Consolidated Annual Report 2023

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of financial year: 01.01.2023

End of financial year: 31.12.2023

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MANAGEMENT REPORT

The Fund manager's comment on the year 2023 results

In 2023, major central banks raised interest rates more than the markets had forecast for the second year in a row. Eurozone interest rates, which peaked in October, also had an impact on the value of EfTEN Kinnisvarafond II AS's assets, and the fund's interest expenses almost doubled during the year (by approx. 3 million euros). The fund was able to compensate the increase in interest expenses with higher rental income. The increase in rental income was primarily related to the fund's two largest assets: (i) the Radisson Collection hotel in Tallinn, which completed its first full year after renovation, and (ii) the Domina shopping centre in Riga, where rental income increased due to the expansion of the centre and the addition of several larger tenants. In total, the fund was able to earn higher rental income from 5/6 objects in a year. In addition, the fund refinanced the Magistral shopping centre loan in the summer of 2023 at a lower interest margin than before.

The economic environment of the Baltic states has been one of the weakest in Europe since the summer of 2022. Economic growth in all three Baltic states was negative in the first nine months of 2023: Estonia -3.5%, Latvia -0.6% and Lithuania -0.5%. Somewhat paradoxically, however, the real estate market here has been relatively resilient. Transaction activity has dropped significantly, but foreclosures have essentially not occurred in commercial real estate. Tenants' demand for office space is weakest. In the fund's portfolio, offices make up less than 20% of the assets' value. In the Duntes office building in Riga, the leases with larger tenants were extended, and in the Marienthal centre in Tallinn, the fund was able to find additional tenants for the converted smaller office spaces.

According to the fund's articles of association, the fund's maturity date will be in January 2025, which can be extended by the investors' decision. According to the Fund manager, apart from major renovation works, all objects are in the best condition of the last few years, and the Fund manager forecasts an increase in the rental income of the objects for the next few years.

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS in 2022 was 22.589 million euros (2022: 18.762 million euros), increasing by 20% compared to 2022. Half of the increase in sales revenue, 51%, was the rental income of the Radisson Collection hotel, which reopened after renovations in April 2022. The Group's net rental income (NOI) totalled 19.136 million euros in 2023 (2022: 14.959 million euros). The consolidated net rental income margin was 85% (2022: 80%) in 2023, so costs directly related to property management (including land tax, insurance, maintenance and improvement costs) and distribution costs accounted for 15% (2022: 20%) of sales revenue.

	2023	2022
€ millions		
Revenue and other income related to investment properties	22.589	18.762
Expenses related to investment properties, incl. marketing costs	-3.453	-3.803
Net sales revenue	**19.136**	**14.959**
Net sales margin	*85%*	*80%*
Interest income and expense	-6.369	-3.452
Management fees	-1.478	-1.460
Other income and expenses	-0.632	-0.359
Profit before change in the value of investment property and income tax expense	**10.657**	**9.688**

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.

As at 31.12.2023, the group's total assets amounted to 263.807 million euros (31.12.2022: 272.204 million euros), including investment property at fair value accounted for 94.4% of the volume of assets (31.12.2022: 94.2%). The net asset value of EfTEN Kinnisvarafond II AS decreased by 3.4% over the year (2022: increased by 3.1%).

	31.12.2023	31.12.2022
€ millions		
Investment property	249.150	256.410
Ownership in an affiliate	0.305	0.113
Other non-current assets	0.033	0.062
Current assets, excluding cash and deposits	2.817	2.083
Net debt (cash and deposits minus short- and long-term bank loans)	-102.131	-104.005
Net asset value (NAV)	141.643	146.630
Net asset value (NAV) per share, in euros	15.3731	15.9142

The weighted average interest rate of the group's loan agreements was 6.18% as of the end of the reporting period (31.12.2022: 3.94%), and the share of interest-bearing debt obligations from real estate investments generating cash flow (LTV - Loan to Value) was 46% (31.12.2022: 46%).

Key financial ratios

12 months	31.12.2023	31.12.2022
ROE, % *(net profit of the period / average equity of the period) x 100*	-1.2	5.2
ROA, % *(net profit of the period / average assets of the period) x 100*	-0.7	2.8
ROIC, % *(net profit of the period / average invested capital of the period[1]) x 100*	-1.8	7.4
Revenue (€ thousand)	22,589	18,762
EBITDA (€ thousand)	16,792	13,109
EBITDA margin, %	74.3	69.9
Liquidity ratio (current assets / current liabilities)	2.2	0.4
DSCR (EBITDA/ (interest expenses + scheduled loan payments)	1.6	1.9

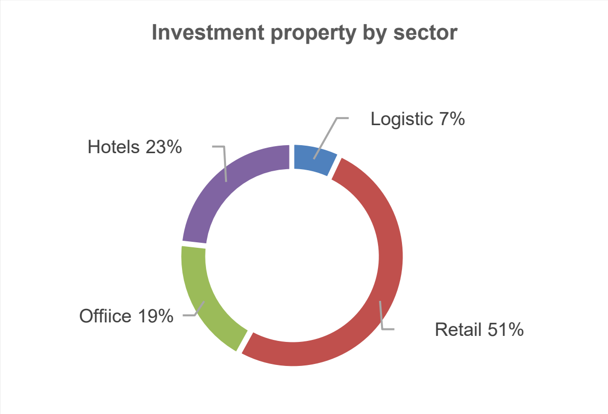
[1] The average invested capital of the period is the paid-in share capital of EfTEN Kinnisvarafond II AS's equity. The indicator does not show the actual investment of the funds raised as equity.

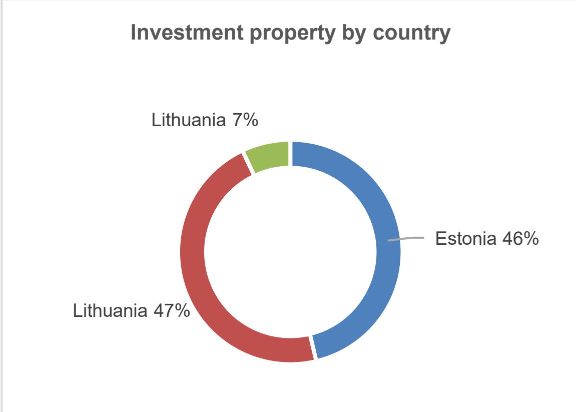
The principles and objectives used of the asset risk management for the group are described in Note 20.
Interest rate risks occurred during the financial year and during the period of preparation of the report are described in Note 20.

Real estate portfolio

The portfolio of EfTEN Kinnisvarafond II AS includes 6 individual investments, the fair value of which as at the end of 2023 is a total of 249.150 million euros (2022: 256.410 million euros).

Name	Location	Net leasable area (m2)	Market value 31.12.2023	Share of the market value of the fund's assets	Utilization, %	Average lease length	Number of tenants
€ thousands							
Duntes Biroji office building	Duntes 6, Riga, Latvia	16,035	24,310	9%	89.3%	3.51	23
Magistrali shopping centre	Sõpruse pst 201/203, Tallinn, Estonia	11,773	29,800	11%	99.3%	3.25	71
Domina shopping centre	Ieriku 3, Riga, Latvia	54,462	92,000	35%	99.4%	2.91	228
Kaunas Terminal logistics centre	Terminalo 8 and 10, Kaunas, Lithuania	28,708	17,510	7%	95.8%	2.05	5
Marienthali centre	Mustamäe tee 16, Tallinn, Estonia	13,973	21,240	8%	90.7%	3.71	67
Radisson Collection hotel	Rävala pst 3/ Kuke tn 2, Tallinn, Estonia	22,814	64,290	24%	100.0%	7.58	9
Total		**147,765**	**249,150**	**94%**	**96.8%**	**3.92**	**403**





Comparable rental income by investment property

€ thousands	Fair value 31.12.2023	Rental income 2023	Rental income 2022	Change	Change
Duntes Biroji office building	24,310	1,806	1,858	-52	-2.8%
Magistrali shopping centre	29,800	2,663	2,462	201	8.2%
Domina shopping centre	92,000	8,915	8,033	882	11.0%
Kaunas Terminal logistics centre	17,510	1,601	1,513	88	5.8%
Marienthali centre	21,240	1,687	1,648	39	2.4%
Total comparable assets and rental income	**184,860**	**16,672**	**15,514**	**1,158**	**7.5%**
Radisson Collection hotel (assets out of the development stage)	64,290	3,886	1,887	1,999	105.9%
Total assets and rental income of the real estate portfolio	**249,150**	**20,558**	**17,401**	**3,157**	**18.1%**

Comparable rental income by country

€ thousands	Fair value 31.12.2023	Rental income 2023	Rental income 2022	Change	Change
Estonia	51,040	4,350	4,110	240	5.8%
Latvia	116,310	10,721	9,891	830	8.4%
Lithuania	17,510	1,601	1,513	88	5.8%
Total comparable assets and rental income	**184,860**	**16,672**	**15,514**	**1,158**	**7.5%**
Radisson Collection hotel (assets out of the development stage)	64,290	3,886	1,887	1,999	105.9%
Total assets and rental income of the real estate portfolio	**249,150**	**20,558**	**17,401**	**3,157**	**18.1%**

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 al 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.

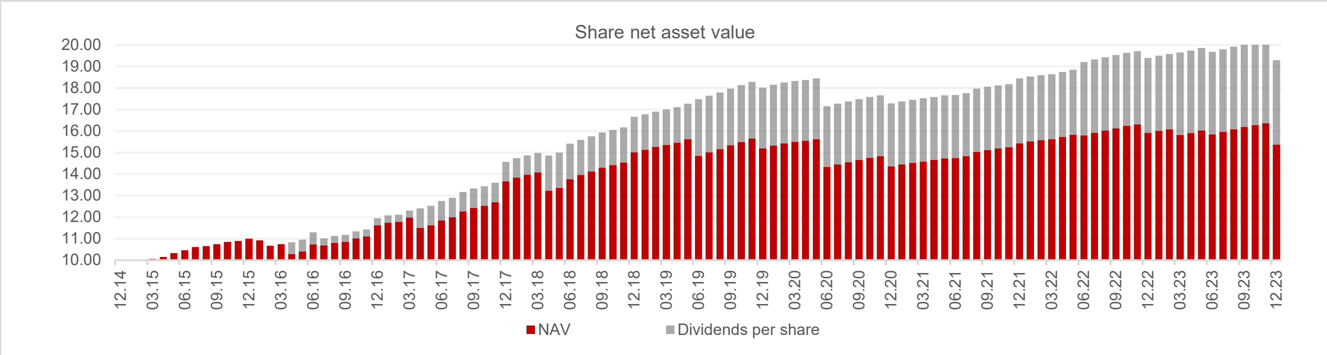
As a result of revaluations, the value of the Fund's investment properties decreased by 4.4% in 2023 (in 2022, it decreased by 0.4%).

Information on shares

As at 31.12.2023, the total contributions made to the share capital of EfTEN Kinnisvarafond II AS is 98 million euros (31.12.2022: the same), incl. Share capital 92.138 million euros and share premium 5.861 million euros. The number of shares as at 31.12.2023 was 9,213,756 (31.12.2022: the same).

	31.12.2023	**31.12.2022**
Net asset value of the group, in thousands of €	141,643	146,630
Number of shares at the balance sheet date	9,213,756	9,213,756
NAV per share, in euros	15.3731	15.9142

	31.12.2023	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, €	15.3731	15.9142	15.4318	14.3606	15.1952	15.0152	13.6665	11.6175	10.9968	10.0000
NAV growth per year	-3.40%	3.13%	7.46%	-5.49%	1.20%	9.87%	17.64%	5.64%	9.97%	-
NAV growth per 2 years	-0.38%	10.82%	1.56%	-4.36%	11.19%	29.25%	24.28%	16.18%	-	-
NAV growth per 3 years	7.05%	4.73%	2.77%	5.08%	30.80%	36.54%	36.67%	-	-	-
NAV growth per 4 years	1.17%	5.99%	12.92%	23.61%	38.18%	50.15%	-	-	-	-
NAV growth per 5 years	2.38%	16.45%	32.83%	30.59%	51.95%	-	-	-	-	-
NAV growth per 6 years	12.49%	36.98%	40.33%	43.61%	-	-	-	-	-	-
NAV growth per 7 years	32.33%	44.72%	54.32%	-	-	-	-	-	-	-
NAV growth per 8 years	39.80%	59.14%	-	-	-	-	-	-	-	-
NAV growth per 9 years	53.73%	-	-	-	-	-	-	-	-	-



The group's dividend policy is stipulated in the fund's articles of association.

Shareholder structure of EfTEN Kinnisvarafond II AS as of 31.12.2023

	Ownership percentage in share capital, %
Swedbank pension funds	63.32%
Luminor pension funds	15.18%
Swedbank Life Insurance SE	4.22%
SEB Bankas AB	4.18%
ERGO Life Insurance SE Estonian branch	3.96%
Others	9.14%

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. Shareholders' rights were not changed in 2023.

In the reporting year, the regular general meeting of shareholders was held on 30.03.2023, where 79.03% of the votes represented by shares were represented. The report for the 2022 financial year was unanimously approved, the profit distribution was decided, and the new version of the articles of association was approved. It was decided to transfer 385,183 euros from undistributed profit to the mandatory reserve capital and to pay shareholders a net dividend of 3,224,815 euros (35 euro cents per share). No other allocations were made.

There were no extraordinary general meetings of shareholders in 2023.

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 2023.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	2023	2022
€ thousands			
Revenue	4	22,589	18,762
Cost of services and goods sold	5	-2,394	-2,699
Gross profit		**20,195**	**16,063**
Marketing costs	6	-1,059	-1,104
General and administrative expenses	7	-2,373	-2,529
Gain/ loss from revaluation of investment properties	14	-11,560	-942
Other income/ expenses	8	-1	598
Operating profit		**5,202**	**12,086**
Profit from affiliates	2	264	112
Finance income		126	0
Finance costs	9	-6,495	-3,452
Profit/ loss before income tax		**-903**	**8,746**
Income tax expense	10	-858	-1,042
Total net profit/ loss for the financial year		**-1,761**	**7,704**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2023	2022
€ thousands			
Net profit for the financial year		-1,761	7,704
Other comprehensive income/ expense:			
Revaluation of property, plant and equipment	15	0	37
Gain on revaluation of hedging instruments		0	223
Total other comprehensive income/ -expense		**0**	**259**
Total comprehensive income for the financial year		**-1,761**	**7,964**

Notes on pages 13-37 are integral parts of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	31.12.2023	31.12.2022
€ thousands			
ASSETS			
Cash and cash equivalents	11	10,502	13,536
Short term deposits	20	1,000	0
Receivables and accruals	12	2,786	2,046
Prepaid expenses	13	25	30
Inventories		6	7
Total current assets		**14,319**	**15,619**
Long-term receivables		0	5
Shares of affiliates	2	305	113
Long-term investments in securities		8	8
Investment property	14	249,150	256,410
Property, plant and equipment	15	25	49
Total non-current assets		**249,488**	**256,585**
TOTAL ASSETS		**263,807**	**272,204**
LIABILITIES AND EQUITY			
Borrowings	16	4,227	39,399
Payables and prepayments	17	2,408	2,553
Total current liabilities		**6,635**	**41,952**
Borrowings	16	109,178	77,872
Other long-term payables	17	1,783	1,347
Deferred income tax liability	10	4,568	4,403
Total non-current liabilities		**115,529**	**83,622**
Total liabilities		**122,164**	**125,574**
Share capital	21	92,138	92,138
Share premium	21	5,861	5,861
Statutory reserve capital	21	3,373	2,988
Revaluation reserve	15	-3,334	-3,334
Retained earnings		43,605	48,977
Total equity		**141,643**	**146,630**
TOTAL LIABILITIES AND EQUITY		**263,807**	**272,204**

Notes on pages 13-37 are integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2023	2022
€ thousands			
Net profit/loss		**-1,761**	**7,704**
Adjustments:			
Profit from associates using the equity method	2	-264	-112
Finance income		-126	0
Finance costs	9	6,495	3,452
Investment property revaluation gain / loss	14	11,560	942
Depreciation, amortisation and impairment	15	30	81
Income tax expense	10	858	1,042
Total adjustment with non-cash changes		**18,553**	**5,405**
Cash flow from operations before changes in working capital		**16,792**	**13,109**
Changes in receivables and payables related to operating activities		-134	162
Change in inventory		1	6
Total cash generated from operating activities		**16,659**	**13,277**
Purchase of property, plant and equipment	15	-7	-4,413
Acquisition of investment property	14	-4,350	-4,058
Acquisition of affiliate	2	0	-1
Acquisition of other investments	20	-1,000	0
Dividends received	2	72	0
Interest received		122	0
Total cash generated from investing activities		**-5,162**	**-8,472**
Loans received	16	67	11,552
Schedule loan repayments	16	-3,975	-3,560
Paid to loan collateral's deposit account	12	-431	-530
Interest paid		-6,397	-3,370
Dividends paid		-3,226	-3,520
Income tax on dividends paid		-569	-297
Total cash generated from financing activities		**-14,531**	**275**
TOTAL CASH FLOW		**-3,034**	**5,080**
Cash and cash equivalents at the beginning of the period	11	**13,536**	**8,456**
Change in money and money equivalents		-3,034	5,080
Cash and cash equivalents at the end of the period	11	**10,502**	**13,536**

Notes on pages 13-37 are integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Revaluation reserve	Retained earnings	**Total**
€ thousands							
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**
Profit 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**	**7,964**
Balance 31.12.2022	**92,138**	**5,861**	**2,988**	**0**	**-3,334**	**48,977**	**146,630**
Provisions for statutory reserve	0	0	385	0	0	-385	**0**
Dividends paid	0	0	0	0	0	-3,226	**-3,226**
Total transactions with owners	**0**	**0**	**385**	**0**	**0**	**-3,611**	**-3,226**
Net profit for the period	0	0	0	0	0	-1,761	**-1,761**
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**	**0**	**-1,761**	**-1,761**
Balance 31.12.2023	**92,138**	**5,861**	**3,373**	**0**	**-3,334**	**43,605**	**141,643**

Additional information on changes in share capital and equity is provided in Notes 15, 21 and 22.

Notes on pages 13-37 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 2023 have been signed by the Management Board on 21 February 2024. 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 31.12.2023 is as follows:

EfTEN Kinnisvarafond II AS	*100%*	EfTEN Sky OÜ	*Rävala pst 3 / Kuke tn 2, Tallinn, Estonia*
	100%	EfTEN Dunte SIA	*Duntes iela 6, Riga, Latvia*
	100%	Magistral Kaubanduskeskuse OÜ	*Sõpruse pst 201/203, Tallinn, Estonia*
	100%	EfTEN Marienthal OÜ	*Mustamäe tee 16, Tallinn, Estonia*
	100%	EfTEN Domina SIA	*Ieriku 3, Riga, Latvia*
	100%	Kaunas Terminal UAB	*Terminalo g. 10, Kaunas, Lithuania*

Until 31.03.2022. EfTEN Kinnisvarafond II AS owned a 100% stake in Astlanda Hotelli AS, the operating company of the Radisson Collection hotel. On 11.02.2022, a merger agreement was signed between the parent company EfTEN Sky OÜ as the merging company and Astlanda Hotelli AS as the merging company. The balance sheet date of the merger was 01.04.2022. Until the balance sheet date of the merger, the operating results of the hotel were included in the consolidated fund report. The merger took effect on 27.06.2022.

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.

The financial statements have been prepared using the acquisition cost method, unless otherwise stated (for example, investment property is recorded at fair value).

The report has been prepared based on the principle of business continuity.

1.1 Adoption of New or Revised Standards and Interpretations

From January 1, 2023, the following new or revised standards and interpretations became mandatory for the Group:

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for accounting periods beginning on or after January 1, 2023)

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 has taken the new requirements into account when preparing this annual report.

Amendments to IAS 8: Definition of Accounting Estimates (effective for accounting periods beginning on or after January 1, 2023)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The above-mentioned changes did not have a significant impact on the Group's financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for reporting periods beginning on or after January 1, 2023.)

IAS 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 above-mentioned changes did not have a significant impact on the Group's financial statements.

The standards will come into force in the following reporting periods and standards not yet adopted

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

(effective to reporting periods beginning on or after January 1, 2024; not yet adopted by the European Union)

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 impact of the said change after its implementation.

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

(applicable to accounting periods beginning on or after January 1, 2024; not yet adopted by the European Union)

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 impact of the said change after its implementation.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Financial Arrangements

(applies to accounting periods beginning on or after January 1, 2024; not yet adopted by the European Union)

In response to financial statement users' concerns about insufficient or misleading disclosure of financing arrangements, the IASB issued amendments to IAS 7 and IFRS 7 in May 2023 to require disclosure of supplier finance arrangements. These changes require disclosure of financial arrangements with corporate suppliers that would allow users of financial statements to assess the impact of those arrangements on the company's liabilities and cash flows and the company's liquidity risk. The purpose of the additional disclosure requirements is to increase the transparency of suppliers' financial arrangements. The changes do not affect the recognition or measurement principles, only the disclosure requirements. The new disclosure requirements will take effect for reporting periods beginning on or after January 1, 2024.

The group will analyse and disclose the impact of the said change after its implementation.

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 European Union)

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 impact of the said change after its implementation.

1.2 Summary of material accounting policies

Management's critical estimates and judgements

The presentation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make 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) Investment property: determination of the fair value

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 (or increase upon completion to earn) 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. Compared to last year, both the discount rates used in the evaluations of the fund's real estate portfolio and the exit productivity have increased in connection with the EURIBOR increase and the real estate transaction market situation. If the discount rates were 8.3% to 9.5% in 2022, respectively, they will be 8.5% to 10.1% as at 31.12.2023. Exit yields are 7.0% to 8.2% at the end of 0232, (2022: 6.5% to 7.8%). In addition to the increase in discount rates and productivity, at the end of 2023, the outlook for cash flows from business operations in the office segment is conservative as of now, mainly in the office buildings sector with an expected increase in vacancy. Additional information regarding the assumptions and sensitivity used in the evaluations is provided in Note 14.

b) Business combinations and asset acquisitions

Generally, real estate purchases are treated as asset acquisitions. According to the management, it is not a business association if the real estate has individual tenants, the fund does not acquire other assets or rights in addition to the real estate and does not hire former employees. The fund does not acquire the know-how of managing the business processes of the real estate object but manages all acquired objects centrally.

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.

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

In the unconsolidated balance sheet of the parent company (presented in Note 25), investments in subsidiaries are recorded using the fair value 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. capitalization rates).

The group's four business segments and three geographical segments are presented in the table below:

	Estonia	**Latvia**	**Lithuania**
Retail	Magistrali shopping centre, Tallinn	Domina shopping centre, Riga	
	Marienthali centre, Tallinn		
Office	Rävala pst 3 / Kuke tn 2, Tallinn	Duntes Biroji office building, Riga	
	Marienthali centre, Tallinn		
Logistics			Kaunas Terminal logistics centre, Kaunas
Hotels	Radisson Collection hotel, 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.

Revenue accounting policies

The Group's sales revenue includes rental income, administrative fees, marketing fees, and profits from utility and administrative expenses (revenues are offset against related 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.

Financial assets

Impairment of financial assets

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.

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.

As of 31 December 2023 and 31 December 2022, all the Company's financial assets were classified in this category:

- cash and cash equivalents;
- short-term deposits;
- trade receivables.

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. Derivatives are recognized at fair value with a change through other comprehensive income.

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.

Investment property

Investment property is Land and buildings that 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 its acquisition cost, which includes transaction fees directly related to the acquisition: notary fees, state fees, fees paid to advisors and other expenses, without which the purchase transaction probably could not have been concluded. After initial recognition, investment property is measured at fair value at each balance sheet date. The fair value of investment property reflects market conditions at the balance sheet date.

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 m2 and occupancy of the rental premises) and operating costs. Depending on the ease and possibility of terminating leases by tenants, the appraiser chooses either existing cash flows or cash flows that exist on average in the market for analysis. 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.

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).

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.

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.

Statutory reserve capital

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

Income tax

Subsidiaries registered in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends. The tax rate on (net) dividends is 20/80. Income tax arising from dividend distribution is expensed when dividends are declared (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, % 31.12.2023	31.12.2022
Parent Company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	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
Affiliates				
HMP Hotellid OÜ	Estonia	Hotels and restaurants	46	46

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.

As at 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. The main financial indicators of the affiliate are presented in the table below:

HMP Hotellid OÜ	31.12.2023	31.12.2022
€ thousands		
Cash and cash equivalents	1,875	1,527
Inventories	205	144
Other current assets	479	405
Total current assets	**2,559**	**2,076**
Property, plant and equipment	52	19
Total non-current assets	**52**	**19**
TOTAL ASSETS	**2,611**	**2,095**
Other short-term liabilities	1,948	1,849
Total current liabilities	**1,948**	**1,849**
Total liabilities	**1,948**	**1,849**
NET ASSETS	**663**	**246**
Revenue, per year	16,747	10,453
Net profit/loss	**572**	**353**

In 2023, the following changes have taken place in the investment in the affiliate:

	31.12.2023	31.12.2022
€ thousands		
Balance at the beginning of the period	**113**	**0**
Paid, when acquiring an affiliate	0	1
Profit from associate using the equity method	264	112
Dividends received	-72	0
Balance at the end of the period	**305**	**113**

The shares of the associated company are not listed on the stock exchange.

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

3 Segment reporting

SEGMENT RESULTS

	Retail		Office		Logistics		Hotels		Unallocated		Total	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
€ thousands												
Revenue (Note 4), incl.	**14,121**	**12,369**	**3,346**	**3,282**	**1,602**	**1,537**	**3,520**	**1,574**	**0**	**0**	**22,589**	**18,762**
Estonia	3,513	3,390	1,493	1,326	0	0	3,520	1,574	0	0	8,526	6,290
Latvia	10,608	8,979	1,853	1,956	0	0	0	0	0	0	12,461	10,935
Lithuania	0	0	0	0	1,602	1,537	0	0	0	0	1,602	1,537
Net operating income, incl.	**11,961**	**10,464**	**3,192**	**3,134**	**1,601**	**1,523**	**3,441**	**942**	**0**	**0**	**20,195**	**16,063**
Estonia	3,439	3,302	1,401	1,224	0	0	3,441	942	0	0	8,281	5,468
Latvia	8,522	7,162	1,791	1,910	0	0	0	0	0	0	10,313	9,072
Lithuania	0	0	0	0	1,601	1,523	0	0	0	0	1,601	1,523
Operating profit, incl.	**4,035**	**8,364**	**-720**	**1,404**	**590**	**1,731**	**1,437**	**710**	**-140**	**-123**	**5,202**	**12,086**
Estonia	2,467	3,609	-1,233	-65	0	0	1,437	710	-140	-123	2,531	4,131
Latvia	1,568	4,755	513	1,469	0	0	0	0	0	0	2,081	6,224
Lithuania	0	0	0	0	590	1,731	0	0	0	0	590	1,731
EBITDA, incl.	**9,599**	**8,794**	**2,811**	**2,718**	**1,490**	**1,361**	**3,032**	**359**	**-140**	**-123**	**16,792**	**13,109**
Estonia	3,038	2,858	1,246	1,051	0	0	3,032	359	-140	-123	7,176	4,145
Latvia	6,561	5,936	1,565	1,667	0	0	0	0	0	0	8,126	7,603
Lithuania	0	0	0	0	1,490	1,361	0	0	0	0	1,490	1,361
Operating profit											**5,202**	**12,086**
Net financial expense											-6,105	-3,340
Profit/loss before income tax expense											**-903**	**8,746**
Income tax expense (Note 10)											-858	-1,042
NET PROFIT/LOSS FOR THE FINANCIAL YEAR											**-1,761**	**7,704**

SEGMENT ASSETS

	Retail		Office		Logistics		Hotels		Total	
As at the end of the year	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
€ thousands										
Investment property (Note 14)										
Estonia	35,110	35,343	22,359	23,824	0	0	57,861	59,373	115,330	118,540
Latvia	92,000	94,180	24,310	25,300	0	0	0	0	116,310	119,480
Lithuania	0	0	0	0	17,510	18,390	0	0	17,510	18,390
Total investment property	**127,110**	**129,523**	**46,669**	**49,124**	**17,510**	**18,390**	**57,861**	**59,373**	**249,150**	**256,410**
Affiliate (Note 2)									305	113
Other non-current assets									33	62
Net debt (liabilities minus cash)									-111,662	-112,038
Other current assets									3,817	2,083
NET ASSETS									**141,643**	**146,630**

In 2023 and 2022, the business segments did not transact with each other. The Group's main income is derived from real estate investments located in the same countries as the subsidiary holding the real estate investment.

4 Revenue

Areas of activity	2023	2022
€ thousands		
Rental income from office premises	3,291	3,173
Rental income from commercial and service premises	12,146	11,145
Rental income from hotel premises (Note 2, 14 and 23)	3,520	1,570
Rental income from logistics premises	1,601	1,513
Other revenue	2,031	1,361
Total revenue by areas of activity (Note 3)	**22,589**	**18,762**

Revenue by geographical area	2023	2022
€ thousands		
Estonia	8,526	6,290
Latvia	12,462	10,935
Lithuania	1,601	1,537
Total revenue by geographical areas (Note 3)	**22,589**	**18,762**

5 Cost of goods and services sold

	2023	2022
€ thousands		
Repair and maintenance of rental premises	-1,716	-1,550
Property insurance	-62	-54
Land tax	-481	-474
Depreciation of property, plant and equipment (Note 15)	-19	-71
Improvement costs	-18	-328
Salary costs, including taxes	-32	-128
Other selling expenses	-20	-69
Impairment of receivables (Note 12)	-46	-25
Total cost of services and goods sold	**-2,394**	**-2,699**

6 Marketing costs

	2023	2022
€ thousands		
Commission expenses on rental premises	-5	-73
Wages and salaries, incl. taxes (Note 23)	0	-61
Advertising, promotional events[1]	-1,054	-970
Total marketing costs	**-1,059**	**-1,104**

[1]The costs of advertising and promotional events consist in a significant part of the costs of marketing events of shopping centres, which are partially covered by the tenants from the agreed marketing fees.

7 General and administrative expenses

General and administrative expenses	2023	2022
€ thousands		
Management services (Note 23)	-1,478	-1,460
Office expenses	-116	-130
Wages and salaries, incl. taxes (Note 23)	-428	-563
Consulting expenses, legal assistance, evaluation service	-130	-156
Accounting service, audit	-176	-145
Other general and administrative expenses	-34	-65
Depreciation of property, plant and equipment (Note 15)	-11	-10
Total general and administrative expenses	**-2,373**	**-2,529**

8 Other operating income and expenses

	2023	2022
€ thousands		
Fines and penalties received	4	17
Fines and penalties paid	-1	-1
Target funding	0	578
Other income and expenses	-4	4
Total other operating income	**-1**	**598**

9 Financial costs

	2023	2022
€ thousands		
Interest expenses, incl.	-6,495	-3,452
Interest expense on borrowings	-6,495	-3,241
Interest expense on swap transactions	0	-211
Total financial costs	**-6,495**	**-3,452**

10 Income tax

	2023	2022
€ thousands		
Income tax expenses on the profit of subsidiaries in Lithuania	-124	-143
Deferred income tax expense of the Lithuanian subsidiary	95	-94
Deferred income tax expense on dividends	-829	-805
Total income tax expense	**-858**	**-1,042**

As at 31.12.2023 and 31.12.2022, the Group has deferred income tax liability in the following amount:

	31.12.2023	31.12.2022
€ thousands		
Deferred income tax liability related to real estate investment	256	351
Deferred income tax liability on dividends	4,312	4,052
Total deferred income tax liability	**4,568**	**4,403**

Additional information on income tax can be found in Note 3.

11 Cash and cash equivalents

	31.12.2023	31.12.2022
€ thousands		
Demand deposits	5,237	13,536
Overnight deposits[1]	3,965	0
Deposits with a maturity of less than 3 months[1]	1,300	0
Total cash and cash equivalents	**10,502**	**13,536**

[1]Overnight deposits bear interest at a variable rate, as at 31.12.2023 the interest rate was 3.7% per year. The interest rate for term deposits is 2.25% per annum.

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

12 Receivables and accrued income

Short-term receivables

	31.12.2023	31.12.2022
€ thousands		
Trade receivables from customers	1,257	1,089
Allowance for doubtful accounts	-133	-109
Total receivables from customers	**1,124**	**980**
Bank loan guarantee deposit	1,331	900
Other short-term receivables	160	47
Total other short-term receivables	**1,491**	**947**
Interest receivables	4	0
Taxes prepaid and receivables	15	15
Other accrued income	152	104
Total accrued income	171	119
Total receivables and accruals	**2,786**	**2,046**

Receivables from customers	31.12.2023	31.12.2022
€ thousands		
Not due	896	675
Overdue, incl.	**361**	**414**
Up to 30 days	*152*	*194*
30-60 days	*67*	*44*
More than 60 days	*142*	*176*
Allowance for doubtful accounts	-133	-109
Total receivables from customers	**1,124**	**980**

Additional information on receivables can be found in Note 20.

13 Prepaid expenses

	31.12.2023	31.12.2022
€ thousands		
Advance payments to suppliers	4	5
Prepayments for insurance	6	5
Prepayments for utilities intermediation	11	19
Future expenses	4	1
Total prepayments	**25**	**30**

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 31.12.2023	Change in value	Share of market value of the Fund's assets
€ thousand							
Duntes Biroji office building	Riga, Latvia	16,035	Nov 15	24,357	24,310	0%	9%
Magistrali shopping centre	Tallinn, Estonia	11,773	Feb 16	24,297	29,800	23%	11%
Domina shopping centre	Riga, Latvia	54,462	July 16	99,849	92,000	-8%	35%
Kaunas Terminal logistics centre	Kaunas, Lithuania	28,708	Aug 17	16,399	17,510	7%	7%
Marienthali centre	Tallinn, Estonia	13,973	Apr 18	26,521	21,240	-20%	8%
Radisson Collection hotel	Tallinn, Estonia	22,814	Jan 15	70,032	64,290	-8%	24%
Total		**147,765**		**261,455**	**249,150**	**-5%**	**94%**

The following changes have occurred in the Group's investment property in 2023 and in 2022:

	Completed investment property	Total investment property
€ thousands		
Balance as at 31.12.2021	**190,990**	**190,990**
Acquisitions and developments	4,235	**4,235**
Reclassifications from property, plant and equipment[1] (Note 15)	62,127	**62,127**
Gain / loss on change in fair value	-942	**-942**
Balance as at 31.12.2022	**256,410**	**256,410**
Balance as at 31.12.2022	**256,410**	**256,410**
Acquisitions and developments	4,300	**4,300**
Gain / loss on change in fair value	-11,560	**-11,560**
Balance as at 31.12.2023	**249,150**	**249,150**

[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:

As of December 31, or per year	2023	2022
€ thousands		
Rental income from investment property (Note 4)	20,558	17,346
Costs directly related to the management of investment properties (Note 5)	-2,394	-2,419
Outstanding amounts from investment property developments (Note 17)	480	358
The book value of investment property pledged as collateral to borrowings (Note 16)	249,150	256,410

17% of the consolidated rental income earned from real estate investments is the rental income received from the affiliated company HMP Hotellid OÜ (2022: 9%) (Note 2, 3, 4 and 23). The rental income of no other group tenant is more than 10% of the consolidated rental income.

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	31.12.2023	31.12.2022
€ thousands		
Up to 1 year	14,473	13,315
2-5 years	29,877	25,238
Over 5 years	4,661	5,859
Total	**49,011**	**44,412**

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 31.12.2023 and 31.12.2022 was determined using the discounted cash flow method. The following assumptions were used to determine fair value:

The year 2023:

Sector	Fair value	Valuation method	1. year rental income	Discount rate	Exit yield	Average rent €/m2
€ thousands						
Office	46,669	Discounted cash flows	3,825	8.5-9.3%	7.0%-8.2%	11.12
Logistics	17,510	Discounted cash flows	1,708	10.1%	8.0%	4.96
Retail	127,110	Discounted cash flows	12,974	8.9%-9.7%	7.6%-8.2%	15.53
Hotels	57,861	Discounted cash flows	3,040	8.5%	7.0%	12.24
Total	**249,150**					

The year 2022:

Sector	Fair value	Valuation method	1. 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	59,373	Discounted cash flows	3,146	8.3%	6.5%	12.66
Total	**256,410**					

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 below illustrates the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions.

As at 31.12.2023

Sector	Fair value	Sensitivity to management estimate			Sensitivity In independent estimate		
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield +50bp	Exit yield -50bp
€ thousands							
Office	46,669	5,065	-5,064	-930	969	-2,159	2,483
Logistics	17,510	1,840	-1,850	-340	340	-710	790
Retail	127,110	15,810	-15,810	-2,512	2,577	-5,495	6,252
Hotels	57,861	6,165	-6,156	-1,188	1,224	-2,916	3,375
Total	**249,150**	**28,880**	**-28,880**	**-4,970**	**5,110**	**-11,280**	**12,900**

As at 31.12.2022:

Sector	Fair value	Sensitivity to management estimate			Sensitivity In independent estimate		
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield +50bp	Exit yield -50bp
€ thousands							
Office	49,125	5,768	-5,379	-1,009	1,030	-2,576	2,976
Logistics	18,390	1,970	-1,990	-360	370	-770	880
Retail	129,522	17,309	-16,825	-2,598	2,670	-6,283	7,253
Hotels	59,373	6,336	-6,336	-1,224	1,260	-3,222	3,762
Total	**256,410**	**31,383**	**-30,530**	**-5,190**	**5,330**	**-12,850**	**14,870**

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**
Acquisition cost 31.12.2021	*58,568*	*1,500*	*337*	*241*	*60,646*
Accumulated depreciation 31.12.2021	*0*	*-1,038*	*-262*	*-151*	*-1,451*
Acquisitions and developments	3,008	0	0	16	3,024
Reclassification to investment property (Note 14)	-61,614	-24	-66	-23	-61,727
Revaluation through other comprehensive income	37	0	0	0	37
Depreciation cost	0	-37	-9	-34	-80
Residual value as at 31.12.2022	**0**	**0**	**0**	**49**	**49**
Acquisition cost 31.12.2022	*0*	*0*	*0*	*201*	*201*
Accumulated depreciation 31.12.2022	*0*	*0*	*0*	*-152*	*-152*
Acquisitions and developments	0	0	0	6	6
Depreciation cost	0	0	0	-30	-30
Residual value as at 31.12.2023	**0**	**0**	**0**	**25**	**25**
Acquisition cost 31.12.2023	*0*	*0*	*0*	*207*	*207*
Accumulated depreciation 31.12.2023	*0*	*0*	*0*	*-182*	*-182*

[1] Until 31.03.2022, the only object of the land and buildings group - the Radisson Collection hotel - was recorded as an investment in fixed assets using the revaluation method. Gains and losses from the revaluation of tangible fixed assets are recorded 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).

16 Borrowings

As at 31.12.2023, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2023	Contract term	Interest rate as at 31.12.23	Loan collateral (Note 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
€ thousands								
SEB	Estonia	23,000	23,000	28.01.26	5.915%	Mortgage - Rävala 3/Kuke tn 2, Tallinn	64,290	16.2%
SEB	Latvia	4,320	3,227	30.11.25	5.976%	Mortgage - Duntes iela 6, Riga	24,310	2.3%
SEB	Latvia	11,735	8,933	30.11.25	5.976%			6.3%
SEB	Estonia	14,900	12,789	17.04.28	5.794%	Mortgage - Mustamäe tee 16, Tallinn	21,240	9.0%
LHV	Estonia	18,552	15,864	14.06.28	5.065%	Mortgage - Sõpruse pst 201/203, Tallinn	29,800	11.2%
Citadele/Swedbank	Latvia	47,000	41,289	22.03.26	7.032%	Mortgage - Ieriku 3, Riga	92,000	29.2%
Luminor	Lithuania	9,720	7,587	16.06.27	5.740%	Mortgage - Terminalo 8 and 10, Kaunas	17,510	5.4%
Luminor	Lithuania	1000	944	16.06.27	5.740%			0.7%
Total		**130,226**	**113,633**				**249,150**	**80.2%**

As at 31.12.2022, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2023	Contract term	Interest rate as at 31.12.23	Loan collateral (Note 13, 14)	Value of collateral	Loan balance share of the fund's net asset value
€ thousands								
SEB	Estonia	23,000	23,000	28.01.23	3.760%	Mortgage - Rävala 3/Kuke tn 2, Tallinn	65,970	15.7%
SEB	Latvia	4,320	3,342	30.11.25	3.994%	Mortgage - Duntes iela 6, Riga	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	22,970	9.0%
LHV	Estonia	18,552	16,244	25.02.26	3.676%	Mortgage - Sõpruse pst 201/203, Tallinn	29,600	11.1%
Citadele/Swedbank	Latvia	47,000	43,648	22.03.26	4.753%	Mortgage - Ieriku 3, Riga	94,180	29.8%
Luminor	Lithuania	9,720	7,911	16.06.27	3.962%	Mortgage - Terminalo 8 and 10, Kaunas	18,390	5.4%
Luminor	Lithuania	1000	983	16.06.27	3.980%			0.7%
Total		**130,226**	**117,541**				**256,410**	**80.2%**

Short-term borrowings	31.12.2023	31.12.2022
€ thousands		
Repayments of long-term bank loans in the next period	4,335	39,497
Discounted contract fees on bank loans	-108	-98
Total short-term borrowings	**4,227**	**39,399**

Repayments of long-term bank loans in the next period as of 31.12.2022 included the balance of two expiring loan agreements in the total amount of 36,162 thousand euros. These loan agreements were extended when they matured in 2023.

Long-term borrowings	31.12.2023	31.12.2022
€ thousands		
Total long-term borrowings	113,405	117,271
incl. current portion of borrowings	4,227	39,399
Bank loans	4,335	*39,497*
Discounted contract fees on bank loans	-108	*-98*
incl. non-current portion of borrowings, incl.	109,178	77,872
Bank loans	109,298	*78,044*
Discounted contract fees on bank loans	*-120*	*-172*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans according to repayment dates	31.12.2023	31.12.2022
€ thousands		
Less than 1 year	4,335	39,497
2-5 years	109,298	78,044
Total repayments of bank loans	**113,633**	**117,541**

Cash flows from borrowings	2023	2022
€ thousands		
Balance at beginning of period	**117,271**	**109,233**
Received bank loans	0	11,552
Refinanced bank loans	-16,205	0
Received bank loans in refinancing	16,272	0
Bank loan annuity payments	-3,975	-3,560
Change in discounted contract fees	42	46
Balance at end of period	**113,405**	**117,271**

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

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2023	31.12.2022
€ thousands		
Trade payables related to real estate investment development projects (Note 14)	480	358
Other trade payables	770	987
Total trade payables	**1,250**	**1,345**
Value added tax	291	214
Corporate income tax	30	78
Personal income tax	8	8
Social tax	15	15
Other tax liabilities	1	0
Total tax liabilities	**345**	**315**
Interest liabilities	140	86
Payables to employees	53	51
Tenant security deposits	417	681
Other accrued liabilities	193	52
Total accrued expenses	**803**	**870**
Prepayments received from buyers	5	0
Other prepaid income	5	23
Total prepayments	**10**	**23**
Total payables and prepayments	**2,408**	**2,553**

Long-term payables

	31.12.2023	31.12.2022
€ thousands		
Tenants' security deposits	1,783	1,347
Total other long-term payables	**1,783**	**1,347**

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 at 31.12.2023 and 31.12.2022, the accumulated revaluation of the Group's investment properties is negative, and the success fee obligation is 0 euros.

19 Provision

Ongoing lawsuits

EfTEN Sky OÜ lawsuit against Tallinna Vesi AS

The group's subsidiary EfTEN Sky OÜ filed a claim against AS Tallinna Vesi on 31.10.2020, which is based on the fact that the company has provided water services to EfTEN Sky OÜ at excessively high (+15%) prices from 2011 to 2019, without the approval of the Competition Board, which has significantly violated the requirements of §14 et seq. of the ÜVVKS. AS Tallinna Vesi does not recognize the lawsuit and the proceedings are at the stage of preliminary proceedings in the county court. AS Tallinna Vesi has repeatedly used the tactic of prolonging the procedure. The parties have been given deadlines to submit their summary views in January/February 2024, and the time for the county court's judgment is currently planned to be 10.04.2024. The amount of EfTEN Sky OÜ's claim was 156 thousand euros. Due to uncertainty, the Group has not recorded the said claim as a separate item.

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	31.12.2023	31.12.2022
€ thousands			
Financial assets - loans and receivables			
Cash and cash equivalents	11	10,502	13,536
Short term deposits[1]		1,000	0
Trade receivables	12	1,124	980
Total financial assets		**12,626**	**14,516**
Financial liabilities measured at amortised cost			
Borrowings	16	113,633	117,541
Trade payables	17	1,250	1,345
Tenant security deposits	17	2,200	2,028
Interest payables	17	140	86
Other accruals	17	193	52
Total financial liabilities measured at amortised cost		**117 416**	**121,052**
Total financial liabilities		**117,416**	**121,052**

[1] Short-term deposits are concluded with a term of 4 months and bear interest at 4.5% per year.

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 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 31.12.2023, all loan agreements of the group were concluded on a floating interest basis, with a margin ranging from 1.9% to 2.95% plus 1-month or 6-month EURIBOR (31.12.2022: 89% of loan agreements on a floating interest basis). All contracts in the group's loan portfolio have a 0% limit (floor) set to protect against negative EURIBOR, i.e., in case of negative EURIBOR, the loan margin on these loan obligations does not decrease. The weighted average interest rate of the Group's loans was 6.18% as of 31.12.2023 (31.12.2022: 3.94%).

Due to the uncertain situation on the interest market, the group's subsidiaries do not have valid interest rate swap agreements as of 31.12.2023. As of the preparation of this report, the management of the group considers a further aggressive increase in interest rates to be unlikely and is considering derivative transactions for up to 50% of the entire loan portfolio in order to fix the interest ceiling when the interest market stabilizes. In the autumn of 2023, the level of interest rate swap agreements with a 5-year term has consistently decreased - if from the beginning of 2023 until October it was possible to fix the EURIBOR for five years through interest rate swap agreements at an average level of 3.2%-3.4%, then at the end of December the markets will offer to fix the interest rate for the next five years at the level of 2.4%.

The appreciation of EURIBOR has a negative impact on the group's net profit and cash flows. The table below shows the effect of the change in interest rates on the group's profit before income tax and cash flow at EURIBORI levels of 2.0%-5.0%, taking into account loan balances as of 31.12.2023.

EURIBOR RATE	**Impact on pre-tax profits and cash flows per year**	***Change in interest expense, %***
€ thousands		
Interest expense per year, as of the end of the reporting period	**-7,014**	
Effect of change in EURIBOR:		
EURIBOR 2.0%	2,202	*-31.4%*
EURIBOR 3.0%	1,067	*-15.2%*
EURIBOR 4.0%	-68	*1.0%*
EURIBOR 5.0%	-1,203	*17.2%*

Liquidity risk

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

- decrease or volatility of rental income, reducing the Group's ability to generate positive net cash flows;
- vacancy of rental property;
- mismatch between the maturities of assets and liabilities and flexibility in changing them;

- marketability of long-term assets;
- Volume and pace of real estate development activities;
- financing structure.

The Group's 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 31.12.2023, the share of the Group's interest-bearing debt liabilities in cash-generating investment properties was 46% (31.12.2022: 46%) and the average debt coverage ratio (DSCR) of the last 12 months 1.6 (2022: 1.9). 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 31.12.2023	Less than 1 month	1-4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
€ thousands						
Interest-bearing liabilities	363	1,083	2,889	109,298	0	**113,633**
Interest payments	605	1,764	4,645	11,339	0	**18,353**
Interest payables	140	0	0	0	0	**140**
Trade payables	1,250	0	0	0	0	**1,250**
Tenant security deposits	65	187	165	1,583	200	**2,200**
Accrued expenses	193	0	0	0	0	**193**
Total financial liabilities	**2,616**	**3,034**	**7,699**	**122,220**	**200**	**135,769**

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**
€ thousands						
Interest-bearing liabilities	23,309	13,967	2,221	78,044	0	**117,541**
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	**25,277**	**15,141**	**4,904**	**86,721**	**167**	**132,210**

Working capital statement

	31.12.2023	31.12.2022
€ thousands		
Cash and cash equivalents (Note 11)	10,502	13,536
Short term deposits	1,000	0
Receivables and accrued income (Note 12)	2,786	2,046
Other current assets	31	37
Total current assets	**14,319**	**15,619**
Current part of long-term liabilities (Note 16)	4,227	39,399
Short-term debts and prepayments (Note 17)	2,408	2,553
Total current liabilities	**6,635**	**41,952**
Total working capital	**7,684**	**-26,333**

As at 31.12.2022, the group's working capital was negative in the amount of -26,333 thousand euros in connection with two loan agreements extended during 2023 in the total amount of 36,162 thousand euros.

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. Also, in most cases, the customer contracts provide for the payment of rent payments at the beginning of the calendar month, which provides sufficient time to monitor the payment discipline of the customers and to have sufficient liquidity in the cash accounts on the day of making the annuity payments of the financing contracts. The terms of most rental agreements result in the obligation to pay deposits, on the account of which the Group has the right to cancel debts incurred as a result of the tenant's insolvency. In the case of partial leases, it is allowed to replace the deposit with a bank guarantee.

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.

Trade receivables are illustrated by the table below:

Trade receivables	**31.12.2023**	31.12.2022
€ thousands		
Undue	896	675
Past due, incl.	**361**	**414**
up to 30 days	*152*	*194*
30-60 days	*67*	*44*
more than 60 days	*142*	*176*
Allowance for doubtful accounts	-133	-109
Total trade receivables	**1,124**	**980**

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

	31.12.2023	31.12.2022
€ thousands		
Cash and cash equivalents (Note 11)	10,502	13,536
Short term deposits	1,000	0
Trade receivables (Note 12)	1,124	980
Total maximum credit risk	**12,626**	**14,516**

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	**31.12.2023**	31.12.2022
Aa2	8,287	6,285
Baa1	819	3,168
Baa2	2,396	4,083
Total	**11,502**	**13,536**

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 40% 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 at 31.12.2023 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) are recorded at fair value and belong to the Level 3 group according to the valuation method. All the Group's borrowings and derivatives for hedging interest rate risk are included in the Level 2 group.

21 Share capital

The registered share capital of EfTEN Kinnisvarafond II AS as at 31.12.2023 and 31.12.2022 was 92,137,560 euros. As at 31.12.2023 and 31.12.2022, 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, 385 thousand euros (2022: 496 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

	31.12.2023	31.12.2022
€ thousands		
The company's retained earnings as of December 31	43,605	48,977
Potential income tax liability	8,721	9,795
The amount that can be paid out as dividends	34,884	39,182

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 31.12.2023 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 1,478 (2022: 1,460) thousand euros (Note 7) and accounting and brokerage services for the amount of 91 (2022: 72) thousand from EfTEN Capital AS subsidiaries and associates.

In the reporting year, the group received rental income from the affiliated company in the amount of 3,520 (2022: 1,570) thousand euros (Note 4). In 2023, the Group had 11 (21 in 2022) employees and they were paid a total of 460 (752 in 2022) thousand euros, 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.

	2023	2022
€ thousands		
Revenue	1,444	1,433
Gross profit	**1,444**	**1,433**
General and administrative expenses	-1,584	-1,556
Operating profit	**-140**	**-123**
Profit / Loss from subsidiaries	-5,589	3,993
Dividend income	3,224	3,520
Interest income	744	574
Profit / Loss before income tax	**-1,761**	**7,964**
Net profit / loss for the financial year	**-1,761**	**7,964**

25 Parent company's separate balance sheet

	31.12.2023	31.12.2022
€ thousands		
ASSETS		
Cash and cash equivalents	1,923	2,073
Receivables and accrued income	1,795	19,139
Total current assets	**3,718**	**21,212**
Shares of subsidiaries	116,951	122,541
Long-term receivables	20,980	2,930
Total non-current assets	**137,931**	**125,471**
TOTAL ASSETS	**141,649**	**146,683**
LIABILITIES AND EQUITY		
Short-term liabilities	6	53
Total short-term liabilities	**6**	**53**
Total liabilities	**6**	**53**
Share capital	92,138	92,138
Share premium	5,861	5,861
Statutory reserve capital	3,373	2,988
Retained earnings	40,271	45,643
Total equity	**141,643**	**146,630**
TOTAL LIABILITIES AND EQUITY	**141,649**	**146,683**

26 Parent company's separate statement of cash flows

	2023	2022
€ thousands		
Net profit / loss	**-1,761**	**7,964**
Adjustments:		
Finance income and expenses	-744	-574
Profit/ loss on the fair value adjustment of subsidiaries	5,589	-3,993
Dividends received	-3,224	-3,520
Total adjustment with non-monetary changes	**1,621**	**-8,087**
Cash flow from operations before changes in working capital	**-140**	**-123**
Change in receivables and payables related to operating activities	-3	-7
Net cash generated from operating activities	**-143**	**-130**
Received from subsidiaries' equity reduction payments	0	3,390
Loans granted	0	-8,090
Repayments of loans granted	0	6,308
Dividends received	3,225	3,520
Interest received	38	128
Cash flows from investing activities	**3,263**	**5,256**
Interest paid	-44	0
Dividends paid	-3,226	-3,520
Total cash flows from financing activities	**-3,270**	**-3,520**
NET CASH FLOW	**-150**	**1,606**
Cash and cash equivalents at the beginning of the period	**2,073**	**467**
Change in cash and cash equivalents	-150	1,606
Cash and cash equivalents at the end of the period	**1,923**	**2,073**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
€ thousands					
Balance as at 01.01.2021	**92,138**	**5,861**	**2,492**	**41,695**	**142,186**
Dividends paid	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**
Dividends paid	0	0	0	-3,226	-3,226
Provisions for reserve capital	0	0	385	-385	0
Profit for the period	0	0	0	-1,761	-1,761
Balance as at 31.12.2023	**92,138**	**5,861**	**3,373**	**40,271**	**141,643**

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:

	31.12.2023	31.12.2022
€ thousands		
Parent company's unconsolidated equity	141,643	146,630
Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus)	-116,951	-122,541
Value of subsidiaries under the equity method (plus)	116,951	122,541
Total	**141,643**	**146,630**

28 Going Concern of the Fund

According to the articles of association of the Fund, the term of EfTEN Kinnisvarafond II AS will expire 10 years following the Fund's registration date, specifically on 12 January 2025. This term may be extended twice, each time by one year, subject to the decision of the Fund's shareholders.

In consideration of the current market conditions and strategic factors, management proposes extending the term of EfTEN Kinnisvarafond II AS by at least one year. This proposal is influenced by the substantial impact of increased interest rates on the liquidity of commercial real estate transactions throughout Europe, Scandinavia, and the United States. Analysis indicates that transaction volumes have decreased by approximately 50% compared to the year 2021, preceding the onset of the interest rate increase cycle.

The proposal is based on the necessity of prudent asset management and strategic patience during periods of market downturns. Notably, the investor base of the Fund is primarily composed of institutional investors, with over 50% of shares held by Swedbank pension funds in Estonia, Latvia, and Lithuania, among other institutional stakeholders. It is pertinent to mention that EfTEN Kinnisvarafond II AS does not encompass retail investors.

It is also crucial to emphasize that all six underlying assets of the Fund are performing well. Thus, there is no pressing need to sell the Fund's assets. This stable performance provides the flexibility to strategically time the market for any prospective transactions, reinforcing the logic for the proposed extension of the term.

The management's recommendation for the term extension is based on an in-depth analysis of the prevailing market dynamics and the long-term strategic interests of the Fund. It is important to note, however, that the final decision on this proposal will be made by the shareholders at the upcoming annual general meeting. The situation created material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern, as the management doesn't know what will be shareholders' final decision in this respect. Consequently, investment properties owned by the Fund's subsidiaries might need to be disposed of before the Fund's maturity, and the fair values of these properties could vary from the values disclosed in this report.

The decision on the extension will be subject to a vote at the Fund's forthcoming annual general meeting in March 2024. A two-thirds majority of the votes represented at the meeting is required to approve the proposal.

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 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement and consolidated statement of other comprehensive income for the financial year ended 31 December 2023;
- the consolidated statements of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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.

Material uncertainty relating to going concern

We draw attention to Note 28 in the consolidated financial statements which indicates that the Fund maturity arrives on 12th of January 2025, which can be extended twice by one year by the decision of the Fund's shareholders. As stated in Note 28, these events or conditions, along with other matters as set forth in Note 28, indicate that a material uncertainty exists that may cast significant doubt on the Fund's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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.

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

Translation note:

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Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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

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

21 February 2024
Tallinn, Estonia

Translation note:

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Loss allocation proposal

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

Retained earnings as at 31.12.2023	43 605 759
Provision for statutory reserve capital	0
Dividend distribution	3 086 608 (33,5 cents per share)
Retained earnings after provisions	40 519 151

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

16 February 2024

Signatures of the members of the Management Board and Supervisory Board to the 2023 annual report

We hereby confirm the correctness of data presented in the 2023 annual report of EfTEN Kinnisvarafond II AS.

________________	________________
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board
________________	________________
Sander Rebane	Olav Miil
Member of the Supervisory	Member of the Supervisory Board
________________	________________
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	2023	Revenue %	Main activity
€ thousands				
Fund management	66301	1,444	100%	yes