EfTEN Capital

Consolidated Interim Report – Six months ended 30 June 2016

EfTEN Kinnisvarafond II AS

Commercial register number: 12781528

Beginning of the reporting period: 01.01.2016
End of the reporting period: 30.06.2016

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MANAGEMENT REPORT

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS for the 6 months period ended 30 June 2016 was EUR 5.7 million and the net profit was EUR 2.8 million. The consolidated gross profit margin was 62%.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 54.5% of the revenues in the first half of 2016. .

	1st half 2016	2015
EUR million		
Revenue	5,701	3,654
Expenses related to investment properties, incl. marketing costs	-2,415	-2,021
Interest expense and interest income	-0,357	-0,107
Net revenue less finance costs	**2,929**	**1,526**
Management fees	-0,230	-0,106
Other revenue and expenses	-0,462	-0,332
Profit before change in the value of investment property and income tax expense	**2,237**	**1,087**

EfTEN Kinnisvarafond II AS has a 100% ownership interest in Astlanda Hotelli AS, the operator of the Radisson Blue Sky Hotel. The operating results of the hotel are consolidated in the fund's report

Radisson Blu Sky Hotel in Tallinn

As at 30.06.2016, the Group's total assets were in the amount of EUR 108.7 million, including investment property at fair value and fixed assets, which accounted for EUR 95.3 million of the total assets.

	30.06.2016	31.12.2015
EUR million		
Investment property	49,265	23,746
Property, plant and equipment	46,013	46,025
Other non-current assets	0,015	0,017
Current assets, excluding cash	0,607	0,612
Net debt	-44,673	-32,744
Net asset value (NAV)	51,228	37,656
Net asset value (NAV) per share (in cents)	10,7353	10,9968

In six months, the net asset value of EfTEN Kinnisvarafond II decreased 2.38% including the dividend payment made in May 2016 and the income tax expense totalling EUR 2.7 million. Without the dividend distribution, NAV would have increased by 2.69%. Return on invested capital (ROIC) was 12.8%. The weighted average interest rate of Group's borrowings was 1.036% at the end of the accounting period.

12 months	30.06.2016	30.06.2015
ROE, % (net profit of the period / average equity of the period)	12,1	8,3
ROA, % (net profit of the period / average assets of the period)	6,0	4,4
ROIC, % (net profit of the period / average invested capital of the period[1])	12,8	8,7
DSCR (EBITDA/(interest expenses + scheduled loan payments)	5,0	12,3

[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..

Real estate portfolio

The Group made one investment in the first half of 2016. In February, a shopping centre was acquired at the address Sõpruse pst 201/203 in Tallinn. The size of the investment amounted to EUR 24 million. As at 30.06.2016, the Group had 3 investment properties:

Premises	Address	Type	Acquisition time	Net leasable area (m^2)
Radisson Blu Sky hotel	Tallinn, Rävala pst.3/Kuke tn.2	hotel	01.2015	24,499
Duntes Biroji office building	Riga, Duntes iela 6	office building	11.2015	12,650
Magistrali shopping centre	Tallinn, Sõpruse 201/203	shopping centre	02.2016	11,720
Total				**48,869**

Magistral shopping centre in Tallinn

Valuation of investment property

EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in the month of June and in the month of December. In 2016 and 2015, the Group's investment property was valued by Colliers International Advisors OÜ.

The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level.

The group uses the hotel and office building acquired in January 2015 located at Rävala pst.3 / Kuke tn.2 in its operations and therefore classifies it as property, plant and equipment.

Outlook for 2016

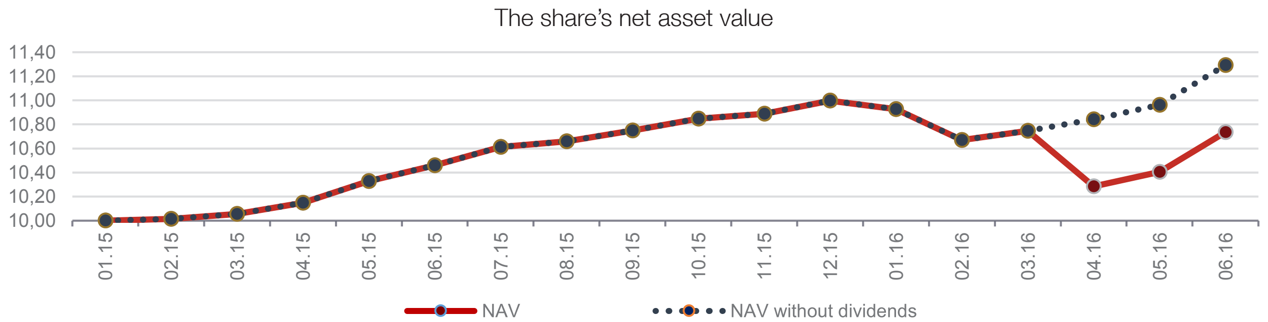
The pace of the Baltic commercial real estate market in the first half of 2016 was similar as in the previous year. CBRE estimates that in the first half of 2016, the financial volume of real estate transactions made in the Baltic countries was 15% lower than the year before earlier, with 19 real estate transactions for a total amount of EUR 353 million. Major transactions that are already known and will take place in the second half are likely to bring the total annual volume of transactions to the same level as in 2015 that was a record year for Baltic commercial real estate market, with the total transaction volume of EUR 1.3 billion. The main investors are local real estate funds that have been operating in the Baltic countries for years. The arrival of new foreign investors is being held back primarily by continued uncertainty about the security situation in the Baltic countries.

Thanks to the ongoing zero-interest rate environment in which expectations of an interest rate raise have again deferred further into the future has pushed down also rates of return of Baltic commercial real estate, and are pushing up real estate prices. In the first half of 2016, the market's average prime yield has decreased by an average of 50 base points, leading to the growth of real estate prices. On the other hand, extremely favourable environment of financing bank loans where lending margins in the Baltic countries are even lower than in Scandinavia, means that the spread between return rates and interest rates continues to be the largest in the history, which ensures strong dividend inflow for investors. Property prices are set to grow further due to the decrease of rates of return, and not because of growth in rental rates. Growth of rental rates are held back by the increase in the supply of new spaces and by the deflationary economic environment.

Information on shares

As at 30.06.2016, payments made to the share capital of the Group total EUR 47.72 million.

	30.06.2016	31.12.2015
Number of shares outstanding at the beginning of the period	**3 424 254**	**2 500**
Issue of shares during the period	1 347 663	3 421 754
Number of shares outstanding at the end of the period	**4 771 917**	**3 424 254**



The dividend policy of EfTEN Kinnisvarafond II AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In the first half of 2016, EfTEN Kinnisvarafond II AS paid out dividends to shareholders in the amount of EUR 2.1 million.

Management

EfTEN Kinnisvarafond II AS was formed on 1 December 2014 and entered into the Commercial Register on 13 January 2015. The formation was approved by the Estonian Financial Supervision Authority in its decision dated 19 December 2014.

During the first half of 2016, one regular shareholder's meeting took place where the annual report of 2015 was approved and it was decided to pay out dividends in the amount of EUR 2,127,200. No extraordinary general meetings of shareholders were held in the first half of the year.

There have been no changes in the composition of the Fund's Supervisory Board and Management Board. Since its formation, the fund's Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. The Management Board of the fund is comprised of two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

According to the management contract and the fund's articles of association, the fund's assets are managed and controlled by the fund management company EfTEN Capital AS.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	1st half 2016	1st half 2015
EUR thousand			
Revenue	3	5,701	3,654
Cost of services sold	4	-2,173	-1,837
Gross profit		**3,528**	**1,816**
Marketing costs	5	-242	-183
General and administrative expenses	6	-991	-440
Other income	7	1,802	3
Other expenses	7	-305	-1
Operating profit		**3,791**	**1,195**
Finance costs	8	-358	-107
Profit before income tax		**3,434**	**1,087**
Income tax expense	9	-609	0
Net profit for the half-year		**2,825**	**1,087**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Notes	1st half 2016	1st half 2015
EUR thousand			
Net profit for the half-year		2,825	1,087
Other comprehensive profit/-loss:			
Revaluation of property, plant and equipment	14	75	63
Loss from revaluation of hedging instruments	18	-881	0
Total other comprehensive profit/-loss		**-806**	**63**
Total comprehensive income for the half-year		**2,019**	**1,150**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2016	31.12.2015
EUR thousand			
ASSETS			
Cash and cash equivalents	10	12,807	6,661
Receivables and accrued income	11	438	471
Prepaid expenses	12	91	55
Inventories		78	86
Total current assets		**13,414**	**7,273**
Long-term receivables		3	5
Long-term investments in securities		12	12
Investment property	13	49,265	23,746
Property, plant and equipment	14	46,013	46,025
Total non-current assets		**95,293**	**69,788**
TOTAL ASSETS		**108,707**	**77,061**
LIABILITIES AND EQUITY			
Borrowings	15	895	477
Derivative instruments	18	1,406	526
Payables and prepayments	16	5,917	844
Total current liabilities		**8,219**	**1,847**
Borrowings	15	47,765	36,568
Other long-term liabilities	16	362	233
Success fee liability	16,17	299	0,
Deferred income tax liability	9	835	757
Total non-current liabilities		**49,261**	**37,559**
Total liabilities		**57,480**	**39,405**
Share capital	20	47,719	34,243
Share premium	20	986	782
Statutory reserve capital		151	,
Hedging reserve	18	-1,406	-526
Other reserves		213	138
Retained earnings	21	3,566	3,019
Total equity		**51,228**	**37,656**
TOTAL LIABILITIES AND EQUITY		**108,707**	**77,061**

CONSOLIDATED STATEMENT OF CASH FLOWS

		1st half	
	Notes	2016	2015
EUR thousand			
Net profit		**2,825**	**1,087**
Adjustments to net profit:			
Finance costs	8	358	107
Gain (loss) from revaluation of investment property	7	-1,496	0
Change in the success fee liability	6	299	0
Depreciation, amortisation and impairment	14	149	130
Income tax expense	9	609	0
Total adjustments with non-cash changes		**-82**	**238**
Cash flow from operations before changes in working capital		**2,743**	**1,325**
Change in receivables and payables related to operating activities		16	-29
Change in inventories		8	-11
Net cash generated from operating activities		**2,767**	**1,285**
Purchase of property, plant and equipment	14	-61	-29
Purchase of investment property	13	-22	-15
Acquisition of subsidiaries	2	-11,593	-22,697
Net cash generated from investing activities		**-11,676**	**-22,741**
Loan repayments	15	-377	0
Interest paid		-367	-154
Proceeds from issuance of shares	20	18,458	25,000
Dividends paid		-2,127	0
Income tax paid on dividends	9	-532	0
Net cash generated from financing activities		**15,055**	**24,846**
NET CASH FLOW		6,146	3,391
Cash and cash equivalents at the beginning of the period	10	**6,661**	**25**
Change in cash and cash equivalents		6,146	3,391
Cash and cash equivalents at the end of the period	10	**12,807**	**3,416**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Other reserves	Retained earnings	Total
EUR thousand							
Issue of shares	25	0	0	0	0	0	25
Balance as at 01.12.2014	**25**	**0**	**0**	**0**	**0**	**0**	**25**
Issue of shares	34,218	782	0	0	0	0	35,000
Total transactions with owners	**34,218**	**782**	**0**	**0**	**0**	**0**	**35,000**
Net profit for the financial year	**0**	**0**	**0**	**0**	**0**	**3,019**	**3,019**
Other comprehensive loss	0	0	0	-526	138	0	-388
Total comprehensive income	**0**	**0**	**0**	**-526**	**138**	**3,019**	**2,631**
Balance as at 31.12.2015	**34,243**	**782**	**0**	**-526**	**138**	**3,019**	**37,656**
Issue of shares	13,477	203	0	0	0	0	13,680
Total transactions with owners	**13,477**	**203**	**0**	**0**	**0**	**0**	**13,680**
Net profit for the half-year	**0**	**0**	**0**	**0**	**0**	**2,825**	**2,825**
Transfers to statutory reserve capital	0	0	151	0	0	-151	0
Announcement of dividends	0	0	0	0	0	-2,127	-2,127
Other comprehensive income/-loss	0	0	0	-881	75	0	-806
Total comprehensive income	**0**	**0**	**0**	**-881**	**75**	**2,825**	**2,019**
Balance as at 30.06.2016	**47,719**	**986**	**151**	**-1,406**	**213**	**3,566**	**51,228**

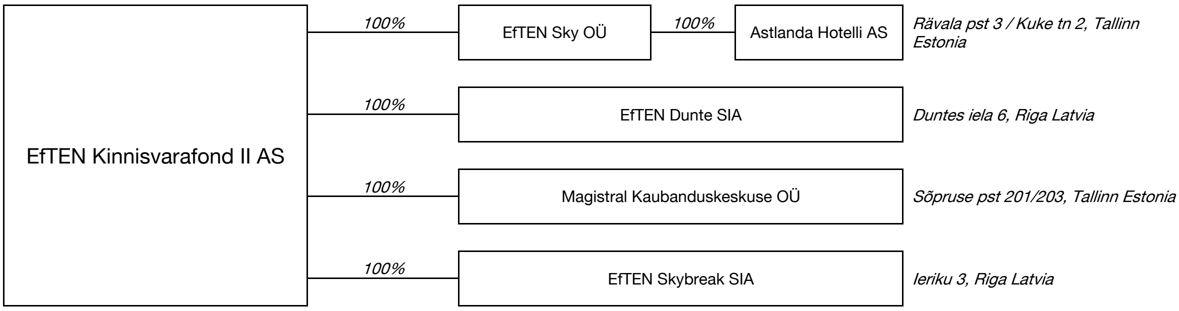
For additional information on share capital and changes in equity, please see Note 18, 20 and 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 *General principles used in preparing the financial statements*

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

The structure of EfTEN Kinnisvarafond II AS Group as at 30.06.2016 is as follows:



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 financial statements of the Group are presented in thousands of euros.

The financial statements have been prepared under the historical cost convention, except for land and buildings that have been revalued and measured using the revaluation model as described in the respective accounting policies and except for investment property that has been measured at fair value.

1.1 *Summary of the most important accounting principles*

Management's critical estimates and judgements

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities.

Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

Information about management's critical judgements and estimates that have a material effect on the amounts reported in the financial statements is provided below.

Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date of preparation of the financial statements. Therefore there is a risk with the assets and liabilities presented at the balance sheet date, and the related revenue and expenses, that the estimates applied need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material restatements to the financial statements are described below.

a) Valuation of property, plant and equipment measured using the revaluation model

Management has evaluated as at 30.06.2016 the value of property, plant and equipment measured using the revaluation model (fair value less subsequent depreciation and impairment) based upon an appraisal provided by an independent valuation specialist for the market value of the asset. The Group owns land and buildings (Radisson Blu Sky Hotel) that are measured using the revaluation model. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of fair value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and prevailing market conditions. The carrying amount of the property, plant and equipment measured using the revaluation model as at 30.06.2016 is provided in Note 14.

b) Property, plant and equipment: assets with a significant residual value

Group management considers it very likely that the Radisson Blu Sky Hotel building is sold at the end of the 10-year term of the EfTEN Kinnisvarafond II AS fund. Management estimates that the residual value of the building in ten years' time is at least as high as the cost, therefore it has been decided to divide the cost of the hotel building into two components - the non-depreciable portion and the depreciable portion. Using as a basis the assumption that the annual estimated capital expenditures required to maintain the present condition of the hotel building amount to EUR 150 thousand, the management defined EUR 1,500 thousand as the depreciable cost component of the building to be depreciated over ten years. The remaining portion of the cost of the building is allocated to the non-depreciable component.

In case of items with a significant residual value, only the depreciable portion of the difference between the cost and the residual value is depreciated into an expense over their useful lives. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of residual value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and market conditions. If residual value has substantially declined by the balance sheet date, the management of the Group will review the estimates that have been made regarding the applied depreciation rates, depreciation methods and estimated residual value and modify them if necessary. Any impact from a change in depreciation rate, depreciation method or residual value is accounted for as a change in accounting estimates.

c) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. The Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method.

Additional information on the assumptions used in valuation of fair value can be found in Note 13.

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

The Group owns 100% of all of its subsidiaries and the members of the management board of the Group's parent entity are included in governance bodies of subsidiaries. Hence, the Group has full control over its subsidiaries in its distribution of profit and adoption of management decisions.

Classification of real estate

Items of real estate (properties) are classified as investment property or property, plant and equipment both on initial recognition and on any subsequent reclassification based on management's intentions regarding further use of the properties. Implementation of plans may require additional decisions independent of the Group (changing the intended purpose of land, approving a detailed plan, issuing building permits, etc.), reducing the accuracy of asset classification.

The purpose of acquisition of properties is to hold it for long-term rental yields or for capital appreciation. In addition, properties that are held for a longer period and that have several possible purposes of use, are classified as investment property.

Consolidation

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

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

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

Business combinations are accounted for in the consolidated financial statements using the acquisition method.

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

Investments in subsidiaries in the separate balance sheet of the Parent company

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

Revenue recognition

Revenue from the sale of goods and from services rendered in the ordinary course of business is measured at the fair value of the consideration received or receivable. Revenue is recognised only when the amount of revenue can be measured reliably, it is probable that future economic benefits attributable to the transaction will flow to the group, significant risks and rewards of ownership have been transferred from the seller to the buyer. The amount of revenue is considered to be reliably measureable only when all circumstances related to the transaction are unambiguous.

Rental income from investment properties is recognised on a straight-line basis over the lease term.

Income from intermediation of services (utility fees of subtenants, sublease, and other intermediated services) is offset against the expense on services purchased.

Finance income

Interest income is recognised on an accrual basis, using the effective interest rate method. Dividend income is recognised when the right to receive payment has been established.

Cash and cash equivalents

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

Financial assets

All financial assets are initially recognised at cost which is the fair value of the consideration paid for the financial asset. Acquisition costs are any costs that are directly attributable to the acquisition of the financial asset, including fees and commissions paid to agents and advisers, as well as any non-recoverable levies, taxes and duties. An exception is financial assets measured at fair value through profit or loss, the additional expenses related to the acquisition are recognised as an expense in the income statement.

A regular way purchase or sale of financial assets is recognised using trade date accounting. A trade date is the date at which the Group commits itself to purchase or sell a certain financial asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

Upon initial recognition, financial assets are classified in one of the following four categories of financial assets (see below). The following principles are used for measurement of financial assets in each category:

- Financial assets at fair value through profit or loss – fair value;
- Held-to-maturity investments – amortised cost;
- Loans and receivables – amortised cost;
- Available-for-sale financial assets – fair value or cost in case of equity instruments, the fair value of which cannot be reliably measured.

In the year 2016 and 2015, the Group only had financial assets in the "Loans and receivables" category.

Loans and receivables from other parties

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

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

Property, plant and equipment

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the group.

Land and buildings are measured using the revaluation model: land and buildings are measured after initial recognition at the revalued amount, which is equal to the fair value of the assets at the date of revaluation less accumulated depreciation and any accumulated impairment losses. Appraisals are carried out regularly by independent real estate specialists. Previously accumulated depreciation is eliminated on the date of revaluation and the former cost of the asset is replaced with its fair value at the date of revaluation.

If a revaluation of land and buildings results in an increase in the carrying amount of such land and buildings, it is credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus". The reversal of a revaluation decrease of the same asset previously recognised as an expense is recognised in profit or loss. A decrease arising as a result of a revaluation is recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. The difference in depreciation arising from the difference between the initial cost and revaluation amount of the assets is transferred on an annual basis from the heading "revaluation surplus" to the heading "retained earnings".

Other property, plant and equipment is carried in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Other property, plant and equipment is initially recognised at its cost, comprised of its purchase price and any expenditure directly attributable to the acquisition.

When an item of property, plant and equipment takes a substantial period of time to get ready for its intended use, the borrowing costs attributable to it are capitalised in the cost of the asset. Capitalisation of borrowing costs is terminated when the asset is ready for its intended use to a material extent or its active development has been suspended for a substantial period of time.

Subsequent expenditures incurred on an item of property, plant and equipment are capitalised as non-current assets if it is probable that the company will obtain future economic benefits related to the item and if the cost of the item can be measured reliably. All other repair and maintenance costs are recognised as an expense during the financial period in which they are incurred.

The straight-line method is used for depreciation. A depreciation rate is assigned to each non-current asset individually depending on its useful life.

The ranges of depreciation rates for groups of property, plant and equipment are the following:

Buildings	2.5-10%
Machinery and equipment	7-10%
Fixtures	15-20%
Computers	20-33%

Depreciation begins when the asset is available for use for the purposes intended by management and continues until the residual value of the asset exceeds its carrying amount, when the asset is retired from use or when the asset is reclassified as "non-current assets held for sale". At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets is assessed.

At each balance sheet date, management estimates whether there is any evidence of impairment. If there are known facts which may cause impairment of non-current assets, management calculates the recoverable amount of non-current assets (i.e. higher of the two following indicators: an asset's fair value less costs to sell and value in use). If the recoverable amount is lower than the carrying amount, the items of property, plant and equipment are written down to their recoverable amount. An impairment loss recognised in previous periods is reversed if a change has occurred in the estimates that were used as a basis for the determination of recoverable amount and if the recoverable amount has increased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and they are included in the income statement under other operating income and expenses.

Investment property

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

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

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

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

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

Financial liabilities

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

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

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

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

Success fee liability

EfTEN Kinnisvarafond II AS and EfTEN Capital AS have entered into a management contract according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the gain on sale of an investment or aggregate of investments above a hurdle rate of 7% on an annual basis. If the actual return of an investment is lower than 7% per annum during the lifetime of the investment, the difference between the actual return and the hurdle rate is also deducted from the sale price of the investment, so that the return before success fees would be at least 7% per annum. According to the management contract, 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.

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

Subsidiaries in Latvia

The net profit of companies is taxed with a 15% income tax in Latvia. 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 foreign 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.

2 Subsidiaries

Company name	Country of domicile	Investment	Group's ownership interest, %	
			30.06.2016	31.12.2015
Parent company				
EfTEN Kinnisvarafond II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke tn 2 Tallinn	100	100
Astlanda Hotellli AS	Estonia	Operator company	100	100
EfTEN Dunte SIA	Latvia	Duntes 6, Riga Latvia	100	100
Magistral Kaubanduskeskuse OÜ	Estonia	Sõpruse pst 201/203, Tallinn Estonia	100	0
EfTEN Skybreak SIA	Latvia	Ieriku 3, Riga Latvia	100	0

On 29 February 2016, EfTEN Kinnisvarafond II AS acquired 100% of Magistral Kaubanduskeskuse OÜ for EUR 12,346 thousand with the objective of acquiring the property at Sõpruse pst. 201/203 in Tallinn. At the time of acquisition, Magistral Kaubanduskeskuse OÜ had EUR 712 thousand on its cash account. As of 30.06.2016, EUR 41 thousand still needs to be paid for the acquisition.

The fair value of the assets acquired and liabilities assumed through the acquisition was as follows:

	Fair value
EUR thousand	
Cash	712
Receivables and prepaid expenses	120
Investment properties (Notes 13)	24,000
Bank loan	-12,000
Other liabilities	-486
The fair value of the net assets	**12,346**
Acquisition cost	12,346
Goodwill	**0**

On 28 April 2016, EfTEN Real Estate Fund II AS founded wholly-owned subsidiary SIA Skybreak, paying a total of EUR 4 thousand in the share capital of the subsidiary. The subsidiary was established with the objective of acquiring the Domina shopping centre at Ieriķu 3 in Riga, Latvia.

17 June 2016 Latvian subsidiary EfTEN Property SIA merged with its fully owned subsidiary Zeltini M SIA. The merged company was named EfTEN Dunte SIA.

No shares of a subsidiary are publicly listed.

3 Revenue

Areas of activity	1st half 2016	2015
EUR thousand		
Rental income from office premises	998	134
incl. rental income from investment property	*867*	*0*
incl. rental income from property, plant and equipment	*131*	*134*
Rental income from service premises	806	0
incl. rental income from investment property	765	0
incl. rental income from property, plant and equipment	41	0
Hotel revenue from rooms	2,685	2,275
Hotel revenue from food and beverage	783	797
Hotel revenue from other sales	427	448
Other sales revenue	2	0
Total Revenue	**5,701**	**3,654**

EUR 4,832 thousand of the revenue of the Group was generated in Estonia and EUR 869 thousand in Latvia (1st half of 2015: whole revenue of the Group was generated in Estonia).

4 Cost of goods and services sold

Cost of goods and services sold	1st half 2016	2015
EUR thousand		
Hotel direct costs from rooms	-266	-208
Hotel direct costs from food and beverage	-333	-329
Hotel royalty fees	-153	-147
Other direct costs related to hotel operation	-61	-48
Wages and salaries related to hotel operation, incl. taxes	-730	-626
Administrative expenses related to hotel operation	-318	-268
Repair and maintenance of rental property	-81	-24
Property insurance	-16	-11
Land tax	-42	-20
Other administrative expenses	-15	-26
Improvement costs	-10	0
Amortization expense	-149	-130
Total cost of goods and services sold	**-2,173**	**-1,837**

5 *Marketing costs*

Marketing costs	1st half 2016	2015
EUR thousand		
Commission expenses on rental property	-1	0
Wages and salaries, incl. taxes	-76	-61
Advertising, promotional events	-40	-16
Corporate marketing	-126	-106
Total marketing costs	**-242**	**-183**

6 *General and administrative expenses*

General and administrative expenses	1st half 2016	2015
EUR thousand		
Management services (Note 22)	-230	-106
Office expenses	-54	-33
Wages and salaries, incl. taxes	-226	-162
Consulting expenses	-131	-96
Change in success fee liability (Notes 16, 17)	-299	0
Other general and administrative expenses	-51	-42
Depreciation	0	0
Total general and administrative expenses	**-991**	**-440**

7 *Other income and other expenses*

Other income	1st half 2016	2015
EUR thousand		
Gain on changes in the fair value of investment property (Note 13)	1,800	0
Other income	2	3
Total other income	**1,802**	**3**

Other expenses	1st half 2016	2015
EUR thousand		
Loss on changes in the fair value of investment property (Note 13)	-304	0
Other expenses	-2	-1
Total other expenses	**-305**	**-1**

8 Finance costs

Finance costs	1st half 2016	2015
EUR thousand		
Interest expenses, incl.	-358	-107
Interest expense on borrowings	-249	0
Interest expense on derivatives (-)/ reduction of expense (+)	-108	-107
Total finance costs	**-358**	**-107**

9 Income tax

	1st half 2016	2015
EUR thousand		
Income tax expense	-532	0
Income tax expense of Latvian subsidiaries	-77	0
Total income tax expense	**-609**	**0**

As at 30.06.2016, the Group has a deferred income tax liability in relation to the acquisition of investment property located in Latvia in the amount of EUR 835 thousand (31.12.2015: EUR 757 thousand). The obligation to pay income tax will arise upon the Group's realisation of the investment property.

10 Cash and cash equivalents

	30.06.2016	31.12.2015
EUR thousand		
Demand deposits	12,746	6,627
Cash in hand	61	34
Total cash and cash equivalents	**12,807**	**6,661**

11 Receivables and accrued income

Short-term receivables and accrued income

	30.06.2016	31.12.2015
EUR thousand		
Receivables from customers	457	442
Allowance for doubtful trade receivables	-47	-47
Total trade receivables	**411**	**395**
Other short-term receivables		
Other short-term receivables	7	11
Total other short-term receivables	**7**	**11**
Accrued income		
Prepaid taxes and receivables for reclaimed value-added tax	3	52
Other accrued income	17	13
Total accrued income	**20**	**65**
Total receivables	**438**	**471**

	30.06.2016	31.12.2015
EUR thousand		
Undue	256	297
Expired, incl.	**201**	**145**
Up to 30 days	*124*	*69*
30-60 days	*23*	*27*
More than 60 days	*54*	*50*
Allowance for doubtful receivables	-47	-47
Total trade receivables	**411**	**395**

12 Prepayments

	30.06.2016	31.12.2015
EUR thousand		
Prepayments of insurance	3	3
Prepayments of utility fees intermediation	8	2
Deferred expenses	79	50
Total prepayments	**91**	**55**

13 Investment property

As at 30.06.2016, the Group owns one investment property in Estonia and one in Latvia:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value as of 30.06.2016	Share of market value of the fund's assets
EUR thousand						
Duntes Biroji office building	Duntes 6, Riga Latvia	12,650	November 2015	23,746	23,450	22%
Magistrali shopping centre	Sõpruse pst 201/203	11,720	February 2016	24,000	25,800	24%
Total		**24,370**		**47,746**	**49,250**	**45%**

During the reporting period, the following changes have occurred in the Group's investment property:

	Completed investment property	Prepayments for investment properties	**Total investment property**
Balance as at 31.12.2015	**23 746**	**0**	**23 746**
Acquisition and development	8	15	**22**
Acquisition from business combinations (Note 2)	24,000	0	**24,000**
Gain/loss on changes in the fair value (Note 7)	1,496	0	**1,496**
Balance as at 30.06.2016	**49,250**	**15**	**49,265**

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

	1st half	
	2016	2015
Rental income earned on investment property	1,632	0
Expenses directly attributable to management of investment property	-140	0
Prepayments for investment properties	15	0
Carrying amount of investment property pledged as collateral to borrowings as at 30.06.2016	49,250	0

Investment property is pledged as collateral to long-term bank loans.

The terms of lease agreements entered into by the Group and tenants correspond to non-cancellable operating lease terms. Income from the aforementioned lease agreements is divided as follows:

Payments receivable under non-cancellable operating lease agreements	30.06.2016
EUR thousand	
up to 1 year	2,656
2-5 years	4,726
over 5 years	346
Total	**7,728**

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

The management of the group uses the transaction price in determining the fair value because the transaction of purchase and sale took place at the end of the year 2015 and no significant changes have occurred in the real estate market since then.

The management has based the acquisition of the investment property on the following assumptions:

	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/,m2
EUR thousand						
Duntes Biroji office building	23,450	Discounted cash flows	1,704	7.60%	7.0%	10.50
Magistrali shopping centre	25,800	Discounted cash flows	1,043	7.83%	7.5%	13.55
Total	**49,250**					

The fair value of investment property is based on the following:

- Rental income: actual growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;
- Capitalisation rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant management's assumptions which was made on the acquisition:

	Sensitivity to management estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Duntes Biroji office building	Change in rental income +/-10%	*-2,590*	*2,600*	Change in the capitalisation rate	-0.5%	*25,250*	*24,760*	*24,290*
					0.0%	*23,940*	*23,450*	*22,980*
					0.5%	*22,810*	*22,320*	*21,850*
Magistrali shopping centre	Change in rental income +/-10%	*-770*	*769*	Change in the capitalisation rate	-0.5%	*27,675*	*27,132*	*26,603*
					0.0%	*26,343*	*25,800*	*25,271*
					0.5%	*25,178*	*24,635*	*24,106*

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

14 Property, plant and equipment

	Land and buildings[1]	Depreciated buildings	Machinery and equipment	Other property, plant and equipment	Construction in progress and advance payments	Total
EUR thousand						
Carrying amount 31.12.2015	**44,082**	**1,362**	**247**	**324**	**10**	**46,025**
Cost 31.12.2015	*44,082*	*1,362*	*356*	*793*	*10*	*46,603*
Accumulated depreciation 31.12.2015	*0*	*0*	*-109*	*-468*	*0*	*-577*
Purchases	0	0	41	11	9	61
Reclassification	0	0	0	10	-10	0
Revaluation through comprehensive income	75	0	0	0	0	75
Depreciation charge	0	-75	-33	-40	0	-149
Carrying amount 30.06.2016	**44,157**	**1,287**	**255**	**305**	**9**	**46,013**
Cost 30.06.2016	44,157	1,287	*397*	*814*	*9*	*46,664*
Accumulated depreciation 30.06.2016	0	0	*-142*	*-508*	*0*	*-651*

[1] Radisson Blu Sky Hotel, the sole asset in the land and buildings category, is measured using the revaluation model as an investment in property, plant and equipment. According to the management, the asset contained in the land and buildings category is of a substantial residual value and therefore it is a non-depreciable asset.

The property, plant and equipment of the group is divided into two categories:

1) Property, plant and equipment of insignificant residual value whereby the cost is depreciated to profit and loss over the useful life of the asset;
2) Property, plant and equipment with a significant residual value, for which only the depreciable portion of the difference between the cost and the residual value is depreciated into an expense over their useful lives.

The group owns Radisson Blu Sky Hotel, which is subject to appraisal of its residual value at each balance sheet date. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of residual value. Independent valuation specialist of the group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and market conditions. As a result of the appraisal of residual value that was carried out, it was concluded that the asset is not sold at a significantly lower value compared to its carrying amount as at 30.06.2016 because it is very favourably located in central Tallinn and the hotel is new and does not require major capital expenditure.

The income statement and balance sheet of the Group include, among other items, the following income and expenses and balances related to non-current assets:

	1st half	
	2016	2015
Revenue from hotel operation	3,895	3 434
Direct costs related to hotel operation	-1,959	-1 626
Rental income from property, plant and equipment	172	134
Direct costs attributable to management of property, plant and equipment	-54	-81
Depreciation expense on property, plant and equipment	-149	-130
Carrying amount of property, plant and equipment provided as collateral to secure borrowings as at 30.06.2016	45 444	45 365

The terms of lease agreements entered into by the group and tenants correspond to non-cancellable operating lease terms. Income from the aforementioned lease agreements is divided as follows:

Payments received under non-cancellable operating lease agreements	30.06.2016
EUR thousand	
up to 1 year	325
2-5 years	758
Over 5 years	250
Total	**1,333**

15 Borrowings

As at 30.06.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement, EUR thousand	Loan balance as at 30.06.2016	Contract term	Interest rate as at 30.06.2016	Loan collateral	Value of collateral	Share of the fund's net asset value
SEB	Estonia	23,000	23,000	28.01.19	0.71%	mortgage - Rävala 3, Astlanda Hotelli AS warranty	45,444	44.9%
SEB	Latvia	4,420	4,332	30.11.20	1.30%	mortgage - Duntes iela 6, Riga Latvia	23,450	8.5%
SEB	Latvia	9,780	9,536	30.11.20	1.30%	mortgage - Duntes iela 6, Riga Latvia	23,450	18.6%
Danske	Estonia	12,000	11,863	25.02.21	1.35%	mortgage - Sõpruse pst 201/203, Tallinn Estonia	25,800	23.2%
Total		**49,200**	**48,732**				**94,694**	**95%**

Short-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	918	483
Discounted contract fees on bank loans	-22	-6
Total short-term borrowings	**895**	**477**

Long-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Total long-term borrowings	**48,660**	**37,045**
Incl. current portion of borrowings	895	477
Incl. non-current portion of borrowings, incl.	47,765	36,568
Bank loans	47,814	36,625
Discounted contract fees on bank loans	-49	-57

Bank loans are divided as follows according to repayment date

Repayment of bank loans by maturity dates	30.06.2016	31.12.2015
EUR thousand		
Less than 1 year	918	483
2-5 years	47,814	36,625

Lender	Loan balance as at 31.12.2015	Received loans from business combinations	Loan repayment	Loan balance as at 30.06.2016
EUR thousand				
SEB	23,000	0	0	23,000
SEB	4,407	0	-75	4,332
SEB	9,701	0	-165	9,536
Danske Bank	0	12,000	-137	11,863
Total	**37,108**	**12,000**	**-377**	**48,732**

16 Payables and prepayments

Short-term payables and prepayments

	30.06.2016	31.12.2015
EUR thousand		
Other trade payables	171	168
Trade payables	**171**	**168**
Other payables		
Payables for share issue	4,778	0
Payables for securities	41	0
Total other payables	**4,819**	**0**
Tax liabilities		
Value added tax	137	80
Corporate income tax	0	2
Personal income tax	46	42
Social tax	97	86
Other tax liabilities	29	10
Total tax liabilities	**309**	**220**
Accrued expenses		
Interest payable	4	5
Payables to employees	155	119
Tenant security deposits	221	3
Other accrued liabilities	181	305
Total accrued expenses	**561**	**432**
Prepayments		
Prepayments received from buyers	53	23
Other deferred income	5	1
Total prepayments	**58**	**24**
Total payables and prepayments	**5,917**	**844**

Long-term payables

	30.06.2016	31.12.2015
EUR thousand		
Success fee liability	299	0
Tenant security deposits	362	233
Total other long-term payables	**661**	**233**

17 Success fee liability

As at 30.06.2016, the Group has accumulated a success fee liability in the amount of EUR 299 thousand. The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property as at 30.06.2016. Expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 6).

18 Derivative instruments

As at 30.06.2016, the Group had an effective interest rate swap agreement fixing the interest rate on long-term borrowings at notional value of EUR 23,000 thousand (31.12.2015: unchanged).

The terms and payment schedule of the interest rate swap transaction correspond to the loan repayment schedule of the loan that is subject to the hedge and has been accounted for as a cash flow hedging instrument.

The derivative instrument will expire in the year 2022 and the base interest rate is the 1-month EURIBOR. The Group's floating interest rate is fixed at the level of 0.65% according to the interest rate swap agreement.

The basis for the fair value of the derivative instruments is the quotation provided by SEB Pank, the fair value of the derivative position as at 30.06.2016 was negative in the amount of EUR 1,406 thousand (31.12.2015: negative in the amount of EUR 526 thousand). Additional disclosures have been provided regarding the estimation of the fair value of the derivative instrument in Note 18.

The Group's interest expense attributable to the interest rate swap transaction in 6 months ended 30 June 2016 was EUR 108 thousand (1st half of 2015: EUR 0).

19 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investments of the Group. The Group's balance sheet also includes cash and short-term deposits, accounts receivable, other receivables, accounts payable and liabilities related to interest rate derivatives used for the mitigation of interest rate risk.

The table below indicates the division of the Group's financial assets and financial liabilities according to financial instrument type.

Carrying amounts of financial instruments

	Notes	30.06.2016	31.12.2015
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	10	12,807	6,661
Trade receivables	11	411	395
Total financial assets		**13,217**	**7,056**
Financial liabilities measured at amortised cost			
Borrowings	15	48,660	37,045
Trade payables	16	171	168
Tenant security deposits	16	582	236
Accrued expenses	16	181	305
Total financial liabilities measured at amortised cost		**49 594**	**37,754**
Derivative instruments (interest rate derivatives)	18	1,406	526
Financial liabilities measured at fair value		**1,406**	**526**
Total financial liabilities		**51,001**	**38,280**

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.

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, 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 rate 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 at 30.06.2016, all of the Group's borrowings bear interest on the basis of a floating interest rate and are linked to the 1-month EURIBOR. The 1-month EURIBOR fluctuated in the first half of 2016 within the range of -0.210% to -0.371%. The covenants of the Group's loan agreements require the Group to maintain a debt coverage ratio in excess of 3.0. As at 30.06.2016, the Group's debt coverage ratio was 5.0.

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The Group's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 4-7 years.

As a result of the long-term nature of the Group's investments and the long-term borrowings associated with the investments, the management of EfTEN Kinnisvarafond II AS decided in 2015 to mitigate the risk of an increase of the long-term floating interest rate applicable to the loan portfolio by fixing the applicable floating interest rate (1-month EURIBOR). It was decided to use interest rate swap agreement for the risk mitigation whereby the floating interest rate loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreement considering the following conditions:

(1) The asset that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2025);
(2) The loan agreement that the cash flow hedge applies to is being extended at maturity until the expiry date of the swap agreement in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

The group entered into interest rate swap agreement with a total notional amount of EUR 23,000 thousand for the purposes of mitigating interest rate risk, whereby 1-month EURIBOR was fixed in the agreement at the rate of 0.65%. The expiry of the interest rate swap agreements is in the year 2022. As at 30.06.2016 the borrowings related to interest rate swap agreements made up 47% of all the Group's borrowings.

The group accounts for the interest rate swap agreements based on the principle of hedge accounting. The total fair value of the Group's interest rate swap agreements as at 30.06.2016 was negative in the amount of EUR 1,406 thousand (Note 18).

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 accommodation- and rental income, reducing the Group's ability to generate positive net cash flows;
- Hotel utility rate;
- Vacancy of rental property;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Financing structure.

The objective of the Group is to manage its net cash flows, so as to not use debt in making investments in excess of 60% of the cost of the investment.

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 investment objects. The table below summarises the information on the maturities of the Group's financial liabilities (undiscounted cash flows):

As at 30.06.2016	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Total
EUR thousand					
Interest-bearing liabilities	73	217	608	47,763	**48,660**
Interest payments	47	142	359	1,466	**2,014**
Interest payable	4	0	0	0	**4**
Trade payables	171	0	0	0	**171**
Tenant security deposits	0	0	221	356	**582**
Accrued expenses	181	0	0	0	**181**
Total financial liabilities	**476**	**358**	**1,186**	**49,585**	**51,612**

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 repay 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 activity in preventing reduction of cash flows due to credit risk and minimising such risk lies in the daily monitoring and guiding of clients' payment behaviour, so that appropriate measures could be applied on a timely basis.

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

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

Accounts receivable are illustrated by the table below:

	30.06.2016	31.12.2015
Undue	256	297
Past due	**201**	**145**
up to 30 days	*124*	*69*
30-60 days	*23*	*27*
more than 60 days	*54*	*50*
Allowance for doubtful receivables	-47	-47
Total trade receivables	**411**	**395**

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

	30.06.2016	31.12.2015
EUR thousand		
Cash and cash equivalents	12,807	6,661
Trade receivables	411	395
Total maximum credit risk	**13,217**	**7,056**

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 invest in real estate that generates cash flow in Estonia and Latvia. The investment policy of the group stipulates that no more than 30% of the asset value of the fund can be invested in any one investment. The necessary equity level is calculated individually for each investment, taking into consideration the amount of net cash flows and loan payments of each investment and their proportion.

Fair value

The table below analyses assets and liabilities measured at fair value by valuation methods. The valuation methods 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 30.06.2016, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties (Note 13) and property, plant and equipment measured at revaluation method (Note 14) are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

The group has entered into interest rate swap agreements (Note 18) for the mitigation of interest rate risk. The fair value of such agreements is determined through the discounting of cash flows from interest rate swap agreements by determining the cash inflows and outflows according to market expectations with regard to EURIBOR and such cash flows are discounted using the zero-rate. The group uses information sourced from credit institutions used as counterparties for the fair value accounting of interest rate swap agreements.

20 Share capital

In December 2014, EfTEN Kinnisvarafond II AS issued 2,500 shares with the nominal value of EUR 10. A total of EUR 25 thousand was paid for the new shares in cash.

In January 2015, EfTEN Kinnisvarafond II AS issued 2,500,000 shares with the nominal value of EUR 10. A total of EUR 25,000 thousand was paid for the new shares in cash.

In November 2015, EfTEN Kinnisvarafond II AS issued 921,754 shares with the nominal value of EUR 10. New shares were issued at a premium of EUR 0.8489 per share. As a result of this share issuance, the share capital increased by EUR 9,218 thousand and share premium increased by EUR 782 thousand. A total of EUR 10,000 thousand was paid for the new shares and the share premium in cash.

In February 2016, EfTEN Kinnisvarafond II AS issued 1,347,663 shares with the nominal value of EUR 10. New shares were issued at a premium of EUR 0.1509 per share. As a result of this share issuance, the share capital increased by EUR 13,477 thousand and share premium increased by EUR 203 thousand. A total of EUR 13,680 thousand was paid for the new shares and the share premium in cash.

The amount of registered share capital of EfTEN Kinnisvarafond II AS at 30.06.2016 is EUR 47,719 thousand. The share capital consisted of 4,771,917 shares as at 30.06.2016 with nominal value of EUR 10. Without amending the articles of association, the company may increase its share capital to EUR 100,100 thousand.

In June 2016, EfTEN Kinnisvarafond II AS announced a new share issue, under which 3,299,839 new shares will be issued with a nominal value of EUR 10 euros and an issue premium of EUR 0.4046 per share. As of 30.06.2016, EUR 4,778 thousand has been raised in the share issue.

21 Contingent liabilities

Contingent income tax liability

	30.06.2016	31.12.2015
EUR thousand		
The company's retained earnings	3,566	3,019
Potential income tax liability	713	604
The amount that can be paid out as dividends	2,853	2,415

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 as at 30.06.2016 and 31.12.2015.

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

The management estimates that there are no circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

22 Related party transactions

EfTEN Kinnisvarafond II AS considers the following as related parties:

- persons who own more than 10% of the share capital of EfTEN Kinnisvarafond II AS;
- management board members and companies owned by the management board members of EfTEN Kinnisvarafond II AS;
- supervisory board members and companies owned by the supervisory board members of EfTEN Kinnisvarafond II AS;
- employees and companies owned by the employees of EfTEN Kinnisvarafond II AS;
- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in the accounting period in the amount of EUR 230 thousand (Note 6) and accounting and intermediary services in the amount of EUR 13 thousand from EfTEN Kinnisvarateenuste OÜ, the subsidiary of EfTEN Capital AS.

In the accounting period, the Group had 113 employees who were remunerated including taxes in the amount of EUR 1,032 thousand. In the accounting period no compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

23 Subsequent events

Share capital will be increased by EUR 32,998 by way of new share issuance on the basis of the resolution dated 17 June 2016 of the Supervisory Board of EfTEN Kinnisvarafond II AS. 3,299,839 new shares will be issued at nominal value of EUR 10, as a result the share capital on a post-issuance basis will be EUR 80,717 thousand. The new shares are issued at a share premium of EUR 0.4046 per share.

13 July 2016 EfTEN Kinnisvarafond II AS acquired Domina shopping centre in Riga. The acquisition value was in the amount of EUR 74.5 million.

24 Parent company's separate income statement

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

	1st half	
	2016	2015
EUR thousand		
Revenue	216	100
Gross profit	**216**	**100**
General and administrative expenses	-288	-133
Operating profit	**-72**	**-32**
Gain (loss) from subsidiaries	-258	1,182
Dividend income	2,127	0
Interest income	223	0
Profit before income tax	**2,019**	**1,149**
Net profit for the half-year	**2,019**	**1,149**

25 *Parent company's separate balance sheet*

	30.06.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	8,062	2,063
Receivables and accrued income	301	27
Total current assets	**8,363**	**2,090**
Non-current assets		
Shares of subsidiaries	30,309	26,166
Long-term receivables	17,341	9,405
Total non-current assets	**47,650**	**35,571**
TOTAL ASSETS	**56,013**	**37,661**
LIABILITIES AND EQUITY		
Current liabilities		
Payables	4,784	5
Total current liabilities	**4,784**	**5**
Total liabilities	**4,784**	**5**
Equity		
Share capital	47,719	34,243
Share premium	986	782
Statutory reserve capital	151	0
Retained earnings	2,372	2,631
Total equity	**51,228**	**37,656**
TOTAL LIABILITIES AND EQUITY	**56,013**	**37,661**

26 Parent company's separate statement of cash flows

	1st half	
	2016	2015
EUR thousand		
Cash flows from operating activities		
Net profit	**2,019**	**1,149**
Adjustments to net profit:		
Interest income and interest expenses	-223	0
Gain (loss) on the fair value adjustment of subsidiaries and joint ventures	258	-1,182
Dividends received	-2,127	0
Total adjustments with non-cash changes	**-2,092**	**-1,182**
Cash flow from operations before changes in working capital	**-72**	**-32**
Change in receivables and payables related to operating activities	-50	5
Net cash generated from operating activities	**-122**	**-27**
Cash flows from investing activities		
Acquisition of investments in subsidiaries and joint ventures	-12,309	-23,503
Loans granted	-28	0
Dividends received	2,127	0
Net cash generated from investing activities	**-10,210**	**-23,502**
Cash flows from financing activities		
Proceeds from issuance of shares	18,458	25,000
Dividends paid	-2,127	0
Net cash generated from financing activities	**16,330**	**25,000**
NET CASH FLOW	**5,999**	**1,470**
Cash and cash equivalents at the beginning of the period	**2,063**	**25**
Change in cash and cash equivalents	5,999	1,470
Cash and cash equivalents at the end of the period	**8,062**	**1,495**

27 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
EUR thousand					
Balance as at 01.12.2014	**25**	**0**	**0**	**0**	**25**
Issue of shares	34,218	782	0	0	**35,000**
Comprehensive income for the half-year	0	0	0	2,631	**2,631**
Balance as at 31.12.2015	**34,243**	**782**	**0**	**2,631**	**37,656**
Issue of shares	13,477	203	0	0	13,680
Capital raising fees	0	0	0	0	0
Announcement of dividends	0	0	0	-2,127	-2,127
Transfers to statutory reserve capital	0	0	151	-151	0
Income for the half-year	0	0	0	2,019	2,019
Balance 30.06.2016	**47,719**	**986**	**151**	**2,372**	**51,228**

For additional information on changes in share capital, please see Note 20.

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

	30.06.2016	31.12.2015
EUR thousand		
Parent company's unconsolidated equity	51,228	37,656
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-30,309	-26,166
Value of subsidiaries and joint ventures under the equity method (plus)	30,308	26,166
Total	**51,228**	**37,656**

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE INTERIM REPORT ENDED 30 JUNE 2016

We hereby confirm the correctness of data presented in the interim report ended 30 June 2016 of EfTEN Kinnisvarafond II AS.

________________	________________
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board

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Sander Rebane	Olav Miil
Member of the Supervisory Board	Member of the Supervisory Board

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Viljar Arakas	Tõnu Uustalu
Management Board Member	Management Board Member