Consolidated Interim Report – Six months ended 30 June 2016

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

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

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Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond AS for the 6 months period ended 30 June 2016 was EUR 8.474 million, growing by 2.7% compared to the same period of previous year. The net profit of the Group in the first half of 2016 was EUR 6.302 million and net profit increased by 15.9% compared to the same period of previous year

The consolidated gross profit margin in the first half of 2016 was 92% (1st half of 2015: 89%) and expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 8% (1st half of 2015: 11%) of the sales revenue in the first half of 2016. Based on this indicator, EfTEN Kinnisvarafond is the most efficient real estate fund in the Baltic States.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 17% of the revenues in the first half of 2016. The respective indicator was 19% in 2015.

	1st half	
	2016	**2015**
EUR million		
Rental revenue, other fees from properties	8,474	8,248
Expenses related to investment properties, incl. marketing costs	-0,792	-0,988
Interest expense and interest income	-1,151	-0,994
Net rental revenue less finance costs	**6,531**	**6,267**
Management fees	-0,587	-0,587
Other revenue and expenses	-0,064	0,043
Profit before change in the value of investment property, change in the success fee liability, profits/losses from joint ventures and income tax expense	**5,880**	**5,724**

As at 30.06.2016, the Group's total assets were in the amount of EUR 212.970 million (31.12.2015: EUR 214.743 million), including fair value of investment property, which accounted for EUR 201.988 million (31.12.2015: EUR 202.653 million) of the total assets. The fair value of investment property decreased by EUR 2.8 million during the first half of 2016 due to the sale of property in Ülikooli 6, Tartu.

	30.06.2016	31.12.2015
EUR million		
Investment property	201,988	202,653
Other non-current assets	2,805	2,667
Current assets, excluding cash	0,481	0,408
Net debt	-106,509	-107,880
Net asset value (NAV)	98,765	97,848
Net asset value (NAV) per share (in euros)	2,5073	2,4840

The net asset value per share of EfTEN Kinnisvarafond AS increased by 0.9% during the interim period ended 30 June. Without the dividend payment, the net asset value of the share had increased by 5.8% in six months due to daily profit-generating business, low interest rates and effective cost management. Return on invested capital (ROIC) as at 30.06.2016 was 21.1% (31.12.2015: 19.7%).

The Group has entered into interest rate swap agreements with a total notional amount of EUR 50.847 million in order to lock in a low interest rate for long-term borrowings. 1-month Euribor was fixed at the rate of 0.64%-0.67% in five agreements and the 3-month Euribor was fixed at the rate of 0.685% in one agreement. The expiry of all of the interest rate swap agreements is in the year 2022. The average interest rate of the Group's loan agreements (including the interest swap agreements) at the end of the first half of 2016 was 2.05% (31.12.2015: unchanged) and the LTV (Loan to Value) ratio was 52% (31.12.2015: 54%).

The dividend policy of EfTEN Kinnisvarafond AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In May 2016, EfTEN Kinnisvarafond AS paid out (net) dividends to shareholders in the amount of EUR 3.9 million, equal to 9.9 cents per share. In the previous year, EUR 5.1 million, equal to 12.9 cents per share, was paid out as (net) dividends. In addition to normal profit and free cash flow, the amount of dividend payment also depends on cash flow from sale of properties. While the 2016 dividend payment included distribution of the profit of one sold property, the dividend payment for 2015 includes sales profits of three properties.

In addition, the Fund's management has decided to extend the loan repayment schedules of the Fund's loan portfolio and thereby to increase the Fund's free cash flow. The loan-to-value ratio of the loans in the loan portfolio of EfTEN Kinnisvarafond is in the range of 40 -74% and average loan-to-value ratio is 52%. This allows to make loan repayments at a slower pace, increasing the annual payments to shareholders.

12 months	30.06.2016	31.12.2015
ROE, % (net profit of the period / average equity of the period)	13,4	12,7
ROA, % (net profit of the period / average assets of the period)	6,1	5,7
ROIC, % (net profit of the period / average invested capital of the period)[1]	21,1	19,7
DSCR (EBITDA/(interest expenses + scheduled loan payments)	1,8	1,8

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

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. As at 30.06.2016, the Group had 22 (31.12.2015: 23) commercial investment properties with a fair value as at the balance sheet date of EUR 201.988 million and acquisition cost of EUR 182.467 million. In addition, a joint venture of the Group owns the hotel Palace in Tallinn with a fair value of EUR 9.637 million as at 30.06.2016. The real estate portfolio of the Group is divided into following sectors:

- retail premises 40%; 7 investments
- office premises 25%; 8 investments
- storage and manufacturing premises 27%; 5 investments
- other (hotel and government) 8%; 2 investments

Investment property, as at 30.06.2016	Group's ownership interest, %	Net leasable area	Rental revenue per annum	Occupancy, %
Tallinn Cold Storage (Tallinna Külmhoone)	100	6 863	658	100
Kuuli 10/Punane 73	100	15 197	888	100
Betooni 1a	100	10 678	641	100
Betooni 6	100	16 838	807	91
Nordic Technology Park	100	45 013	2 079	93
Total logistics/warehouse		**94 589**	**4 965**	**91**
Võru Rautakesko	100	3 120	318	100
UKU Keskus	100	5 117	639	100
Mustika Keskus	100	27 365	2 789	90
RAF Centrs	100	4 474	519	97
Depo shopping center in Jelgava	100	development stage		
Narva Prisma	100	13 361	1 343	100
Tammsaare tee Rautakesko	100	9 120	1 188	100
Total trade		**62 557**	**6 687**	**97**
Lauteri 5	100	3 942	374	88
Pärnu mnt 102c	100	9 216	1 060	98
Pärnu mnt 105	100	5 149	483	97
Laki 24	100	1 854	160	100
Kadaka tee 63	100	7 705	660	90
Stabu 10 office building	100	3 766	392	100
Lacpleca 20a office building	100	4 427	722	100
Menulio 11 police building	100	5 620	519	70
Total Office		**41 679**	**3 869**	**90**
Rakvere Police Building (national)	100	5 744	644	100
Hotel Palace (hotels)	50	4 883	606	100

The weighted average expiration term of the lease agreements of investment property owned by the Group is 4.2 (31.12.2015: 4.7) years and as at 30.06.2016 the Group has a total of 282 (31.12.2015: 290) tenants. Contractual revenue generated by 13 customers accounts for 60.5% of the consolidated rental revenue.

Customer	% of the consolidated rental revenue
Prisma Peremarket AS	15,90%
Kesko Senukai Estonia AS	10,0%
DHL Estonia AS	5,60%
Logistika Pluss OÜ	5,4%
Premia Tallinna Külmhoone AS	4,0%
Riigi Kinnisvara	3,90%
Eesti Energia AS	3,60%
Arvato Services Estonia OÜ	2,50%
Vilnius County Police Headquarters	2,50%
Äripäev AS	2,0%
Kinnisvaravalduse AS	1,90%
Livonia Print SIA	1,50%
Fristads Kansas Production SIA	1,5%
Others	39,50%

Pärnu mnt 105 office building

Valuation of investment property

EfTEN Kinnisvarafond revalues its investment properties twice a year – in the month of June and in the month of December. In the first half of 2016, the Group's investment property was valued by Colliers International Advisors OÜ. As a result of revaluation, the total value of investment property increased by 0.7% (1st half on 2015: 0.8%) and the Group recognised a gain from fair value adjustment on investment property in the amount of EUR 1.405 (1st half of 2015: 1.461) million.

The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. The exit yields have slightly decreased as compared to the year-end 2015, falling to the range of 7.5-9.0% (31.12.2015: 7.75% - 9.0%). The discount rates applied to cash flows have also decreased, falling to the range of 8.5% - 10.0% (31.12.2015: 8.6% - 10.2%).

Among the investments of the Group in real estate so far, the best in terms of the rate of return has been an investment in 2010 in the Rakvere police and rescue building, for which the net yield on the initial investment, based on the expected net cash flow in 2016 is 11.1%. It is followed by the segment of warehouse and logistics space with an 8.8% net yield, closely followed by the segment of retail premises where the expected net cash flow to the acquisition cost of investments in 2016 is 8.8%. The respective yield level of the office space segment has been 7.7%.

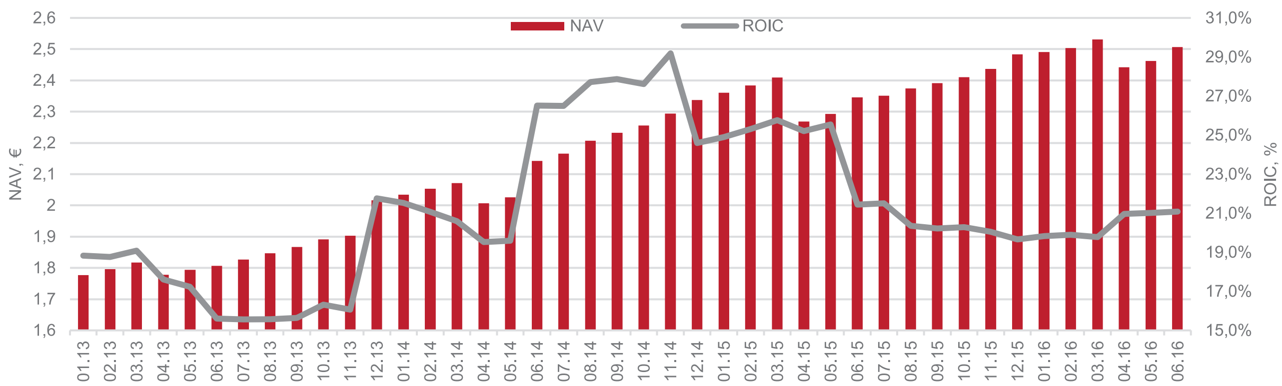
Kadaka tee 63 office building

Information on shares

As at 30.06.2016, payments made to the share capital of EfTEN Kinnisvarafond AS total EUR 61.131 million (31.12.2015: unchanged). As at 30.06.2016 the number of shares was 39,391,371 (31.12.2015: unchanged).

	1st half of 2016	2015	2014	2013	2012	2011
Number of shares outstanding at the beginning of the period	**39 391 371**	**39 391 371**	**40 405 606**	**25 057 010**	**8 393 059**	**6 830 559**
Issue of shares during the period	-	-	-	15 348 596	16 663 951	1 562 500
Shares retired during the period	-	-	-1 014 235	-	-	-
Number of shares outstanding at the end of the period	**39 391 371**	**39 391 371**	**39 391 371**	**40 405 606**	**25 057 010**	**8 393 059**

Share's net asset value and return on invested capital, 2013-2016



[1] The net asset value per share has decreased in April 2013, 2014, 2015 and 2016 due to the announcement of dividends

	30.06.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
NAV per share, EUR	2,5073	2,4840	2,4840	2,0161	1,7613	1,6140
Annual increase in NAV	7%	6%	23%	14%	9%	31%
Increase in NAV over 2 years	17%	23%	41%	25%	43%	59%
Increase in NAV over 3 years	39%	41%	54%	64%	74%	169%
Increase in NAV over 4 years	54%	54%	202%	99%	194%	-
Increase in NAV over 5 years	77%	102%	245%	236%	-	-
Increase in NAV over 6 years	129%	145%	414%	-	-	-

Shareholder structure of EfTEN Kinnisvarafond AS as at 30.06.2016

	Ownership percentage in share capital, %
LHV Pension Funds	46,5
Danske Pension Funds	3,7
Trio Holding OÜ	11,1
Ambient Sound Investments OÜ	6,3
Nordea Pension Funds	3,1
Others	29,3

Outlook for 2016

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

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

Management

Annual general meeting of shareholders was held at 26 April, where the shareholders of the fund unanimously decided to approve the annual report of 2015 and decided to pay out dividends in the amount of EUR 3,905,000.

The Supervisory Board of the fund continues with eight members: Arti Arakas (Chairman of the Supervisory Board), Jaan Pillesaar, Siive Penu, Laire Piik, Sander Rebane, Martin Hendre, Tauno Tats and Erkki Raasuke. According to the articles of association, the Supervisory Board is authorised to, among other activities, approve the budget, determine the business strategy and adopt decisions related to significant changes in the business, as well as grant approval for transactions outside the ordinary course of business made by the Management Board.

The management board of the fund is comprised of two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

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

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	1st half 2016	2015
EUR thousand			
Revenue	4	8,474	8,248
Cost of services sold	5	-652	-868
Gross profit		**7,823**	**7,380**
Marketing costs	6	-141	-119
General and administrative expenses	7	-979	-998
Other income	8	2,300	2,288
Other expenses	8	-841	-665
Operating profit		**8,162**	**7,886**
Profit/loss from joint ventures using the equity method	9	90	95
Interest income		0	8
Finance costs	10	-1,151	-1,001
Profit before income tax		**7,101**	**6,987**
Income tax expense	11	-799	-1,551
Net profit for the half-year		**6,302**	**5,436**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	1st half 2016	2015
EUR thousand			
Net profit for the half-year		6,302	5,436
Other comprehensive loss:			
Loss from revaluation of hedging instruments	18	-1,480	0
Total other comprehensive loss		**-1,480**	**0**
Total comprehensive income for the half-year		**4,822**	**5,436**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2016	31.12.2015
EUR thousand			
ASSETS			
Cash and cash equivalents	12	7,697	9,016
Receivables and accrued income	13	383	344
Prepaid expenses		89	55
Inventories		9	9
Total current assets		**8,177**	**9,424**
Long-term receivables	13	117	70
Investments in joint ventures	3	2,675	2,585
Investment property	14	201,988	202,653
Property, plant and equipment		13	13
Total non-current assets		**204,793**	**205,320**
TOTAL ASSETS		**212,970**	**214,743**
LIABILITIES AND EQUITY			
Borrowings	15	4,934	12,201
Derivative instruments	18	2,639	1,159
Payables and prepayments	16	1,056	1,601
Total current liabilities		**8,629**	**14,961**
Borrowings	15	100,639	97,301
Other long-term liabilities	16	401	357
Success fee liability	17	4,393	4,119
Deferred income tax liability	11	143	156
Total non-current liabilities		**105,576**	**101,934**
Total liabilities		**114,206**	**116,895**
Share capital	19	23,635	23,635
Share premium		37,496	37,496
Statutory reserve capital	19	2,303	1,760
Hedging reserve	18	-2,639	-1,159
Retained earnings	20	37,970	36,116
Total equity		**98,765**	**97,848**
TOTAL LIABILITIES AND EQUITY		**212,970**	**214,743**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1st half 2016	2015
EUR thousand			
Net profit		**6,302**	**5,436**
Adjustments to net profit:			
Gain (loss) from joint ventures using the equity method	9	-90	-95
Interest income		0	-8
Finance costs	10	1,151	1,001
Gain (loss) from revaluation of investment property	14	-1,405	-1,461
Change in the success fee liability	7	273	293
Depreciation, amortisation and impairment		16	3
Income tax expense	11	720	1,362
Total adjustments with non-cash changes		**665**	**1,094**
Cash flow from operations before changes in working capital		**6,967**	**6,531**
Change in receivables and payables related to operating activities	13,16	-319	-84
Net cash generated from operating activities		**6,648**	**6,447**
Purchase of property, plant and equipment		-1	0
Purchase of investment property	14	-730	-1,960
Proceeds from sale of investment property	14	2,565	54
Acquisition of subsidiaries		0	-2,051
Loans granted		0	-40
Net cash generated from investing activities		**1,834**	**-3,997**
Loans received	15	0	7,420
Scheduled loan repayments	15	-3,934	-7,076
Interest paid	15	-1,153	-1,015
Dividends paid	18	-3,905	-5,100
Income tax paid on dividends		-810	-1,210
Net cash generated from financing activities		**-9,801**	**-6,980**
NET CASH FLOW		**-1,319**	**-4,530**
Cash and cash equivalents at the beginning of the period	12	**9,016**	**11,942**
Change in cash and cash equivalents		-1,319	-4,530
Cash and cash equivalents at the end of the period	12	**7,696**	**7,412**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	**Total**
EUR thousand						
Balance as at 31.12.2014	**23,635**	**37,496**	**1,002**	**0**	**29,951**	**92,084**
Announcement of dividends	0	0	0	0	-5,100	**-5,100**
Transfers to statutory reserve capital	0	0	758	0	-758	**0**
Total transactions with owners	**0**	**0**	**758**	**0**	**-5,858**	**-5,100**
Net profit for the half-year	0	0	0	0	5,436	**5,436**
Total comprehensive income	**0**	**0**	**0**	**0**	**5,436**	**5,436**
Balance as at 30.06.2015	**23,635**	**37,496**	**2,518**	**0**	**23,672**	**87,320**
Balance as at 31.12.2015	**23,635**	**37,496**	**1,760**	**-1,159**	**36,116**	**97,848**
Announcement of dividends	0	0	0	0	-3,905	**-3,905**
Transfers to statutory reserve capital	0	0	543	0	-543	**0**
Total transactions with owners	**0**	**0**	**543**	**0**	**-4,448**	**-3,905**
Other comprehensive loss	0	0	0	-1,480	0	**-1,480**
Net profit for the half-year	0	0	0	0	6,302	**6,302**
Total comprehensive income	**0**	**0**	**0**	**-1,480**	**6,302**	4,822
Balance as at 30.06.2016	**23,635**	**37,496**	**2,303**	**-2,639**	**37,970**	**98,765**

For additional information on share capital, please see Note 18, 19 and 20.

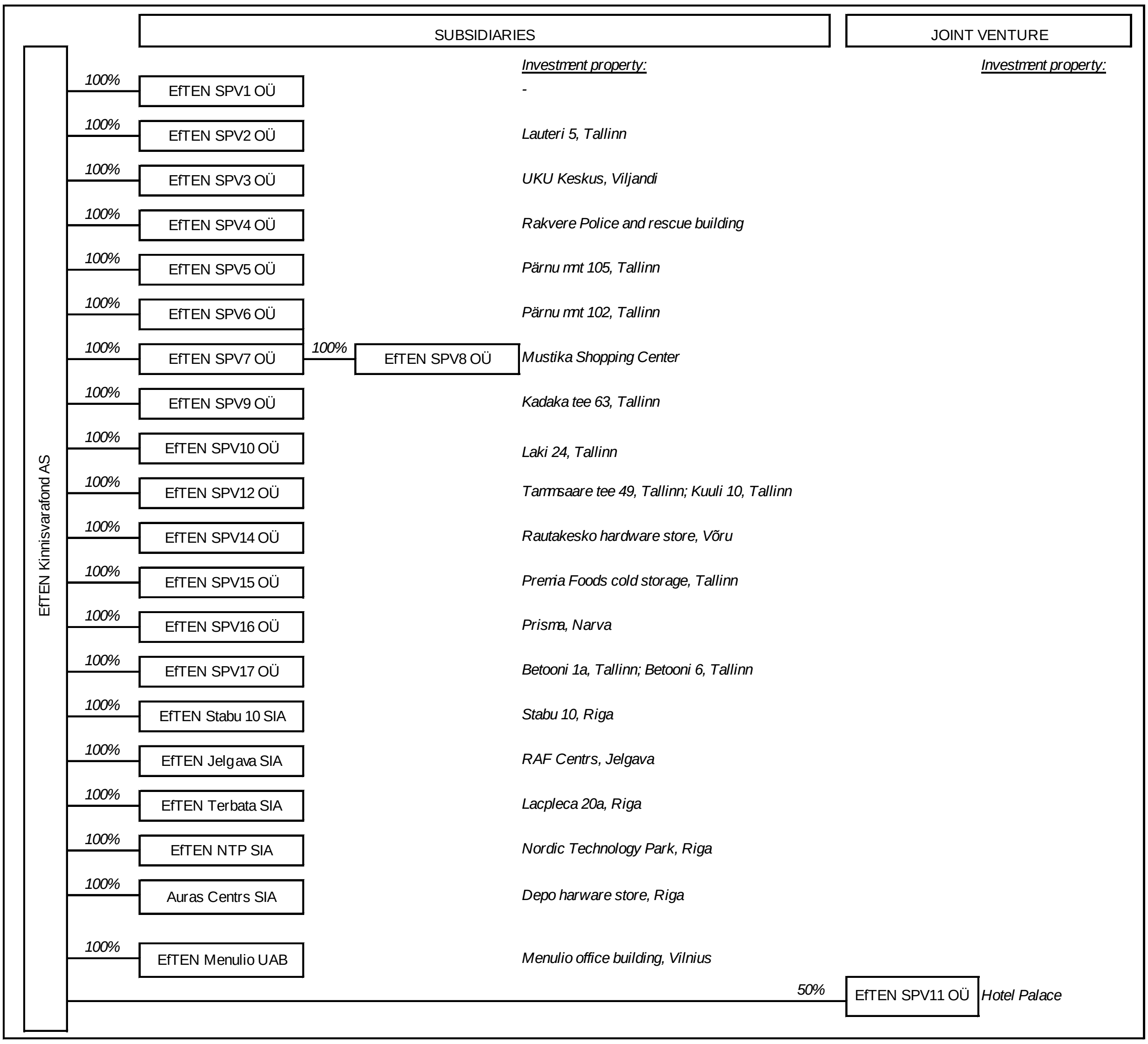
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Kinnisvarafond AS and its subsidiaries for the six months ended June 30, 2016 has been signed by the Management Board on 30 August 2016.

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

The structure of EfTEN Kinnisvarafond AS Group as at 30.06.2016 is as follows (also see Note 3):



2 Statement of compliance and basis for preparation

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

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

In the preparation of the financial reports, the cost method has been used as a basis, unless stated otherwise (for example investment property is measured at fair value).

2.1 Changes in the accounting policies and presentation

New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 July 2016, and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement *(effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU)*

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases *(standard will become effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

2.2.1 Estimation uncertainty

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

a) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. Starting from the year 2014, the Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. All of the investment properties owned by the Group generate (or will start to generate when they are completed) rental revenue, therefore the applied method best indicates the fair value of the investment properties among the alternatives (comparison method for example). The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level.

Additional information on the assumptions and sensitivity used in valuation can be found in Note 14.

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

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

The Group has a 50% ownership interest in the joint ventures that the Group is in and the members of the management boards of joint ventures also overlap with the management board members of the Group's parent entities. Any decisions in joint ventures are made in accordance with agreements with the approval of both shareholders, therefore the Group has joint control over joint ventures.

2.2.2 Classification of real estate

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

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

Properties where development by the Group is ongoing for future use as business premises that will be leased out under operating leases and commercial buildings which have been acquired and are undergoing major renovation work are also classified as investment property.

Consolidation

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

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

A joint venture is a company over which two or more parties (including the parent company) have contractual joint control. Joint ventures are accounted for under the equity method.

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

New subsidiaries (business combinations) are accounted for in the consolidated financial statements using the acquisition method.

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

Investments in subsidiaries and joint ventures in the separate balance sheet of the parent company

In the separate balance sheet of the parent company (presented in Note 24), the investments in subsidiaries and joint ventures are measured at fair value. Dividends paid by subsidiaries and joint ventures are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from transactions. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be measured reliably.

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

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

Finance income

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

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

Loans and receivables from other parties

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

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

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

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

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

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

Derivative instruments

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

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

Cash flow hedge

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

Investment property

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

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

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square metre and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income.

Gains and losses arising from changes in the value of investment property are recognised in profit or loss in the period in which they arise (in other income and other expenses, respectively).

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

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

Financial liabilities

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

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

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

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

Success fee liability

EfTEN Kinnisvarafond AS and EfTEN Capital AS have entered into a management contract according to which EfTEN Capital AS is entitled to receive a success fee in the amount of 20% of the difference between the sales and acquisition price of investment property above a hurdle rate of 10% on an annual basis. The success fee is calculated on a cumulative basis on all investment properties, i.e. if there is any investment property that is sold at a price below the cost of its acquisition, the success fees accrued on properties sold at a profit is decreased in the amount of 20% of the losses on sale of those properties sold below acquisition cost. According to the management contract, the success fee is payable upon termination of the fund.

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property. Period expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 7).

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company and subsidiaries registered in Estonia

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

Subsidiaries in Latvia and Lithuania

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

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

3 Subsidiaries and joint ventures

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			30.06.2016	31.12.2015
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV1 OÜ	Estonia	Sold (Ülikooli 6, Tartu)	0	100
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Centre, Viljandi	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105, Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102, Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka tee 63, Talinn	100	100
EfTEN SPV10 OÜ	Estonia	Laki 24, Tallinn	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare tee Rautakesko	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinn Cold Storage (Tallinna Külmhoone)	100	100
EfTEN SPV16 OÜ	Estonia	Narva Prisma	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6, Tallinn	100	100
EfTEN Stabu 10 SIA	Latvia	Stabu 10 office building, Riga	100	100
EfTEN Jelgava SIA	Latvia	RAF shopping centre, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Technology Park, Riga	100	100
EfTEN Terbata SIA	Latvia	Lāčplēša iela 20A, Riga	100	100
Auras Centrs SIA	Latvia	Depo	100	100
Jelgavas Centrs SIA	Latvia	Depo	(merged with Auras Centrs SIA)	100
EfTEN Menulio UAB	Lithuania	Menulio Police Building	100	100
Joint Ventures				
EfTEN SPV11 OÜ	Estonia	Palace Hotel	50	50

All subsidiaries and joint ventures are engaged in the acquisition and lease of investment property. No shares of a subsidiary or joint venture are publicly listed.

As at 30.06.2016, the Group owned one joint venture. The key financial indicators of the joint venture are provided in the table below:

EfTEN SPV11 OÜ	30.06.2016 or the 1st half of 2016
EUR thousand	
Cash and cash equivalents	549
Other current assets	79
Total current assets	**628**
Investment property	9,637
Total non-current assets	**9,637**
TOTAL ASSETS	**10,265**
Short-term borrowings	90
Other short-term liabilities	83
Total current liabilities	**173**
Long-term borrowings	4,742
Total non-current liabilities	**4,742**
TOTAL LIABILITIES	**4,915**
NET ASSETS	**5,350**
Revenue	284
Net income	**181**

During the first half of 2016 and the first half of 2015, the following changes have occurred in investments in joint ventures:

€ thousand	30.06.2016	30.06.2015
EUR thousand	**2,585**	**2,482**
Carrying value at the beginning of period	90	95
Profit/loss from joint ventures using the equity method (Note 9)	**2,675**	**2,577**
Carrying value at the end of period		

The net assets of the entire entity EfTEN SPV11 OÜ as at 30.06.2016 stood at EUR 5,350 thousand. The Group owns 50% of the joint venture and therefore the value of the entity in the group's balance sheet equals to the 50% of the value of the joint venture's net assets.

4 Revenue

Areas of activity	1st half 2016	2015
EUR thousand		
Rental income from office premises	2,007	2,163
Rental income from government institutions	322	322
Rental income from retail premises	3,246	3,269
Rental income from warehousing and logistics premises	2,301	1,968
Rental income from service premises	262	244
Rental income from parking premises	132	63
Other sales revenue	204	219
Total revenue	**8,474**	**8,248**

EUR 1,676 thousand (1st half of 2015: EUR 1,737 thousand) of the revenue of the Group was generated in Latvia, EUR 243 thousand in Lithuania (1st half of 2015: no revenue was earned) and the remainder of the revenue EUR 6,555 thousand (1st half of 2015: EUR 6,512 thousand) was generated in Estonia.

5 *Cost of services sold*

	1st half	
	2016	2015
EUR thousand		
Repair and maintenance of rental premises	-395	-359
Property insurance	-28	-29
Land tax and real-estate tax	-102	-111
Improvement costs	-125	-282
Depreciation	-2	-2
Impairment losses on doubtful receivables	0	-85
Total cost of services sold	**-652**	**-868**

6 *Marketing costs*

	1st half	
	2016	2015
EUR thousand		
Commission expenses on rental premises	-41	-27
Advertising, promotional events	-100	-92
Total marketing costs	**-141**	**-119**

7 *General and administrative expenses*

	1st half	
	2016	2015
EUR thousand		
Management services (Note 21)	-587	-587
Office expenses	-11	-11
Wages and salaries, incl. taxes	-22	-18
Consulting expenses	-71	-87
Change in success fee liability (Note 17)	-273	-293
Other general and administrative expenses	0	-2
Depreciation	-14	-1
Total general and administrative expenses	**-979**	**-998**

8 Other income and other expenses

	1st half	
Other income	2016	2015
EUR thousand		
Gain on changes in the fair value of investment property (Note 14)	2,244	2,125
Contractual penalties and late payment fees received	56	9
Other income	1	155
Total other income	**2,300**	**2,288**

	1st half	
Other expenses	2016	2015
EUR thousand		
Loss on changes in the fair value of investment property (Note 14)	-839	-664
Other expenses	-2	-1
Total other expenses	**-841**	**-665**

9 Profit/loss from joint ventures using the equity method

	1st half	
Profit/loss from joint ventures	2016	2015
EUR thousand		
Profit/loss from joint ventures using the equity method	90	95
Total profit/loss from joint ventures	**90**	**95**

10 Finance costs

	1st half	
	2016	2015
EUR thousand		
Interest expenses, incl.	-1,151	-1,001
Interest expense on borrowings	-907	-1,001
Interest expense on derivatives (-)/ reduction of expense (+)	-244	0
Total finance costs	**-1,151**	**-1,001**

11 Income tax

	1st half 2016	2015
EUR thousand		
Income tax expense	-697	-1 350
Income tax expense of Latvian and Lithuanian subsidiaries	-170	-171
Deferred income tax expense	68	-30
Total income tax expense	**-799**	**-1 551**

As at 30.06.2016, the Group has a deferred income tax liability in relation to the gain on the change in the fair value of investment properties located in Latvia and Lithuania in the amount of EUR 143 thousand (31.12.2015: EUR 156 thousand). The obligation to pay income tax will arise upon the Group's realisation of the investment property.

The expenses related to the Group's payment of dividends in 2016 amounted to EUR 697 thousand (1st half of 2015: EUR 1,350 thousand). The remaining portion of income tax expense in the first half of 2016 and 2015 is related to the taxation of the profit of subsidiaries domiciled in Latvia and Lithuania.

12 Cash and cash equivalents

	30.06.2016	31.12.2015
EUR thousand		
Demand deposits (Note 18)	7,697	9,016
Total cash and cash equivalents	**7,697**	**9,016**

13 Receivables and accrued income

Short-term receivables and accrued income

	30.06.2016	31.12.2015
EUR thousand		
Receivables from customers	382	353
Allowance for doubtful trade receivables	-76	-78
Total trade receivables (Note 18)	**306**	**275**
Other short-term receivables	3	3
Total other short-term receivables	**3**	**3**
Prepaid taxes and receivables for reclaimed value-added tax	0	4
Other accrued income	74	62
Total accrued income	**74**	**66**
Total receivables	**383**	**344**

Non-current receivables

	30.06.2016	31.12.2015
EUR thousand		
Deferred income tax	54	11
Prepayments and receivables related to real estate development projects	63	59
Total non-current receivables	**117**	**70**

14 Investment property

As at 30.06.2016, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m2)	Date of acquisition	Acquisition cost	Market value at 30.06.2016	Share of market value of the fund's assets
EUR thousand						
Tallinn Cold Storage (Tallinna Külmhoone)	Betooni 4, Tallinn	6,863	September 08	6,237	7,317	3%
Võru Rautakesko	Kreutzwaldi 89, Võru	3,120	September 08	3,270	3,291	2%
UKU Centre	Tallinna 41, Viljandi	5,117	August 10	5,405	7,571	4%
Rakvere Police Building	Kreutzwaldi 5a, Rakvere	5,744	November 10	4,940	6,514	3%
Lauteri 5	Lauteri 5, Tallinn	3,942	December 10	3,234	4,442	2%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	9,216	December 11	12,280	13,512	6%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	5,149	December 11	6,270	6,426	3%
Mustika Centre	Tammsaare tee 116, Tallinn	27,365	July 12	30,774	34,592	16%
RAF Centrs	Riia mnt 48, Jelgava	4,474	March 13	5,279	5,797	3%
Narva Prisma	Kangelaste pr 29, Narva	13,361	February 13	14,850	16,261	8%
Laki 24	Laki 24, Tallinn	1,854	January 13	1,659	1,547	1%
Kadaka tee 63	Kadaka tee 63, Tallinn	7,705	January 13	7,167	8,033	4%
Stabu 10 office building	Stabu 10, Riga	4,223	March 13	4,040	4,186	2%
Kuuli 10/Punane 73	Kuuli 10/Punane 73, Tallinn	15,197	July 13	9,171	11,026	5%
Tammsaare tee Rautakesko	Tammsaare tee 49, Tallinn	9,120	July 13	12,930	14,813	7%
Betooni 1a	Betooni 1a, Tallinn	10,678	June 14	7,347	7,688	4%
Betooni 6	Betooni 6, Tallinn	16,838	June 14	9,719	9,710	5%
Terbata Office building	Lacpleca 20a, Riga	4,427	December 14	9,393	9,097	4%
Nordic Technology Park	Jūrkalnes 15/25, Riga, Latvia	45,013	August 14	20,328	20,870	10%
Menulio Police Building	Menulio 11, Vilnius	5,620	December 15	5,869	6,990	3%
Depo shopping centre (in development phase)	Jelgava, Latvia	16,000	January 15	2,305	2,305	1%
Total		**221,026**		**182,467**	**201,988**	**95%**

In addition to the investment properties presented in the table above, the joint venture with a 50% ownership interest of the Group, EfTEN SPV11 OÜ, owns an investment property at the address Vabaduse väljak 3 /Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as at 30.06.2016 is EUR 9,637 thousand (31.12.2015: EUR 9,626 thousand).

During the first half of 2016, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 31.12.2015	**2,307**	**200,346**	**202,653**
Acquisition and development	0	606	**606**
Capitalised improvements	0	124	**124**
Disposals	0	-2,800	**-2,800**
Gain/loss on changes in the fair value (Note 8)	0	1,405	**1,405**
Balance as at 30.06.2015	**2,307**	**199,680**	**201,988**

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

	30.06.2016 or 01.01.16-30.06.16	31.12.2015 or 01.01.15-30.06.15
Rental income earned on investment property	8,270	8,029
Expenses directly attributable to management of investment property (Note 5)	-652	-868
Carrying amount of investment property pledged as collateral to borrowings	199,680	200,345

All rental income generating investment properties of EfTEN Kinnisvarafond AS are pledged as collateral to long-term bank loans.

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

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 30.06.2016 and 31.12.2015 was determined using the discounted cash flow method. The following assumptions were used to determine fair value:

As at 30.06.2016:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/,m2
EUR thousand						
Office premises	54,236	Discounted cash flows	4,558	8.5%-9.0%	7.5%-8.5%	9.7
Storage and manufacturing premises	56,601	Discounted cash flows	4,983	8.6%-10.0%	8.25%-9.0%	4.5
Retail premises	82,332	Discounted cash flows	6,897	8.8%-9.0%	8.0%-9.0%	9.4
Government	6,514	Discounted cash flows	644	9.0%	8.5%	9.3
Investment property in development phase	2,305	The bid price	-	-	-	-
Total	**201,988**		**17,082**			

As at 31.12.2015:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/,m2
EUR thousand						
Office premises	55,719	Discounted cash flows	4,450	8.5%-9.6%	7.75%-9.2%	9.2
Storage and manufacturing premises	56,576	Discounted cash flows	5,158	8.6%-10.2%	8.25%-9.0%	3.9
Retail premises	81,507	Discounted cash flows	6,916	8.8%-9.6%	8.02-9.0%	8.8
Government	6,545	Discounted cash flows	644	9.0%	8.5%	9.3
Investment property in development phase	2,305	The bid price	-	-	-	-
Total	**202,652**		**17,168**			

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

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

Fair value sensitivity analysis

The table provided below illustrates as at 30.06.2016 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	Sensitivity to management estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.50%	0.00%	0.50%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/- 10%	*-5,957*	*5,945*	Change in the capitalisation rate	-0.50%	*57,937*	*56,774*	*55,645*
					0.00%	*56,626*	*54,236*	*54,622*
					0.50%	*53,038*	*51,988*	*50,967*
Storage and manufacturing premises	Change in rental income +/- 10%	*-6,187*	*6,195*	Change in the capitalisation rate	-0.50%	*60,176*	*58,992*	*57,837*
					0.00%	*57,690*	*56,601*	*55,465*
					0.50%	*55,564*	*54,484*	*53,430*
Retail premises	Change in rental income +/- 10%	*-8,798*	*8,793*	Change in the capitalisation rate	-0.50%	*87,686*	*85,943*	*84,247*
					0.00%	*85,452*	*82,332*	*82,214*
					0.50%	*80,523*	*78,944*	*77,405*
Government	Change in rental income +/- 10%	*-774*	*774*	Change in the capitalisation rate	-0.50%	*6,922*	*6,786*	*6,654*
					0.00%	*6,676*	*6,514*	*6,418*
					0.50%	*6,396*	*6,272*	*6,151*

As at 31.12.2015

Sector	Sensitivity to management estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/-10%	*-6,152*	*6,149*	Change in the capitalisation rate	-0.50%	*59,240*	*58,288*	*57,129*
					0.00%	*56,626*	*55,719*	*54,622*
					0.50%	*54,321*	*53,461*	*52,410*
Storage and manufacturing premises	Change in rental income +/-10%	*-6,185*	*6,183*	Change in the capitalisation rate	-0.50%	*60,129*	*58,946*	*57,795*
					0.00%	*57,690*	*56,576*	*55,465*
					0.50%	*55,524*	*54,446*	*53,396*
Retail premises	Change in rental income +/-10%	*-8,707*	*8,707*	Change in the capitalisation rate	-0.50%	*89,220*	*87,494*	*85,813*
					0.00%	*85,452*	*81,507*	*82,214*
					0.50%	*82,123*	*80,557*	*79,034*
Government	Change in rental income +/-10%	*-777*	*777*	Change in the capitalisation rate	-0.50%	*6,956*	*6,819*	*6,685*
					0.00%	*6,676*	*6,545*	*6,418*
					0.50%	*6,427*	*6,302*	*6,180*

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

15 Borrowings

As at 30.06.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2016	Contract term	Interest rate as at 30.06.2016	Loan collateral	Value of collateral	Share of the fund's net asset value
SEB	Estonia	4,300	3,595	31.08.18	1.45%	mortgage - Betooni 4, Tallinn	7,317	3.6%
DnB Nord	Estonia	2,239	1,865	15.05.18	1.64%	mortgage - Kreutzwaldi 89, Võru	3,291	1.9%
SEB	Estonia	2,514	2,017	13.06.21	1.80%	mortgage - Lauteri 5, Tallinn	4,442	2.0%
SEB	Estonia	4,529	3,673	31.05.18	1.80%	mortgage - Tallinna 41, Viljandi	7,571	3.7%
Swedbank	Estonia	4,133	3,553	25.11.17	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,514	3.6%
Swedbank	Estonia	4,333	3,667	30.08.18	1.95%	mortgage - Pärnu mnt 105, Tallinn	6,426	3.7%
Swedbank	Estonia	8,436	7,424	30.08.18	1.50%	mortgage - Pärnu mnt 102, Tallinn	13,512	7.5%
SEB	Estonia	20,000	17,971	30.12.17	1.34%	mortgage - Tammsaare tee 116, Tallinn	34,592	18.2%
SEB	Estonia	4,740	4,062	31.05.18	1.54%	mortgage - Kadaka tee 63, Tallinn	8,033	4.1%
SEB	Estonia	900	719	25.01.17	1.74%	mortgage - Laki 24, Tallinn	1,547	0.7%
Pohjola Bank	Estonia	9,700	8,232	28.02.18	1.50%	mortgage - Kangelaste pr 29, Tallinn	16,261	8.3%
SEB	Latvia	1,980	1,680	16.04.18	2.90%	mortgage - Stabu 10/4, Riga	4,186	1.7%
Danske	Estonia	15,300	14,191	25.06.18	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,839	14.4%
SEB	Latvia	12,060	11,214	08.08.19	1.49%	mortgage - Jurkalnes iela 15/25, Riga	20,870	11.4%
Danske	Estonia	11,100	9,856	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	17,398	10.0%
SEB	Latvia	3,000	2,605	17.12.18	2.64%	mortgage - Rigas Street 48, Jelgava	5,797	2.6%
Swedbank	Latvia	5,850	5,602	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,097	5.7%
Swedbank	Lithuania	3,786	3,778	07.12.20	2.74%	mortgage - Menulio 11, Vilnius	6,990	3.8%
Total		**118,900**	**105,703**				**199,683**	**107.0%**

As at 31.12.2015, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2015	Contract term	Interest rate as at 31.12.2015	Loan collateral	Value of collateral	Share of the fund's net asset value
SEB	Estonia	4,300	3,717	17.09.16	1.29%	mortgage - Betooni 4, Tallinn	7,315	3.8%
DnB Nord	Estonia	2,239	1,933	15.05.18	1.82%	mortgage - Kreutzwaldi 89, Võru	3,331	2.0%
SEB	Estonia	1,637	1,304	26.05.16	1.84%	mortgage - Ülikooli 6a, Tartu	2,800	1.3%
SEB	Estonia	2,514	2,065	06.09.16	1.79%	mortgage - Lauteri 5, Tallinn	4,488	2.1%
SEB	Estonia	4,529	3,804	31.05.18	1.80%	mortgage - Tallinna 41, Viljandi	7,390	3.9%
Swedbank	Estonia	4,133	3,656	25.11.17	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,545	3.7%
Swedbank	Estonia	4,333	3,788	30.08.18	1.95%	mortgage - Pärnu mnt 105, Tallinn	6,395	3.9%
Swedbank	Estonia	8,436	7,612	30.08.18	1.50%	mortgage - Pärnu mnt 102, Tallinn	13,449	7.8%
SEB	Estonia	20,000	18,422	30.12.17	1.70%	mortgage - Tammsaare tee 116, Tallinn	33,776	18.8%
SEB	Estonia	4,740	4,168	31.05.18	1.80%	mortgage - Kadaka tee 63, Tallinn	8,131	4.3%
SEB	Estonia	900	747	25.01.17	2.10%	mortgage - Laki 24, Tallinn	1,554	0.8%
Pohjola Bank	Estonia	9,700	8,426	28.02.18	1.50%	mortgage - Kangelaste pr 29, Tallinn	16,322	8.6%
SEB	Latvia	1,980	1,738	16.04.18	2.90%	mortgage - Stabu 10/4, Riga	4,015	1.8%
Danske	Estonia	15,300	14,536	25.06.18	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	26,046	14.9%
SEB	Latvia	12,060	11,475	08.08.19	1.69%	mortgage - Jurkalnes iela 15/25, Riga	20,803	11.7%
Danske	Estonia	11,100	10,049	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	17,352	10.3%
SEB	Latvia	3,000	2,695	17.12.18	2.84%	mortgage - Rigas Street 48, Jelgava	5,748	2.8%
Swedbank	Latvia	5,850	5,724	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,033	5.9%
Swedbank	Lithuania	3,786	3,786	07.12.20	2.74%	mortgage - Menulio 11, Vilnius	5,854	3.9%
Total		**120,537**	**109,646**				**200,347**	**112.1%**

Short-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	5,029	12,305
Discounted contract fees on bank loans	-95	-104
Total short-term borrowings	**4,934**	**12,201**

Long-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Total long-term borrowings	**105,573**	**109,502**
Incl. current portion of borrowings	4,934	12,201
Incl. non-current portion of borrowings, incl.	100,639	97,301
Bank loans	*100,673*	*97,340*
Discounted contract fees on bank loans	-35	*-39*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	30.06.2016	31.12.2015
EUR thousand		
Less than 1 year	5,029	12,305
2-5 years	100,673	97,340

Cash flows of borrowings	1st half 2016	2015
EUR thousand		
Balance at the beginning of period	**109,502**	**107,123**
Bank loans received	0	7,420
Bank loans returned on refinancing and sale of investments	-1,296	-4,500
Annuity payments on bank loans	*-2,638*	*-2,576*
Discounted change of contract fees	*5*	*26*
Balance at the end of period	**105,573**	**107,493**

16 Payables and prepayments

Short-term payables and prepayments

	30.06.2016	31.12.2015
EUR thousand		
Other trade payables	142	151
Total trade payables	**142**	**151**
Other payables	13	38
Total other payables	**13**	**38**
Value added tax	234	254
Income tax on dividends	244	354
Corporate income tax	26	184
Personal income tax	1	5
Social tax	1	8
Land tax and real-estate tax	49	16
Other tax liabilities	0	1
Total tax liabilities	**555**	**821**
Interest payable	31	27
Payables to employees	4	3
Tenant security deposits	271	291
Other accrued liabilities	13	111
Total accrued expenses	**319**	**431**
Prepayments received from buyers	0	135
Other deferred income	28	25
Total prepayments	**28**	**160**
Total payables and prepayments	**1,056**	**1,601**

Long-term payables

	30.06.2016	31.12.2015
EUR thousand		
Tenant security deposits	390	349
Other long-term liabilities	10	9
Total other long-term payables	**401**	**357**

17 Success fee liability

As at 30.06.2016, the Group has accumulated a success fee liability in the amount of EUR 4,393 thousand (31.12.2015: EUR 4,119 thousand). The success fee liability as at 30.06.2016 includes success fees amounting to EUR 759 thousand relating to investment properties sold (31.12.2015: EUR 665 thousand).

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property as at 30.06.2016 and 31.12.2015. Expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 7).

18 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables.

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

Carrying amounts of financial instruments

	Notes	30.06.2016	31.12.2015
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	12	7,697	9,016
Trade receivables	13	306	275
Total financial assets		**8,002**	**9,291**
Financial liabilities measured at amortised cost			
Borrowings	15	105,573	109,502
Trade payables	16	142	151
Tenant security deposits	16	661	639
Accrued expenses	16	48	140
Total financial liabilities		**106,425**	**110,433**

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

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

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

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

Market risk

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

Interest rate risk

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

As at 30.06.2016, all of the Group's borrowings bear interest on the basis of a floating interest rate, 95% (31.12.2015: unchanged) of which are linked to the 1-month EURIBOR. 5% of the borrowings bearing interest on the basis of floating interest rates are linked to the 3-month EURIBOR (31.12.2015: unchanged). The 1-month EURIBOR fluctuated during the half-year ended 30 June 2016 within the range of -0.364% to -0.210% (2015: -0,206% to 0,016%), that is, the maximum change during the half-year was 15.4 basis points (2015: 19 basis points).

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

As a result of the long-term nature of the group's real estate investments and the long-term borrowings associated with the investments, the management of EfTEN Kinnisvarafond AS decided in 2015 to mitigate the risk of an increase in the long-term floating interest rate applicable to the loan portfolio and hedge 50% of the loan portfolio by fixing the applicable floating interest rate (1-month Euribor and 3-month Euribor). It was decided to use interest rate swap agreements for the risk mitigation whereby the floating interest rate of a subsidiary's loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreements considering the three following conditions:

(1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2022);

(2) The aggregate notional amount of the swap agreements at the time that they were entered into did not exceed 50% of the entire consolidated loan portfolio of EfTEN Kinnisvarafond AS;

(3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

The group entered into six interest rate swap agreements with a total notional amount of EUR 53,440 thousand for the purposes of mitigating interest rate risk. 1-month Euribor was fixed at the rate of 0.64%-0.67% in five agreements and the 3-month Euribor was fixed at the rate of 0.685% in one agreement. The expiry of all of the interest rate swap agreements is in the year 2022. The total notional amount of the interest rate swap agreements as at 30.06.2016 was EUR 50,847 thousand (31.12.2015: EUR 52,382 thousand), i.e. 48.2% of the entire loan portfolio.

The group accounts for the interest rate swap agreements based on the principle of hedge accounting. The total fair value of the group's interest rate swap agreements as at 30.06.2016 was negative in the amount of EUR 2,639 thousand (31.12.2015: EUR 1,159 thousand). Additional information on the methods used to determine the fair value of the interest rate swap agreements has been provided below in the paragraph titled 'Fair value'.

Liquidity risk

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

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

The objective of the Group is to manage its net cash flows, so as to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 30.06.2016, the Group's interest-bearing liabilities accounted for 53% of rental income generating investment property (31.12.2015: 55%) and the debt coverage ratio was 1.8 (2015: unchanged).

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

As at 30.06.2016	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	376	1,132	3,705	100,489	0	**105,703**
Interest payments	141	419	1,089	2,275	0	**3,923**
Interest payable	31	0	0	0	0	**31**
Trade payables	142	0	0	0	0	**142**
Tenant security deposits	23	3	245	319	71	**661**
Accrued expenses	17	0	0	0	0	**17**
Total financial liabilities	**730**	**1,554**	**5,039**	**103,083**	**71**	**110,477**

As at 31.12.2015	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	464	1,397	10,400	97,240	0	**109,503**
Interest payments	152	453	1,145	2,920	0,	**4,669**
Interest payable	27	0	0	0	0	**27**
Trade payables	151	0	0	0	0	**151**
Tenant security deposits	22	34	105	408	71	**639**
Accrued expenses	113	0	0	0	0	**113**
Total financial liabilities	**930**	**1,884**	**11,650**	**100,568**	**71**	**115,102**

Credit risk

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

The Group's activity in preventing reduction of cash flows due to credit risk and minimising such risk lies in the daily monitoring and guiding of clients' payment behaviour, so that appropriate measures could be applied on a timely basis. In addition, agreements with customers generally provide payment of rent at the beginning of the calendar month, giving sufficient time for monitoring the customers' payment discipline and ensuring existence of sufficient liquidity on bank accounts at the date of annuity payment of financing contracts. To manage risk, the Group has entered into an agreement with one of the anchor tenants, according to which the financial institution of the tenant must guarantee rental payments throughout the rental period. In addition, most of the rental contracts also stipulate an obligation to make security deposits, on account of which the Group can settle debts resulting from insolvency of a tenant.

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

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

Accounts receivable are illustrated by the table below:

	30.06.2016	31.12.2015
Undue	173	195
Past due	**209**	**158**
up to 30 days	*76*	*55*
30-60 days	*26*	*11*
more than 60 days	*108*	*92*
Allowance for doubtful receivables	-76	-78
Total trade receivables	**306**	**275**

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

	30.06.2016	31.12.2015
EUR thousand		
Cash and cash equivalents	7,697	9,016
Trade receivables	306	275
Total maximum credit risk	**8,002**	**9,291**

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

Rating	Balance as at 30.06.2015
A1	2,680
A1	3,553
A3	702
C	591
A1	170
Total bank account balances	**7,696**

Capital management

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

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

After making an investment, the net operating profit on investment of any of the cash flow producing investment properties cannot be less than 120% of the loan annuity payments.

The free cash flow of the Group allows the Group to pay out in the form of dividends an average of 4-5% of the value of invested equity. During the half-year ended 30 June 2016, the amount of EUR 3,905 thousand (1st half of 2015: EUR 5,100 thousand) was distributed to investors in the form of net dividends.

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As at 30.06.2016 nor 31.12.2015, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

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

19 *Share capital*

During the half-year ended 30 June 2016, EfTEN Kinnisvarafond AS transferred 5% of 2015 net profit, i.e. EUR 543 thousand (1st half of 2015: EUR 758 thousand), to the statutory reserve.

The amount of registered share capital of EfTEN Kinnisvarafond AS as at 30.06.2016 is EUR 23,635 thousand (31.12.2015: unchanged). The share capital consisted of 39,391,371 shares as at 30.06.2016 (31.12.2015: unchanged) with nominal value of EUR 0.6 (31.12.2015: unchanged). Without amending the articles of association, the company may increase its share capital to EUR 60,137 thousand.

20 *Contingent liabilities*

Contingent income tax liability

	30.06.2016	31.12.2015
EUR thousand		
The company's retained earnings	37,970	36,116
Potential income tax liability	7,594	7,223
The amount that can be paid out as dividends	30,376	28,893

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution at 30.06.2016 and 31.12.2015.

Pending litigation

OÜ Rest Art Group (plaintiff) has filed action against the group's subsidiary EfTEN SPV7 OÜ, claiming for the compensation of damages totalling EUR 102 thousand plus interest. The court hearing the action is Harju County Court and presently no court sessions have been held yet. The dispute is only at its initial stages but the Group's management and advisers deem it probable that the plaintiff's action will be dismissed to a significant extent. The expected date for the county court decision is in the second half of 2016. As at 30.06.2016, the group has not established any provisions for this action.

21 *Related party transactions*

EfTEN Kinnisvarafond AS considers the following as related parties:

- persons who own more than 10% of the share capital of EfTEN Kinnisvarafond AS;

- management board members and companies owned by the management board members of EfTEN Kinnisvarafond AS;

- supervisory board members and companies owned by the supervisory board members of EfTEN Kinnisvarafond AS;

- employees and companies owned by the employees of EfTEN Kinnisvarafond AS;

- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS during the first half of 2016 was in the amount of EUR 587 thousand (1st half of 2015: unchanged), (see Note 7). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties any other goods or services during the first half of 2016 or 2015.

During the first half of 2016 and 2015, the Group had two employees who were remunerated including taxes in the amount of EUR 22 thousand (2015: EUR 18 thousand). During the first half of 2016 and 2015 no compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

23 Parent company's separate income statement

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

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

	1st half	
	2016	2015
EUR thousand		
Revenue	576	619
Gross profit	**576**	**619**
General and administrative expenses	-630	-630
Operating profit	**-54**	**-11**
Gain (loss) from subsidiaries	4,886	5,582
Gain (loss) from joint ventures	90	95
Interest income	40	260
Interest expenses	-134	-209
Profit before income tax	**4,830**	**5,716**
Income tax expense on dividends	0	-151
Net profit for the half-year	**4,830**	**5,565**

24 Parent company's separate balance sheet

	30.06.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	1,193	1,435
Receivables and accrued income	1,597	2,015
Total current assets	**2,790**	**3,450**
Non-current assets		
Shares of subsidiaries	98,460	97,049
Shares of joint ventures	2,675	2,585
Long-term receivables	2,335	2,350
Total non-current assets	**103,470**	**101,983**
TOTAL ASSETS	106,260	105,433
Borrowings	6,899	7,095
Payables	393	276
Total current liabilities	**7,292**	**7,371**
Success fee liability	193	193
Total non-current liabilities	**193**	**193**
Total liabilities	**7,485**	**7,564**
Share capital	23,635	23,635
Share premium	37,496	37,496
Statutory reserve capital	2,303	1,760
Retained earnings	35,341	34,979
Total equity	**98,775**	**97,869**
TOTAL LIABILITIES AND EQUITY	106,260	105,433

25 Parent company’s separate statement of cash flows

	1st half	
	2016	2015
EUR thousand		
Cash flows from operating activities		
Net profit	**4,830**	**5,565**
Adjustments to net profit:		
Interest income and interest expenses	93	-50
Gain (loss) on the fair value adjustment of subsidiaries and joint ventures	-1,522	-575
Dividends received	-3,455	-5,102
Income tax expense	0	151
Cash flow from operations before changes in working capital	**-54**	**-11**
Change in receivables and payables related to operating activities	-8	-46
Net cash generated from operating activities	**-62**	**-56**
Cash flows from investing activities		
Acquisition of investments in subsidiaries and joint ventures	0	-693
Loans granted	0	-1,556
Repayment of loans granted	14	5,353
Dividends received	3,905	4,495
Interest received	1	0
Net cash generated from investing activities	**3,920**	**7,599**
Cash flows from financing activities		
Loans received	0	2,757
Repayment of loans received	-196	-4,500
Interest paid	0	-59
Dividends paid	-3,905	-5,100
Income tax paid on dividends	0	-151
Net cash generated from financing activities	**-4,101**	**-7,053**
NET CASH FLOW	**-242**	**489**
Cash and cash equivalents at the beginning of the period	**1,435**	**73**
Change in cash and cash equivalents	-242	489
Cash and cash equivalents at the end of the period	**1,193**	**562**

26 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
EUR thousand					
Balance as at 01.01.2015	**23,635**	**37,496**	**1,002**	**29,944**	**92,077**
Reduction of share capital	0	0	0	0	**0**
Announcement of dividends	0	0	0	-5,100	**-5,100**
Transfers to statutory reserve capital	0	0	758	-758	**0**
Comprehensive income for the half-year	0	0	0	7,490	**7,490**
Balance as at 30.06.2015	**23,635**	**37,496**	**1,760**	**31,576**	**94,467**
Balance as at 01.01.2016	**23,635**	**37,496**	**1,760**	**34,979**	**97,869**
Announcement of dividends	0	0	0	-3,905	-3,905
Transfers to statutory reserve capital	0	0	543	-543	0
Comprehensive income for the half-year	0	0	0	4,810	4,810
Balance as at 30.06.2016	**23,635**	**37,496**	**2,303**	**35,340**	**98,774**

For additional information on changes in share capital, please see Note 19.

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

	30.06.2016	30.06.2015
EUR thousand		
Parent company's unconsolidated equity	98,774	92,542
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-101,135	-90,785
Value of subsidiaries and joint ventures under the equity method (plus)	101,126	90,664
Total	**98,765**	**92,421**

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

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

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Arti Arakas

Chairman of the Supervisory Board

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Siive Penu

Member of the Supervisory Board

____

Erkki Raasuke

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

Management Board Member

____

Tõnu Uustalu

Management Board Member