Consolidated annual report 2012

EfTEN Kinnisvarafond AS

Registry code: 11505393

Beginning of the accounting year: 01.01.2012
End of the accounting year: 31.12.2012

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MANAGEMENT REPORT

EfTEN Kinnisvarafond earned EUR 5.4 million in revenue in 2012, which is 2.1% more than in 2011. Net profit made up EUR 4.7 million, exceeding the result of the previous year by 52%. Non-monetary income and expenditure, including income from revaluation of investment properties, and the success fee reserve change of the management company made up a total of EUR 1.5 million in the financial year 2012 (2011: EUR 1.8 million) and the total EBITDA in 2012 was EUR 4.3 million (2011: EUR 2.0 million). The annuity payments of the loans taken for acquisition of investment properties made up a total of EUR 2.6 million in the last financial year EUR 1.4 million in 2011), which means that the monetary increment without taking into consideration the changes in working capital and the new investments was EUR 1.7 million in 2012 (EUR 0.6 million in 2011).

Short overview of the Estonian commercial property market

2012 was the first year of stability after the economic crisis. The rental prices and vacancy rates remained stable throughout the year in almost all commercial property classes. The rental prices increased moderately and vacancies were reduced, but not too quickly. According to the Newsec estimation, the total volume of the Baltic commercial property market in 2012 was EUR 190 million, being approximately 40% less that the volume a year earlier. At the same time, we have to take into consideration that the statistics of 2011 were considerably impacted by the transaction of purchase and sale of the Kristiine Centre, making up EUR 105 million on its own.

New investors kept entering into the Baltic commercial property market in 2012. This trend is caused by extremely low interest rates of bank deposits and the fact that the drop in the interest rates to the lowest historical level in Europe has not brought about a significant increase in real estate prices or a decrease in output levels. Two types of buyers need to be differentiated - private investors and institutional investors. Exceptionally many private investments have entered the market in search of objects with a stable cash-flow output with an investment value of up to EUR 5 million. This circumstance has brought about a decrese in production rates as to smaller investment objects.

Institutional capital did not find its way back to the Baltic commercial property market in 2012. No new real estate funds were established in the period under consideration with the contribution of institutional investors. However, it is worth mentioning that East Capital's Balti Real-Estate Fund II made two larger transactions in 2012, buting the VGP logistics complex in Tallinn and the Gedimino 9 commercial building in Vilnius. Looking ahead at 2013 it can be presumed that the near future will bring positive changes and the share of institutional capital will indrease in the Baltic commercial property transactions. This trend will potentially also have an impact on the rate of return rates of the objects that exceed EUR 5 million, bringing about their overall decrease.

Overview of the activities of EfTEN Kinnisvarafond

As to new investments, 2012 was a year of shopping centres for EfTEN Kinnisvarafond. In the reference period, 2011, EfTEN Kinnisvarafond made three new investments to the office building segment in the total amount of EUR 20 million. In July 2012, the fund invested EUR 21.5 million to the acquisition of Mustika Centre. Mustika Centre has 41,500 m2 of total area (25,600 m2 of rented area) and approximately 800 parking spaces on a registered immovable of a total of 4.2 hectares. A thorough change of conception and internal logistics is planned to be carried out at Mustika Centre, and to change the make-up of today's lessees. Opening of the renewed Centre is planned for the end of 2013. On 1 November 2012 the largest shopping centre of Viljandi County, UKU Centre, was opened with a total area of 7000 m2. This was the conclusion of the first independent real-estate development project of EfTEN Kinnisvarafond. It is the most profitable investment in the history of EfTEN Kinnisvarafond.

The circle of stockholders at EfTEN Kinnisvarafond was also considerably renewed in 2012. In total, EfTEN Kinnisvarafond issued new shares in 2012 in the amount of EUR 19.3 million, based on the NAV of the month preceding the issue of shares. As new investors, Danske's Estonian and Lithuanian pension funds, ERGO pension funds in Estonia and several private investors were added among the fund shareholders. As at the end of the year, the pension funds took up a total of 43.0%, EfTEN Kinnisvarafond's founding investors 34.5% and other private investors 22.5% of EfTEN Kinnisvarafond's share capital. The fund shareholders comprised a total of 28 persons.

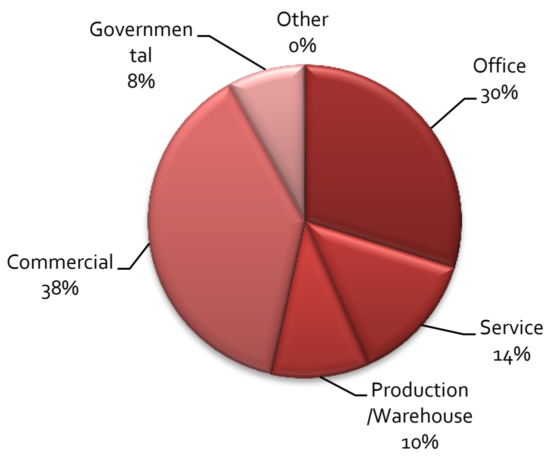
EfTEN Kinnisvarafond ended the year with a strong free cash position - a total of EUR 12.6 million. EUR 10 million of this is planned to be invested into new projects. After the balance sheet date, in Q1 of 2013, the fund has made three new investments by purchasing a Prisma shopping centre in Narva, Eesti Energia's main buildings in Tallinn and ,together with Esraven AS, Hotel Palace in Tallinn. It increases the total amount of the fund investment properties by approximately EUR 27 million, increasing the total amount of the fund's investment properties to over EUR 100 million. in February 2013, the Fund had its first successful sales transaction by selling its smallest investment at Narva mnt 59. As a result of the transaction, the equity rate of return in the maintenance period of this investment was 22%.

The Management Board of EfTEN Kinnisvarafond will propose on the general meeting of shareholders to pay net dividends for 2012 in the total amount of EUR 1.4 million, that is, 5.8% of the total invested capital of the Fund, which is EUR 0.056 per share. This proposal is in compliance with EfTEN Kinnisvarafond's dividend policy that prescribes payment of dividends in the extent of 80% of the free cash-flow earned on the previous year. In addition, the Management Board will propose the annual general meeting to declare a new closed issuing of shares and to extend the fund term until 2022.

Assessment of the investment properties of the fund is carried out by the management company EfTEN Capital AS. In reflecting the investment properties, we have followed the conservative principle, that is, the estimations have been given only on the basis of the discounted cash-flow, although the real estate value could be significantly higher when using the reference method. We have also followed conservative estimations as to rates of return and discount rates, the first of which are between 8.5% and 9.5%, and the second, at 10.5%. EfTEN Kinnisvarafond AS does not use external valuers for investment property valuations since the company has the best overview of the valid lease contracts and the factors that influence the cash-flows.

Real estate portfolio as at 31.12.2012

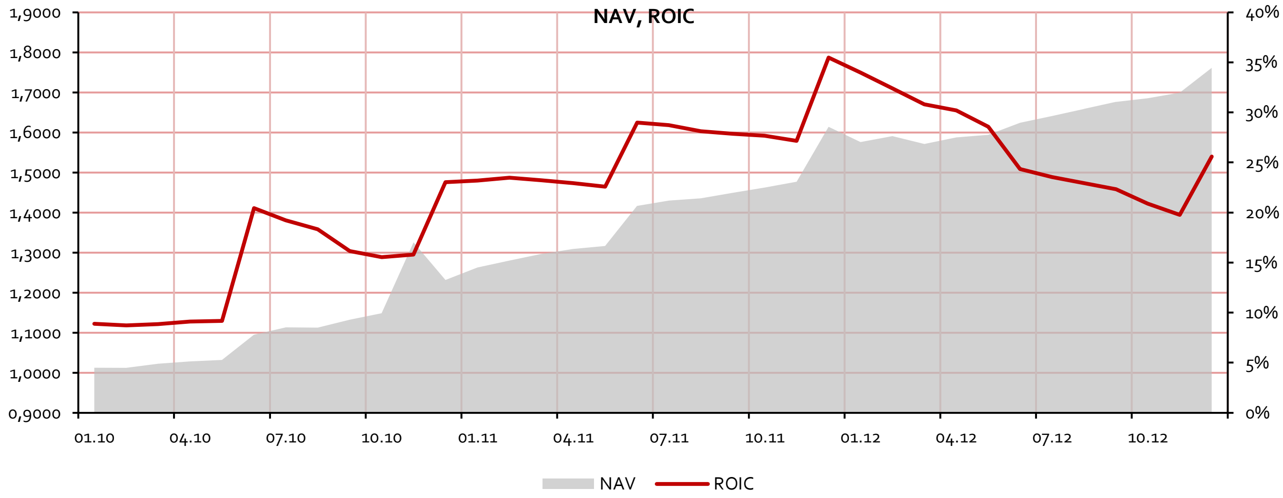
Main indicators of the portfolio	
Total lease premises, m²	73 588
Portfolio vacancy in lease revenue	2.30%
Portfolio vacancy, m²	3 542
Average duration of lease contracts	5.2 years
Fair value of the portfolio, million €	75.5
Annual rent, million €	7.0
Potential annual rent (without vacancies), million €	7.1
Net operating income (NOI) of the portfolio, million €	6.3
Loan liabilities, million €	42.6
Average interest rate	2.8%
Loan to value	56%
DSCR	2.0



Largest lessees	% of the consolidated rent revenue
Prisma Peremarket	16.8
Joint building of Rakvere police and rescue (Riigi Kinnisvara AS)	9.2
Premia Tallinna Külmhoone AS	8.9
Rautakesko AS	4.6
Äripäev AS	4.6
Centre of Registers and Information Systems	4.2
Arvato Services Estonia OÜ	4.9
YIT Ehitus AS	2.1
Others	44.7

Net asset value (NAV)

	31.12.12	31.12.11
Equity, €	44 133 328	13 546 146
Number of shares	25 057 010	8 393 059
NAV per share, €	1.7613	1.6140
Fair value of derivative instruments, €	-216 020	-417 657
Adjusted equity, €	44 349 348	13 963 803
Adjusted NAV (EPRA), €	1.7699	1.6637



Main financial indicators

	2012	2011	Description of formula
Million €			
Revenue	5.4	2.5	
Operating profit	5.8	3.8	
EBITDA	4.3	2.0	= Operating profit – amortisation cost – revaluation of investment properties – change in success fee obligation
Net profit	4.7	3.1	
Revaluations of net investment properties	1.9	2.24	
EBITDA margin, %	79.7	78.8	= EBITDA/revenue
ROE, %	16.1	28.0	=net profit of the period/average equity of the period
ROA, %	6.7	8.0	=net profit of the period/average assets of the period
ROIC, %	25.6	35	=net profit of the period/average invested capital
DSCR	2.0	1.4	=EBITDA/(interest expenditure+scheduled loan payments)

In accordance with the property administration contract, the activity of EfTEN Kinnisvarafond is managed as a management company by EfTEN Capital AS. As at 31.12.2012, three employees worked in the Group (31.12.2011: two employees) who received a total remuneration with taxes in 2012 in the amount of EUR 31 thousand (2011: EUR 35 thousand). No remunerations were accounted or paid to the members of the Management or Supervisory Board.

Viljar Arakas
Member of the Board

ANNUAL ACCOUNTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	2012	2011
€			
Revenue	4	5 394 121	2 514 815
Expenditure on sold services	5	-517 023	-261 352
Gross profit		**4 877 098**	**2 253 463**
Marketing costs	6	-64 628	-4 586
General administrative costs	7	-910 195	-686 182
Other operating revenues	8	1 969 103	2 434 405
Other expenses	8	-23 001	-194 055
Operating profit		**5 848 377**	**3 803 045**
Finance income		9 937	9 765
Financial expenses	9	-1 103 018	-747 813
Profit before income tax		**4 755 296**	**3 064 997**
Income tax expenditure on dividends		-105 000	0
Net profit of the accounting year		**4 650 296**	**3 064 997**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012	2011
€			
Net profit of the accounting year		4 650 296	3 064 997
Other total profit/loss:			
Revaluation profit/loss of risk management instruments	15	201 637	89 159
Other total profit/loss		**201 637**	**89 159**
Total profit of the accounting year		**4 851 933**	**3 154 156**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.12	31.12.11
€			
ASSETS			
Current assets			
Cash and cash equivalents	10	12 687 063	2 269 796
Derivative instruments	15	3 446	3 719
Receivables and accrued income	11	518 618	87 497
Prepaid expenditures		2 318	1 913
Total current assets		**13 211 445**	**2 362 925**
Fixed assets			
Investment properties	12	75 545 094	46 880 014
Tangible assets	13	6 071	489
Total fixed assets		**75 551 165**	**46 880 503**
TOTAL ASSETS		**88 762 610**	**49 243 428**
LIABILITIES AND EQUITY			
Short-term liabilities			
Loan liabilities	14	3 818 797	627 890
Derivative instruments	15	219 466	421 376
Payables and prepayments	16	521 138	19 308 047
Total short-term liabilities		**4 559 401**	**20 357 313**
Long-term liabilities			
Loan liabilities	14	38 763 572	14 608 813
Deposits from customers		214 750	26 479
Success fee obligation	17	1 091 559	704 677
Total long-term liabilities		**40 069 881**	**15 339 969**
Total liabilities		**44 629 282**	**35 697 282**
Equity			
Share capital	18	15 034 206	5 035 836
Share premium		19 894 291	3 762 412
Legal reserve		247 937	94 687
Risk management reserve	15	-216 020	-417 657
Retained profits	19	9 172 914	5 070 868
Total equity capital		**44 133 328**	**13 546 146**
TOTAL LIABILITIES AND EQUITY CAPITAL		**88 762 610**	**49 243 428**

CONSOLIDATED CASH-FLOW ACCOUNT

	Notes	2012	2011
€			
Cash-flows from business operations			
Net profit		**4 650 296**	**3 064 997**
Net profit adjustments:			
Finance income and finance expenses		1 093 081	738 048
Change in fair value of investment properties	12	-1 935 342	-2 237 911
Change in success fee obligation	17	387 370	417 510
Depreciation of fixed assets	13	465	165
Income tax expenditure on dividends		105 000	0
Total adjustments with non-monetary changes		**-349 426**	**-1 082 188**
Cash-flow from business operations before changes in working capital		**4 300 870**	**1 982 809**
Changes in receivables and liabilities related to business operation		-13 314	221 047
Total cash-flows from operations		**4 287 556**	**2 203 856**
Cash-flows from investing activities			
Acquisition of tangible fixed assets	13	-6 047	0
Acquisition of investment properties	12.16	-41 361 275	-6 515 551
Interest received		9 962	9 720
Total cash-flows from investing activities		**-41 357 360**	**-6 505 831**
Cash-flows from financing activities			
Loans received		28 836 960	3 554 813
Loans and repayments		-1 438 629	-3 072 998
Interest paid		-1 151 511	-762 609
Issuing of shares	18	21 740 251	6 365 013
Dividends paid		-395 000	0
Income tax paid on dividends		-105 000	0
Total cash-flows from financing activities		**47 487 071**	**6 084 219**
TOTAL CASH-FLOWS		**10 417 267**	**1 782 244**
Cash and cash equivalents at the beginning of the period		**2 269 796**	**487 552**
Change in cash and cash equivalents		10 417 267	1 782 244
Cash and cash equivalents at the end of the period		**12 687 063**	**2 269 796**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Issue premium	Legal reserve	Risk hedge reserve	Retained profits	**Total**
€						
Balance 31.12.2010	**4 365 523**	**2 719 912**	**34 668**	**-506 816**	**1 798 703**	**8 411 990**
Issuing of shares	937 500	1 062 500	0	0	0	**2 000 000**
Capital issue costs	0	-20 000	0	0	0	**-20 000**
Reduction of share capital on euro converting	-267 187	0	0	0	267 187	**0**
Transfers to legal reserve	0	0	60 019	0	-60 019	**0**
Total profit of the accounting year	0	0	0	89 159	3 064 997	**3 154 156**
Balance 31.12.2011	**5 035 836**	**3 762 412**	**94 687**	**-417 657**	**5 070 868**	**13 546 146**
Issuing of shares	9 998 370	16 242 629	0	0	0	26 240 999
Capital issue costs	0	-110 750	0	0	0	-110 750
Division of dividends	0	0	0	0	-395 000	-395 000
Transfers to legal reserve	0	0	153 250	0	-153 250	0
Total profit of the accounting year	0	0	0	201 637	4 650 296	4 851 933
Balance 31.12.2012	**15 034 206**	**19 894 291**	**247 937**	**-216 020**	**9 172 914**	**44 133 328**

For additional information on share capital, see Note 18.

NOTES TO THE ANNUAL ACCOUNTS OF THE CONSOLIDATION GROUP

1 *General information*

The consolidated annual accounts of EfTEN Kinnisvarafond AS, its subsidiaries and the joint venture for the financial year ending on 31.12.2012 has been signed by the Management Board on 27 February 2013. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report compiled by the Management Board and approved by the Supervisory Board shall be confirmed at the general meeting of shareholders. These consolidated annual accounts form a part of the annual report to be confirmed by the shareholders, and are one of the bases on which profits shall be distributed. The shareholders have a right not to confirm the annual report prepared by the Management Board and approved by the Supervisory Board, and to request for a new report.

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

The structure of EfTEN Kinnisvarafond AS Group as at 31.12.2012 has been provided in Note 27.

2 *Verification of conformity and general principles of preparing the accounts*

The annual accounts of EfTEN Kinnisvarafond AS, its subsidiaries and the joint venture, have been prepared based on the International Financial Reporting Standards (IFRS) as adopted by the European Union. These consolidated annual accounts have been prepared and submitted for approval in accordance with the requirements set in the Accounting Act of the Republic of Estonia and the Commercial Code, and to perform the obligations therein.

The annual report of the Group is presented in EUR.

In the preparation of the financial reports, the method of acquisition cost has been taken as a basis, unless stated otherwise (for example, certain financial investments and derivative instruments are stated in their fair value).

2.1 *Changes in the accounting policies and presentation*

The accounting policies implemented are in accordance with the policies used in the last financial year, except the following:

The Group has implemented the following IFRS standards in the accounting year:

- IFRS 7 *Financial instruments: disclosures (amended).* Disclosure requirements for stopping recognition of the financial assets or obligations have been improved;
- IAS 12 *Postponed income tax (amended) — covering the cost of underlying assets.*

The amendments will not affect the Group's financial statements since the Group has no such financial statement elements or transactions that would be affected by the abovementioned factors.

Accepted standards that have not yet entered into force

The Group has not implemented the following IFRS and IFRIC implementations that have been accepted by the date of publishing of this financial statement, but have not yet entered into force:

IAS 1 Presentation of Financial Statements (amended) – presentation of other entries of total profit (shall be applied to reporting periods that begin on 1 July 2012 or later)

This amendment will change the rules of presentation of total profit entries. Entries that could be reclassified as profit or loss in the future (e.g. upon termination of reflecting receivables or their payment) shall be hereinafter reflected separately from the entries that cannot be reclassified. The amendment only affects presentation and it has no impact on the Group's financial situation or the economic results. The Group has not yet assessed the impact of implementation of this standard.

IAS 19 *Employee Benefits (amended)* (shall be applied to reporting periods that begin on 1 January 2013 or later)

Several amendments have been made to IAS 19, including both fundamental amendments (e.g. removal of corridor mechanisms and the issues regarding the principle of expected revenue on the planned assets) and simple specifications and rewordings. The Group has not yet assessed the impact of implementation of this standard.

IAS 27 ***Consolidated and Separate Financial Statements*** *(amended)* (shall be applied to reporting periods that begin on 1 January 2014 or later)

Due to implementation of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended and now describes the reporting and reflecting requirements of the investments made to subsidiaries, joint and related companies in case the undertaking prepares separate financial statements. According to the new IAS 27, an undertaking preparing a separate report shall reflect the abovementioned investments at their acquisition cost or under the requirements set out in standard IFRS 9 Financial Instruments. Implementation of the amendment does not impact the economic results of the Group.

Amended IAS 28 ***Investments in Associates and Joint Ventures*** (shall be applied to reporting periods that begin on 1 January 2014 or later)

Due to implementation of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and now covers implementation of the equity method in addition to related undertakings also in case of investments made to joint ventures. The Group has one joint venture that is consolidated proportionally. As a result of implementing this amendment, the Group's assets and liabilities as at 31.12.2012 would decrease by EUR 7,462,465. This amendment has no impact on the Group's equity capital.

IAS 32 ***Financial Instruments (amended): Presentation — Offsetting financial assets and liabilities*** (shall be applied to reporting periods that begin on 1 January 2014 or later)

The amendment explains the meaning of the wording "has a legally enforceable right to set off the amounts" and explains implementation of the IAS 32 setting off criteria in case of settlement systems (e.g. the system of a centralised clearing house) that implement gross settlement systems that do not function simultaneously. The Group has not yet assessed the impact of implementation of this standard.

IFRS 7 ***Financial Instruments: Disclosures (amended) — Offsetting financial assets and liabilities*** (shall be applied to reporting periods that begin on 1 January 2013 or later)

Uniform disclosure requirements will be introduced with these amendments. They help the users to assess the impact or the potential impact of netting agreements to the financial position of their undertaking. The amendments to IFRS 7 shall be applied retrospectively. The Group has not yet assessed the impact of implementation of this standard.

IFRS 9 Financial Instruments – Classification and Measurement (shall be applied to reporting periods that begin on 1 January 2015 or later, after approval by the EU)

IFRS 9 will gradually replace the standard IAS 39. IASB has issued two first parts of the standard that establishes the new framework for classification and measuring of financial assets and the requirements for accounting reflection of financial liabilities. The Group has not yet assessed the impact of implementation of this standard.

IAS 10 ***Consolidated Financial Statements*** (shall be applied to reporting periods that begin on 1 January 2014 or later)

IFRS 10 establishes a single control model that applies to all entities, including ' special purpose entities. Due to the changes introduced by IFRS 10, the Management Board must use an assessment to determine which undertakings the parent company controls and thus need to be consolidated. The areas on which the assessment shall be made is, for example, assessment of *de facto* control, assessment of the potential right to vote, and determining whether the deciding party acts as a principal or as an authorised person. IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements that covers consolidated financial reports, and replaces the standard SIC 12 Consolidation — Special Purpose Entities. The Group has not yet assessed the impact of implementation of this standard.

IFRS 11 ***Joint Arrangements*** (shall be applied to reporting periods that begin on 1 January 2014 or later)

IFRS 11 will eliminate proportional consolidation of undertakings under joint control. The standard establishes that undertakings under joint control classified as a joint venture shall be reflected using the equity method. In addition to that, in the meaning of IFRS 11, joint arrangements also include jointly controlled assets and activities and the reporting of such undertakings shall be harmonised with the reporting principles implemented. It means that the undertaking will continue to reflect cost-sharing in case of assets, liabilities, proceeds and expenses. The Group has one joint venture that is consolidated proportionally. As a result of implementing this amendment, the Group's assets and liabilities as at 31.12.2012 would decrease by EUR 7,462,465. This amendment has no impact on the Group's equity capital.

IFRS 12 ***Disclosure of Interests in Other Entities*** (shall be applied to reporting periods that begin on 1 January 2014 or later)

The standard assembles the disclosure requirements on the subsidiaries and parent undertakings, investments made to related companies and on the structured investments. The standard adds numerous new disclosure requirements, for example, disclosure of the assessments used in determining the control over another undertaking. The Group has not yet assessed the impact of implementation of this standard.

Amended IFRS 10, IFRS 12 and IAS 27 — Investment Undertakings (shall be applied to reporting periods that begin on 1 January 2014 or later, after approval by the EU)

The amendments will affect the undertakings that qualify as investment undertakings. The amendment concerns an alternative to the consolidation requirements of IFRS 10, requesting for the investment undertakings to measure their subsidiaries in their fair value through their income statement, not consolidating them. The Group has not yet assessed the impact of implementation of this standard.

IFRS 13 *Fair Value Measurement* (shall be applied to reporting periods that begin on 1 January 2013 or later)

The main purpose for issuing IFRS 13 is to simplify fair value measurements and ensure uniformity. The standard does not amend the occasions in the case of which an undertaking shall implement fair value; it rather provides guidelines on how to measure fair value under the IFRS framework in the cases in which IFRS requires or allows for assessment of fair value. The Group has not yet assessed the impact of implementation of this standard.

IFRS updates (shall be applied to reporting periods that begin on 1 January 2013 or later, after approval by the EU)

In May 2012, IASB issued a collection of amendments required on five standards, but not to be enforced immediately:

- IFRS 1 Limited exemption for first-time adopters;
- IAS 1 Presentation of Financial Statements;
- IAS 16 Tangible assets;
- IAS 32 Financial Instruments: Presentation;
- IAS 34 Interim Financial Reporting

Implementation of these amendments may have an impact on the accounting principles of the Group, but they do not influence the financial situation or the economic results of the Group.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (to be applied on the reporting periods starting on 1 January 2013 or later)

This implementation applied to stripping costs that emerge in the course of quarrying that was a production stage of the mine ("stripping costs of the production stage"). The interpretation does not affect the Group's financial statements since the Group is not active in mining.

The Group plans to implement the abovementioned standards and interpretations from the date of their entry into force, given that they have been approved by the EU.

2.2 *Summary of the most important calculation principles*

Important management decisions and assessments

Presentation of consolidated financial reports in compliance with the International Financial Reporting Standards presumes that the management gives assessments and makes decisions that affect the principles of reflecting assets and obligations and the value on the balance sheet date, of presenting conditional assets and obligations based on the probability of their realisation, as well as revenue and expenditure of the accounting period.

Although management reviews its decisions and assessments in a consistent manner, and this is based on prior experience and the best available knowledge regarding probable future events, the actual results may differ from assessments.

The most important management decisions that influence the information recognised in financial reports are related to the following fields of assessment:

<u>Real estate classification</u>

In classifying real estate objects into stock, investment properties or intangible assets, the management post-acquisition intentions of successive use are based on both initial registration and later reclassification. 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 real estate objects recognised as stock is development and transfer of human environment, separate residential buildings or residential lots; real estate objects that have been acquired in the course of usual business activity for resale are recognised as stock.

The purpose of acquiring investment properties is to receive income from operational leasing payments of the real estate object or the growth of its market value; investment properties are also objects that are kept for a longer period and have several possible purposes of use.

The real estate objects that the Group is still developing into a business environment for operational lease or where extensive reconstruction of the acquired business building takes place shall be recognised as investment properties.

Uncertainty of assessment

The management gives their assessments based on experience and the facts that have become evident at the date of preparation of the annual accounts at the latest. Therefore there is a risk with the assets and obligations presented at the balance sheet date, and the related revenue and expenditure, that the assessment given needs specification in the future. The fields, in which there is a higher than usual risk of a need for correction due to uncertainty of assessments, are described below.

<u>Investment properties: determining fair value</u>

Investment properties are assessed at their fair value as at each balance sheet date. In addition to the management assessment, an expert opinion of independent certified valuers is used when necessary in determining the fair value of an investment property, i.e., for more important investments, parallel valuations are taken from independent real estate experts, if necessary. In determining the fair value, the method of discounted cash-flows is used.Additional information on the preconditions and sensitivity used in assessments can be found in Note 12.

<u>Receivables</u>

Management periodically analyses the probability of receiving receivables and makes discounts where necessary. Additional information on the risks that may have an impact on the residual value of receivables is stated in the Credit Risk subsection of Note 21.

Consolidation

The consolidated annual accounts presents the financial indicators of EfTEN Kinnisvarafond AS, its subsidiaries and the joint venture, consolidated row after row. The subsidiaries and the joint venture shall be consolidated from the date when, correspondingly, the dominant influence or joint control has been transferred to the Group, and consolidation shall be ended from the date from which the Group no longer has the dominant influence or joint control.

A subsidiary is an undertaking over which the parent undertaking has control. A subsidiary is considered to be controlled by a parent undertaking if the latter owns, either directly or indirectly, more than 50% of the subsidiary’s voting shares or holdings, or is in some other way able to control the activity or financial policy of the subsidiary.

A joint venture is an undertaking over which two or more parties (including the parent undertaking) have contractual joint control.

Joint ventures are consolidated by proportional consolidation, as a result of which the Group joins its part of all assets, obligations, revenues and expenditures of the joint venture with the similar entries to the consolidated annual accounts.

The subsidiaries and joint ventures use the same accounting policies in preparing their accounts as the parent undertaking. All transactions, receivables and obligations taking place inside the Group, as well as unrealised profits and losses from transactions between the Group's undertakings, have been fully eliminated in the annual accounts. An unrealised loss shall not be eliminated if it is substantively a decrease in the value of assets.

New subsidiaries and joint ventures (business combinations) shall be recognised in the consolidated annual accounts on the purchase method.

The acquisition cost of business combinations recognised in the purchase method shall be divided between the fair values of assets, obligations and conditional obligations as at the date of acquisition. The part of the acquisition cost that exceeds the fair value of acquired assets, obligations and conditional obligations, shall be recognised as goodwill. If the fair value exceeds acquisition costs, the difference shall be immediately recognised as period revenue in full extent (under "general administration expenses" in the income statement). In the event of a business combination as a result of which an undertaking leasing out business properties is acquired, the difference between the fair value and acquisition cost shall be recognised as a change in the fair value of investment properties under other business revenues or expenditures.

Investment into a subsidiary or a joint venture in the unconsolidated balance sheet of the parent undertaking

In the unconsolidated balance sheet of a parent undertaking (presented in Note 24) the investments into the subsidiaries and joint ventures have been recognised similarly to the fair value method to the financial assets recognised in fair value. The dividends paid by subsidiaries and joint ventures shall be recognised at the moment when the parent undertaking obtains the right to these dividends as a mediation of investment and a claim against a subsidiary or a joint venture.

Recognising revenue

Revenue shall be recognised in the fair value of proceeds received or to be received from transactions. Revenue shall only be recognised in the probable and reliably measured extent of the fiscal advantages to be received.

Income from rent of real estate investments shall be recognised linearly throughout the rental period as revenue.

Income from intermediation of services (fees for public services of subtenants, sublease, and other intermediated services) shall be balanced with the expenditure on services purchased.

Finance income

Interest revenues shall be recognised on an accrual basis, using the method of effective interest rate. Dividend revenues shall be registered at the moment of creation of the right of claim.

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 can be turned into a known amount of cash for up to three months from the actual transaction date and which have an insignificant risk of marked change in market value. Such assets are cash, cash deposited on demand and with a deadline of up to three months, as well as money market fund shares.

Financial assets

All financial assets are initially registered in their acquisition cost, which is the fair value of the amount paid for the assets. Acquisition cost includes all direct expenditures related to acquisition of financial assets, including the fees for intermediaries and counsellors, non-redeemable charges related to the transaction, and other similar expenditures. An exception is financial assets recognised in changes in fair value through the income statement, additional expenditures related to the acquisition of which are recognised as expenditure in the income statement.

Acquisition and sales of financial assets taking place under normal market conditions shall be recognised at the date of transaction. The date of transaction is the day of creation of a purchase or sale obligation (for example, the date of entering into a contract). The purchase or sale is considered to have taken place under normal market conditions when the seller has transferred the financial assets to the buyer by the deadline customary in this market or stipulated in legislation.

After initial registering, financial assets shall be divided into groups (see below). At the end of each financial year it is verified whether the financial assets are recognised under the right group, and necessary improvements are made if necessary. The financial assets that the international financial reporting standards do not allow to be reclassified shall not be reclassified. The following principles are used by groups in measuring financial assets:

1) financial assets recognised in changes in fair value through income statement – fair value;

2) held-to-maturity investments – amortised acquisition cost;

3) receivables – amortised acquisition cost;

4) available-for-sale financial assets – fair value or acquisition cost in case of equity instruments, the fair value of which cannot be reliably assessed.

Financial assets in fair value

Financial assets in fair value shall be reassessed as at each balance sheet date, whereat the possible transaction costs related to realisation of assets shall not be deducted from the fair value. In case of securities admitted to official listing on a stock exchange, the fair value is based on the closing prices and the official exchange rates of Eesti Pank. In case of securities not admitted to official listing on a stock exchange, fair value is found based on the available data and using a comparison with the fair value of other, similar instruments as at the balance sheet date, and/or an analysis of discounted cash-flows.

Profits and losses due to changes in fair value shall be generally recognised in the income statements under finance income, and financial and investment business expenditure. An exception is financial assets to be sold, the profit or loss of the change of its fair value shall be recognised directly in the entry of revaluation reserve under equity capital. The revaluation reserve balance shall be entered into the income statement after the assets have been realised or the decrease in value ascertained. The amount to be reclassified from the income statement from equity capital in case of a drop in value is the difference between the acquisition cost of the financial assets (reduced by the capital repayments and depreciation) and the fair value from which the loss due to depreciation of assets that have already been recognised in the income statement has been deducted.

Profit and loss from realisation of financial assets recognised in their fair value, as well as interests and dividends from acquisition of assets shall be recognised in the income statement under financial and investment business revenue and financial and investment business expenditure.

Receivables from other parties and held-to-maturity financial investments

Claims, which are not made for the purpose of resale, and held-to-maturity financial assets, shall be recognised after acquisition in their amortised acquisition cost that has been calculated through effective interest rate. The amortised acquisition cost is determined for the entire useful life of the financial assets, taking into consideration the discounts and premiums on acquisition, as well as expenditures directly related to the transaction.

In case of an objective circumstance that refers to the falling of the recoverable value of the assets below the book value, financial assets recognised on the method of amortised acquisition cost will be discounted by the difference between the book value and the recoverable value. Recoverable value is the present value of cash-flows to be received from financial assets in the future, being discounted with the effective rate fixed in primary recognition. Discount of financial assets related to business activity shall be recognised in the income statement as a business expenditure under general management expenditure, and discount of financial assets related to investment business shall be presented as financial expenditure in the income statement.

For important financial assets, reduction of value of each object shall be assessed separately. If 180 days or more has passed from the date of receipt of the claim, the amount from the claim is considered likely not to be received and written off 100%. If a decrease in the value of assets becomes evident more quickly, the claims are discounted sooner.

If a discounted claim is still received or some other event that cancels the discount takes place, cancellation of discount shall be presented in the income statement as a reduction of the expenditure entry in which the discount was initially recognised.

The interest revenues from claims and held-to-maturity financial investments shall be recognised in the income statement under finance income and expenditure.

Financial assets recognised in their acquisition cost

Financial assets recognised in acquisition cost shall be discounted to the recoverable value if the latter is lower than the book value of the financial asset. Value covered by financial assets recognised in acquisition cost is the future cash-flow expected from the financial assets, discounted with the average profitability rate at a market of similar financial assets. Discount of financial assets is recognised as a financial expenditure in the income statement and such discount will not be cancelled later.

Recognition of financial assets will be discontinued when an undertaking loses the right for cash-flows from these financial assets and also upon creation of an obligation 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 shall be transferred.

Derivative instruments

The risk policy of the Group regulates that an undertaking may use interest rate swap from derivative instruments to manage the risks related to change in interest rates. Such derivative instruments shall be registered in their fair value at the date of entering into a contract and later reassessed in accordance with the change in the fair value of the instruments by the balance date. A derivative instrument with a positive fair value shall be recognised as assets and the opposite instruments and obligations. In determining the fair value of interest rate swap, the balance date of bank quotations is taken as a basis.

In making the transaction, the Group shall fix the relationship between the risk management instruments and the objects to be managed, as well as the objective and strategy of its risk management to perform several risk management transactions. The Group shall also fix its valuation on both entering into the risk management instrument and also continuously on whether the derivative instruments used in risk management transactions are efficient in managing the fair values of the managed objects or the changes in cash-flows.

Cash-flow risk management
Equity capital recognises the effective part of the changes in fair value of derivative instruments determined as cash-flow risk management instruments and those qualified as such. Profit or loss related to an inefficient part is immediately recognised under the income statement entry "Interest revenues" or "Interest expenditure". The amounts accumulated in equity capital shall be divided in the income statement on the periods in which the object to be managed affects profit or loss. Profit or loss that is related to the effective part of an instrument that manages a loan with a variable rate shall be recognised in the income statement under "Interest expenditure". If the risk management instrument expires or is sold, or if
the risk management instrument no longer corresponds to the criteria of risk management instrument assessment, the cumulative profit or loss recognised in equity capital at that time shall remain in equity capital and will be recognised when the future transaction has been finally recognised in the income statement. If the future transaction is no longer expected, the cumulated profit or loss recognised in equity capital is immediately recognised under the income statement entry "Interest revenues" or "Interest expenditure".

Investment properties

Investment properties are lands and buildings that are kept for the purpose of earning income from rent or an increase in the market value, not used in economic activity of the undertaking. Objects that are held for a long time and have several possible purposes of use are also considered real estate objects. The registered immovables developed as investment properties (business buildings built) and buildings considered as movable properties (business buildings reconstructed) shall be recognised as tangible assets until the development process is completed.

An investment property is initially registered on a balance sheet in its acquisition cost that includes the transaction fees directly relating to acquisition: notary fees, state fees, remunerations paid to counsellors and other expenditure without which the purchase transaction may probably not have been made. Henceforth, investment property shall be recognised on each balance sheet date in its fair value which is based on the actual market conditions on that balance sheet date.

In determining the fair value of an investment property, both internal valuators (according to the EfTEN Kinnisvarafond investment property valuation regulation, the fair value of investment properties is assessed by the general meeting) and the opinion of evaluated experts is used. The following methods are applied in determining the fair value:

- analysis of discounted cash-flows. In order to find the value of discounted cash-flows, a valuer must forecast the future rental revenues from the real estate object (including the rent on 1 m^2 and the occupancy rate of the space) and the operational costs. Depending on how easy and possible it is for tenants to cancel the rental agreements, a valuer selects either existing cash-flows or the average market cash flows for analysing. Also, to find the present value of net cash-flow, a suitable discount rate must be selected, reflecting the market trends of the present value of cash, as well as specific risks related to the assets. The basis of a discount rate selection is the average capital structure of the market, not asset structure. The method of discounted cash-flows is used in determining the value of real estate objects that have a stable rental flow.

Profits or losses due to changes in these values shall be recognised in the income statement under other business profits or other business loss.

An investment property is no longer recognised in the balance after the object is transferred or removed from use, if the object presumably brings no future fiscal advantages. Profit and loss from ending recognition of an investment property shall be recognised at the income statement of the closing period under other business profit or other business loss.

If the purposes of the use of a real estate object changes, assets are reclassified in balance. From the date of change, the accounting policies of the group to which the object has been transferred shall apply to the object. If an object that was previously recognised as an investment property is reclassified into tangible assets, the new derived acquisition cost of the object is its fair value as at the date of reclassification.

If a real estate object is reclassified from tangible assets into an investment property, the positive difference between the fair and book value shall be presented as at the date of reclassification in the entry of retained profits; negative difference shall be recognised in the income statement under amortisation costs of fixed assets. An exception is buildings under construction, on reclassification of which into investment properties, both positive and negative differences shall be presented in the income statement in the entry of other business profit or other business loss. If a real estate object recognised as stock is reclassified into an investment property, both positive and negative difference between the fair value and book value shall be recognised in the income statement as at the date of reclassification under other business profit or other business loss.

Financial obligations

All financial obligations (debts to suppliers, loans taken, accruals, issued securities and other short- and long-term debt obligations) shall initially be registered in their acquisition cost that also includes all expenditure directly related to acquisition. Further recognition is done on the method of amortised acquisition cost (except the financial obligations obtained for resale, which are recognised in their fair value).

Amortised acquisition cost of short-term financial obligations is generally equal to their nominal value, wherefore short-term financial obligations are recognised on balance sheet in the amount to be paid. Long-term financial obligations shall be initially registered in the fair value of the remuneration received (from which transaction costs have been deducted) to calculate the amortised acquisition cost; interest shall be calculated on transactions on the following periods by using the method of internal interest rate. Interest costs accompanying financial obligations shall be recognised in the income statement on an accrual basis, in the entries financial and investment business revenue and financial and business revenue expenditure. Interests related to financing development of assets (real estate projects recognised as stock, investment properties, and tangible assets) from the beginning of development period until transfer of the completed assets has been capitalised as an exception into the asset acquisition cost.

A financial obligation is considered short-term if it must be paid in 12 months since the balance date or it the undertaking has no unconditional right to defer payment of obligations for more than 12 months after the balance date. Loan liabilities that must be paid in 12 months after the balance sheet date but are refinanced into long-term obligations after the balance sheet date, but before approval of the annual report shall be considered short-term. Loan liabilities that the lender may remove on the balance sheet date due to breach of loan contract are also recognised as short-term.

Recognition of a financial obligation shall be ended upon fulfilling, cancelling or expiring of the contractual obligations.

Appropriations and conditional obligations

Appropriations shall be recognised on a balance sheet only when the undertaking had a legal or factual obligation resulting from the events taken place by the balance sheet date, performance of which would probably require assignation of assets in a reliably determined amount in the future.

Promises, guarantees and other commitments that may become obligations in the future on certain conditions (that have not occurred so far) shall be disclosed in notes to annual accounts as conditional obligations.

Conditional obligations are also obligations due to events that have occurred by the balance sheet date, that will not realize according to the management assessment, and/or that cannot be reliably measured.

Rental accounting

Capital rent is rental transactions at which all the important risks and benefits related to right of ownership of the assets shall carry over to the tenant. All other rental transactions shall be treated as operational leasing.

Assets that have been acquired under the conditions of financial lease shall be recognised on the balance sheet from entering into force of the rental contract in its fair value or at the present value of the minimum amount of rental payments, if the latter is lower. As an amortisation period of tangible assets acquired under the conditions of financial lease, the shorter of the two following is taken: foreseeable useful life of the assets or an agreed rental period. Assets sold under the conditions of financial lease shall be presented on a balance sheet as a claim in the amount of the net investment made to financial lease. Rental payments of different periods are divided into financial expenditure, revenue or claim, and rental obligation or claim, using the similar interest rate during the rental period.

As for operational leasing, the assets to be rented are recognised on the balance sheet of the commercial lessor. Payments of operational lease received and paid are divided into periods linearly as a profit or loss of a rental period.

Legal reserve

According to the Commercial Code, legal reserve must form at least 10% of the share capital of an undertaking. Based on that, the parent undertaking shall allocate at least 5% of the net profit to the legal reserve annually at division of profit. Appropriations shall be made until the reserve achieves its required volume. Legal reserve may not be paid out as dividends, but it may be used for covering accumulated losses if there is insufficient amount of free equity capital to cover the losses. Legal reserve may also be used for increasing share capital through bonus issue.

Income tax

According to the Income Tax Act, profit distribution (dividends) paid out is taxed in Estonia instead of the undertaking's profit of an accounting year. The tax rate of (net) dividends is 21/79. Income tax on payment of dividends shall be recognised in the income statement as an expenditure upon announcement of dividends (creation of payment obligation).

3 *Subsidiaries and joint ventures*

The company	Country of location	Investment property	Group holding, % 31.12.12	31.12.11
Parent undertaking				
EfTEN Kinnisvarafond AS	Estonia	Võru Rautakesko, Tallinna Külmhoone, Lõkke 4, Tallinn		
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	Joint building of Rakvere police and rescue	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	-
EfTEN SPV8 OÜ	Estonia	Mustika Centre in Tallinn	100	-
EfTEN SPV9 OÜ	Estonia	Kadaka tee 63, Tallinn (acquired in 2013)	100	-
EfTEN SPV10 OÜ	Estonia	Laki 24, Tallinn (acquired in 2013)	100	-
Joint venture				
Lepa Keskus OÜ	Estonia	Lepa Centre in Pärnu	50	50

All subsidiaries and the jointly controlled entity operate in acquisition and leasing of investment properties.

The jointly controlled entity's share in the Group's assets, liabilities, revenues and expenditures has been presented in the following table:

	31.12.2012		2012
Current assets	120 925	Revenue	215 926
Fixed assets	1 438 625	*incl. profit from revaluation of investment properties*	*52 767*
Short-term liabilities	-58 247	Expenditure	-73 772
Long-term liabilities	-687 999		
Net assets	**813 305**	**Net profit**	**142 154**

In June 2012, EfTEN Kinnisvarafond AS established two subsidiaries EfTEN SPV7 OÜ and EfTEN SPV8 OÜ with a purpose of acquiring the Mustika Centre in Tallinn as an investment property. The total paid share capital of the subsidiaries was EUR 8,752,500.

In December 2012, EfTEN Kinnisvarafond AS established another two subsidiaries EfTEN SPV9 OÜ and EfTEN SPV10 OÜ with a purpose of acquiring new investment properties. The share capital of the subsidiaries was a total of EUR 5,000. Acquisition of the new investment properties took place after the balance sheet date in February 2013 (see Note 22).

In December 2011, EfTEN Kinnisvarafond AS established two subsidiaries EfTEN SPV5 OÜ and EfTEN SPV6 OÜ with a purpose of acquiring new investment properties to these subsidiaries. The share capital of the subsidiaries was a total of EUR 3,999,000. In January 2012, investment properties were made to acquire the registered immovables in Tallinn, Pärnu mnt 102 and Pärnu mnt 105, in relation to which an additional share capital of the subsidiaries in the amount of EUR 2,500,000 was paid.

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

4 *Revenue*

Areas of operation	2012	2011
€		
Rent revenue from office space	2 478 457	787 444
Rent revenue from state institutions	664 593	647 006
Rent revenue from sales space	1 424 604	457 178
Rent revenue from warehouse space	598 950	583 851
Rent revenue from service space	70 147	4 385
Rent revenue from parking lots	72 811	15 420
Other revenue	84 559	19 531
Total revenue by areas of operation	**5 394 121**	**2 514 815**

Entire revenue of the Group has been earned in Estonia.

5 *Cost of sales*

	2012	2011
€		
Repairs and maintenance of rental space	-410 349	-170 164
Insurance of assets	-17 074	-8 123
Land tax	-64 583	-20 347
Other management cost	-249	-58 989
Tangible property wear and tear (Note 13)	-54	0
Expenditure on employment, incl. taxes	-8 460	0
Discount on claims unlikely to be received	-16 254	-3 729
Total cost of sales	**-517 023**	**-261 352**

6 *Marketing costs*

	2012	2011
€		
Brokerages	-20 965	-4 586
Advertising, advertising events	-42 149	0
Corporate marketing	-1 514	0
Total marketing costs	**-64 628**	**-4 586**

7 *Administrative expenses*

	2012	2011
€		
Management service	-442 767	-214 795
Office costs	-14 344	-4 354
Expenditure on employment, incl. taxes	-22 953	-17 573
Consultation costs	-42 060	-31 575
Change in the success fee obligation (Note 17)	-387 370	-417 510
Other general management costs	-290	-210
Amortisation costs (Note 13)	-411	-165
Total administrative expenses	**-910 195**	**-686 182**

8 Other incomes and other expenses

Other income	2012	2011
€		
Revenue from change in fair value of investment properties (Note 12)	1 958 209	2 431 909
Fines for delay and penalties	8 148	0
Profit from sale of tangible property (Note 13)	310	0
Other revenues	2 436	2 496
Other income, total	**1 969 103**	**2 434 405**

Other expenses	2012	2011
€		
Expenditure from change in fair value of investment properties (Note 12)	-22 867	-193 998
Fines for delay and penalties	-134	-56
Other expenses	0	-1
Other expenses, total	**-23 001**	**-194 055**

9 Financial expenses

Financial expenses	2012	2011
€		
Interest expenses, including	-1 103 018	-747 813
Interest expenses on loans	-789 967	-515 056
Interest expenses on derivative instruments (-)/reduction of expenditure (+)	-313 051	-232 757
Total financial expenses	**-1 103 018**	**-747 813**

10 Cash and cash equivalents

	31.12.2012	31.12.2011
€		
Cash and transferable deposits	1 553 932	2 269 796
Fixed-term deposits	11 133 131	0
Total cash and cash equivalents	**12 687 063**	**2 269 796**

Fixed-term deposits as at 31.12.2012 had an interest rate of 0.06% to 0.18% per year.

11 *Receivables and accrued income*

	31.12.12	31.12.11
€		
Receivables from buyers		
Unpaid amounts by buyers	482 644	66 447
Uncollectible receivables	-16 892	-3 729
Receivables from buyers, total	**465 752**	**62 718**
Other short-term receivables		
Other short-term receivables	796	0
Total other short-term receivables	**796**	**0**
Accrued income		
Interests	4	29
Prepayments and reclamations of VAT	40 479	24 750
Other accrued income	11 587	0
Total accrued income	**52 070**	**24 779**
Total receivables and accrued income	**518 618**	**87 497**

12 *Investment properties*

As at 31.12.2012, the Group has invested to the following investment properties:

Name	Location	Area (m²)	Useful area (m²)	Year of construction	Time of acquisition	Acquisition cost	Market value 31.12.2012	Share of the market value of fund's assets
€								
Tallinna Külmhoone	Betooni 4, Tallinn	18 773	6 863	2008	Sept. 08	6 237 216	7 023 803	8%
Võru Rautakesko	Kreutzwaldi 89, Võru	10 110	3 120	2008	Sept. 08	3 270 274	3 440 618	4%
Lõkke 4	Lõkke 4, Tallinn	2 320	4 177	2008	Sept. 09	2 476 319	3 533 083	4%
Lepa Centre	Karja 4, Pärnu	4 118	4 161	1998–1999	Dec. 09	1 995 033	2 876 597	2%
UKU Centre	Tallinna 41, Viljandi	6 540	5 117	2012	Aug. 10	5 341 406	6 780 750	8%
Rakvere Police Building	Kreutzwaldi 5a, Rakvere	5 775	5 744	2010	Nov. 10	4 940 256	6 022 822	7%
Lauteri 5	Lauteri 5, Tallinn	3 941	3 942	1997	Dec. 10	3 244 346	3 485 392	4%
Narva mnt 59	Narva mnt 59, Tallinn	935	935	1997	Dec. 10	962 839	946 143	1%
Ülikooli 6	Ülikooli 6, Tartu	697	2 276	1997	May 11	2 328 653	2 407 147	3%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	4 053	9 216	2005	Dec. 11	12 280 411	12 426 224	14%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	3 075	5 031	1998	Dec. 11	6 269 628	6 302 382	7%
Mustika Centre	Tammsaare tee 116	42 546	23 007	2002	Jul. 12	21 738 431	21 738 431	24%
Total			**73 589**			**71 084 812**	**76 983 392**	**87%**

Lepa Keskus OÜ is a joint venture with a 50% share of the Group, consolidated proportionally. 100% of the Lepa Keskus OÜ indicators have been stated in the Table above.

	Unfinished investment properties	Finished investment properties	**Total investment properties**
Balance as at 31.12.2010	**424 985**	**23 051 529**	**23 476 514**
Acquisitions	153 394	21 012 195	**21 165 589**
Revenue /expenditure from change in fair value (Note 8)	704 607	1 533 304	**2 237 911**
Balance as at 31.12.2011	**1 282 986**	**45 597 028**	**46 880 014**
Acquisitions	4 747 787	21 966 710	**26 714 497**
Capitalised interest expenditure	15 241	0	**15 241**
Reclassifications	-6 046 014	6 046 014	**0**
Revenue /expenditure from change in fair value (Note 8)	0	1 935 342	**1 935 342**
Balance as at 31.12.2012	**0**	**75 545 094**	**75 545 094**

Among others, the following investment properties related expenditures, revenues and balances are indicated in the Group's income statement and balance sheet:

As at December 31. or per year	**2012**	2011
Rent revenue on investment properties	5 309 562	2 495 284
Direct expenditure form management of investment properties (Note 5)	-517 023	-261 352
Capitalised improvements to the pre-existing investment properties	228 278	205 361
Unpaid amounts from acquisition of investment properties (Note 16)	11 815	14 658 593
Book value of investment properties set as securities to loan liabilities	75 545 094	27 046 988

All investment properties of EfTEN Kinnisvarafond AS that produce profit from rent have been pledged as securities of long-term bank loans.

Some of the rental agreements entered into between EfTEN Kinnisvarafond AS and the tenants correspond to the terms and conditions of non-interruptible operational leasing contracts. The profit from such contracts divides as follows:

Payments received from non-interruptible operational leasing contracts	**31.12.2012**	31.12.2011
up to 1 year	6 019 112	3 518 590
2–5 years	18 216 887	10 188 577
more than 5 years	12 150 344	7 952 464
Total	**36 386 343**	**21 659 631**

The Group assesses its investment properties in their fair value, using the real estate assessment rules set by the management company. In valuing immovable properties, the valuation standards EVS 875-1:2005, EVS 875-2:2005, EVS 875-3:2005, EVS 875-4:2005, EVS 875-5:2005, EVS 875-6:2006, EVS 875-7:2006, EVS 875-8:2007 and EVS 875-9:2007 valid in Estonia are being based on. The investment properties of the Group are assessed by the general meeting of the management company.

The fair value of all investment properties recognised in the Group reports as at 31.12.2011 has been calculated on the method of discounted cash-flows. The following presumptions have been used in finding the fair value:

	2012	2011
Increase in annual rent revenue	1.5%–2.5%	1.5%–2.5%
Increase in annual expenditure	1.5%–2.5%	1.5%–2.5%
Vacancy of rented space	0%–13%	0%–15%
WACC for unfinished investment properties	-	12.0%
WACC for finished investment properties	10.5%	10.8%
Capitalisation rate in unfinished investment properties upon leaving the project	-	11.3%
Capitalisation rate in finished investment properties upon leaving the project	8.5%–9.5%	8,3%–9,5%

Sensitivity analysis of fair value

The table below illustrates the sensitivity of the fair value of investment properties to the most important preconditions of evaluations:

	2012	2011
€		
Increase in leaving productivity by 50 basis points for finished investment properties	-1 825 336	-996 042
Decrease in leaving productivity by 180 basis points for unfinished investment properties	-	632 283
Decrease in indexation of portfolio rent revenue by 100 basis points for finished investment properties	-2 247 612	-1 122 183
Decrease in indexation of portfolio rent revenue by 100 basis points for unfinished investment properties	-	-308 443

13 *Tangible assets*

	Other tangible assets
€	
Residual value 01.01.2011	**654**
Acquisition cost 01.01.2011	*813*
Accumulated amortisation 01.01.2011	*-159*
Purchases in 2011	0
Amortisation of 2011 accounting year (Note 5, 7)	-165
Residual value 31.12.2011	**489**
Acquisition cost 31.12.2011	*813*
Accumulated amortisation 31.12.2011	*-324*
Purchases in 2012	6 047
Amortisation of 2012 accounting year (Note 5, 7)	-465
Residual value 31.12.2012	**6 071**
Acquisition cost 31.12.2012	6 860
Accumulated amortisation 31.12.2012	-789

14 *Loan liabilities*

As at 31.12.2012, the Group had the following loan liabilities:

Lender	Loan balance as at 31.12.2011	Date of taking the loan	Settlement term	Security	Interest rate	Basis for the floating interest share	Interest rate swap	Share of the market value of fund's assets
SEB	3 668 083	09.09.08	09.09.15	mortgage	1.45%	1M EURIBOR	4.62%	4.13%
DnB Nord	2 044 407	08.08.08	15.08.13	mortgage	1.60%	6M EURIBOR	4.999%	2.30%
SEB	1 220 289	28.08.09	25.08.14	mortgage	1.95%	1M EURIBOR	1.85%	1.37%
SEB	1 028 091	06.06.11	26.05.16	mortgage	2.00%	1M EURIBOR	-	1.16%
SEB	1 839 187	02.09.11	25.09.16	mortgage	1.95%	1M EURIBOR	-	2.07%
SEB	495 697	02.09.11	25.09.16	mortgage	1.95%	1M EURIBOR	-	0.56%
SEB	3 531 911	31.07.12	23.01.17	mortgage	2.40%	1M EURIBOR	-	3.98%
Swedbank	3 561 742	03.12.10	25.11.17	mortgage	2.10%	1M EURIBOR	1.31%	4.01%
Swedbank	3 890 586	02.01.12	30.12.16	mortgage	1.95%	1M EURIBOR	-	4.38%
Swedbank	7 591 386	02.01.12	30.12.16	mortgage	1.95%	1M EURIBOR	-	8.55%
SEB	13 068 811	31.07.12	05.07.15	mortgage	1.85%	1M EURIBOR	-	14.71%
SEB[1]	1 284 360	01.11.10	01.11.15	mortgage	2.30%	1M EURIBOR	-	0.72%
Total	**43 224 549**							**48%**

[1] The loan has been taken by a joint venture that is proportionally consolidated. The table shows 100% of the joint venture indicators.

Short-term loans and borrowings	31.12.12	31.12.11
€		
Repayments of long-term loans and borrowings in the next period, incl.	3 818 797	627 890
Bank loans	*3 818 797*	*627 890*
Total short-term loans and borrowings	**3 818 797**	**627 890**

Long-term loan loans and borrowings	31.12.12	31.12.11
€		
Total long-term loans and borrowings	**42 582 369**	**15 236 703**
incl. the short-term part of loans and borrowings	3 818 797	627 890
incl. the long-term part of loans and borrowing	38 763 572	14 608 813
Bank loans	*38 763 572*	*14 608 813*

The bank loans of EfTEN Kinnisvarafond AS are nominated in EUR and entered into on the basis of floating rate. The interest margins of bank loans remain within the range of 1.45% to 2.4%. To manage the interest risk, the floating rates of four of the loans (6 and 1 month EURIBOR) fixed by derivative instruments (see Note 15). The weighted average interest rate of the bank loans of EfTEN Kinnisvarafond AS as at 31.12.2012 was 2.8% (31.12.2011: 4.5%). The final terms of the loan contracts remain in the period of 2013–2017.

The bank loans divide as follows based on the payment deadlines:

Bank loan repayments by settlement term	31.12.12	31.12.11
€		
Overdraft[1]		
Less than 1 year	3 818 797	627 890
2–5 years	38 763 572	8 464 557
more than 5 years	0	6 144 256
Total bank loan repayments	**42 582 369**	**15 236 703**

15 *Derivative instruments*

As at 31.12.2012, the Group had interest-rate swaps for fixing the interest rate of long-term loans to the nominal sum of EUR10,845,532 (31.12.2011: EUR 11 073 274).

The terms and deadlines of all interest-rate swaps observe the repayment schedule of the loan to be managed and are treated in accounting as a cash-flow risk management instrument.

As at 31.12.2012, the Group had four transactions with derivative instruments for management of interest rate risk. The final deadlines of two transactions with derivative instruments are in 2013, whereat the base interest for one transaction is one month EURIBOR and for the other, 6 month EURIBOR. The final deadlines of the other two transactions with derivative instruments are in 2014 and 2017, and the base interest of both of these transactions is 1 month EURIBOR. The floating interest rates of the Group are fixed at the levels of 1.31% to 4.999% based on interest-swap contracts. All payments in relation to derivative instruments are made in EUR.

The basis of the fair value of derivative instruments are the quotations of SEB Eesti Ühispank and Swedbank, for three transactions with derivative instruments of which, the value as at 31.12.2012 was negative in the amount of EUR 419,466 (as at 31.12.2011, EUR 421,376), and the fair value of one transaction with derivative instruments was positive as at 31.12.2012 in the amount of EUR 3446 (as at 31.12.2011: EUR 3719). The Group profited in 2012 from the changes in the fair value of derivative instruments in the amount of EUR 201,637 (in 2011: EUR 89,159).

16 Short-term payables and prepayments

	31.12.12	31.12.11
€		
Trade payables	333 317	14 744 413
Taxes payable		
Value added tax	95 045	35 931
Individual income tax	961	373
Social tax	1 718	490
Other taxes payable	346	130
Total taxes payable	**98 070**	**36 924**
Accruals		
Interest payable	78 264	65 436
Payables to employees	3 283	1 761
Other accruals	161	5 196
Total accruals	**81 708**	**72 393**
Prepayments		
Prepayments received from customers	8 043	69 318
Prepayments for shares	0	4 384 999
Total prepayments	**8 043**	**4 454 317**
Total payables and prepayments	**521 138**	**19 308 047**

Trade payables as at 31.12.2012 include, among others, a total of EUR 11,815 from the unpaid amounts on investment properties, paid in January 2013.

Trade payables as at 31.12.2011 are made up, among others, of EUR 14,658,593 to be paid for registered immovables of Pärnu mnt 102 and Pärnu mnt 105 that was paid in the beginning of 2012 (also see Note 12).

As at 31.12.2012, the interest debts included debts to related parties in the amount of EUR 22,926 (31.12.2011: the same). See additional information on the related parties from Note 20.

17 Success fee obligation

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 real estate transactions 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 31.12.2012, the Group has accounted for the success fee obligation in the amount of EUR 704,676 (31.12.2011: EUR 704 676). The bases of accrual accounting of this success fee are the valuations of fair price of investment properties as at 31.12.2012 and 31.12.2011. The expenditure on changes in success fee shall be recognised under the Group's general management costs (see Note 7).

18 Share capital

In September 2012, EfTEN Kinnisvarafond AS issued 5,826,506 new shares with the nominal value of EUR 0.6. A total of EUR 9,672,000 was paid for the new shares in cash in 2012, whereat the part of share premium of the amount paid was EUR 6,176,096.

In June 2012, EfTEN Kinnisvarafond AS issued 2,094,340 new shares with the nominal value of EUR 0.6. A total of EUR 3,330,001 was paid for the new shares in cash in 2012, whereat the part of share premium of the amount paid was EUR 2,073,397.

In April 2012, EfTEN Kinnisvarafond AS issued 4,037,580 shares with the nominal value of EUR 0.6. A total of EUR 6,339,001 was paid for the new shares in cash in 2012, whereat the part of share premium of the amount paid was EUR 3,916,453.

In December 2011, EfTEN Kinnisvarafond AS issued 2,993,196 new shares with the nominal value of EUR 0.6. A total of EUR 1,899,998 was paid for the new shares in cash in 2011, whereat the part of share premium of the amount paid was EUR 1,006,122. After the balance sheet date, additional EUR 2,500,000 was paid for this issue of securities, whereat the part of issue premium made up EUR 1,479,592. The amount received to the bank account of EfTEN Kinnisvarafond AS as at 31.12.2011 has been recognised under prepayments in the Group's balance.

In November 2011, EfTEN Kinnisvarafond AS issued 1,712,329 new shares with the nominal value of EUR 0.6. A total of EUR 2,500,000 was paid for the new shares in cash, whereat the part of issue premium of the amount paid was EUR 1,472,603. This share capital had been fully received to the bank account of EfTEN Kinnisvarafond AS as at 31.12.2011, but as the declaration to the commercial register was submitted in the beginning of 2012, the down payment has been recognised under prepayments on the Group balance sheet.

In May 2011, EfTEN Kinnisvarafond AS issued 1,562,500 new shares with the nominal value of EUR 0.6. A total of EUR 2,000,000 was paid for the new shares in cash, whereat the part of issue premium of the amount paid was EUR 1,062,500.

In relation to converting of the share capital into euros, EfTEN Kinnisvarafond AS reduced the nominal value of a share to EUR 0.60 in 2011. Before reduction, the nominal value of a share was EUR 0.64 (10 kroons). In reduction of the nominal price of a share, the share capital of EfTEN Kinnisvarafond AS reduced by EUR 267,187 and the number of shares remained the same.

The size of registered share capital of EfTEN Kinnisvarafond AS as at 31.12.2012 is EUR 15,034,206 (31.12.2011: EUR 5,035,835). The share capital consisted of 25,057,010 shares as at 31.12.2012 (31.12.2011: 8,393,059 shares) with the nominal value of EUR 0.6 (31.12.2011: the same). Without changes to the articles of association, the undertaking may increase its share capital to EUR 16,393,342. As at the moment of preparing this report, a proposition has been made to the general meeting of EfTEN Kinnisvarafond AS to change the articles of association, according to which the maximum amount of the undertaking's share capital may be EUR 60,136,824. The new articles of association are expected to enter into force in April 2013.

The expenditure directly related to the shares issued in 2012 has been recognised as reduction of issue premium in the amount of EUR 110,750 (2011: EUR 20,000). The costs related to issuing of the shares as to which there was no declaration submitted to the commercial register as at 31.12.2011, were accompanied by expenditure recognised directly in equity capital in the total amount of EUR 15,000. This expenditure were recognised on the balance sheet as reduction of prepayments as at 31.12.2011 (Note 16).

19 Conditional liabilities

Potential income tax obligation

	2012	2011
€		
Retained profits of the undertaking as at 31 December	9 172 914	5 070 868
Potential income tax obligation	1 926 312	1 064 882
Can be paid out as dividends	7 246 602	4 005 986

In calculating the maximum possible income tax obligation, it has been presumed that the total of net dividends to be divided and the corresponding income tax expenditure may not exceed the distribution profit as at 31.12.2012 and 31.12.2011.

20 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;
- Board Members and undertakings owned by the Board Members of EfTEN Kinnisvarafond AS;
- Supervisory Board Members and undertakings owned by the Supervisory Board Members of EfTEN Kinnisvarafond AS;
- employees and undertakings owned by the employees of EfTEN Kinnisvarafond AS;
- joint venture Lepa Keskus OÜ;
- EfTEN Capital AS (management company).

The Group bought a management service from EfTEN Capital AS in 2012 in the amount of EUR 442,767 (2011: EUR 214,795). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties other goods or services in 2012 or 2011.

No remunerations were accounted or paid to the members of the Group's Management or Supervisory Board in 2012 or 2011. The joint venture of the Group has two employees to whom remunerations in the total amount of EUR 27,002 with taxes were accounted in 2012 (2011: EUR 35 146).

21 *Financial instruments, management of financial risks*

The main financial obligations of the Group are loan obligations that have been taken to finance the investment properties of the Group. The Group's balance sheet also includes cash and short-term deposits, receivables from buyers, other claims, obligations to suppliers and receivables and debts related to interest derivatives used to manage the interest risk (see Note 15).

The table below indicates division of the Group's financial assets and financial obligations by the types of financial instruments in the way these are presented in the consolidated balance. Since some of the assets and obligations in the Group's balance include both financial and non-financial instruments, the table below also presents the book cost of the assets and obligations that do not belong under financial instruments.

Book values of financial instruments

31.12.2012	Financial assets/liabilities in adjusted acquisition cost	Financial assets/liabilities in fair value	Non-financial assets/liabilities	Residual value on balance
€				
Cash and cash equivalents (Note 10)	12 687 063	-	-	12 687 063
Loans and receivables	12 687 063	-	-	12 687 063
Trade receivables (Note 11)	465 752	-	-	465 752
Loans and receivables	465 752	-	-	465 752
Other receivables, accrued income and prepayments	-	-	55 184	55 184
Non-financial assets	-	-	55 184	55 184
Derivative instruments (Note 15)	-	3 446	-	3 446
Interest derivatives (recognised in risk management accounting)	-	3 446	-	3 446
Total financial assets	**13 152 815**	**3 446**		**13 156 261**
incl. loans and receivables	*13 152 815*	*0*		*13 152 815*
incl. interest derivatives recognised in risk management accounting	*0*	*3 446*		*3 446*
Loan liabilities (Note 14)	42 582 369	-	-	42 582 369
In adjusted acquisition cost	42 582 369	-	-	42 582 369
Trade payables (Note 16)	333 317	-	-	333 317
In adjusted acquisition cost	333 317	-	-	333 317
Derivative instruments (Note 15)	-	219 466	-	219 466
Interest derivatives (recognised in risk management accounting)	-	219 466	-	219 466
Other debts	81 708	-	98 070	179 778
In adjusted acquisition cost	81 708	-	98 070	179 778
Prepayments, financial securities, success fee obligation	-	-	1 306 309	1 306 309
Non-financial liabilities	-	-	1 306 309	1 306 309
Total financial obligations	**42 997 394**	**219 466**		**43 216 860**
incl. the financial liabilities recognised in adjusted acquisition cost	*42 997 394*	*0*		*42 997 394*
incl. interest derivatives recognised in risk management accounting	*0*	*219 466*		*219 466*

31.12.2011	Financial assets/liabilities in adjusted acquisition cost	Financial assets/liabilities in fair value	Non-financial assets/liabilities	Residual value on balance
€				
Cash and cash equivalents (Note 10)	2 269 796	-	-	2 269 796
Loans and receivables	2 269 796	-	-	2 269 796
Cash receivable	0	-	-	0
Trade receivables (Note 11)	62 718	-	-	62 718
Loans and receivables	62 718	-	-	62 718
Other receivables, accrued income and prepayments	-	-	26 692	26 692
Non-financial assets	-	-	26 692	26 692
Derivative instruments (Note 15)	-	3719	-	3 719
Interest derivatives (recognised in risk management accounting)	-	3 719	-	3 719
Total financial assets	**2 332 514**	**3 719**		**2 336 233**
incl. loans and receivables	*2 332 514*	*0*		*2 332 514*
incl. interest derivatives recognised in risk management accounting	*0*	*3 719*		*3 719*
Loan liabilities (Note 14)	15 236 703	-	-	15 236 703
In adjusted acquisition cost	15 236 703	-	-	15 236 703
Trade payables (Note 16)	14 744 413	-	-	14 744 413
In adjusted acquisition cost	14 744 413	-	-	14 744 413
Derivative instruments (Note 15)	-	421 376	-	421 376
Interest derivatives (recognised in risk management accounting)	-	421 376	-	421 376
Other debts	72 393	-	36 925	109 318
In adjusted acquisition cost	72 393	-	36 925	109 318
Prepayments, financial securities, success fee obligation	-	-	5 185 472	5 185 472
Non-financial liabilities	-	-	5 185 472	5 185 472
Total financial liabilities	**30 053 509**	**421 376**	**-**	**30 474 885**
incl. the financial liabilities recognised in adjusted acquisition cost	*30 053 509*	*0*		*30 053 509*
incl. interest derivatives recognised in risk management accounting	*0*	*421 376*		*421 376*

The fair value of the financial assets and obligations that is recognised in adjusted acquisition cost in the tables above do not significantly differ from their fair value due to short deadlines.

Revenues and expenditures of financial instruments

2012	Loans and receivables	Interest derivatives recognised in risk management accounting	Financial liabilities recognised in the method of adjusted acquisition cost	Total
€				
Interest revenue	9 937	-	-	9 937
Interest expenditure (Note 9)	0	-313 051	-789 967	-1 103 018
Net result	**9 937**	**-313 051**	**-789 967**	**-1 093 081**

2011	Loans and receivables	Interest derivatives recognised in risk management accounting	Financial liabilities recognised in the method of adjusted acquisition cost	Total
€				
Interest revenue	9 765	0	0	9 765
Interest expenditure (Note 9)	0	-232 757	-515 056	-747 813
Net result	**9 765**	**-232 757**	**-515 056**	**-738 048**

In risk management of the Group, it is based on the principle that risks should be taken in a balanced manner, taking into consideration the rules set by the Group and implementing risk management measures according to the situation, thus achieving stable profitability of the Group and a growth in the value of shareholders' assets. In making new investments, close evaluation is made on the solvency of clients, duration of rental contracts, possibility of replacing tenants and the risks of interests increasing. The terms and conditions of financing agreements are adjusted to the net cash-flow of each real estate object, ensuring enough free money for the Group and growth even after the financial obligations have been fulfilled.

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

The Group considers a financial risk to be risk that comes directly from making investment properties, including the market risk, liquidity risk and credit risk, thus decreasing undertaking's financial capability or reducing the value of investments.

Market risk

Market risk is change in the fair value of financial instruments due to changes in market prices. Group's financial instruments influences by change in market prices the most are loan obligations and interest derivatives. The main factor influencing these financial instruments is interest risk.

Market risk – interest risk

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

To manage this interest risk, the Group has entered into interest-swap contracts by which the payments from floating interest rate are swapped for payments with fixed interest rate. The difference between a payment based on a floating interest rate and one based on an interest rate agreed in a swap contract shall be paid by 6 or 1 month periods, depending on what period is agreed upon in the swap contract. The Group considers these swap contracts as cash-flow risk management instruments that are recognised in their fair value with changes directly to equity capital. As at 31.12.2012, loan obligations bound with swap contracts make up 25% of all loan obligations of the Group (31.12.2011: 73%).

All of the loan contracts of the Group that are influenced by changes in the floating market interest are entered into on the basis of 1 month EURIBOR. 1 month EURIBOR fluctuated in 2012 between 0.107% to 1,005% (2011: 0.752% to 1,470%), that is, the maximum change during the year was 89.8 basis points (2011: 71.8 basis points). The analysis below illustrates sensitivity to interest rate fluctuations of the interest payments of loan contracts that are open to interest rate changes in 2012 if 1 month EURIBOR would have fluctuated by 50 basis points.

2012	Change in interest rate in basis points	Influence on net profit (€)
EURIBOR	50	-114 420
EURIBOR	-50	-114 420

Liquidity risk

Liquidity risk comes from potential changes in the financial situation, reducing the Group's ability to perform its obligations in due time and in a correct manner. Group's liquidity is mostly influenced by the following circumstances:

- decrease of volatility of rent revenue, reducing the Group's ability to generate positive net cash-flows;
- vacancy on rental premises;
- difference in deadlines of assets and obligations, and flexibility in changing them;
- marketability of long-term assets;
- volume and speed of real estate development activity;
- financing structure.

The purpose of the Group is to manage the net cash-flows in a manner that in making investment properties, foreign capital is included in no more than 70% of the investment acquisition cost and the coverage coefficient of the Group's debt would be higher than 1.2. As at 31.12.2012, the share of interest-bearing debt obligations of the Group from rent-producing investment properties was 56% (31.12.2011: the same), and the coverage coefficient was 1.7 (2011: 1.4).

The financing policy of the Group states that loan contracts for foreign capital issue are entered into for a long-term, also taking into consideration the maximum duration of the leasing contracts in these real estate objects. The table below summarises information on maturity of realisation of the Group's financial obligations.

As at 31.12.2012	Less than 1 month	2–4 months	4–12 months	2–5 years	more than 5 years	**Total**
€						
Interest bearing loans and borrowings	138 384	420 921	3 259 492	38 763 572	0	**42 582 369**
Trade payables (Note 16)	333 317	0	0	0	0	**333 317**
Payables on interest derivatives	0	0	0	219 466	0	**219 466**
Other debt obligations	179 778	0	0	0	0	**179 778**
Total financial liabilities	**651 479**	**420 921**	**3 259 492**	**38 983 038**	**0**	**43 314 930**

As at 31.12.2011	Less than 1 month	2–4 months	4–12 months	2–5 years	more than 5 years	**Total**
€						
Interest bearing loans and borrowings (Note 14)	66 521	204 276	357 093	14 608 813	0	**15 236 703**
Trade payables (Note 16)	14 744 413	0	0	0	0	**14 744 413**
Debts on interest derivatives (Note 15)	0	0	0	421 376	0	**421 376**
Other payables	109 317	0	0	0	0	**109 317**
Total financial liabilities	**14 920 251**	**204 276**	**357 093**	**15 030 189**	**0**	**30 511 809**

As at 31.12.2011, debts to suppliers' parties in the amount of EUR 14,658,593 included debts for investment properties acquired in December. These debts were paid in the beginning of 2012.

Credit risk

Credit risk is a risk that comes from the inability of other contractual parties to fulfil their obligations to the Group. The Group is open to credit risk due to its business operations (mainly from claims against the buyers) and transactions with financial institutions, including by money on accounts, deposits and derivative instruments.

Group's activity in preventing reduction of cash-flows due to credit risk and minimising of such risk lies in everyday monitoring and guiding of clients' payment conduct, enabling to implement the operatively necessary measures. Also, client contracts generally provide payment of rent at the beginning of calendar month, giving sufficient time for monitoring the clients' payment discipline and ensuring existence of sufficient liquidity on accounts at the date of annuity payment of financing contracts. To manage risk, the Group has entered into an agreement with one of the subtenants, according to which the financial institution of the tenant shall guarantee rental payments throughout the rental period. Most of the rental contracts also stipulate an obligation of paying securities, at the expense of which the Group can erase debts resulting from insolvency of a tenant.

Group's undertakings generally enter into rental contracts only with parties that have been proven eligible for credit. The corresponding analysis of the client is carried out before entering into a rental contract.

If it becomes evident that there is a risk of a tenant becoming insolvent, the Group assesses each claim individually and decides whether the claims should be declared unlikely to be received. In general, claims that have exceeded the payment deadline by more than 60 days are considered unlikely to be received, except in cases when the Group has sufficient certainty as to receiving the claim or there is a payment schedule for the claim. Claims against buyers are illustrated by the table below:

	31.12.2012	31.12.2011
Non-expired	417 685	53 925
Expired, including	**64 959**	**12 523**
up to 30 days	*26 891*	*5 317*
30–60 days	*7 593*	*2 746*
more than 60 days	*30 475*	*4 460*
Doubtful reserve	-16 892	-3 730
Receivables from buyers, total	**465 752**	**62 718**

The maximum credit risk of the Group has been provided in the following table:

	31.12.12	31.12.11
Cash and cash equivalents	12 687 063	2 269 796
Cash receivable	0	0
Receivables from buyers	465 752	62 718
Positive interest derivatives	3 446	3 719
Total maximum credit risk	**13 156 261**	**2 336 233**

Capital management

The aim of the Group in capital management is to ensure the Group's ability to continue its operations to ensure investment productivity to shareholders and maintain the optimal capital structure.

The Group continues to invest into properties that produce cash-flow and involves new equity capital in making investments. The investment policy of the Group prescribes that at least 30% of equity capital is invested into new real estate projects. The necessary equity capital volume is calculated individually for each investment, taking into consideration the volume of net cash-flows and loan payments of the investment and their proportion.

After making of an investment, the net profit on investment of any of the cash-flow producing investment property may not be less than 120% of the loan annuity payments.

Free cash-flow of the Group enables to pay dividends in the amount of 4-5% of the value of invested equity capital from 2012. In 2012, net dividends in the amount of EUR 395,000 were distributed to the investors. In 2013, the management of EfTEN Kinnisvarafond will propose the shareholders to distribute EUR 1,400,000 as dividends from the profit of 2012..

22 *Events after balance sheet date*

Acquisition of investment properties

In February 2013, the Group acquired two new investment properties in Tallinn, with a total acquisition cost of EUR 8,825,808. The acquisition was financed by loans from a bank in the total amount of EUR 5,640,000. According to the contract, the loans shall be repaid in 2017 and the interest rate is 2.1% + 1 month EURIBOR.

Sale of investment properties

In February 2013, the Group sold the investment property at Narva mnt 59, Tallinn. The sales price of the registered immovable was EUR 1,070,000 and the sale-related expenses made up EUR 30,000. The Group received a profit in the amount of EUR 93,857 from the sale of the investment property.

23 *Parent's unconsolidated income statement*

The unconsolidated main accounts of the parent undertaking have been prepared in concordance with the Accounting Act and are not separate financial reports in the meaning of IAS 27 "Consolidated and Separate Financial Statements".

	2012	2011
€		
Revenue	1 621 374	1 333 032
Expenditure on sold services	-143 493	-109 171
Gross profit	**1 477 881**	**1 223 861**
Marketing costs	-1 815	-187
Administrative expenses	-562 293	-453 425
Other income	515 157	1 186 116
Other expenses	0	0
Operating profit	**1 428 930**	**1 956 365**
Finance income and finance expenses	3 322 423	1 114 457
Profit before income tax	**4 751 353**	**3 070 822**
Income tax expenditure on dividends	-105 000	0
Net profit of the accounting year	**4 646 353**	**3 070 822**

Unconsolidated total profit statement of the parent undertaking

	2012	2011
€		
Net profit of the accounting year	4 646 353	3 070 822
Other total profit/loss:		
Revaluation profit/loss of risk management instruments	201 910	85 440
Other total profit/loss	**201 910**	**85 440**
Total profit of the accounting year	**4 848 263**	**3 156 262**

24 *Parent's unconsolidated balance sheet*

	31.12.12	31.12.11
€		
ASSETS		
Current assets		
Cash and cash equivalents	10 616 035	1 589 680
Receivables	**2 140 091**	**848 383**
Total current assets	**12 756 126**	**2 438 063**
Fixed assets		
Long-term financial investments	24 175 726	9 274 905
Investment properties	13 997 504	13 482 347
Long-term receivables on loans	885 825	885 825
Total fixed assets	**39 059 055**	**23 643 077**
TOTAL ASSETS	**51 815 181**	**26 081 140**
LIABILITIES AND EQUITY		
Short-term liabilities		
Loan liabilities	2 333 968	338 829
Derivative instruments	219 466	421 376
Payables	127 496	4 496 663
Total short-term liabilities	**2 680 930**	**5 256 868**
Long-term liabilities		
Loan liabilities	4 598 812	6 975 188
Deposits received from customers	2 556	2 743
Success fee obligation	402 739	299 707
Total long-term liabilities	**5 004 107**	**7 277 638**
Total liabilities	**7 685 037**	**12 534 506**
Equity		
Share capital	15 034 206	5 035 836
Share premium	19 894 290	3 762 412
Statutory capital reserve	247 937	94 687
Risk hedge reserve	-219 466	-421 376
Retained earnings	9 173 177	5 075 074
Total equity capital	**44 130 144**	**13 546 633**
TOTAL LIABILITIES AND EQUITY CAPITAL	**51 815 181**	**26 081 140**

25 *Parent's unconsolidated cash-flow statement*

	2012	2011
€		
Cash-flows from business operations		
Net profit	4 646 333	3 070 822
Net profit adjustments:		
Interest revenue and interest expenditure	320 895	391 854
Profit/loss from changes in the fair value of subsidiaries or joint ventures	-3 643 321	-1 506 311
Revaluation profit/loss of investment properties	-515 157	-1 186 116
Change in the success fee obligation	103 052	237 223
Income tax proceeds of the undertaking	105 000	0
Cash-flow from business operations before changes in working capital	**1 016 802**	**1 007 472**
Changes in receivables and liabilities related to business operations	16 258	4 134
Total cash-flows from operations	**1 033 060**	**1 011 606**
Cash-flows from investing activities		
Acquisition of subsidiaries and joint ventures	-11 257 500	-5 121 187
Change in the Group's account receivables	-1 323 127	-148 013
Repayments of loans given	131 402	0
Interest received	17 193	9 595
Total cash-flows from investing activities	**-12 432 032**	**-5 259 605**
Cash-flows from financing activities		
Loans and repayments	-382 715	-351 769
Interest paid	-432 209	-471 203
Dividends paid	-395 000	0
Income tax paid on dividends	-105 000	0
Issuing of shares	21 740 251	6 365 013
Total cash-flows from financing activities	**20 425 327**	**5 542 041**
TOTAL CASH-FLOWS	**9 026 355**	**1 294 042**
Cash and cash equivalents at the beginning of the period	**1 589 680**	**295 638**
Change in cash and cash equivalents	9 026 355	1 294 042
Cash and cash equivalents at the end of the period	**10 616 035**	**1 589 680**

26 *Parent's unconsolidated statement of changes in equity*

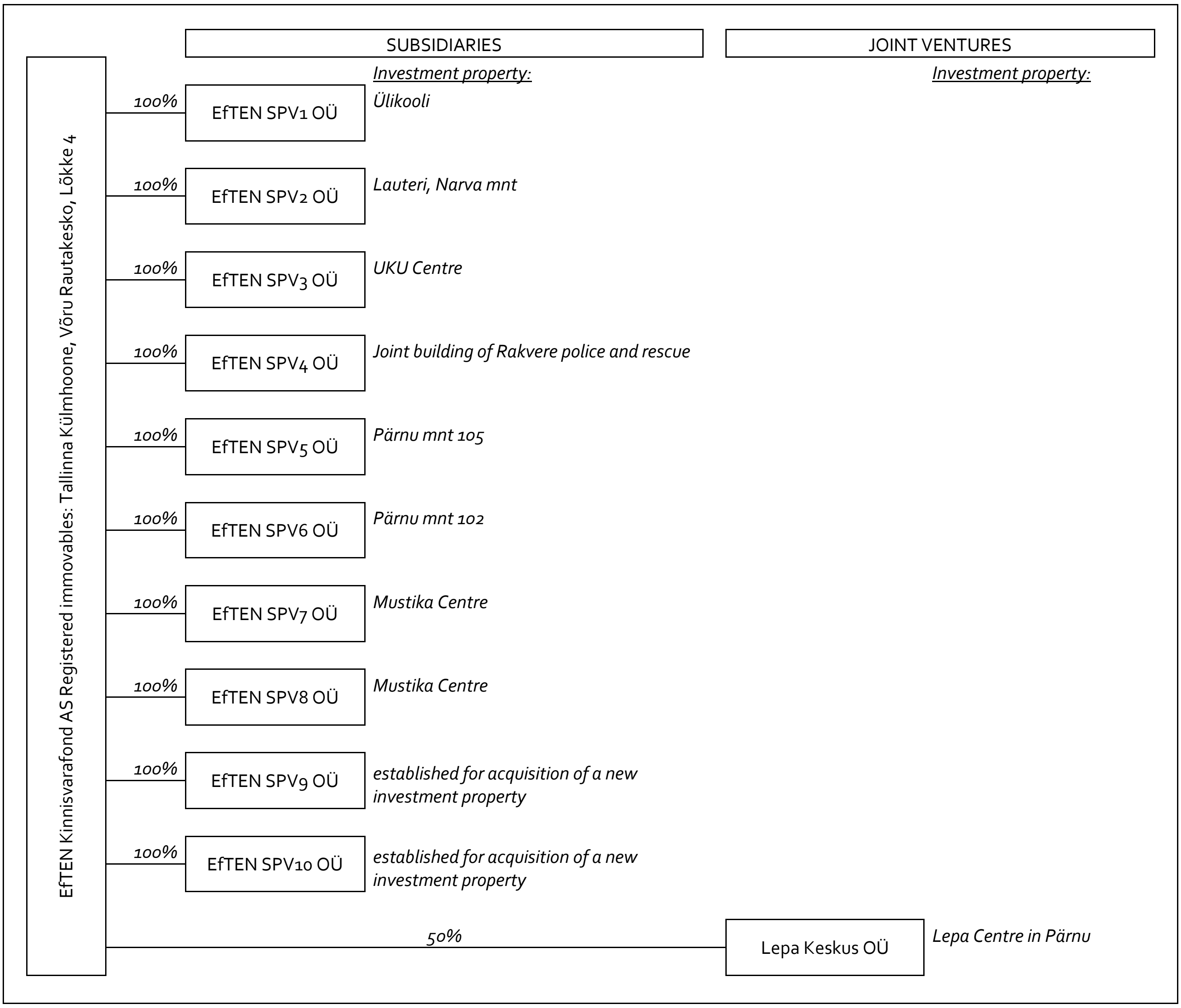
	Share capital capital	Issue premium	Statutory capital reserve	Risk hedge reserve	Retained profits	**Total**
€						
Balance 31.12.2010	**4 365 523**	**2 719 912**	**34 668**	**-506 816**	**1 797 084**	**8 410 370**
Issuing of shares	937 500	1 062 500	0	0	0	**2 000 000**
Capital issue costs	0	-20 000	0	0	0	**-20 000**
Reduction of share capital on euro conversion	-267 187	0	0	0	267 187	**0**
Transfers to legal reserve	0	0	60 019	0	-60 019	**0**
Total profit of the accounting year	0	0	0	85 440	3 070 822	**3 156 262**
Balance 31.12.2011	**5 035 836**	**3 762 412**	**94 687**	**-421 376**	**5 075 074**	**13 546 632**
Issuing of shares	9 998 370	16 242 628	0	0	0	26 240 998
Capital issue costs	0	-110 750	0	0	0	-110 750
Advertisement of dividends	0	0	0	0	-395 000	-395 000
Transfers to legal reserve	0	0	153 250	0	-153 250	0
Total profit of the accounting year	0	0	0	201 910	4 646 353	4 848 263
Balance 31.12.2012	**15 034 206**	**19 894 290**	**247 937**	**-219 466**	**9 173 177**	**44 130 143**

For additional information on the changes related to shares, see Note 18.

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

	31.12.12	31.12.11
€		
Unconsolidated equity capital of the parent undertaking	44 130 143	13 546 632
Value of subsidiaries or joint ventures in unconsolidated balance of the parent undertaking (minus)	-24 175 726	-9 274 905
Value of subsidiaries or joint ventures accounted in the equity method (plus)	24 178 911	9 274 419
Total	**44 133 328**	**13 546 146**

27 *Group's structure as at 31.12.2012*



Profit distribution proposal

The Management Board makes the following profit distribution proposal at EfTEN Kinnisvarafond AS's general meeting (in EUR):

Retained profits as at 31.12.2012	9 172 914
Appropriation to legal reserve	-232 515
Division of dividends	-1 400 000
Retained profit surplus after appropriations	7 540 399

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Viljar Arakas
Member of the Board

____
Tõnu Uustalu
Member of the Board

27 February 2013

SIGNATURES OF THE MEMBERS OF THE BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT OF 2012

We hereby verify the correctness of data presented in the 2012 Annual Report of EfTEN Kinnisvarafond AS.

________________	________________	________________
Arti Arakas Chairman of the Supervisory Board	Siive Penu Member of the Supervisory Board	Rain Lõhmus Member of the Supervisory Board
________________	________________	________________
Sander Rebane Member of the Supervisory Board	Jaan Pillesaar Member of the Supervisory Board	Laire Piik Member of the Supervisory Board
________________	________________	
Martin Hendre Member of the Supervisory Board	Tauno Tats Member of the Supervisory Board	
________________		________________
Viljar Arakas Member of the Board		Tõnu Uustalu Member of the Board

2013

Distribution of revenue in accordance with the Classification of Economic Activities

	Classification of Economic Activities code	**2012**	Revenue %	Main field of activity
€				
Renting and operating of own or leased real estate	88201	1 317 790	81.3%	yes

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of EfTEN Kinnisvarafond AS

We have audited the accompanying financial statements of EfTEN Kinnisvarafond AS, which comprise the balance sheet as at 31 December 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of EfTEN Kinnisvarafond AS as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of EfTEN Kinnisvarafond AS as a parent company in Note 23-26 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 27 February 2013

Ivar Kiigemägi
Authorised Auditor's number 527
Ernst & Young Baltic AS
Audit Company's Registration number 58

Urmo Kallakas
Authorised Auditor's number 542