

Consolidated Semi-Annual Report

EfTEN Kinnisvarafond AS

Registry code: 11505393

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Contents

MANAGEMENT REPORT	3
Financial overview	3
Real estate portfolio	5
Investment properties in the first half of 2014	7
Assessment of investment properties	7
Information on shares	8
Prospects for 2014	9
Management	10
CONSOLIDATED SEMI-ANNUAL REPORT FOR THE FIRST HALF OF 2014	11
Consolidated income statement	11
Consolidated statement of comprehensive income	11
Consolidated statement of financial position	12
Consolidated statement of cash-flows	13
Consolidated statement of changes in equity	14
Notes to the annual accounts of the consolidation group	15
1 Accounting principles used in the financial statement	15
2 Subsidiaries and joint ventures	17
3 Revenue	18
4 Cost of sales	19
5 Administrative expenses	19
6 Other incomes and other expenses	19
7 Finance income and finance expenses	20
8 Receivables and accrued income	20
9 Investment properties	21
10 Loan liabilities	22
11 Short-term payables and prepayments	23
12 Success fee liability	23
13 Share capital	24
14 Transactions with related parties	24
15 Parent's unconsolidated balance sheet	25
Signatures of the members of the board and supervisory board to the semi-annual report for the first half of 2014	29

The most important economic events of EFTEN Kinnisvarafond AS in the first half of 2014 were the opening of the fully renovated Hotel Palace in Tallinn, on Freedom Square, and the acquisition of the storage and logistics centres of DHL and Onninen in Tallinn, on Betooni Street. After the balance sheet date, on 25 July 2014, the first shopping centre developed by EFTEN Capital in Latvia, RAF Centrs, was opened. The financial results of the first half of the year conform to the expectations of the management company regarding revenue, and exceed expectations regarding net profit. The net profit, which was more than three times higher than in the first half of 2013, was brought about by the continuous rise in real estate prices due to low interest rates environment, and the significantly improved liquidity of the real estate market in Baltics States.

Financial overview

In the first six months of 2014, the total consolidated revenue of EFTEN Kinnisvarafond AS was EUR 6.4 million (EUR 4.2 million in 2013) and the net profit for the same period was EUR 7.5 million (EUR 2.3 million in 2013). The net profit included the profit received from revaluation of investment properties in the first half of 2014, in the amount of EUR 4.6 million, and an increase in the success fee liability reserve in the amount of EUR 919 000 (the fair value of investment properties did not change in the first half of 2013). Total cash flow for the half-year's commercial activities was EUR 5.7 million (EUR 3.3 million in the same period of 2013).

The most important semi-annual income statement indicators of 2014 and 2013 are as follows:

	First half of the year	
	2014	2013
<i>in mil. €</i>		
Rental revenue, other revenues from investment properties	6.448	4.214
Expenses related to investment properties, incl. marketing costs	-0.420	-0.440
Net financial expenses	-0.774	-0.768
Net rental revenue minus financial expenses	5.253	3.006
Management fees	-0.517	-0.329
Other revenues and expenses	-0.080	-0.093
Profit before a change in the value of investment properties and income tax expenses	4.657	2.584

The cash flow for the first six month's commercial activities was 42% higher than for the same period in 2013.

The volume of the Group's assets as at 30.06.2014 was EUR 181.783 million (31.12.2013: EUR 165.939 million), incl. the fair value of investment properties that made up 90.9% of the total assets (31.12.2013: 86.1%). The gross assets value of EFTEN Kinnisvarafond is the highest among the commercial property funds operating exclusively in the Baltic States.

	30.06.2014	31.12.2013
<i>in mil. €</i>		
Investment properties	165.171	142.844
Investments in joint ventures	2.833	2.805
Other long-term assets	3.561	0.660
Current assets, excl. cash	0.394	0.619
Net payables	-87.551	-65.466
Net asset value (NAV)	84.407	81.463
Number of shares, pcs *	39,391,371	40,405,606
Net asset value (NAV) per share, in cents	2.1428	2.0161
Funds for investments from issuing of shares	61.131	63.232
Funds invested by the end of the period	61.131	52.508
Funds open for investments at the end of the period	0.000	10.724

* The number of shares as at 30.06.2014 has been calculated after reduction of share capital. Payments to reduce share capital will be made in the autumn of 2014.

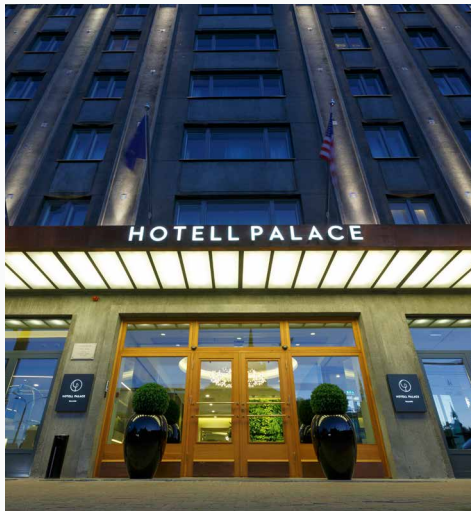
The net asset value of a share of EFTEN Kinnisvarafond AS increased by 6.3% in a year (first half of 2013: 2.6%). The return on invested capital (ROIC) was 26.5% as at 30.06.2014, based on the previous year (as at 31.12.2013: 21.8%). The growth of competitiveness of the Group is supported by access to flexible financing conditions. The average interest rate of the Group's loan agreements as at the end of the year is 1.86% (31.12.2013: 2.1%) and the LTV (Loan to Value) 55% (31.12.2013: 57%).

The current dividend policy of EFTEN Kinnisvarafond AS foresees that the Group will pay 80% of the available cash flow to shareholders as (gross) dividends each accounting year. In the first half of 2014, EFTEN Kinnisvarafond AS paid out (net) dividends to shareholders in the amount of EUR 2.4 million (1.4 million in the first half of 2013), that is 6.05 cents per share (5.59 cents per share in the first half of 2013). In addition, in relation to successful exits from two projects, the general shareholders' meeting decided to reduce the share capital of EFTEN Kinnisvarafond AS by EUR 2.1 million in 2014, which would increase the payout to shareholders by an additional 5.2 cents per share.

Per annum or as at June 30	2014	2013
ROE, % (net profit of the period / average equity of the period)	20.6	12.2
ROA, % (net profit of the period/average assets of the period)	9.6	5.7
ROIC, % (net profit of the period / average invested capital of the period ¹)	26.5	15.6
ROIC%, invested part	30.6	21.3
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.9	1.9

¹ The average invested capital of the period is the paid-in share capital of EFTEN Kinnisvarafond AS's equity, and the share premium accounts. It does not consider the actual investment of the funds involved as equity.

EFTEN Kinnisvarafond's return on invested capital (ROIC) was 26,5% in last 12 months.



Palace Hotel

On June 26th 2014, a fully refurbished Palace Hotel re-opened for guests. The building is situated on Freedom Square (Vabaduse väljak) and was the first purpose-built hotel in Tallinn, completed in 1937.

Real estate portfolio

The Group invests in commercial property with a strong and long-lasting tenant base. As at 30.06.2014, the Group had 23 commercial investment properties with a fair value as at the balance sheet date of EUR 177.9 million and an acquisition cost of EUR 148.1 million. The real estate portfolio of the Group divides as follows between sectors:

retail premises 45.4%;	7 investments
office premises 21.6%;	7 investments
logistics and production premises 23.7%;	7 investments
other (hotel and governmental) 9.2%;	2 investments

The weighted average duration period of the rental agreements on the investment properties belonging to the Group is 5.7 years as at 30.06.2014 (6.1 years as at 31.12.2013), and as at 30.06.2014, the Group has a total of 201 (31.12.2013: 173) tenants. 67% of the consolidated rental revenue is the contractual revenue of 13 clients:

Client	% of the consolidated rental revenue
Prisma Peremarket	17.1
Rautakesko AS	11.0
Eesti Energia	6.0
Logistika Pluss	5.8
DHL Estonia	5.3
Riigi Kinnisvara	4.4
Premia Tallinna Külmhoone	4.2
Kinnisvaravalduse (RIMI)	2.7
Arvato Services Estonia	2.3
Äripäev	2.4
HANZA Mechanics Tartu	2.1
Stora Enso Packaging AS	1.8
Mediq Eesti AS	1.9
Others	33.0

Completed investment properties, as at 30.06.2014	Group interest	Net rental area, m ²	Rental revenue per annum	Occupancy, %
Tallinna Külmhoone	100	6,863	636	100
Võru Rautakesko	100	3,120	322	100
Lepa Centre	50	4,161	295	68
Hotel Palace	50	4,870	*	*
UKU Centre	100	5,117	651	96
Rakvere Police and Rescue Building	100	5,744	646	100
Lauteri 5	100	3,942	368	85
Ülikooli 6	100	2,276	219	97
Pärnu mnt 102	100	9,216	1,114	96
Pärnu mnt 105	100	5,031	551	93
Mustika Centre	100	27,538	2,657	94
Narva Prisma	100	13,361	1,346	100
Laki 24	100	1,854	160	100
Kadaka tee 63	100	7,705	730	100
Stabu 10 office building	100	3,150	359	92
Piirimäe 10/10a	100	5,006	263	100
Kungla 2	100	4,251	282	100
Kuuli 10/Punane 73	100	15,197	867	100
Tammsaare tee Rautakesko	100	9,120	1,192	100
Silikaadi 6/8	100	6,177	315	100
Warehouse at Betooni 1a	100	7,100	459	100
Betooni 6 storage and office building	100	16,838	806	95

*Hotel Palace was opened to guests at the end of June 2014, which is why at the moment of compiling this report, the levels of rental revenue and occupancy are still being determined.



DHL Estonia

In June 2014, EFTEN Kinnisvarafond acquired DHL's logistics centre in Tallinn. A 4000 square metre extension will be constructed for the building to accommodate the expansion of DHL's business operations.

Investment properties in the first half of 2014

In the first half of 2014, the Group acquired two storage and logistics buildings in Tallinn, at Betooni 1a and Betooni 6, producing rental revenue. The total volume of investments was EUR 15.5 million and EUR 6 million of own capital was placed in the project. As at 30.06.2014, the total volume of consolidated assets of the Group is EUR 181.8 million (31.12.2013: EUR 165.9 million).

On 26 June 2014, Hotel Palace, belonging to a joint venture of the Group, reopened its doors after renovation, and after the balance sheet date, on 25 July, the first Latvian shopping centre of the Group, RAF Centrs in Jelgavas, was opened. At the moment of preparing this report, the Group portfolio does not include any more investment properties with an open development position.

Assessment of investment properties

EFTEN Kinnisvarafond regularly revalues its investment properties twice a year – in June and in December. In June 2014, the Group's investment property portfolio was valued for the first time by an independent appraiser from outside the Group, Colliers International. The overview of its analysis can be seen at the webpage www.eften.ee. The Group earned a profit of EUR 4.6 million in June 2014, from a change in the fair value of the investment property portfolio. The value of the investment property portfolio did not change in the first half of 2013. Compared to the end of last year, the total value of investment properties increased by 2.9% as a result of revaluations (a total of 3.4% in 2013).

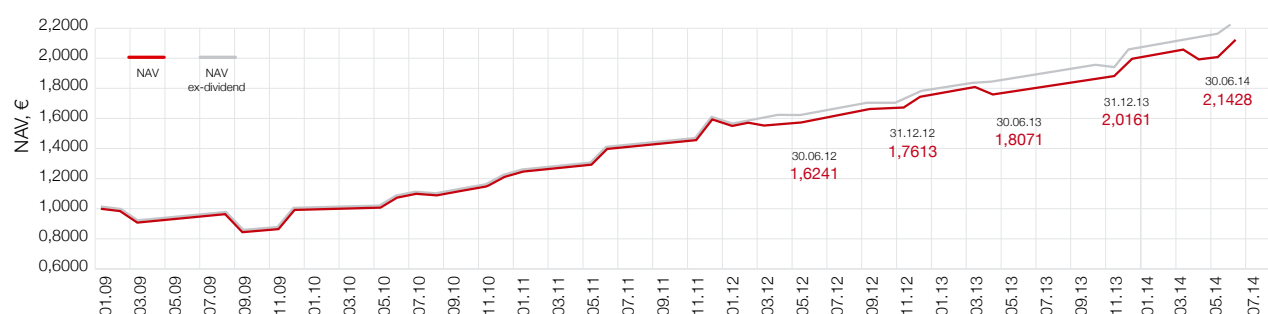
The Group revalues the investment properties individually, using a method of discounted cash flows. The estimations of the cash-flows of all objects have been updated in finding the fair value, and the discount rates and exit yield have been differentiated depending on the location of the objects, their technical condition, and the tenant risk level. Considering the changes in the commercial property market of the Baltic States and the favourable financing conditions, the exit yield by objects remains in the range of 8.0% - 9.25% (31.12.2013: (8.0%-9.25%). The cash-flow discount rates have decreased for the same reason, remaining in the range of 9.2% – 10.44%, depending on object quality (31.12.2013: 10.2%-10.5%).

According to the estimated updated rental revenue, the net yield based on the expected net rental revenue in the next 12 months is 8,2% (31.12.2013: 8.44%).

Information on shares

The size of the registered share capital of EFTEN Kinnisvarafond AS as at 30.06.2014 is EUR 24,243,000 (31.12.2013: the same). The share capital consisted of 40,405,606 shares as at 30.06.2014 (31.12.2013: the same) with a nominal value of EUR 0.6. In this report, the reduction of share capital is reflected under short-term liabilities for better understandability, regardless of a pending procedure at the commercial register. The share capital of EFTEN Kinnisvarafond AS after the end of the procedure will be EUR 23,635,000, consisting of 39,391,371 shares.

NAV 01.2009-06.2014



	1st half of 2014	2013	2012	2011
Number of shares at the beginning of the period	40,405,606	25,057,010	8,393,059	6,830,559
Issuing of shares	0	15,348,596	16,663,951	1,562,500
Reduction of share capital	-1,014,235	0	0	0
Number of shares at the end of the period	39,391,371	40,405,606	25,057,010	8,393,059

Largest shareholders of EFTEN Kinnisvarafond AS as at 30.06.2014

	Equity holding, %
LHV pension funds	34.1
Danske pension funds	16.7
Ambient Sound Investments OÜ	6.3
ERGO pension funds	3.1
Others	39.9



RAF Centres

On July 25th 2014, RAF Centres, a shopping centre developed by EFTEN Capital in Latvia, was opened. At the opening ceremony of the centre, the ribbon is being cut by Andris Ravins (left), Mayor of Jelgava, and Viktors Savins, Chief Executive of EFTEN Capital SIA.

Prospects for 2014

EFTEN Kinnisvarafond has fully developed all the objects in its investment property development portfolio. Considering the current situation on the real estate market, where the net yield level continues to fall and interest in commercial property investments is increasing, the Fund finds it increasingly difficult to find the fully developed investment objects that would suit its conservative investment criteria. Therefore, we can see future prospects mainly in limited construction risk and taking the risk of renting out newly developed properties. The Fund does not invest in registered immovables that lack the necessary detailed plan for constructing a commercial building. Our objectives in the second half of the year include increasing investments in Latvia and, if possible, making our first investment in Lithuania. Since EFTEN Kinnisvarafond has invested in full the share capital that has been paid into the Fund over time, we are planning an additional emission of shares in the second half of 2014 to finance further growth.

The commercial investment property market of the Baltic States continues its stable growth. A historically low level of loan interest rates and increasing competition among banks mainly supports the growth of real estate prices. The monetary political decisions taken by the European Central Bank on 5 June 2014 undoubtedly mark a new era that supports the growth of commercial investment property prices in the short and medium term. We are in a controversial situation in which the indicators of the real economy are rather disappointing, while the real estate prices continue to grow with the support of cheap loans. The growth in rental prices was moderate and the rental prices are substantially at a standstill in all real estate sectors – there is a balance between the demand for and offering of new spaces. Therefore, decreasing net yield rate and an increased interest in commercial property investments causes the growth in real estate prices. In a situation in which the real economy indicators fall short, the increasing real estate prices bring about an increase in risks on the medium-long term. In this market situation, EFTEN Kinnisvarafond will remain true to the current investment policy and will not set increasing the volume of fund assets as a priority. We are convinced that the real estate market will provide suitable investment possibilities also in the current situation.

The commercial investment property market of the Baltic States continues its stable growth.

Management

Three Supervisory Board meetings took place in the first half of 2014. The fund's Supervisory Board provides the Management Board with instructions on how to manage the fund based on the provisions of the articles of association, including approving the budget, the strategy for action, and other important changes in the fund's activities. The Supervisory Board is also in charge of granting the Management Board their approval for transactions not falling under regular business activities. On 15.04.2014, a general meeting of the shareholders of EFTEN Kinnisvarafond AS was held. In addition to confirming the annual report for 2013, it decided to pay dividends from the profit of 2013 in the amount of EUR 2.4 million and to reduce the share capital by 1,014,235 shares. Upon reduction of the share capital, payments will be made in the autumn of 2014 and the total amount of payments will reach EUR 2.1 million.

There are eight members in **the fund's Supervisory Board**: Arti Arakas (Chairman of the Supervisory Board), Jaan Pillesaar, Siive Penu, Laire Piik, Sander Rebane, Martin Hendre, Tauno Tats, and Erkki Raasuke.

The fund's Management Board has two members: Viljar Arakas (fund manager) and Tõnu Uustalu (fund's investments manager).

In accordance with the fund's management contract, the activity of EFTEN Kinnisvarafond is managed as a management company by EFTEN Capital AS. As at 30.06.2014, one employee worked in the Group (31.12.2013: two employees) who received a total remuneration with taxes in the first half of 2014 in the amount of EUR 16 000 (first half of 2013: EUR 18 000). No remunerations were accounted or paid to the members of the Management or Supervisory Board.

Viljar Arakas

Member of the Management Board, fund manager

Consolidated semi-annual report for the first half of 2014

CONSOLIDATED INCOME STATEMENT

	Lisad	First half of the year	
		2014	2013
<i>EUR in thousands</i>			
Sales revenue	3	6,448	4,214
Property operating expenses	4	-353	-424
Gross profit		6,095	3,790
Marketing costs		-68	-16
Administrative expenses	5	-1,524	-441
Other income	6	4,970	92
Other expenses	6	-366	0
Operating profit		9,107	3,425
EBITDA		5,432	3,445
Finance income	7	128	80
Financial expenses	7	-901	-849
Profit before income tax		8,333	2,657
Income tax expenses on dividends		-844	-354
Net profit of the accounting period		7,490	2,303

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014	2013
<i>EUR in thousands</i>		
Net profit of the accounting period	7,490	2,303
Other comprehensive income:		
Revaluation profit / loss of risk management instruments	0	143
Other comprehensive income	0	143
Comprehensive income of the accounting year	7,490	2,446

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2014	31.12.2013
<i>EUR in thousands</i>			
Assets			
Cash and cash equivalents		9,825	19,010
Receivables and accrued income	8	280	588
Prepaid expenses		114	31
Total current assets		10,219	19,629
Long-term receivables	8	3,552	650
Investments in joint ventures	2	2,833	2,805
Investment properties	9	165,171	142,844
Property, plant and equipment		9	10
Total non-current assets		171,564	146,309
TOTAL ASSETS		181,783	165,938
Liabilities and equity			
Loan liabilities	10	4,336	3,714
Payables and prepayments	11	2,834	670
Total short-term liabilities		7,169	4,384
Loan liabilities	10	86,880	77,748
Deposits received from tenants		352	293
Long-term appropriations		1	0
Success fee liability	12	2,970	2,051
Other long-term liabilities		4	0
Total long-term liabilities		90,207	80,092
Total liabilities		97,376	84,475
Share capital	13	23,635	24,243
Share premium		37,496	38,989
Mandatory capital reserve		1,002	480
Retained earnings		22,274	17,750
Total equity		84,407	81,463
TOTAL LIABILITIES AND EQUITY		181,783	165,938

CONSOLIDATED STATEMENT OF CASH-FLOWS

		First half of the year	
	Notes	2014	2013
<i>EUR in thousands</i>			
Net profit		7,490	2,303
<i>Net profit adjustments:</i>			
Finance income and finance expenses	7	773	770
Revaluation profit/loss of investment properties	6	-4,593	0
Profit/loss on sale of investment properties	6	0	-92
Change in the success fee liability	5	917	4
Depreciation and impairment of non-current assets	5	1	0
Income tax expenses		848	354
Total adjustments with non-monetary changes		-2,055	1,036
Cash-flow from business operations before changes in working capital		5,435	3,339
Changes in receivables and liabilities related to business operations		303	-5
Total cash-flows from operations		5,738	3,334
Acquisition of investment properties	9	-17,808	-12,253
Sale of investment properties		0	1,039
Loans given		-2,902	-1
Acquisition of subsidiaries		0	-11,939
Dividends received		31	73
Interest received		31	4
Total cash-flows from investing activities		-20,648	-23,078
Loans received		11,702	11,577
Loan repayments on sale of investment properties		0	-494
Scheduled loan repayments		-1,938	-1,069
Interest paid		-949	-740
Issuing of shares		0	14,504
Dividends paid		-2,445	-1,400
Income tax paid on dividends		-646	-354
Total cash-flows from financing activities		5,725	22,024
TOTAL CASH-FLOWS		-9,185	2,280
Cash and cash equivalents at the beginning of the period		19,010	12,571
Change in cash and cash equivalents		-9,185	2,280
Influence of the change in exchange rate on cash and cash equivalents		0	-1
Cash and cash equivalents at the end of the period		9,825	14,850

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share pre- mium	Mandatory capital reserve	Risk manage- ment reserve	Retained earnings	Total
<i>EUR in thousands</i>						
Balance 31.12.2012	15,034	19,894	248	-216	9,172	44,132
Issuing of shares	4,782	9,723	0	0	0	14,504
Announcement of dividends	0	0	0	0	-1,400	-1,400
Transfers to legal reserve	0	0	233	0	-233	0
Comprehensive income of the accounting period	0	0	0	143	2,303	2,446
Balance 30.06.2013	19,816	29,617	480	-73	9,843	59,683
Balance 31.12.2013	24,243	38,989	480	0	17,750	81,463
Issuing of shares	-609	-1,493	0	0	0	-2,101
Announcement of dividends	0	0	0	0	-2,445	-2,445
Transfers to legal reserve	0	0	521	0	-521	0
Comprehensive income of the accounting period	0	0	0	0	7,490	7,490
Balance 30.06.2014	23,635	37,496	1,002	0	22,275	84,407

For additional information on share capital, see Note 13.

NOTES TO THE ANNUAL ACCOUNTS OF THE CONSOLIDATION GROUP

1 Accounting principles used in the financial statement

The annual accounts of EFTEN Kinnisvarafond AS and its subsidiaries have been prepared based on the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounts for the first half of 2014 will cover business activities in the period between 1 January 2014 and 30 June 2014. Figures in the accounts are given in Euros.

The financial statement for the half-year has been compiled based on the same accounting principles as the financial statement for 2013, except reflection of joint ventures in a consolidated report (IFRS 11). The amendment of IFRS 11 applies to reports prepared after 01.01.2014 and as a result of the amendment, the proportional consolidation possibility of companies under joint control was eliminated. The standard establishes that companies under joint control and classified as a joint venture shall be reflected using the equity method. Amendment of this standard had the following impact on the assets, liabilities, income and expenses of the Group:

Income statement

	First half of 2013		
	After the amendment	Adjustment	Before the amendment
<i>EUR in thousands</i>			
Sales revenue	4,214	-93	4,308
Property operating expenses	-424	12	-436
Gross profit	3,790	-81	3,872
Marketing costs	-16	1	-17
Administrative expenses	-441	66	-507
Other income	92	0	92
Other expenses	0	39	-39
Operating profit	3,425	25	3,400
Finance income	80	71	9
Financial expenses	-849	-116	-733
Profit before income tax	2,657	-19	2,676
Income tax expenses on dividends	-354	19	-373
Net profit of the accounting year	2,303	0	2,303

Balance sheet

31.12.2013

	After the amendment	Adjustment	Before the amendment
<i>EUR in thousands</i>			
Cash and cash equivalents	19,010	-304	19,314
Receivables and accrued income	588	-35	623
Prepaid expenses	31	0	31
Total current assets	19,629	-339	19,968
Long-term receivables	650	324	326
Investments in joint ventures	2,805	2,805	0
Investment properties	142,844	-3,942	146,786
Property, plant and equipment	10	-9	19
Total non-current assets	146,309	-822	147,131
TOTAL ASSETS	165,938	-1,161	167,099
Liabilities and equity			
Loan liabilities	3,714	-50	3,764
Payables and prepayments	670	-183	853
Total short-term liabilities	4,384	-233	4,617
Loan liabilities	77,748	-868	78,616
Deposits received from tenants	293	-7	300
Success fee liability	2,051	-53	2,104
Total long-term liabilities	80,092	-928	81,020
Total liabilities	84,475	-1,161	85,637
Share capital	24,243	0	24,243
Share premium	38,989	0	38,989
Mandatory capital reserve	480	0	480
Retained earnings	17,750	0	17,750
Total equity	81,462	0	81,462
TOTAL LIABILITIES AND EQUITY	165,938	-1,161	167,099

2 Subsidiaries and joint ventures

Ettevõtte nimi	Asukohamaa	Kinnisvarainvesteering	Group interest, %	
			30.06.2014	31.12.2013
Parent company				
EFTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EFTEN SPV1 OÜ	Estonia	Ülikooli 6a, Tartu	100	100
EFTEN SPV2 OÜ	Estonia	Lauteri 5, Narva mnt 59, Tallinn	100	100
EFTEN SPV3 OÜ	Estonia	UKU Centre in Viljandi	100	100
EFTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EFTEN SPV5 OÜ	Estonia	Pärnu mnt 105, Tallinn	100	100
EFTEN SPV6 OÜ	Estonia	Pärnu mnt 102, Tallinn	100	100
EFTEN SPV7 OÜ	Estonia	Mustika Centre in Tallinn	100	100
EFTEN SPV8 OÜ	Estonia	Mustika Centre in Tallinn	100	100
EFTEN SPV9 OÜ	Estonia	Kadaka tee 63	100	100
EFTEN SPV10 OÜ	Estonia	Laki 24	100	100
EFTEN SPV12 OÜ	Estonia	Piirimäe 10/10a; Kungla 2; Kuuli 10; Tammsaare tee Rautakesko; Siliikaadi 6/8	100	100
EFTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EFTEN SPV15 OÜ	Estonia	Tallinna Külmhoone	100	100
EFTEN SPV16 OÜ	Estonia	Narva Prisma	100	100
EFTEN Stabu 10 SIA	Latvia	Stabu 10 office building	100	100
EFTEN Jelgava SIA	Latvia	RAF Centrs shopping centre	100	100
EFTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6 and Garaazi 4 storage and office buildings in Tallinn	100	-
Joint ventures				
EFTEN SPV11 OÜ	Estonia	Palace Hotel	50	50
Lepa Keskus OÜ	Estonia	Lepa Centre in Pärnu	50	50

All subsidiaries and joint ventures operate in acquisition, development, and leasing of investment properties.

In May 2014, EFTEN Kinnisvarafond AS established a 100 % subsidiary EFTEN SPV 1 OÜ with the goal of acquiring new investment properties in Tallinn at Betooni 1a, Betooni 6 and Garaazi 4. A total of EUR 6,003,000 was paid into the equity of the subsidiary in order to make the investment.

Joint ventures are not consolidated. The table below brings out the main financial indicators of the joint ventures:

	As at 30.06.2014 or for the first half of 2014	
	EFTEN SPV11 OÜ	Lepa Keskus OÜ
<i>EUR in thousands</i>		
Current assets	359	99
Non-current assets	10,532	2,786
Short-term liabilities	221	106
Long-term liabilities	6,575	1,207
Net assets	4,094	1,571
Sales revenue	6	148
Revaluation profit of investment properties	0	263
Change in the success fee liability reserve	0	-53
Net profit/loss	-158	276

In the first half of 2014, the Group received dividends from the joint venture Lepa Keskus OÜ in the amount of EUR 31,000 (first half of 2013: EUR 73,000).

The shares of none of the subsidiaries or the joint venture are publicly traded.

3 Revenue

	First half of the year	
Areas of operation	2014	2013
<i>EUR in thousands</i>		
Rental revenue from office space	1,727	1,717
Rental revenue from state institutions	322	319
Rental revenue from sales space	2,931	1,749
Rental revenue from warehouse space	1,116	306
Rental revenue from service space	185	15
Rental revenue from parking lots	42	33
Other revenue	125	76
Total revenue by areas of operation	6,448	4,214

EUR 148,000 of the revenue of the first half of 2014 (first half of 2013: EUR 48,000) has been received from Latvia. The rest of the revenue of the Group has been earned in Estonia.

4 Cost of sales

	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Repairs and maintenance of rental space	-132	-91
Improvement costs	-71	-102
Insurance of assets	-26	-15
Land tax	-52	-40
Other management cost	-65	-168
Tangible property wear and tear	-1	0
Salary expense, incl. taxes	-3	-9
Allowance of accounts receivable	-3	0
Total property operating expenses	-353	-424

5 Administrative expenses

	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Management service	-517	-329
Office costs	-9	-14
Salary expense, incl. taxes	-13	-9
Consultation costs	-66	-62
Change in the success fee liability (Note 12)	-919	-19
Other general management costs	-1	-7
Depreciation costs	-1	-1
Total administrative costs	-1,524	-441

6 Other incomes and other expenses

Other income	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Profit from change in fair value of investment properties (Note 9)	4,959	0
Profit from sales of investment properties	0	92
Fines for delay and penalties	1	0
Other revenues	10	0
Other income, total	4,970	92

Other expenses	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Loss from change in fair value of investment properties (Note 9)	-366	0
Other expenses, total	-366	0

7 Finance income and finance expenses

Finance income	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Profit from joint ventures using the equity method	28	0
Interest revenues	69	4
Dividend income (Note 2)	31	73
Other finance income	0	4
Total financial income	128	80

Financial expenses	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Loss from joint ventures using the equity method	0	-124
Interest expenses	-901	-723
Loss from changes in exchange rate	0	-1
Total financial expenses	-901	-849

8 Receivables and accrued income

SHORT-TERM RECEIVABLES AND ACCRUED INCOME	30.06.2014	31.12.2014
<i>EUR in thousands</i>		
Accounts receivable	179	190
Bad debt	-5	-3
Receivables from buyers, total	174	188
Other short-term receivables	13	15
Total other short-term receivables	13	15
Interests	49	3
Prepayments and reclamations of VAT	21	351
Land tax prepayment	7	0
Other accrued income	16	31
Total accrued income	93	386
Total short-term receivables and accrued income	280	588

LONG-TERM RECEIVABLES	30.06.2014	31.12.2014
<i>EUR in thousands</i>		
Loans given to joint ventures (Note 14)	3,552	650
Total long-term receivables	3,552	650

9 Investment properties

As at 30.06.2014, the Group has invested in the following investment properties:

Name	Location	Area (m ²)	Useful area (m ²)	Year of construction	Time of acquisition	Acquisition cost	Market value 30.06.2014	Share of the market value of fund's assets
<i>EUR in thousands</i>								
Premia Külmhoone	Betooni 4, Tallinn	18,773	6,863	2008	Sept. 2008	6,237	7,274	4%
K-Rauta tool store	Kreutzwaldi 89, Võru	10,110	3,120	2008	Sept. 2008	3,270	3,341	2%
Lepa Centre ¹	Karja 4, Pärnu	4,118	4,161	1998–1999	Dec. 2009	1,995	2,786	*will not be consolidated
UKU shopping centre	Tallinna 41, Viljandi	6,540	5,117	2012	Aug. 2010	5,390	7,276	4%
Joint building of police and rescue	Kreutzwaldi 5a, Rakvere	5,775	5,744	2010	Nov. 2010	4,940	6,416	4%
Lauteri office building	Lauteri 5, Tallinn	3,941	3,942	1997	Dec. 2010	3,244	4,500	2%
Office building (Capital house)	Ülikooli 6, Tartu	697	2,275	1997	May 11	2,329	2,226	1%
Pärnu mnt office building	Pärnu mnt 102, Tallinn	4,053	9,216	2005	Dec. 2011	12,280	12,926	7%
Äripäev office building	Pärnu mnt 105, Tallinn	3,075	5,149	1998	Dec. 2011	6,270	6,280	3%
Mustika shopping centre	Tammsaare tee 116	42,546	27,475	2002; 2013	July 12	30,541	32,955	18%
Palace Hotel1	Vabaduse väljak 3/ Pärnu mnt 14	1,119	4,870	1937; 2013–2014	Apr. 2013	9,963	9,963	*will not be consolidated
RAF Centrs	Riia mnt 48, Jelgava	16,785	4,251	2013-2014	March 13	4,081	4,081	2%
Narva Prisma	Kangelaste pr 29, Narva	30,607	13,361	2010	Feb. 2013	14,850	16,090	9%
Laki office building	Laki 24, Tallinn	7,672	1,854	2001	Jan. 2013	1,659	1,555	1%
Kadaka office building	Kadaka tee 63, Tallinn	20,464	7,705	2006	Jan. 2013	7,167	7,702	4%
Stabu music school	Stabu 10, Riga	774	3,150	1910	March 13	3,264	3,264	2%
Stora Enso production buildings	Piirimäe 10/10a, Saku	10,228	5,006	2003	July 13	2,857	2,953	2%
Mediq logistics centre	Kungla 2, Saue	11,853	4,251	2007	July 13	2,757	3,028	2%
Logistika Pluss logistics centre	Kuuli 10/Punane 73, Tallinn	24,557	15,197	2006	July 13	9,171	10,061	6%
K-Rauta tool store	Tammsaare tee 49, Tallinn	31,100	9,120	2007	July 13	12,930	14,330	8%
Hanza production building	Silikaadi 6/8, Tartu	11,050	6,177	2008	July 13	2,857	3,446	2%
Warehouse at Betooni 1a	Betooni 1a	7,200	7,100	2008	June 14	5,748	5,748	3%
Betooni 6, Garaazi 4 storage and office building	Betooni 6, Garaazi 4	17,798	16,838	2004	June 14	9,719	9,719	5%
Total			171,942			148,051	177,920	91%

¹ Lepa Centre and the Palace Hotel belong to the Group's joint ventures and are consolidated using the equity method.

In the first half of 2014, the following changes occurred in the Group's investment properties:

	Investment properties in the development stage	Completed investment properties	Total investment properties
Balance as at 31.12.2013	2,143	140,702	142,844
Acquisitions	1,939	15,795	17,733
Profit/loss from change in fair value (Note 6)	0	4,593	4,593
Balance as at 30.06.2014	4,081	161,090	165,171

As at 30.06.2014, the Group's investment properties were valued by Colliers International, using the method of discounted cash flows. The following presumptions have been used in finding the fair value:

	2014	2013
Increase in annual rental revenue	0.79%-4.02%	1.5%-2.5%
Increase in annual expenses	2.5%	1.5%-2.5%
WACC	9.2%-10.44%	10.5%
Capitalization rate upon leaving the project	8.0%-9.25%	8.5%-9.5%

10 Loan liabilities

Long-term loan liabilities	30.06.2014	31.12.2013
<i>EUR in thousands</i>		
Total long-term loan liabilities	91,216	81,462
incl. the short-term part of loan liabilities	4,336	3,714
incl. the long-term part of loan liabilities	86,880	77,748
<i>Bank loans</i>	86,880	77,748

The end dates of the Group's loan agreements are in the period of 2015-2019 and the weighted average interest rate of the loan portfolio as at 30.06.2014 was 1.86%.

11 Short-term payables and prepayments

	31.12.2013	31.12.2012
<i>EUR in thousands</i>		
Trade payables	66	359
Other payables	145	48
Total other payables	145	48
Value added tax	213	172
Income tax expenses on dividends	202	0
Individual income tax	1	1
Social tax	1	2
Land tax	10	0
Total taxes payable	427	176
Interest payable	15	27
Payables to employees	2	4
Payables upon reduction of share capital	2,101	0
Deposits received from tenants	45	39
Other accruals	5	8
Total accruals	2,168	78
Prepayments received from buyers	17	5
Other prepaid revenues	10	4
Total prepayments	27	9
Total payables and prepayments	2,833	670

12 Success fee liability

EFTEN Kinnisvarafond AS and EFTEN Capital AS have entered into a management contract, according to which EFTEN Capital AS shall receive a success fee in the amount of 20% of the sales and acquisition price of investment properties, if the hurdle rate is at least 10% on an annual basis. The success fee shall be calculated on all investment properties as a whole, i.e., if there is an investment property in the whole that is sold under the cost of its acquisition, the success fee calculated on objects sold with profit shall be decreased in the amount of 20% of those sales losses of the objects sold under acquisition cost.

As at 30.06.2014, the Group has accounted for the success fee liability in the amount of EUR 2,970,000 (31.12.2013: EUR 2,051,000). The bases of accrual accounting of this success fee are the valuations of fair price of investment properties. The expenses on changes in success fee shall be recognised under the Group's general management costs (see Note 5).

13 Share capital

Pursuant to the general meeting decision of April 15, 2014, EFTEN Kinnisvarafond AS reduced its share capital by 1,014,235 shares. At the moment of preparation of this report, this process is pending at the commercial register and the procedure will probably end in October 2014. Upon reduction of the share capital, pay-outs will be made to investors in total of EUR 2,201 thousand.

The size of the registered share capital of EFTEN Kinnisvarafond AS as at 30.06.2014 is EUR 24,243,000 (31.12.2013: the same). The share capital consisted of 40,405,606 shares as at 30.06.2014 (31.12.2013: the same) with a nominal value of EUR 0.6. In this report, the reduction of share capital is reflected under short-term liabilities for better understandability, regardless of the pending procedure at the commercial register (see Note 11). The share capital of EFTEN Kinnisvarafond AS after the end of the procedure will be EUR 23,635,000, consisting of 39,391,371 shares.

Without amending the articles of association, the company may increase its share capital to EUR 60,136,824.

14 Transactions with related parties

EFTEN Kinnisvarafond AS considers the related parties to be:

- persons who own more than 10% of the share capital of EFTEN Kinnisvarafond AS;
- Management Board Members and companies owned by the Management Board Members of EFTEN Kinnisvarafond AS;
- Supervisory Board Members and companies owned by the Supervisory Board Members of EFTEN Kinnisvarafond AS;
- employees and companies owned by the employees of EFTEN Kinnisvarafond AS;
- joint venture Lepa Keskus OÜ;
- EFTEN Capital AS (management company).

As at 30.06.2014, the Group has given joint venture EFTEN SPV11 OÜ a loan in the amount of EUR 3,552,000 for renovation of the Palace Hotel (31.12.2013: EUR 650,000). The term of the loan is 30.06.2015 and the annual interest rate is 4%.

The Group bought management service from EFTEN Capital AS in the first half of 2014 in the amount of EUR 517,000 (the same period of 2013: EUR 336,000). EFTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties other goods or services in the first half of 2014.

No remunerations were accounted or paid to the members of the Group's Management or Supervisory Board in 2014 or the first half of 2013. The Group had one employee to whom remunerations in the total amount of EUR 16,000 with taxes were accounted in the first half of 2014.

15 Parent's unconsolidated reports

Unconsolidated income statement of the parent company

	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Sales revenue	533	961
Property operating expenses	0	-138
Gross profit	533	823
Administrative expenses	-558	-377
Operating profit	-25	446
Finance income and finance expenses	7,814	1,990
Profit before income tax	7,789	2,436
Income tax expenses on dividends	-229	-173
Net profit of the accounting period	7,560	2,263

Unconsolidated statement of comprehensive income of the parent company

	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Net profit of the accounting year	7,560	2,263
Other comprehensive income:		
Revaluation profit / loss of risk management instruments	0	147
Other comprehensive income	0	147
Comprehensive income of the accounting period	7,560	2,410

Unconsolidated statement of financial position of the parent company

	30.06.2014	31.12.2013
<i>EUR in thousands</i>		
Assets		
Cash and cash equivalents	1,707	10,319
Receivables and accrued income	1,766	920
Total current assets	3,473	11,240
Non-current assets		
Long-term financial investments	70,013	59,181
Long-term receivables on loans	13,394	11,340
Total non-current assets	83,407	70,522
TOTAL ASSETS	86,880	81,761
Payables	2,127	22
Total short-term liabilities	2,127	22
Success fee liability	247	247
Total long-term liabilities	247	247
Total liabilities	2,375	270
Share capital	23,635	24,243
Share premium	37,496	38,989
Mandatory capital reserve	1,002	480
Retained earnings	22,373	17,779
Total equity	84,506	81,492
TOTAL LIABILITIES AND EQUITY	86,880	81,761

Parent's unconsolidated cash flow statement

	First half of the year	
	2014	2013
<i>EUR in thousands</i>		
Cash-flows from business operations		
Net profit	7,560	2,263
<i>Net profit adjustments:</i>		
Interest revenue and interest expenses	-310	179
Profit/loss from changes in the fair value of subsidiaries or joint ventures	-5,335	-1,416
Dividends received	-2,170	-753
Income tax expense of the company	229	173
Cash-flow from business operations before changes in working capital	-25	446
Changes in receivables and liabilities related to business operations	-48	-37
Total cash-flows from operations	-73	409
Cash-flows from investing activities		
Acquisition of subsidiaries and joint ventures	-6,007	-24,899
Change in the Group's account receivables	222	784
Loans given	-2,726	-2,074
Repayments of loans given	1,029	0
Dividends received	1,597	753
Interest received	30	4
Total cash-flows from investing activities	-5,854	-25,433
Cash-flows from financing activities		
Loans received	0	3,180
Loan repayments	0	-201
Interest paid	-5	-209
Dividends paid	-2,445	-1,400
Income tax paid on dividends	-229	-173
Issuing of shares	0	14,504
Total cash-flows from financing activities	-2,679	15,701
TOTAL CASH-FLOWS	-8,605	-9,323
Cash and cash equivalents at the beginning of the period	10,319	10,616
Change in cash and cash equivalents	-8,605	-9,323
Cash and cash equivalents at the end of the period	1,714	1,293

Parent's unconsolidated statement of changes in equity

	Share capital	Share premium	Mandatory capital reserve	Risk management reserve	Retained earnings	Total
<i>EUR in thousands</i>						
Balance 31.12.2012	15,034	19,894	248	-219	9,173	44,130
Issuing of shares	4,782	9,723	0	0	0	14,504
Announcement of dividends	0	0	0	0	-1,400	-1,400
Transfers to legal reserve	0	0	233	0	-233	0
Comprehensive income of the accounting year	0	0	0	147	2,263	2,410
Balance 30.06.2013	19,816	29,617	480	-73	9,804	59,644
Balance 31.12.2013	24,243	38,989	480	0	17,779	81,491
Reduction of share capital	-609	-1,493	0	0	0	-2,101
Announcement of dividends	0	0	0	0	-2,445	-2,445
Transfers to legal reserve	0	0	522	0	-522	0
Comprehensive income of the accounting year	0	0	0	0	7,560	7,560
Balance 30.06.2014	23 634	37,496	1,002	0	22 373	84,506

For additional information on the changes related to shares, see Note 13.

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

	30.06.2014	31.12.2013
<i>EUR in thousands</i>		
Unconsolidated equity of the parent company	84,506	59,644
Value of subsidiaries or joint ventures in unconsolidated balance of the parent company (minus)	-70,013	-59,181
Value of subsidiaries or joint ventures accounted in the equity method (plus)	69,915	81,000
Total	84,407	81,463

SIGNATURES OF THE MEMBERS OF THE BOARD AND SUPERVISORY BOARD TO THE SEMI-ANNUAL REPORT FOR THE FIRST HALF OF 2014

We hereby verify the correctness of data presented in the first semi-annual report of 2014 of EFTEN Kinnisvarafond AS.

Arti Arakas
Chairman of the
Supervisory Board

Siive Penu
Chairman of the
Supervisory Board

Erkki Raasuke
Chairman of the
Supervisory Board

Sander Rebane
Chairman of the
Supervisory Board

Jaan Pillesaar
Chairman of the
Supervisory Board

Laire Pliik
Chairman of the
Supervisory Board

Martin Hendre
Chairman of the
Supervisory Board

Tauno Tats
Chairman of the
Supervisory Board

Viljar Arakas
Member of the
Management Board

Tõnu Uustalu
Member of the
Management Board