tallinn Estonia	office building and shopping centre	22,970	14,248	1,648	86	3.30
Radisson Collection hotel[1]	Rävala pst 3/ Kuke 2 Tallinn Estonia	hotel	65,970	22,814	1,887	100	2.16
Total real estate portfolio			**256,410**	**147,916**	**17,401**	**96**	**3.15**

[1]The hotel and office building acquired in January 2015 at Rävala pst. 3/ Kuke 2 was in own use by the group until 31.03.2022 and until then the building was recognised as a property, plant and equipment.

As of 31.12.2022, the group has a total of 450 (31.12.2021: 362) lease agreements. The weighted average maturity of lease agreements is 3.15 (31.12.2021: 2.90) years. The rental income of any lease did not exceed 10% of the consolidated rental income.

Comparable rental income by investment property

€ thousands	Fair value 31.12.2022	Rental income 2022	Rental income 2021	Change	Change, %
Duntes Biroji office building	25,300	1,858	1,833	25	1.4%
Magistral shopping centre	29,600	2,462	2,183	279	12.8%
Domina shopping centre	94,180	8,033	5,499	2,534	46.1%
Kaunas Terminal logistics centre	18,390	1,513	1,506	7	0.5%
Marienthal centre	22,970	1,648	1,686	-38	-2.3%
Total comparable assets and rental income	**190,440**	**15,514**	**12,707**	**2,807**	**22.1%**
Radisson Collection hotel (assets out of the development stage) [1]	65,970	1,887	149[1]	1,738	1166.4%
Total assets and rental income of the real estate portfolio	**256,410**	**17,401**	**12,856**	**4,545**	**35.4%**

Comparable rental income by country

€ thousands	Fair value 31.12.2022	Rental income 2022	Rental income 2021	Change	Change, %
Estonia	52,570	4,110	3,869	241	6.2%
Latvia	119,480	9,891	7,332	2,559	34.9%
Lithuania	18,390	1,513	1,506	7	0.5%
Total comparable assets and rental income	**190,440**	**15,514**	**12,707**	**2,807**	**22.1%**
Radisson Collection hotel (assets out of the development stage) [1]	65,970	1,887	149[1]	1,738	1166.4%
Total assets and rental income of the real estate portfolio	**256,410**	**17,401**	**12,856**	**4,545**	**35.4%**

[1] Rental income of Radisson Collection hotel for 2021 includes only rental income from office premises.

EfTEN Kinnisvarafond II AS regularly evaluates real estate investments twice a year - in June and December. The appraiser of the Group's real estate investments is Colliers International Advisors OÜ.

The Group's independent appraiser evaluates investment properties individually using the discounted cash flow method. The cash flow projections for all properties have been updated to determine the fair value, and the discount rates and exit yields have been differentiated depending on the location of the facilities, the technical condition, and the level of risk of the tenants.

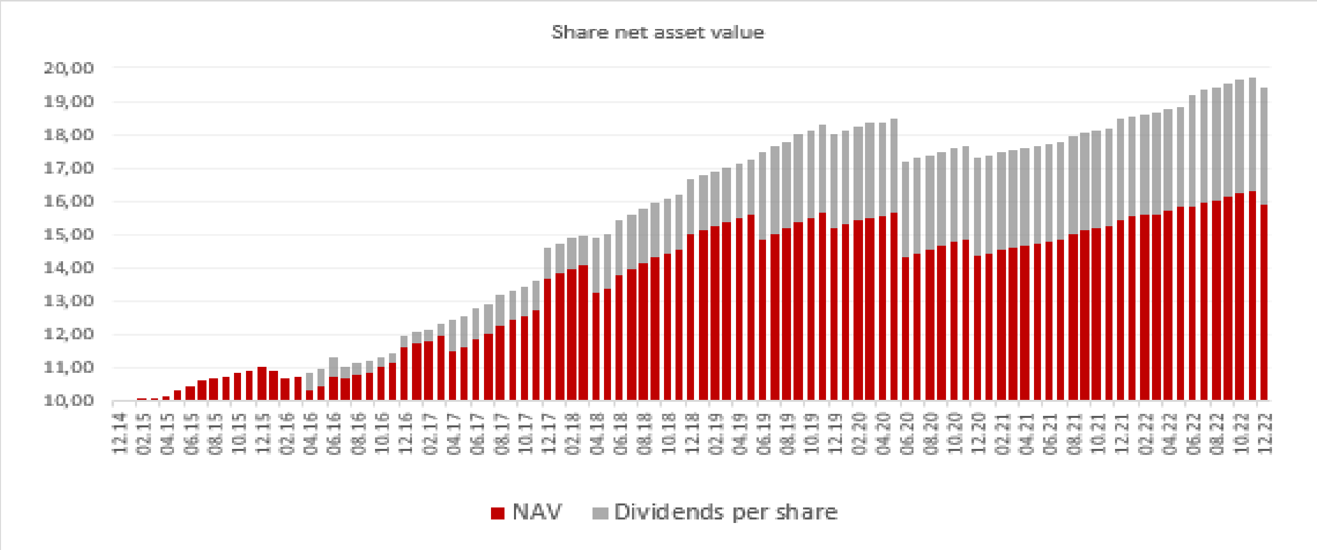
As a result of revaluations, the value of the Fund's investment properties decreased by 0.4% in 2022 (in 2021, the value of investment properties increased by 1.2%, and the value of the Radisson Blu Sky hotel, recognised as property, plant and equipment, decreased by 1.1%).

Information on shares

As of 31.12.2022, the total contributions made to the share capital of EfTEN Kinnisvarafond II AS is 98 million euros (31.12.2021: the same), incl. share capital 92.138 million euros and share premium 5.861 million euros. The number of shares as of 31.12.2022 was 9,213,756 (31.12.2021: the same).

	31.12.2022	31.12.2021
Net asset value of the group, in thousands of €	146,630	142,186
Number of shares at the balance sheet date	9,213,756	9,213,756
Net asset value per share, in euros	15.9142	15.4318

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015	01.12.2014
NAV per share, €	15.9142	15.4318	14.3606	15.1952	15.0152	13.6665	11.6175	10.9968	10.0000
NAV growth per year	3.13%	7.46%	-5.49%	1.20%	9.87%	17.64%	5.64%	9.97%	-
NAV growth per 2 years	10.82%	1.56%	-4.36%	11.19%	29.25%	24.28%	16.18%	-	-
NAV growth per 3 years	4.73%	2.77%	5.08%	30.80%	36.54%	36.67%	-	-	-
NAV growth per 4 years	5.99%	12.92%	23.61%	38.18%	50.15%	-	-	-	-
NAV growth per 5 years	16.45%	32.83%	30.59%	51.95%	-	-	-	-	-
NAV growth per 6 years	36.98%	40.33%	43.61%	-	-	-	-	-	-
NAV growth per 7 years	44.72%	54.32%	-	-	-	-	-	-	-
NAV growth per 8 years	59.14%	-	-	-	-	-	-	-	-



The dividend policy of the Group has been agreed on in the terms of the fund with the shareholders of the fund.

Shareholder structure of EfTEN Kinnisvarafond II AS as at 31.12.2022

	Ownership percentage in share capital
Swedbank pension funds	67.5%
Luminor pension funds	15.2%
SEB Bankas AB	4.2%
ERGO Life Insurance SE Estonian branch	4.0%
Others	9.1%
	100.0%

Management

EfTEN Kinnisvarafond II AS is an investment fund established as a public limited company with one type of registered shares with a nominal value of 10 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 II AS. At the general meeting of shareholders held on 15.06.2022, 83.36% of the votes represented by shares were represented, and the annual report for the year 2021 was unanimously approved and the profit distribution was decided. It was decided to transfer 496,153 euros from the retained earnings to the statutory reserve capital and pay the shareholders a net dividend of 3,519,655 euros (38.2 euro cents per share). No other provisions were made.

There were no extraordinary general meetings of shareholders in 2022.

The Fund's Supervisory Board has four members since establishment: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olavi Miil. There were no changes in the Supervisory Board members in the reporting period. 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 the reporting period. 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 II 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 2022.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE YEAR 2022

CONSOLIDATED INCOME STATEMENT

	Notes	2022	2021
€ thousands			
Revenue	4	18,762	14,941
Cost of services and goods sold	5	-2,699	-2,097
Gross profit		**16,063**	**12,844**
Marketing costs	6	-1,104	-645
General and administrative expenses	7	-2,529	-2,375
Gain/ loss from revaluation of investment properties	14	-942	2,288
Other income	8	599	1,665
Other expenses	8	-1	-3
Operating profit		**12,086**	**13,774**
Profit from affiliates	2	112	0
Finance income		0	1
Finance costs	9	-3,452	-2,751
Profit before income tax		**8,746**	**11,024**
Income tax expense	10	-1,042	-1,101
Total net profit for the financial year		**7,704**	**9,923**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2022	2021
€ thousand			
Net profit for the financial year		7,704	9,923
Other comprehensive income/ -expense			
Revaluation of property, plant and equipment	15	37	-483
Gain on revaluation of hedging instruments	19	223	430
Total other comprehensive income/ -expense		**260**	**-54**
Total comprehensive income for the financial year		**7,964**	**9,870**

Notes on pages 12-47 are integral parts of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	31.12.2022	31.12.2021
€ thousands			
ASSETS			
Cash and cash equivalents	11	13,536	8,456
Receivables and accrued income	12	2,046	1,923
Prepaid expenses	13	30	99
Inventories		7	12
Total current assets		**15,619**	**10,490**
Long-term receivables		5	0
Shares of affiliates	2	113	0
Long-term investments in securities		8	8
Investment property	14	256,410	190,990
Property, plant and equipment	15	49	59,196
Total non-current assets		**256,585**	**250,195**
TOTAL ASSETS		**272,204**	**260,684**
LIABILITIES AND EQUITY			
Borrowings	16	39,399	11,232
Derivative instruments	19	0	223
Payables and prepayments	17	2,553	3,771
Total current liabilities		**41,952**	**15,226**
Borrowings	16	77,872	98,001
Other long-term liabilities	17	1,347	1,470
Deferred income tax liability	10	4,403	3,801
Total non-current liabilities		**83,622**	**103,272**
Total liabilities		**125,574**	**118,498**
Share capital	21	92,138	92,138
Share premium	21	5,861	5,861
Statutory reserve capital	21	2,988	2,492
Hedging reserve	19	0	-223
Revaluation reserve	15	-3,334	-3,371
Retained earnings		48,977	45,289
Total equity		**146,630**	**142,186**
TOTAL LIABILITIES AND EQUITY		**272,204**	**260,684**

Notes on pages 12-47 are integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2022	2021
€ thousands			
Net profit		**7,704**	**9,923**
Adjustments:			
Profit from associates using the equity method	2	-112	0
Finance income		0	-1
Finance costs	9	3,452	2,751
Investment property revaluation gain / loss	14	942	-2,288
Depreciation, amortisation and impairment	15	81	234
Income tax expense	10	1,042	1,101
Total adjustment with non-cash changes		**5,405**	**1,797**
Cash flow from operations before changes in working capital		**13,109**	**11,720**
Changes in receivables and payables related to operating activities		162	322
Change in inventory		6	1
Total cash generated from operating activities		**13,277**	**12,043**
Purchase of property, plant and equipment	15	-4,413	-15,580
Acquisition of investment property	14	-4,058	-5,360
Acquisition of affiliate	2	-1	0
Interest received		0	1
Total cash generated from investing activities		**-8,472**	**-20,939**
Loans received	16	11,552	3,000
Schedule loan repayments	16	-3,560	-2,748
Paid to loan collateral's deposit account		-530	-370
Interest paid		-3,370	-2,948
Dividends paid		-3,520	0
Income tax on dividends paid		-297	0
Total cash generated from financing activities		**275**	**-3,066**
TOTAL CASH FLOW		**5,080**	**-11,962**
Cash and cash equivalents at the beginning of the period	11	**8,456**	**20,418**
Change in money and money equivalents		5,080	-11,962
Cash and cash equivalents at the end of the period	11	**13,536**	**8,456**

Notes on pages 12-47 are integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousands	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
Balance 31.12.2020	**92,138**	**5,861**	**2,391**	**-653**	**-2,888**	**35,467**	**132,316**
Provisions for statutory reserve	0	0	101	0	0	-101	**0**
Total transactions with owners	**0**	**0**	**101**	**0**	**0**	**-101**	**0**
Net profit for the period	**0**	**0**	**0**	**0**	**0**	**9,923**	**9,923**
Revaluation of property, plant and equipment	0	0	0	0	-483	0	**-483**
Profit from revaluation of hedging instruments	0	0	0	430	0	0	**430**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**430**	**-483**	**9,923**	**9,870**
Balance 31.12.2021	**92,138**	**5,861**	**2,492**	**-223**	**-3,371**	**45,289**	**142,186**
Balance 31.12.2021	**92,138**	**5,861**	**2,492**	**-223**	**-3,371**	**45,289**	**142,186**
Provisions for statutory reserve	0	0	496	0	0	-496	**0**
Dividends paid	0	0	0	0	0	-3,520	**-3,520**
Total transactions with owners	**0**	**0**	**496**	**0**	**0**	**-4,016**	**-3,520**
Net profit for the period	**0**	**0**	**0**	**0**	**0**	**7,704**	**7,704**
Revaluation of property, plant and equipment	0	0	0	0	37	0	**37**
Loss from revaluation of hedging instruments	0	0	0	223	0	0	**223**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**223**	**37**	**7,704**	**7,965**
Balance 31.12.2022	**92,138**	**5,861**	**2,988**	**0**	**-3,334**	**48,977**	**146,630**

Additional information on changes in share capital and equity is provided in Notes 19, 21 and 22.

Notes on pages 12-47 are integral parts of these financial statements.

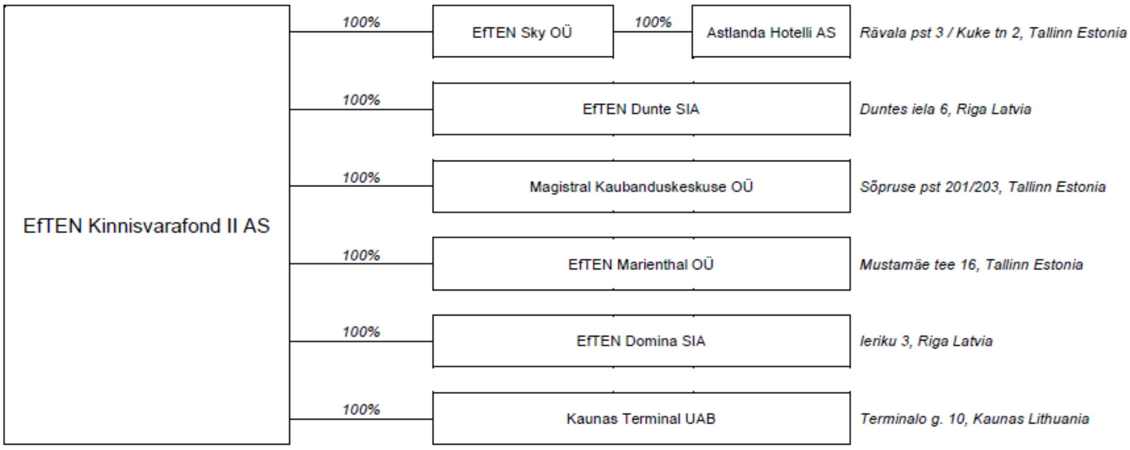
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General principles used in the preparation of the financial statements

The consolidated financial statements of EfTEN Kinnisvarafond II AS and its subsidiaries for the financial year ended 31 December 2022 have been signed by the Management Board on 28 February 2023. 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 are part of the annual report to be approved by the shareholders and is one of the bases for deciding on the distribution of profits. Shareholders may decide not to approve the annual report, which has been prepared by the Management Board and approved by the Supervisory Board, and may demand that a new annual report be prepared.

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

The structure of EfTEN Kinnisvarafond II AS Group as at 31.12.2022 is as follows:



Until 31.03.2022 EfTEN Kinnisvarafond II AS had a 100% ownership in Astlanda Hotelli AS, the operating company of the Radisson Collection hotel. As of 01.04.2022 it was merged with the parent company of Astlanda Hotelli AS EfTEN Sky OÜ, the merging company was EfTEN Sky OÜ. Until the merging, the operating results of the hotel have been consolidated in the fund's report.

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

The annual financial statements of the group are presented in thousands of euros. The accounting period of the group is January 1 to December 31.

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

1.1 Adoption of New or Revised Standards and Interpretations

The following new or amended standards and interpretations became mandatory for the Group from January 1, 2022:

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 „fixed assets" to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant or equipment 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 has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet 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 „Provisions, contingent liabilities and contingent assets" 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 „Business connections" 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 "Financial instruments" 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.

"Rental agreements" 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 "First time application of international financial reporting standards" 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 above-mentioned changes did not have a significant impact on the Group's financial statements.

Standards adopted in the next reporting period

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

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

The amendment to IAS 8 clarified how companies 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

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

Standards not yet adopted

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 2024; not yet adopted by the EU)

These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

(effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU)

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

The Group will analyse and disclose the effect of this change after its implementation in case the merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS fails legally.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

(effective date to be determined by the IASB; not yet adopted by the EU)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

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

1.2 Summary of the most important accounting principles

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 judgments and make decisions that affect the principles and values of the recognition of assets and liabilities at the balance sheet date, the way in which contingent assets and liabilities are presented based on the probability of their realization, and the reporting period. revenues and expenses.

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

The most important management decisions that affect the information reflected in the financial statements concern the accounting areas below.

Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date of preparation of the financial statements. Therefore, there is a risk with the assets and liabilities presented at the balance sheet date, and the related revenue and expenses, that the estimates applied need to be revised in the future. The areas where there is a higher risk of need for revision due to high uncertainty of the estimates, are described below.

a) <u>Valuation of property, plant and equipment in the revaluation method</u>

As at 31.12.2021, the management has assessed the value of property, plant and equipment recognized using the revaluation method (fair value less depreciation and amortization) based on the assessment of the market value of the object by an independent expert. The Group owns land and buildings (Radisson Collection Hotel), which was accounted for using the revaluation method. Colliers International Advisors OÜ's assessment of the market value of the hotel has been used in estimating the fair value. The Group's independent appraiser has valued the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and current market conditions. As of 31.12.2021, the balance sheet value of tangible fixed assets reported using the revaluation method was reported in Note 15.

From 01.04.2022, the Radisson Collection hotel was reclassified from a property, plant and equipment to an investment property.

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

Investment property is measured at its fair value at each balance sheet date. The Group's real estate investments are 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 property earns rental income, which is why the method used best represents the fair value of the investment property among the alternatives (for example, the comparative method). The cash flow projections for all properties have been updated to determine the fair value, and discount rates and exit productivity have been differentiated depending on the location of the facilities, the technical condition and the risk level of the tenants.
Additional information regarding the assumptions used in the fair value assessment is provided in Note 14.

c) <u>Assessments of the existence of control or significant influence in other entities</u>

The Group owns 100% of all subsidiaries and only the members of the management board of the Group's parent company belong to the control bodies of the subsidiaries. Therefore, the Group has full control over its subsidiaries both in the distribution of profits and in the adoption of management decisions.

Classification of real estate

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

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

Investment company

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

Consolidation

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

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

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

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

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

The investment in the associated company is recorded in the Group's report using the equity method.

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 table below:

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

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

Investment in subsidiaries and associates in the parent company's unconsolidated balance sheet

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

Investments in affiliated companies are recognised in the parent company's unconsolidated balance sheet using the equity method.

Revenue accounting policies

Revenue is an income generated in the course of Company's ordinary business activities. Revenue is recognized at the transaction price. The transaction price is the consideration to which the Company is entitled for the delivery of the promised services to the customer less the amounts collected on behalf of third parties. An entity recognizes revenue when control of a good or service is transferred to a customer.

The Group's sales revenue includes rental income, administrative fees, marketing fees, and profits from utility and administrative expenses

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

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

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

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

Financing component

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

Cash and cash equivalents

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

Financial assets

Investments and other 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 2021 and 31 December 2022, all the Company's financial assets were classified in this category:

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

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

Equity instruments

The Company does not have any investments in equity instruments.

iv) impairment

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

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

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

Loans and receivables from other parties

After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Amortised cost is calculated for the whole term of useful life of the financial asset, including any discount or premium arising upon acquisition and any directly attributable transaction costs.

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

Investment property

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

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

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

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

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

Financial liabilities

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

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

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

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

Success fee liability

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

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

Provision and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments up to the average dividend payment for the previous three financial years, which is taxed at a rate of 20/80.

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

Subsidiaries in Latvia

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

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

Subsidiary in Lithuania

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

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

Recognition of deferred income tax liability in consolidated financial statements

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

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

Government grants

Government grant is an aid provided by the government to the companies by making certain resources available and to be eligible, the business operations of a company must meet certain pre-set criteria. Government grant does not include aid provided by the government, where the value of the aid is not reliably measurable (i.e. state guarantee and free consultations by the government) nor economic transactions with the public sector at an arm’s length. Government grants are recognised at fair value, when it is adequately certain, that the government will be received and all the conditions related to government grant are met.

Government grants related to expenses are recognised as income in income statement („other operating income“), when the expense covered by government grant has incurred.

2 Subsidiaries and affiliates

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2022	31.12.2021
Parent Company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ[1]	Estonia	Rävala pst 3 / Kuke tn 2, Tallinn Estonia	100	100
Astlanda Hotelli AS[1]	Estonia	Hotel's operator, Rävala pst 3 / Kuke tn 2, Tallinn Estonia	100	100
EfTEN Dunte SIA	Latvia	Duntes 6, Riga Latvia	100	100
Magistral Kaubanduskeskuse OÜ	Estonia	Sõpruse pst 201/203, Tallinn Estonia	100	100
EfTEN Domina SIA	Latvia	Ieriku 3, Riga Latvia	100	100
Kaunas Terminal UAB	Lithuania	Terminalo g. 10, Kaunas Lithuania	100	100
EfTEN Marienthal OÜ	Estonia	Mustamäe tee 16, Tallinn Estonia	100	100

[1]01.04.2022 EfTEN Sky OÜ, a subsidiary of EfTEN Kinnisvarafond II AS, merged with its 100% subsidiary Astlanda Hotelli AS. The merging company is EfTEN Sky OÜ.

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

In connection with the decision to abandon hotel operator activities, the Group acquired on 29.03.2022 a 46% shareholding in the company HMP Hotellid OÜ. 1,205 euros were paid for the acquired share together with the costs of the notary transaction.

The group has signed a lease agreement with an affiliated company for the Radisson Collection hotel. The term of the contract is 10+10 years from 01.04.2022 (Note 3, 4, 14 and 23).

As of 31.12.2022, the Group owned one affiliated company - HMP Hotellid OÜ, whose main activity is the operation of hotels and restaurants. The ownership in an associated company is recognised in the Group's financial statements using the equity method.

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2022	31.12.2021
Affiliate				
HMP Hotellid OÜ	Estonia	hotels and restaurants	46	0

In 2022, the following changes have taken place in the investment in the affiliated company:

	31.12.2022	31.12.2021
€ thousands		
Balance at the beginning of the period	0	0
Paid, when acquiring an affiliate	1	0
Profit from associate using the equity method	112	0
Balance at the end of the period	**113**	**0**

Shares of the affiliate are not listed on the stock exchange.

3 Segment reporting

SEGMENT RESULTS

	Retail		Office		Logistics		Hotels and restaurants[1]		Unallocated		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
€ thousands												
Revenue (Note 4), incl.	**12,369**	**10,124**	**3,282**	**3,296**	**1,537**	**1,506**	**1,574**	**1**	**0**	**0**	**18,762**	**14,941**
Estonia	3,390	2,979	1,326	1,377	0	0	1,574	15	0	0	6,290	4,371
Latvia	8,979	7,145	1,956	1,919	0	0	0	0	0	0	10,935	9,064
Lithuania	0	0	0	0	1,537	1,506	0	0	0	0	1,537	1,506
Net operating income, incl.	**10,464**	**8,483**	**3,134**	**3,014**	**1,523**	**1,488**	**942**	**-141**	**0**	**0**	**16,063**	**12,844**
Estonia	3,302	2,935	1,224	1,138	0	0	942	-141	0	0	5,468	3,932
Latvia	7,162	5,548	1,910	1,876	0	0	0	0	0	0	9,072	7,424
Lithuania	0	0	0	0	1,523	1,488	0	0	0	0	1,523	1,488
Operating profit, incl.	**8,342**	**7,046**	**1,382**	**4,882**	**1,731**	**2,426**	**316**	**-469**	**-123**	**-111**	**11,648**	**13,774**
Estonia	3,587	4,424	-87	1,495	0	0	316	-469	-123	-111	3,693	5,339
Latvia	4,755	2,622	1,469	3,387	0	0	0	0	0	0	6,224	6,009
Lithuania	0	0	0	0	1,731	2,426	0	0	0	0	1,731	2,426
EBITDA, incl.	**8,794**	**8,027**	**2,718**	**2,707**	**1,361**	**1,411**	**359**	**-314**	**-123**	**-111**	**13,109**	**11,720**
Estonia	2,858	2,522	1,051	1,078	0	0	359	-314	-123	-111	4,145	3,175
Latvia	5,936	5,505	1,667	1,629	0	0	0	0	0	0	7,603	7,134
Lithuania	0	0	0	0	1,361	1,411	0	0	0	0	1,361	1,411
Operating profit											**11,648**	**13,774**
Net financial expense											-3,340	-2,750
Profit before income tax expense											**8,308**	**11,024**
Income tax expense (Note 10)											-1,042	**-1,101**
NET PROFIT FOR THE FINANCIAL YEAR											**7,266**	**9,923**

[1] Radisson Collection hotel was closed for renovations in the period of November 2020 to April 2022.

SEGMENT ASSETS

	Retail		Office		Logistics		Hotels and restaurants		Total	
As of the balance sheet date	**31.12.22**	31.12.21	**31.12.22**	31.12.21	**31.12.22**	31.12.21	**31.12.22**	31.12.21	**31.12.22**	31.12.21
€ thousand										
Investment property (Note 14)										
Estonia	35,343	34,480	23,824	18,120	0	0	59,373	0	118,540	52,600
Latvia	94,180	94,900	25,300	25,480	0	0	0	0	119,480	120,380
Lithuania	0	0	0	0	18,390	18,010	0	0	18,390	18,010
Total investment property	**129,523**	**129,380**	**49,124**	**43,600**	**18,390**	**18,010**	**59,373**	**0**	**256,410**	**190,990**
Property, plant and equipment (Note 15)										
Estonia	4	5	0	5,533	0	0	0	53,597	4	59,135
Latvia	29	35	0	0	0	0	0	0	29	35
Lithuania	0	0	0	0	16	26	0	0	16	26
Total property, plant and equipment	**32**	**40**	**0**	**5,533**	**16**	**26**	**0**	**53,597**	**49**	**59,196**
Other non-current assets									126	8
Net debt									-112,038	-110,042
Other short-term assets									2,083	2,034
NET ASSETS									**146,630**	**142,186**

In 2021 and in 2020, no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that made the property investment is located.

4 Revenue

Areas of activity	**2022**	2021
€ thousands		
Rental income from office premises	3,173	3,090
incl. rental income from investment property	*3,142*	*2,992*
incl. rental income from property, plant and equipment	*31*	*98*
Rental income from commercial and service premises	11,145	8,261
incl. rental income from investment property	*11,121*	*8,210*
incl. rental income from property, plant and equipment	*24*	*51*
Rental income from hotel premises[1] (Note 2 and 23)	1,570	0
incl. rental income from real estate investment	*1,570*	*1,506*
Rental income from warehousing premises	1,513	1,506
incl. rental income from investment property	*1,513*	*1,506*
Other sales revenue from rental premises	1,345	2,059
Other sales revenue	16	25
Total revenue by areas of activity (Note 3)	**18,762**	**14,941**

[1] Radisson Collection hotel was closed for renovations in the period November 2020. – April 2022.

Revenue by geographical area	**2022**	2021
€ thousand		
Estonia	6,290	4,371
Latvia	10,935	9,064
Lithuania	1,537	1,506
Total revenue by geographical areas (Note 3)	**18,762**	**14,941**

	Retail		Office		Logistics		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
€ thousand								
Lease discounts due to the corona pandemic:								
Estonia	-7	-140	0	-13	0	0	-7	-153
Latvia	-424	-1,868	0	-6	0	0	-424	-1,874
Lithuania	0	0	0	0	0	0	0	0
Total discounts	**-430**	**-2,009**	**0**	**-18**	**0**	**0**	**-430**	**-2,027**

The Group made discounts related to the Covid-19 crisis in 2022, in the amount of 430 thousand euros (2021: 2,027 thousand euros).

5 Cost of services and goods sold

Cost of services and goods sold	**2022**	2021
€ thousand		
Repair and maintenance of rental premises	-1,550	-1,255
Salary costs of operator activities, including taxes (until 31.03.2022)	-128	-41
Administrative costs of operator activities (until 31.03.2022)	-69	-33
Property insurance	-54	-49
Land tax	-474	-454
Other administrative expenditure	0	-23
Depreciation of property, plant and equipment (Note 15)	-71	-223
Improvement costs	-328	-11
Impairment of receivables (Note 12)	-25	-8
Total cost of services and goods sold	**-2,699**	**-2,097**

6 Marketing costs

Marketing costs	**2022**	2021
€ thousand		
Commission expenses on rental premises	-73	-32
Wages and salaries, incl. taxes	-61	-15
Advertising, promotional events	-970	-598
Total marketing costs	**-1,104**	**-645**

7 General and administrative expenses

General and administrative expenses	2022	2021
€ thousand		
Management services (Note 23)	-1,460	-1,363
Office expenses	-130	-111
Wages and salaries, incl. taxes	-563	-578
Consulting expenses	-301	-251
Other general and administrative expenses	-65	-61
Depreciation of property, plant and equipment (Note 15)	-10	-11
Total general and administrative expenses	**-2,529**	**-2,375**

8 Other operating income and expenses

Other operating income	2022	2021
€ thousand		
Gain on the fair value of investment property (Note 14)	0	2,288
Fines and penalties received	17	85
Government grants	578	1,553
inc. Domina shopping centre *(Latvia)*	*577*	*1,291*
inc. Radisson Collection hotel (Estonia)	*1*	*262*
Other income	4	27
Total other operating income	**599**	**3,953**

Other operating expenses	2022	2021
€ thousand		
Loss on the fair value of investment property (Note 14)	-942	0
Interest on late payments and fines	-1	-3
Other expenses	0	0
Total other operating expenses	**-943**	**-3**

9 Financial costs

Financial costs	2022	2021
€ thousand		
Interest expenses, incl.	-3,452	-2,751
Interest expense on borrowings	-3,241	-2,326
Interest expense on swap transactions (Note 19)	-211	-425
Total financial costs	**-3,452**	**-2,751**

10 Income tax

	2022	2021
€ thousand		
Income tax expenses on the profit of subsidiaries in Lithuania	-237	-310
Income tax expenses on dividends	-805	-791
Total income tax expense	**-1,042**	**-1,101**

As of 31.12.2021 and 31.12.2022, the Group has deferred income tax liability in the following amounts:

	31.12.2022	31.12.2021
€ thousand		
Deferred income tax liability (Lithuania)	351	256
Deferred income tax liability (dividends)	4,052	3,545
Total deferred income tax liability	**4,403**	**3,801**

Additional information on income tax can be found in Note 3

11 Cash and cash equivalents

	31.12.2022	31.12.2021
€ thousand		
Demand deposits	13,536	8,456
Total cash and cash equivalents	**13,536**	**8,456**

Additional information on cash and cash equivalents can be found in Note 20.

12 Receivables and accrued income

Short-term receivables

	31.12.2022	31.12.2021
€ thousand		
Receivables from customers		
Trade receivables from customers	1,089	1,153
Allowance for doubtful accounts	-109	-83
Total receivables from customers	**980**	**1,070**
Other short-term receivables		
Bank loan guarantee deposit	900	370
Other short-term receivables	47	38
Total other short-term receivables	**947**	**408**
Accrued income		
Interest	0	1
Taxes prepaid and receivables	15	354
Other accrued income	104	90
Total accrued income	**119**	**445**
Total receivables	**2,046**	**1,923**

Receivables from customers	**31.12.2022**	31.12.2021
€ thousand		
Not due	675	343
Overdue, incl.	**414**	**810**
Up to 30 days	*194*	*521*
30-60 days	*44*	*116*
More than 60 days	*176*	*173*
Allowance for doubtful accounts	-109	-83
Total receivables from customers	**980**	**1 070**

Additional information on receivables can be found in Note 20.

13 Prepaid expenses

	31.12.2022	31.12.2021
€ thousand		
Advance payments to suppliers	5	2
Prepayments for insurance	5	4
Prepayments for utilities intermediation	19	72
Future expenses	1	21
Total prepayments	**30**	**99**

14 Investment property

As at 31.12.2022 the Group owns three investment properties in Estonia, two in Latvia and one in Lithuania:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value at 31.12.2022	Share of market value of the Fund's assets
€ thousand						
Duntes Biroji office building	Duntes 6, Riga Latvia	16,035	Nov 15	24,295	25,300	9%
Magistral shopping centre	Sõpruse pst 201/203 Tallinn Estonia	11,773	Feb 16	24,296	29,600	11%
Domina	Ieriku 3, Riga Latvia	54,338	July 16	97,052	94,180	35%
Kaunas Terminal logistics centre	Terminalo 8 and 10, Kaunas Lithuania	28,708	Aug 17	16,389	18,390	7%
Marienthali centre	Mustamäe tee 16, Tallinn Estonia	14,248	Apr 18	25,182	22,970	8%
Radisson Collection hotel	Rävala pst 3/ Kuke tn 2 Tallinn Estonia	22,814	Jan 15	69,941	65,970	24%
Total		**147,916**		**257,155**	**256,410**	**94%**

The following changes have occurred in the Group's investment property in 2021 and in 2022

€ thousands	Completed investment property	Prepayments for investment property	**Total investment property**
Balance as at 31.12.2020	**183,751**	**238**	**183,989**
Acquisitions and developments	4,713	0	**4,713**
Reclassifications	238	-238	**0**
Gain / loss on change in fair value	2,288	0	**2,288**
Balance as at 31.12.2021	**190,990**	**0**	**190,990**
Balance as at 31.12.2021	**190,990**	**0**	**190,990**
Acquisitions and developments	4,235	0	**4,235**
Reclassifications from property, plant and equipment [1] (Note 15)	62,127	0	**62,127**
Gain / loss on change in fair value	-942	0	**-942**
Balance as at 31.12.2022	**256,410**	**0**	**256,410**

[1]From 01.04.2022, the Group ceased operating the hotel and the Radisson Collection hotel was reclassified from property, plant and equipment to investment property (Note 15).

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

€ thousands	**2022**	2021
Rental income from investment property (Note 4)	17,346	12,708
Costs directly related to the management of investment properties	-2,419	-1,739
Outstanding amounts from investment property developments (Note 17)	358	332
Carrying amount of investment property pledged as collateral to borrowings as at 31 December	256,410	190,990

Investment property is pledged as collateral for long-term bank loans (Note 16).

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

Payments from non-cancellable operating leases	**31.12.2022**	31.12.2021
€ thousand		
Up to 1 year	13,315	11,668
2-5 years	25,238	22,717
Over 5 years	5,859	5,051
Total	**44,412**	**39,436**

Assumptions and basis for the calculation of fair value of investment property

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 31.12.2021 and 31.12.2022 was determined using the discounted cash flow method.

The following assumptions were used to determine fair value:

As at 31.12.2022:

Sector	Fair value	Valuation method	First year rental income	Discount rate	Exit yield	Average rent, €/m²
€ thousands						
Office	49,124	Discounted cash flows	3,531	8.3-9.3%	6,5%-7.2%	10.28
Logistics	18,390	Discounted cash flows	1,704	9.2%	7.8%	4.95
Retail	129,523	Discounted cash flows	12,482	8.4%-9.4%	7,0%-7.2%	14.89
Hotels and restaurants	59,373	Discounted cash flows	3,146	8.3%	6.5%	12.66
Total	**256,410**					

As at 31.12.2021:

Sector	Fair value	Valuation method	First year rental income	Discount rate	Exit yield	Average rent, €/m²
€ thousands						
Office	43,600	Discounted cash flows	3,363	7.9%-8.2%	6.6%-7.2%	10.12
Logistics	18,010	Discounted cash flows	1,586	8.6%	7.75%	4.42
Retail	129,380	Discounted cash flows	10,944	8.0%-8.2%	7.0%-7.5%	13.26
Total	**190,990**					

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

- Rental income: real growth rates and rents under current lease agreements are used;

- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;

- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;

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

Fair value sensitivity analysis

The table provided below illustrates as at 31 December 2022 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	Sensitivity to estimate			Sensitivity to discount rate and exit yield				
	Assessment	**Decrease effect to to value**	**Increase effect value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousands							*Fair value*	
Office	Change in rental income +/- 10%	*-5,379*	*5,768*	Change in the exit yield	-0.5%	*53,202*	*52,101*	*51,030*
					0.0%	*50,155*	*49,125*	*48,117*
					0.5%	*47,519*	*46,550*	*45,604*
Logistics	Change in rental income +/- 10%	*-1,990*	*1,970*	Change in the exit yield	-0.5%	*19,660*	*19,270*	*18,890*
					0.0%	*18,760*	*18,390*	*18,030*
					0.5%	*17,970*	*17,620*	*17,280*
Retail	Change in rental income +/- 10%	*-16,825*	*17,309*	Change in the exit yield	-0.5%	*139,612*	*136,774*	*133,999*
					0.0%	*132,192*	*129,522*	*126,924*
					0.5%	*125,762*	*123,239*	*120,777*
Hotels and restaurants	Change in rental income +/- 10%	*-6,336*	*6,336*	Change in the exit yield	-0.5%	*64,476*	*63,135*	*61,821*
					0.0%	*60,633*	*59,373*	*58,149*
					0.5%	*57,339*	*56,151*	*54,999*

As at 31.12.2021:

Sector	Sensitivity to estimate			Sensitivity to discount rate and exit yield				
	Assessment	Decrease effect to value	Increase effect to value			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousands						*Fair value*		
Office	Change in rental income +/- 10%	*-4,475*	*4,911*	Change in the exit yield	-0.5%	*47,150*	*46,172*	*45,222*
					0.0%	*44,515*	*43,600*	*42,712*
					0.5%	*42,255*	*41,385*	*40,550*
Logistics	Change in rental income +/- 10%	*-1,920*	*1,890*	Change in the exit yield	-0.5%	*19,270*	*18,880*	*18,500*
					0.0%	*18,380*	*18,010*	*17,650*
					0.5%	*17,590*	*17,240*	*16,900*
Retail	Change in rental income +/- 10%	*-15,851*	*15,954*	Change in the exit yield	-0.5%	*139,450*	*136,578*	*133,778*
					0.0%	*132,085*	*129,380*	*126,748*
					0.5%	*125,685*	*123,125*	*120,630*

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

Additional information on investment properties can be found in Notes 3 and 20.

15 Property, plant and equipment

	Land and buildings[1]	Depreciable buildings	Machines and devices	Other property, plant and equipment	Total
€ thousands					
Residual value as at 31.12.2021	**58,568**	**462**	**75**	**90**	**59,195**
Cost as at 31.12.2021	*58,568*	*1,500*	*337*	*241*	*60,646*
Accumulated depreciation as at 31.12.2021	*0*	*-1,038*	*-262*	*-151*	*-1,451*
Acquisitions and developments	3,008	0	0	16	3,024
Reclassification to investment property [1] (Note14)	-61,613	-425	-66	-23	-62,127
Revaluation through other comprehensive income	37	0	0	0	37
Depreciation cost	0	-37	-9	-34	-81
Residual value as at 31.12.2022	**0**	**0**	**0**	**49**	**49**
Cost as at 31.12.2022	*0*	*0*	*0*	*201*	*201*
Accumulated depreciation as at 31.12.2022	*0*	*0*	*0*	*-152*	*-152*

[1] The only object of the land and buildings group - the Radisson Collection (formerly Radisson Blu Sky) hotel - was recognised as an investment in property, plant and equipment using the revaluation method until 31.03.2022. Gains and losses on the revaluation of property, plant and equipment were recognised as a reserve in the Group's equity. As of 01.04.2022, the Group stopped operating the hotel and the hotel has been reclassified as an investment property (Note 14).

As at 2021:

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

€ thousand	Land and buildings	Depreciable buildings
Residual value as at 31.12.2020	**45,350**	**612**
Cost as at 31.12.2020	45,350	1,500
Accumulated depreciation as at 31.12.2020	0	-888
Acquisitions and developments	16,588	0
Depreciation cost	0	-150
Residual value as at 31.12.2021	**61,938**	**462**
Cost as at 31.12.2021	61,938	1,500
Accumulated depreciation as at 31.12.2021	0	-1,038

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

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

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

The Group owns the Radisson Collection hotel, which is valued at its balance sheet date on each balance sheet date. Colliers International Advisors OÜ's assessment of the market value of the hotel has been used in the assessment of the final value. The Group's independent appraiser has valued the asset using the discounted cash flow method, taking into account the location, condition and depreciation of the asset and market conditions. From 01.04.2022, the hotel has been reclassified as an investment property (Note 14).

Prerequisites and basis of finding fair value of land and buildings (in 2021)

The fair value of land and buildings recognized in the Group's annual report as at 31.12.2021 is based on the discounted cash flow method. The following assumptions have been used to find the fair value:

	Fair value	Valuation method	Average rental income over 6 years	Discount rate	Exit yield	Average rent, EUR/m2
€ thousands						
Radisson Collection hotel	59,030	Discounted cash flows	4,109	8.5%	6.8%	13.98
Total	**59,030**					

Sensitivity analysis of fair value (in 2021)

The table below illustrates the sensitivity of the fair value of land and buildings recorded in the Group's balance sheet as at 31.12.2021 to the key assumptions of estimates:

	Sensitivity to hotel's occupancy and average daily rate					Sensitivity to discount rate and exit yield				
			Change in hotel occupancy					Change in discount rate		
			-5.0%	0.0%	5.0%			-0.5%	0.0%	0.5%
€ thousand			*Fair value*					*Fair value*		
Radisson Collection hotel	Change in average daily rate (ADR)	-0.5%	*50,860*	*54,300*	*57,740*	Change in exit yield	-0.5%	*64,380*	*62,940*	*61,540*
		0.0%	*55,410*	*59,030*	*62,660*		0.0%	*60,380*	*59,030*	*57,720*
		0.5%	*59,970*	*63,770*	*67,580*		0.5%	*56,930*	*55,670*	*54,430*

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

	2022	2021
€ thousand		
Income from hotel operations	0	15
Direct costs of operations	0	-74
Rental income on property, plant and equipment (Note 4)	55	149
Direct costs related to the management of property, plant and equipment	-23	-88
Depreciation of property, plant and equipment (Note 5, 7)	-81	-234
Outstanding amounts from development of property, plant and equipment (Note 17)	0	1,389
The carrying amount of property, plant and equipment pledged as collateral for loan commitments as at 31 December	0	59,130

Leases entered into between the Group and its lessees comply with the terms of uninterrupted operating leases. Revenue from these leases is distributed as follows:

Payments from perpetual operating leases	31.12.2022	31.12.2021
€ thousand		
Up to 1 year	0	343
2-5 years	0	672
Over 5 years	0	53
Total	**0**	**1,068**

Additional information on plant, property and equipment can be found in Notes 3, 16 and 20.

16 Borrowings

As at 31 December 2022, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement (€ thousand)	Loan balance as at 31.12.2022 (€ thousand)	Contract term	Interest rate as at 31.12.2022	Loan collateral (Notes 14)	Value of collateral (€ thousand)	Loan balance share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.23	3.760%	Mortgage - Rävala 3, EfTEN Kinnisvarafond II AS surety	65,970	15.7%
SEB	Latvia	4,320	3,342	30.11.25	3.994%	Mortgage - Duntes iela 6, Riga Latvia	25,300	2.3%
SEB	Latvia	11,735	9,251	30.11.25	3.994%			6.3%
SEB	Estonia	14,900	13,162	17.04.23	1.835%	Mortgage - Mustamäe tee 16, Tallinn Estonia	22,970	9.0%
LHV	Estonia	18,552	16,244	25.02.26	3.676%	Mortgage- Sõpruse pst 201/203, Tallinn Estonia	29,600	11.1%
Citadele/ Swedbank	Latvia	47,000	43,648	22.03.26	4.753%	Mortgage - Ieriku 3, Riga Latvia	94,180	29.8%
Luminor	Lithuania	9,720	7,911	16.06.27	3.962%	Mortgage - Terminalo 8 and 10, Kaunas Lithuania	18,390	5.4%
Luminor	Lithuania	1,000	983	16.06.27	3.980%			0.7%
Total		**130,226**	**117,541**				**256,410**	**80%**

As at 31.12.2021 the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement (€ thousand)	Loan balance as at 31.12.2021	Contract term	Interest rate as at 31.12.2021	Loan collateral (Notes 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.23	1.202%	Mortgage - Rävala 3, Astlanda Hotelli AS guarantee	59,130	16.2%
SEB	Latvia	4,420	3,489	30.11.25	2.100%	Mortgage - Duntes iela 6, Riga Latvia	25,480	2.5%
SEB	Latvia	11,780	9,660	30.11.25	2.100%			6.8%
SEB	Estonia	14,900	13,534	17.04.23	1.835%	Mortgage - Mustamäe tee 16, Tallinn Estonia	24,160	9.5%
LHV	Estonia	16,500	10,850	25.02.26	2.750%	Mortgage - Sõpruse pst 201/203, Tallinn Estonia	28,440	7.6%
Citadele/ Swedbank	Latvia	42,000	40,831	22.03.26	2.950%	Mortgage - Ieriku 3, Riga Latvia	94,900	28.7%
Luminor	Lithuania	9,720	8,185	30.06.22	1.029%	Mortgage - Terminalo 8 and 10, Kaunas Lithuania	18,010	5.8%
Total		**122,320**	**109,549**				**250,120**	**77%**

Short-term borrowings	**31.12.2022**	31.12.2021
€ thousand		
Repayments of long-term bank loans in the next period	39,497	11,327
Discounted contract fees on bank loans	-98	-95
Total short-term borrowings	**39,399**	**11,232**

Long-term borrowings	**31.12.2022**	31.12.2021
€ thousand		
Total long-term borrowings	**117,271**	**109,233**
incl. current portion of borrowings	39,399	11,232
Bank loans	*39,497*	*11,327*
Discounted contract fees on bank loans	*-98*	*-95*
incl. non-current portion of borrowings, incl.	77,872	98,001
Bank loans	*78,044*	*98,222*
Discounted contract fees on bank loans	*-172*	*-221*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans according to repayment dates	**31.12.2022**	31.12.2021
€ thousand		
Less than 1 year	39,497	11,327
2-5 years	78,044	98,222
Total repayments of bank loans	**117,541**	**109,549**

In 2022, the following changes occurred in bank loan balances:

Lender	Loan balance as at 31.12.2021	Loans received	Loan repayments	Loan balance as at 31.12.2022	Share of the market value of the fund's assets
€ thousand					
SEB	23,000	0	0	23,000	8%
SEB	3,489	0	-147	3,342	1%
SEB	9,660	0	-409	9,251	3%
SEB	13,534	0	-372	13,162	5%
LHV	10,850	5,552	-158	16,244	6%
Citadele/Swedbank	40,831	5,000	-2,183	43,648	16%
Luminor	8,185	0	-274	7,911	3%
Luminor	0	1,000	-17	983	0%
Total	**109,549**	**11,552**	**-3,560**	**117,541**	**43%**

Additional information on loan liabilities can be found in Note 20.

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2022	31.12.2021
€ thousand		
Trade payables related to the fixed asset development project (Note 15)	0	1,389
Trade payables related to real estate investment development projects (Note 14)	358	325
Other trade payables	987	1,042
Total trade payables	**1,345**	**2,756**
Tax liabilities		
Value added tax	214	172
Corporate income tax	78	40
Personal income tax	8	20
Social tax	15	36
Other tax liabilities	0	3
Total tax liabilities	**315**	**271**
Accruals		
Interest liabilities	86	49
Payables to employees	51	95
Accrued liabilities related to real estate investment development projects (Note 14)	0	7
Tenant security deposits	681	486
Other accrued liabilities	52	97
Total accrued expenses	**870**	**734**
Prepayments		
Prepayments received from buyers	23	10
Total prepayments	**23**	**10**
Total payables and prepayments	**2,553**	**3,771**

Long-term payables

	31.12.2022	31.12.2021
€ thousand		
Tenants' security deposits	1,347	1,470
Total other long-term payables	**1,347**	**1,470**

Additional information on payables can be found in Note 20.

18 Success fee liability

The basis for the accrual calculation of the success fee is the fair value estimates of investment properties as of the balance sheet date. The cost of the change in the success fee is recognised in the composition of the Group's general and administrative expenses (Note 7). As of 31.12.2022 and 31.12.2021, the accumulated revaluation of the Group's investment properties is negative and the success fee obligation is 0 euros.

19 Derivatives

As of 31.12.2021, the Group had two interest rate swaps to fix the interest rate of long-term borrowings at nominal value of 31,185 thousand euros. Both contracts expired in 2022. See Note 20.

	Country	The nominal amount of the contract as of 31.12.2021, in € thousands	Fixed interest rate	Maturity date	Fair value (EUR, thousand)	
					31.12.2022	31.12.2021
SEB	Estonia	23,000	1-month EURIBOR at 0.65%	30.08.2022	0	-186
Nordea	Lithuania	8,185	3-month EURIBOR at 0.35%	30.06.2022	0	-37
Total		**31,185**			**0**	**-223**

The Group's interest expense from interest rate swaps was 211 thousand euros in 2022 (425 thousand euros in 2021) (Note 9).

20 Financial instruments, management of financial risks

The main financial liabilities of the Group are loan liabilities taken to finance the Group's real estate investments. The Group's balance sheet also includes cash, trade receivables, other receivables, and trade 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	31.12.2022	31.12.2021
€ thousands			
Financial assets - measured at amortised cost			
Cash and cash equivalents	11	13,536	8,456
Trade receivables	12	980	1,070
Total financial assets measured at amortised cost		**14,516**	**9,526**
Financial liabilities measured at amortised cost			
Borrowings	16	117,271	109,233
Trade payables	17	1,345	2,756
Tenant security deposits	17	2,028	1,956
Accrued expenses	17	52	104
Total financial liabilities measured at amortised cost		**120,695**	**114,049**
Derivative instruments (interest rate swaps)	19	0	223
Total financial liabilities measured at fair value		**0**	**223**
Total financial liabilities		**120,695**	**114,272**

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

The following changes in the carrying amounts of financial liabilities occurred in 2022:

			Non-monetary Change	
	As at 31.12.2021	Change in cash flows	Change in fair value	As at 31.12.2022
€ thousand				
Borrowings	109,233	8,037	0	117,270
Trade payables	2,756	-1,411	0	1,345
Tenant security deposits	1,956	72	0	2,028
Accrued expenses	104	-52	0	52
Derivative instruments (interest rate swaps)	223	0	-223	0
Total financial liabilities	**114,272**	**6,646**	**-223**	**120,695**

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

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

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

Market risk

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

Interest risk

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

As of 31.12.2022, 89% of the Group's loan agreements are based on floating interest (31.12.2021: 88%), of which 30% of loan liabilities are related to 1-month EURIBOR (31.12.2021: 33%), 8% of loan liabilities are 3-month EURIBOR (31.12.2021: 8%) and 51% of loan liabilities with 6-month EURIBOR (31.12.2021: 47%). As of 31.12.2022, a 0% limit (floor) has been set for all loan agreements in the loan portfolio of EfTEN Kinnisvarafond II AS (2021: 72% of loan agreements) to protect against a negative EURIBOR, i.e. in case of a negative EURIBOR, the loan margin for these loans will not decrease.

The table below illustrates the sensitivity of interest payments resulting from loan agreements with a floating interest rate:

	Sensitivity to changes in the loan interest rate	
	Change in interest rate in base points	Impact on the Group's pre-tax profit per year *€ thousands*
Euribor	-100 BP	1,044
	-50 BP	522
	+50 BP	-522
	+100 BP	-1,044
	+150 BP	-1,566
	+200 BP	-2,088
	+250 BP	-2,609

As a result of the long-term nature of the Group's investments and the connection of investments with long-term borrowings the management of EfTEN Kinnisvarafond II AS decided in 2015 to mitigate the risk of an increase in the long-term floating interest rate on the loan portfolio through floating interest rate fixation. It was decided to hedge the risk with interest rate swap contracts, where the floating interest rate of the loan agreement was changed against a fixed interest rate. The Group recognises interest rate swaps on a hedge accounting basis. All the Group's interest rate swaps expired in 2022 (Note 19). The fair value of the Group's interest rate swaps as of 31.12.2021 was negative in the total amount of 223 thousand euros. The profit from the change in fair value in 2022 was 223 thousand euros (2021: profit 430 thousand euros).

Liquidity risk

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

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

The Group's goal is to manage net cash flows in such a way that no more than 60% of the acquisition cost of the investment is involved in making investments. As at 31 December 2022, the share of the Group's interest-bearing debt liabilities in cash-generating investment properties was 46% (31 December 2021: 44%) and the debt coverage ratio was 1.9 (31 December 2021 2.1).

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

As at 31.12.2022	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	23,300	13,941	2,158	77,872	0	**117,271**
Interest payments	396	935	2,330	7,497	0	**11,158**
Interest payables	86	0	0	0	0	**86**
Trade payables	1,345	0	0	0	0	**1,345**
Tenant security deposits	89	239	353	1,180	167	**2,028**
Accrued expenses	52	0	0	0	0	**52**
Total financial liabilities	**25,268**	**15,115**	**4,841**	**86,549**	**167**	**131,940**

As at 31.12.2021	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousand						
Interest-bearing liabilities	254	848	10,130	98,001	0	**109,233**
Interest payments	233	680	1,652	5,215	0	**7,780**
interest rate derivatives liabilities	0	0	223	0	0	**223**
Interest payables	49	0	0	0	0	**49**
Trade payables	2,756	0	0	0	0	**2,756**
Tenant security deposits	46	243	197	1,209	261	**1,956**
Accrued expenses	104	0	0	0	0	**104**
Total financial liabilities	**3,442**	**1,771**	**12,202**	**104,425**	**261**	**122,101**

Working capital statement

	31.12.2022	31.12.2021
€ thousand		
Cash and cash equivalents (Note 11)	13,536	8,456
Receivables and accrued income (Note 12)	2,046	1,923
Other current assets	37	111
Total assets	**15,619**	**10,490**
Current part of long-term liabilities (Note 16)	39,399	11,232
Short-term debts and prepayments (Note 17)	2,553	3,994
Total current liabilities	**41,952**	**15,226**
Total working capital	**-26,332**	**-4,736**

In 2023, the maturity date of the Group's two long-term loan agreements in the total amount (balance on 31 December 2022) is 36,162 thousand euros, therefore the coverage ratio of the Group's current liabilities as of 31 December 2022 is only 0.4. As at 31 December 2022 the fair value of the collateral of these loan agreements is 88,940 thousand euros, including the LTV *(Loan to Value)* of 35% and 57%. The investment properties pledged as collateral for the loan agreement have a strong existing cash flow and tenant base, therefore, according to the Group's management, it is unlikely that the refinancing of the said loans would be difficult and would cause liquidity problems for the Group.

Credit risk

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

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

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

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

Accounts receivables are illustrated by the table below:

Trade receivables	**31.12.2022**	31.12.2021
€ thousand		
Undue	675	343
Past due, incl.	**414**	**810**
up to 30 days	*194*	*521*
30-60 days	*44*	*116*
more than 60 days	*176*	*173*
Allowance for doubtful accounts	-109	-83
Total trade receivables	**980**	**1,070**

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

	31.12.2022	31.12.2021
€ thousand		
Cash and cash equivalents (Note 11)	13,536	8,456
Trade receivables (Note 12)	980	1,070
Total maximum credit risk	**14,516**	**9,525**

The bank account balances presented as part of the cash and cash equivalents of the Group are divided according to the credit ratings of banks (Moody's long- term) as follows:

Rating	**31.12.2022**	31.12.2021
Aa3	7,309	6,222
Baa2	4,083	1,539
Baa3	2,144	695
Total	**13,536**	**8,456**

Capital management

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

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

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As of 31.12.2021 and 31.12.2022, the Group does not have any assets at fair value that would be included in the Level 1 group when determining the value. All of the Group's investment properties (Note 14) and property, plant and equipment recognized at revaluation method (Note 15) are stated at fair value and are classified in Level 3 according to the valuation method. All the Group's borrowings and derivatives for hedging interest rate risk are included in the Level 2 group.

To hedge interest rate risk, the Group has entered into interest rate swaps (Note 19), the fair value of which is obtained by discounting the cash flows of interest rate swaps so that incoming and outgoing cash flows are estimated and discounted at zero rate. The Group uses the information received from credit institutions that are contractual counterparties to recognize interest rate swaps at fair value.

Risk related to military activities

In February 2022, Russia started a war in Ukraine. In this regard, most countries imposed extensive sanctions, which have a significant negative impact on the Russian economy. As far as the fund manager is aware, there are no tenants mainly related to business activities in Russia or Ukraine on the rental premises of the real estate objects owned by the fund. Therefore, the impact of the direct or so-called first round realization of the risk on the fund's financial results is small. In connection with the imposed sanctions, the effects of the so-called second round of risk realization may gradually appear over time - in particular, they may affect the fund through a decrease in investors' confidence in the economies of the Baltic countries (thereby increasing the probability of the realization of market risk, refinancing and interest rate risk, as well as liquidity risk).

21 Share capital

The registered share capital of EfTEN Kinnisvarafond II AS as of 31.12.2022 and 31.12.2021 was 92,138 thousand euros. As of 31.12.2022 and 31.12.2021, the share capital consisted of 9,213,756 shares with a nominal value of 10 euros. Without amending the articles of association, the company has the right to increase the share capital to 100,100 thousand euros.

In the reporting year, 496 thousand euros (2021: 101 thousand euros) were transferred from retained earnings to statutory reserve capital.
Additional information on share capital is provided in Note 27.

22 Contingent liabilities

Contingent income tax liability

	31.12.2022	31.12.2021
€ thousand		
The company's retained earnings as at December 31	48,539	45,289
Potential income tax liability	9,708	9,058
The amount that can be paid out as dividends	38,831	36,231

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution at 31.12.2021 and 31.12.2022.

Potential liabilities arising from the tax audit

Estonia

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

Latvia and Lithuania

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

23 Related party transactions

EfTEN Kinnisvarafond II AS considers the following as related parties:

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

The Group purchased management services from EfTEN Capital AS in the amount of 1,460 (2021: 1,363) thousand euros (Note 7) and accounting and brokerage services for the amount of 72 (2021: 52) thousand from EfTEN Capital AS subsidiaries and associates.

During the reporting period, the Group had 21 (2020: 16) employees, for whom a total of 752 (2021: 633) thousand euros in fees including related taxes. No remuneration was calculated or paid to the members of the Group's Management Board or Supervisory Board during the reporting period. The members of the Group's Management Board work for EfTEN Capital AS, a company providing management services to the Group, and expenses related to the activities of a member of the Management Board are included in the management services.

24 Parent company's separate income statement

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

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

	2022	2021
€ thousand		
Revenue	1,433	1,327
Gross profit	**1,433**	**1,327**
General and administrative expenses	-1,556	-1,439
Operating profit	**-123**	**-112**
Gain from subsidiaries	3,993	8,425
Dividend income	3,520	1,200
Finance income	574	386
Finance expense	0	-29
Profit before income tax	**7,964**	**9,870**
Net profit for the financial year	**7,964**	**9,870**

25 Parent company's separate balance sheet

	31.12.2022	31.12.2021
€ thousand		
ASSETS		
Cash and cash equivalents	2,073	467
Receivables and accrued income	19,139	8,854
Total current assets	**21,212**	**9,321**
Non-current assets		
Shares of subsidiaries	122,541	122,548
Long-term receivables	2,930	14,362
Total non-current assets	**125,471**	**136,910**
TOTAL ASSETS	**146,683**	**146,231**
LIABILITIES AND EQUITY		
Short-term liabilities		
Loan liabilities	0	4,000
Payables and prepayments	53	45
Total short-term liabilities	**53**	**4,045**
Total liabilities	**53**	**4,045**
EQUITY		
Share capital	92,138	92,138
Share premium	5,861	5,861
Statutory reserve capital	2,988	2,492
Retained earnings	45,643	41,695
Total equity	**146,630**	**142,186**
TOTAL LIABILITIES AND EQUITY	**146,683**	**146,231**

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

	2022	2021
€ thousand		
Cash flows from operating activities		
Net profit	**7,964**	**9,870**
Adjustments to net profit:		
Finance income and expenses	-574	-357
Gain/-loss on the fair value adjustment of subsidiaries	-3,993	-8,425
Dividends received	-3,520	-1,200
Total adjustments	**-8,087**	**-9,982**
Cash flow from operations before changes in working capital	**-123**	**-112**
Change in receivables and payables related to operating activities	-7	-4
Net cash generated from operating activities	**-130**	**-116**
Cash flows from investing activities		
Received from subsidiaries' equity reduction payments	3,390	2,500
Loans granted	-8,090	-14,090
Repayment of loans granted	6,308	3,300
Dividends received	3,520	1,200
Interest received	128	0
Cash flows from investing activities	**5,256**	**-7,090**
Cash flows from investing activities		
Loans received	0	4,000
Dividends paid	-3,520	0
Net cash generated from financing activities	**-3,520**	**4,000**
NET CASH FLOW	**1,606**	**-3,206**
Cash and cash equivalents at the beginning of the period	**467**	**3,673**
Change in cash and cash equivalents	1,606	-3,206
Cash and cash equivalents at the end of the period	**2,073**	**467**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
€ thousands					
Balance as at 01.01.2020	**92,138**	**5,861**	**2,391**	**31,926**	**132,316**
Provisions for reserve capital	0	0	101	-101	**0**
Profit for the period	0	0	0	9,870	**9,870**
Balance as at 31.12.2021	**92,138**	**5,861**	**2,492**	**41,695**	**142,186**
Balance as at 31.12.2021	**92,138**	**5,861**	**2,492**	**41,695**	**142,186**
Declaration of dividends	0	0	0	-3,520	-3,520
Provisions for reserve capital	0	0	496	-496	0
Profit for the period	0	0	0	7,964	7,964
Balance as at 31.12.2022	**92,138**	**5,861**	**2,988**	**45,643**	**146,630**

Additional information on changes in shares is provided in Note 21.

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

	31.12.2022	31.12.2021
€ thousand		
Parent company's unconsolidated equity	146,630	142,186
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-122,541	-122,548
Value of subsidiaries under the equity method (plus)	122,541	122,548
Total	**146,630**	**142,186**

Independent Auditor's Report

To the Shareholders of EfTEN Kinnisvarafond II AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Kinnisvarafond II AS and its subsidiaries (together the "Group") as at 31 December 2022, 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 statement of other comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report and Distribution of revenue according to the Estonian Classification of Economic Activities (but does not include the consolidated financial statements and our auditor's report thereon).

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

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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 and other information 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/

Rando Rand
Auditor's certificate no. 617

Anna Belaja
Auditor's certificate no. 723

28 February 2023
Tallinn, Estonia

Translation note:

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

Proposal for profit allocation

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

Retained earnings as at 31.12.2022	48,976,889
Provision for statutory reserve capital	385,183
Dividend distribution	3,224,815 (35 cents per share)
Retained earnings after provisions	45,366,891

/digitally signed/	/digitally signed/
____________________________	____________________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board

28. February 2023

Signatures of the members of the Management Board and Supervisory Board to the 2022 annual report

We hereby confirm the correctness of data presented in the 2022 annual report of EfTEN Kinnisvarafond II AS.

/digitally signed/	/digitally signed/
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board
/digitally signed/	/digitally signed/
Sander Rebane	Olav Miil
Member of the Supervisory Board	Member of the Supervisory Board
/digitally signed/	/digitally signed/
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	2022	Revenue %	Main activity
€ thousand				
Fund management	66301	1,433	100%	yes