EfTEN Capital

Consolidated semi-annual report for the first half of 2015

EfTEN Kinnisvarafond II AS

Registry code: 12781528

Beginning of the accounting period: 01.12.2014
End of the accounting period: 30.06.2015

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Management report

Financial overview

EfTEN KINNISVARAFOND II AS started investment activities in January 2015. The consolidated revenue of the first half of 2015 was EUR 3.6 million and the net profit EUR 1.1 million. The consolidated gross profit margin in the first half of the year was 50%.

The expenses related to the group's properties, marketing costs, general expenses, and other income and expenses accounted for 67.3% of the revenues in the first half of 2015.

	First half of the year
	2015
EUR million	
Sales revenue	3.654
Expenses related to properties, including marketing costs	-2.021
Interest expense and interest income	-0.107
Net revenue less finance costs	**1.526**
Management fees	-0.106
Other revenue and expenses	-0.332
Profit before change in the value of investment property and income tax expenses	**1.087**

The volume of the Group's assets as at 30.06.2015 was EUR 49.8 million, whereas the fair value of investment property and non-current assets comprised EUR 46 million of the volume of assets.

	30.06.2015
EUR million	
Investment property	45.365
Other non-current assets	0.610
Current assets, excluding cash	0.440
Net debt	-20.239
Net asset value (NAV)	26.175
Net asset value (NAV) per share, in cents	10.4595

The net asset value per share of EfTEN Kinnisvarafond II AS increased by 4.6% in the first six operating months. Return on invested capital (ROIC) was 8.7%. The average interest rate of the Group's loan agreements as at the end of the reporting period was 1.075%.

In the first six operating months of 2015, return on invested capital (ROIC) was 8,7%.

	First half of the year 2015
ROE, % *(net profit of the period / average equity of the period)*	8.3
ROA, % *(net profit of the period/average assets of the period)*	4.4
ROIC, % *(net profit of the period / average invested capital of the period)*	8.7
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*	12.3

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

Investment in real estate in the first half of 2015

In January 2015, the fund made its first investment, acquiring the hotel and office building located at Rävala pst. 3 / Kuke 2 in Tallinn. The volume of the investment was EUR 46 million.

Property	Address	Type	Time of acquisition	Net leasable area (m²)
Radisson Blu Sky hotel	Tallinn, Rävala 3	hotel	01.2015	26,262
Total				26,262

Radisson Blu Sky Hotel Tallinn

Valuation of investment property

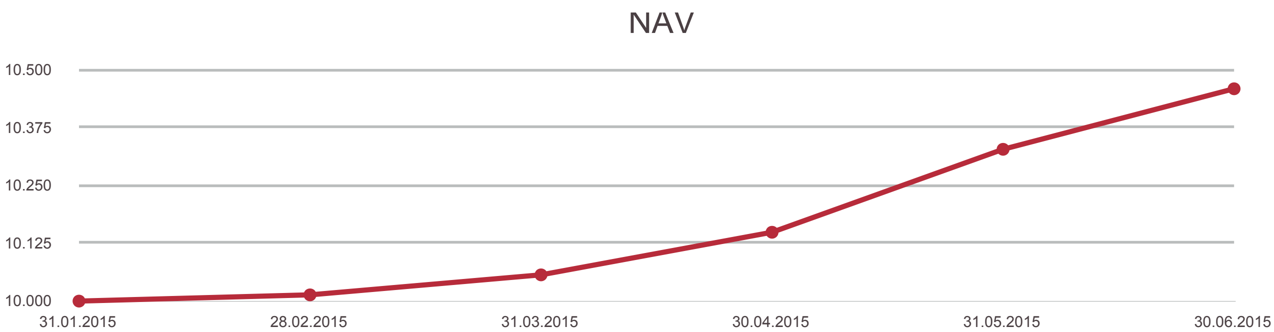
EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in the month of June and in the month of December. As of 2015, Colliers International Advisors OÜ values the Group's investment properties.

The Group's independent appraiser 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.

Information on shares

As at 30.06.2015, payments have been made to the share capital of the Group in the total amount of EUR 25.025 million:

	30.06.2015	01.12.2014
Number of shares outstanding at the beginning of the period	**2,500**	**0**
Issue of shares during the period	2,500,000	2,500
Number of shares outstanding at the end of the period	**2,502,500**	**2,500**



Management

The governing bodies of EfTEN Kinnisvarafond II AS are the general meeting of shareholders, the management board, and the supervisory board. After the founding, there has yet been no general meeting of shareholders.

Since its foundation, the supervisory board has been comprised of four members: Arti Arakas (Chairman of the Board), Siive Penu, Olav Miil, and Sander Rebane. In the first half-year, there were no changes in the composition of the board. The supervisory board made decisions at the supervisory board meeting or in another manner permitted by the articles of association, without calling together a meeting, on three occasions.

The management board is comprised of two members. The board consists of Viljar Arakas and Tõnu Uustalu.

No remuneration was due or paid to the members of the Group's management or supervisory board in the first half of 2015.

In accordance with the asset management contract, EfTEN Capital AS acts as a fund manager in the management of the assets of EfTEN Kinnisvarafond II AS.

Consolidated financial statements for the first half of the year

CONSOLIDATED INCOME STATEMENT

	Notes	01.12.2014 - 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand			
Sales revenue	3	3,654	0
Cost of services sold	4	-1,837	0
Gross profit		**1,816**	**0**
Marketing costs	5	-183	0
General and administrative expenses	6	-440	0
Other income		3	0
Other expenses		-1	0
Operating profit		**1,195**	**0**
Finance expenses	7	-107	0
Net profit for the accounting period		**1,087**	**0**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2015	1.12.2014
EUR thousand			
ASSETS			
Cash and cash equivalents	8	3,416	25
Receivables and accrued income	9	320	0
Prepaid expenses	10	37	0
Inventories	11	83	0
Total current assets		**3,856**	**25**
Long-term investments in securities	12	12	0
Investment property	13	45,365	0
Property, plant and equipment	14	597	0
Total non-current assets		**45,974**	**0**
TOTAL ASSETS		**49,830**	**25**
LIABILITIES AND EQUITY			
Payables and prepayments	16	673	0
Total current liabilities		**673**	**0**
Borrowings	15	22,964	0
Other long-term liabilities	16	18	0
Total non-current liabilities		**22,982**	**0**
Total liabilities		**23,656**	**0**
Share capital	18	25,025	25
Other reserves		63	0
Retained earnings	19	1,087	0
Total equity		**26,175**	**25**
TOTAL LIABILITIES AND EQUITY		**49,830**	**25**

CONSOLIDATED STATEMENT OF CASH FLOWS

		First half of the year	
	Notes	2015	1.12.2014
EUR thousand			
Net profit		**1,087**	**0**
Adjustments to net profit:			
Finance expenses	7	107	0
Depreciation, amortisation and impairment	4	130	0
Total adjustments with non-cash changes		**237**	**0**
Cash flow from operations before changes in working capital		**1,324**	**0**
Change in receivables and payables related to operating activities		-28	0
Changes in resources		-11	
Net cash generated from operating activities		**1,285**	**0**
Purchase of property, plant and equipment	14	-28	0
Purchase of investment property	13	-15	0
Acquisition of subsidiaries	2	-22,697	0
Net cash generated from investing activities		**-22,740**	**0**
Interest paid		-154	0
Issuing of shares	18	25,000	25
Net cash from financing activities		**24,846**	**25**
NET CASH FLOWS		**3,391**	**25**
Cash and cash equivalents at the beginning of the period	8	**25**	**0**
Change in cash and cash equivalents		3,391	25
Cash and cash equivalents at the end of the period	8	**3,416**	**25**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	**Total**
EUR thousand				
Issuing of shares	25	0	0	25
Balance as at 01.12.2014	**25**	**0**	**0**	**25**
Issuing of shares	25,000	0	0	**25,000**
Transfers to reserves	0	63	0	63
Comprehensive income for the financial year	0	0	1,087	1,087
Balance as at 30.06.2015	**25,025**	**63**	**1,087**	**26,175**

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

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

1 Accounting principles used in the preparation of the financial statements

EfTEN Kinnisvarafond II AS (Parent Company) is a company registered and operating in Estonia.
The structure of EfTEN Kinnisvarafond II AS Group as at 30.06.2015 is as follows:

EfTEN Kinnisvarafond II AS —— 100% —— EfTEN Sky OÜ —— 100% —— Astlanda Hotelli AS

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

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

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

As the reporting period is shorter than a calendar year, the data is not comparable with the previous period.

Management´s critical estimates and judgements

Presentation of consolidated financial reports in compliance with International Financial Reporting Standards as they have been adopted by the European Union requires management to make judgments, estimates and assumptions that affect the principles of reflecting assets and obligations and the value on the balance sheet date, of presenting conditional assets and liabilities based on the probability of their realization, as well as revenue and expenses of the accounting period.

Although management reviews its decisions and assessments on an ongoing basis, and they are based on prior experience and the best available knowledge regarding probable future events, actual results may differ from estimates.

Critical judgements by management that have a material effect on the information recognized in the financial statements are related to the following fields of estimation:

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) Investment property: determination of the fair value

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

Additional information on the preconditions and sensitivity used in estimation can be found in Note 13.

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

The Group has a 100% equity holding in all subsidiaries and the controlling bodies of the subsidiaries include management board members from the Group's parent company. Therefore, the Group has complete control over its subsidiaries when it comes to distributing profit and making management decisions.

Classification of real estate

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

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

Consolidation

The consolidated financial statements present the financial information of EfTEN Kinnisvarafond II AS and its subsidiaries consolidated on a line-by-line basis. The subsidiaries and the 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 companies controlled by the parent company. A subsidiary is considered to be controlled by a parent company 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 operating and financial policies of the subsidiary.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. All transactions, receivables, and liabilities taking place within the Group, as well as unrealized gains and losses from transactions between the Group's companies, have been fully eliminated in the financial statements. An unrealised loss shall not be 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 business combinations accounted for using the acquisition method shall be divided between the fair value of acquired assets, liabilities and contingent liabilities as at the date of acquisition. The part of the acquisition cost that exceeds the fair value of acquired assets, liabilities and contingent liabilities, is recognized as goodwill. If the fair value exceeds the acquisition cost, the difference (negative goodwill) is immediately recognized as income of the period.

Investments in subsidiaries in the unconsolidated balance sheet of the parent company

In the unconsolidated balance sheet of the parent company (presented in Note 22) the investments in subsidiaries and joint ventures are measured at fair value. The dividends paid by subsidiaries and joint ventures are recognized at the moment when the parent company obtains the right to these dividends.

Revenue recognition

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

Income from the rental of real estate investments is recognized on a linear 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 recognized on an accrual basis, using the effective interest rate method. Dividend income 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.

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 expenses related to acquisition of financial assets, including the fees for intermediaries and counsellors, non-redeemable charges related to the transaction, and other similar expenses. An exception is financial assets recognized in changes in fair value through the income statement, additional expenses related to the acquisition of which are recognized as expenses in the income statement.

Acquisition and sales of financial assets taking place under normal market conditions shall be recognized at the date of transaction. The date of transaction is the day when the Group takes a financial asset purchase or sale obligation. 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 during the period customary in this market or stipulated in legislation.

Upon the first recognition, the asset shall be classified into one of the four groups of financial assets (see below). The following principles are used by groups in measuring financial assets:

- financial assets recognized in changes in fair value through income statement – fair value;
- held-to-maturity investments – adjusted acquisition cost;
- loans and receivables - adjusted acquisition cost;
- available-for-sale financial assets – fair value or acquisition cost in case of equity instruments, the fair value of which cannot be reliably assessed.

In 2015, the Group had financial assets only in the group “loans and receivables”.

Loans and receivables against other parties

Loans and receivables are recognised after acquisition at their adjusted acquisition cost, which has been calculated via the internal interest rate. The adjusted 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 recognized on the method of adjusted 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 internal interest rate fixed in primary recognition.

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 receivable, the amount from the receivable is considered likely not to be received and written off 100%. If a decrease in the value of assets becomes evident more quickly, the receivables are discounted sooner.

If a discounted receivable 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 recognized.

The interest income of receivables shall be recognised in the income statement on the row of finance income.

Recognition of financial assets will be discontinued when a company loses the right for cash flows from these financial assets and also upon creation of an liability 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.

Transactions fixed in foreign currency

All currencies besides the EUR (currency of the parent company) shall be deemed a foreign currency. Reflection of transactions fixed in foreign currency is based on the official exchange rates of the European Central Bank at the date of the transaction. Monetary assets (cash, cash equivalents, and receivables) and monetary liabilities (loans received and payables) fixed in foreign currency shall be revaluated in EUR as at the date of the balance sheet, based on the rates of the European Central Bank at the balance date. The exchange gains and losses as a result of revaluation shall be presented in the income statement of the reporting period as income and expenses. Assets and liabilities in kind fixed in foreign currency and measured in their acquisition cost shall be registered based on the European Central Bank exchange rate at the date of the transaction. Assets and liabilities in kind fixed in foreign currency and measured in their fair value shall be revaluated to their base currency, based on the European Central Bank exchange rates at the date of setting the fair value.

Derivative instruments

The risk policy of the Group regulates that a company may use an 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 recognized as assets and the opposite instruments and liabilities. 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 hedge

Equity capital recognizes the effective part of the changes in fair value of derivative instruments determined as cash flow risk management instruments and those qualified as such. The gain or loss related to inefficient part is immediately recognized under the income statement entry “Interest income” or “Interest expense“. 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. The gain or loss that is related to the effective part of an instrument that hedges a loan with a variable rate shall be recognized in the income statement under “Interest expense”. If the hedging instrument expires or is sold, or if the hedge instrument no longer corresponds to the criteria of hedge instrument assessment, the cumulative gain or loss recognized in equity capital at that time shall remain in equity capital and will be recognized when the future transaction has been finally recognized in the income statement. If the future transaction is no longer expected, the cumulated gain or loss recognized in equity capital is immediately recognized under the income statement entry “Interest income” or “Interest expense“.

Investment property

nvestment properties are lands and buildings that are kept or developed for the purpose of earning income from rent or an increase in the market value. Objects that are held for a long time and have several possible purposes of use are also considered investment properties.

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 recognized 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 investment properties, expert opinion of certified valuers is used. In determining the fair value, the method of discounted cash flows is used. Profits or losses due to changes in these values shall be recognized in the income statement under other business profits or other business loss.

An investment property is no longer recognized 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 recognized 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 recognized 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.

Financial liabilities

All financial liabilities (debts to suppliers, loans taken, accruals, issued securities and other short- and long-term debt liabilities) 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 adjusted acquisition cost (except the financial liabilities obtained for resale, which are recognized in their fair value).

Adjusted acquisition cost of short-term financial liabilities is generally equal to their nominal value, wherefore short-term financial liabilities are recognized on balance sheet in the amount to be paid. Long-term financial liabilities shall be initially registered in the fair value of the remuneration received (from which transaction costs have been deducted) to calculate the amortized acquisition cost; interest shall be calculated on transactions on the following periods by using the method of internal interest rate. Interest costs accompanying financial liabilities shall be recognized 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 recognized as stock, investment properties, and items of property, plant and equipment) from the beginning of development period until transfer of the completed assets has been capitalized 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 company has no unconditional right to defer payment of liabilities for more than 12 months after the balance date. Borrowings that must be paid in 12 months after the balance sheet date but are refinanced into non-current liabilities after the balance sheet date, but before approval of the annual report shall be considered current. Borrowings that the lender may remove on the balance sheet date due to breach of loan contract are also recognized as current.

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

Success fee obligation

EfTEN Kinnisvarafond II 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 7% on an annual basis. If the hurdle rate is lower than 7% during the lifetime of an investment object, the difference between the actual rate of return and the hurdle rate shall also be subtracted from the sales price of the investment property, so that the return rate of an investment property before the success fee would be at least 7% per year. According to the management contract, the success fee is to be paid out once the fund is terminated.

The bases of accrual accounting of success fees are the valuations of fair price of investment properties. The period expenses on changes in the success fee shall be recognised under the Group's general and administrative expenses.

Provisions and contingent liabilities

A provision shall be recognized in the balance sheet only when the company had a legal or factual obligation resulting from the events having taken place by the balance sheet date, performance of which would probably require assignation of assets in a reliably determined amount in the future.

Conditional obligations are also obligations due to events that have occurred by the balance sheet date, the realisation of which is not likely based on the management's assessment.

Leases

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.

As for operational leasing, the assets to be rented are recognized 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.

Statutory reserve capital

According to the Commercial Code, statutory reserve capital must form at least 10% of the share capital of a company. Based on that, the parent company shall allocate at least 5% of the net profit to the statutory reserve capital annually at division of profit. Transfers shall be made until the reserve achieves its required volume. The statutory reserve capital 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. The statutory reseve capital may also be used for increasing share capital through bonus issue.

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 of (net) dividends is 20/80. Income tax on payment of dividends shall be recognized in the income statement as an expenditure upon announcement of dividends.

2 Subsidiaries and joint ventures

The company	Country of location	Investment property	Group interest, %	
			30.06.2015	1.12.2014
Parent company				
EfTEN KINNISVARA-FOND II AS	Estonia			
Subsidiaries				
EfTEN Sky OÜ	Estonia	Rävala pst 3 / Kuke 2, in Tallinn	100	0
Astlanda Hotelli AS	Estonia	Radisson Blue Sky Hotel's operating company	100	0

In January 2015, EfTEN Kinnisvarafond II AS established the subsidiary EfTEN Sky OÜ with the equity of 100% and paid EUR 23,503,000 to the share capital of the subsidiary. The subsidiary was founded in order to acquire the property of the Radisson Blue Sky Hotel located at Rävala pst 3 / Kuke 2, in Tallinn. On 30 January 2015, the subsidiary acquired 100% of the shares of Cougar Hotels OÜ (owner of the Radisson Blue Sky registered immovable), who in turn also had a 100% share in the hotel's operating company Astlanda Hotelli AS, by paying EUR 6,267,000 for the acquisition. At the moment of acquisition, the cash accounts of Cougar Hotels OÜ and Astlanda Hotelli AS contained EUR 644,000. On 1 February 2015, EfTEN Sky OÜ and Cougar Hotels OÜ merged.

The fair value of the assets and liabilities related to the acquisition of Cougar Hotels OÜ and its subsidiary was the following:

	Fair value
EUR thousand	
Cash	644
Receivables and prepayments	225
Inventories	76
Long-term share investments	12
Investment properties (Note 13)	45,350
Property, plant and equipment (Note 14)	638
Bank loan	-23,000
Owner loans	-17,017
Other liabilities	-660
Fair value of net assets	**6,267**
Acquisition cost	6,267
Goodwill	**0**

In addition to the acquisition of shares, the Group paid EUR 17,017,000 for the repayments of owner loans and EUR 57,000 for the repayments of interests on owner loans.
No shares of subsidiaries are publicly listed.

3 Revenue

Areas of operation	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Rental income from office space	134	0
Hotel's accommodation income	2,275	0
Hotel's catering income	797	0
Hotel's conference income	362	0
Other revenue	86	0
Total revenue by areas of operation	**3,654**	**0**

The total revenue for the Group was generated in Estonia.

4 Cost of services sold

Cost of services sold	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Direct expenses of hotel accommodation	-208	0
Direct expenses of hotel catering	-329	0
Hotel's licence fees	-147	0
Other direct expenses of operating activities	-48	0
Salary expenses of operating activities, incl. taxes	-626	0
Administrative expenses of operating activities	-268	0
Repairs and maintenance of rental space	-24	0
Property insurance	-11	0
Land tax	-20	0
Other administrative expenses	-26	0
Depreciation	-130	0
Total cost of services sold	**-1,837**	**0**

5 Marketing costs

Marketing costs	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Salary expense, incl. taxes	-61	0
Advertising, advertising events	-122	0
Total marketing costs	**-183**	**0**

6 General and administrative expenses

General and administrative expenses	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Management service (Note 20)	-106	0
Office expenses	-33	0
Salary expense, incl. taxes	-162	0
Consultation expenses	-96	0
Other general and administrative expenses	-42	0
Total general and administrative expenses	**-440**	**0**

7 Finance costs

Finance expenses	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Interest expenses, including	-107	0
Interest expenses on borrowings	-107	0
Total finance costs	**-107**	**0**

8 Cash and cash equivalents

	30.06.2015	1.12.2014
EUR thousand		
Current accounts	3,378	25
Cash in the register	38	0
Total cash and cash equivalents	**3,416**	**25**

9 Receivables and accrued income

	30.06.2015	1.12.2014
EUR thousand		
Trade receivables		
Receivables from customers	314	0
Total trade receivables	**314**	**0**
Accrued income		
Prepaid taxes and receivables for reclaimed VAT	6	0
Total accrued income	**6**	**0**
Total receivables	**320**	**0**

TRADE RECEIVABLES	30.06.2015	1.12.2014
EUR thousand		
Undue	136	0
Past due	**178**	**0**
Up to 30 days	143	0
30–60 days	26	0
More than 60 days	9	0
Total trade receivables	**314**	**0**

10 Prepaid expenses

	30.06.2015	1.12.2014
EUR thousand		
Prepayments for insurance	1	0
Expenditure of future periods	36	0
Total prepayments	**37**	**0**

11 Inventories

	30.06.2015	1.12.2014
EUR thousand		
Goods purchased for resale	83	0
Total resources	**83**	**0**

Upon calculating the book value of the resources, the method of weighted average acquisition price has been used. Resources are revaluated in the balance depending on which one is lower, their acquisition cost or their net-realisation cost.

12 Long-term investments in securities

	30.06.2015	1.12.2014
EUR thousand		
Long-term investments in securities - presented at acquisition cost	12	0
Total other long-term securities	**12**	**0**

The Group owns 100 A-shares and 100 B-shares of Eesti Golfikeskus with the total acquisition cost of EUR 4,474 and one share of AS EGCC with the acquisition cost of EUR 7,650.

As the fair value of shares cannot be assessed reliably, they have been presented at their acquisition cost.

13 Investment properties

The Group owns an investment property located at Rävala pst 3 / Kuke 2 in Tallinn. The investment property was acquired in 2015.

	Completed investment properties	**Total investment properties**
EUR thousand		
Acquisitions from business combinations (Note 2)	45,350	**45,350**
Capitalised improvements	15	**15**
Balance as at 30.06.2015	**45,365**	**45,365**

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

	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Rental income on investment properties (Note 3)	134	0
The operating income of investment property (Note 3)	3,434	0
Direct expenditure from management of investment properties (Note 4)	-211	0
Direct operating expenditure of investment properties (Note 4)	-1,626	0
Carrying amount of investment property pledge as collateral to borrowings	45,365	0

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

Payments received from non-cancellable operational leasing contracts	30.06.2015	01.12.2014
EUR thousand		
up to 1 year	268	0
2–5 years	598	0
Total	**866**	**0**

Assumptions and bases for calculating change in the fair value of investment properties

The independent appraiser of the Group values the investment properties. The fair value of all investment properties recognized in the Group reports has been calculated using the discounted cash flow method. The following presumptions have been used in finding the fair value:

Increase in annual income	0%-2,8%
Increase in annual expenses	0,1%-2,9%
WACC	8,1%
Capitalization rate upon leaving the project	7,0%

Upon finding the fair value of investment properties, the assessments of an independent surveyor are based on the following:

- Rental income: prices from valid lease contracts are used;
- Vacancy: the actual vacancy of the investment property, considering the risks related to the object;
- Discount rate: calculated based on the weighted average capital cost (WACC) associated with the investment property;
- Capitalisation rate: based on assessed productivity level in the end of the presumed deposit period, considering the estimated market situation and risks associated with the object.

14 Property, plant and equipment

	Machinery and devices	Other tangible assets	Incomplete building and prepayments	**Total**
EUR thousand				
Residual value 01.12.2014	**0**	**0**	**0**	**0**
Acquisition cost 01.12.2014	*0*	*0*	*0*	*0*
Accumulated amortization 01.12.2014	*0*	*0*	*0*	*0*
Purchases	0	9	19	27
Additions from business combinations (Note 2)	346	289	3	638
Depreciation costs of the accounting year	-14	-54	0	-68
Residual value 30.06.2015	**333**	**243**	**21**	**597**
Acquisition cost 30.06.2015	446	633	21	1,100
Accumulated amortization 30.06.2015	*-114*	*-389*	*0*	*-503*

The lower limit of recognising the Group's non-current assets is EUR 1,200. For the deprecation of non-current assets, the Group uses the linear method and the following deprecation norms:

Buildings and structures	2.5-8%
Machinery and equipment	7-10%
Furniture	15-20%
Computers	20-33%

15 Borrowings

As at 30.06.2015, the Group had the following borrowings:

Lender	The lender's country of origin	Contractual loan amount	Loan balance as of 30.06.2015	Settlement term	Interest rate as at 30.06.2015	Loan collateral	Value of collateral	Interest rate	Basis for the floating interest share
SEB	Estonia	23,000	23,000	28.01.19	1.075%	mortgage-Rävala 3/Kuke 2 Tallinn	45,365	1.075%	1M EURIBOR
Total		**23,000**	**23,000**		**1.075%**		**45,365**		

Long-term borrowings	30.06.2015	01.12.2014
EUR thousand		
Total long-term borrowings	**22,964**	**0**
incl. the short-term part of borrowings	0	0
incl. the long-term part of borrowings	22,964	0
Bank loans	*23,000*	*0*
Discounted contract fees of bank loans	-36	0

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

Bank loan repayments by settlement term	30.06.2015	01.12.2014
EUR thousand		
Less than 1 year	0	0
2–5 years	23,000	0

16 Payables and prepayments

Short-term payables and prepayments

	30.06.2015	01.12.2014
EUR thousand		
Trade payables	131	0
Total trade payables	**131**	**0**
Value added tax	63	0
Individual income tax	47	0
Social tax	93	0
Other taxes payable	11	0
Total tax liabilities	**214**	**0**
Accruals		
Payables to employees	132	0
Other accruals	163	0
Total accruals	**295**	**0**
Prepayments received from buyers	33	0
Total prepayments	**33**	**0**
Total payables and prepayments	**673**	**0**

Long-term payables

	30.06.2015	01.12.2014
EUR thousand		
Deposits received from tenants	18	0
Total other long-term payables	**18**	**0**

17 Financial instruments, management of financial risks

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

The table below indicates division of the Group's financial assets and financial obligations by the types of financial instruments.

Carrying amounts of financial instruments

	Notes	30.06.2015	1.12.2014
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	8	3,416	25
Trade receivables	9	314	0
Total financial assets		**3,730**	**25**
Financial assets in adjusted acquisition cost			
Borrowings	15	22,964	0
Trade payables	16	131	0
Deposits received from tenants	16	18	0
Accruals	16	295	0
Total financial liabilities		**23,408**	**0**

The fair value of the financial assets and liabilities that is recognized in adjusted acquisition cost in the table above do not significantly differ from their fair value.

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 liabilities 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 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 that are influenced the most by changes in market prices are borrowings and interest derivatives. The main factor influencing these financial instruments is interest rate risk.

Interest rate risk

Interest rate risk is the risk of changes in cash flows of future 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 30.06.2015, all of the Group's loan agreements had been entered into on the basis of a floating interest rate, which is linked to the 1-month EURIBOR. The 1 month EURIBOR fluctuated in the reporting period within the range of 0.001% to -0.064% (2013: 0.109% to 0.245%).

Due to the low level of interest rates and market expectations with regard to the persistence of interest rates, the Group will probably not experience elevated liquidity risk in the near future. The special condition of the Group's loan agreement requires a debt coverage ratio in excess of 3.0 to be maintained. As at 30.06.2015, the Group's debt cover ratio was 12.3.

Liquidity risk

Liquidity risk arises from potential changes in the financial position, reducing the Group's ability to perform its obligations in due time and in a correct manner. The Group's liquidity is affected, above all, by the following circumstances:

- decrease or volatility of rental income, reducing the Group's ability to generate positive net cash flows;
- vacancy of rental premises;
- difference in 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 the net cash flows in such a manner that when making property investments, foreign capital is included in no more than 60% of the investment's acquisition cost.

The financing policy of the Group specifies 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 on these properties. The table below summarizes information on maturity of realization of the Group's financial obligations.

As at 30.06.2015	Less than 1 month	2–4 months	4–12 months	2–5 years	more than 5 years	**Total**
EUR thousand						
Interest bearing liabilities	0	0	0	22,964	0	**22,964**
Interest payments	20	60	159	617	0	**856**
Trade payables	131	0	0	0	0	**131**
Deposits received from tenants	0	0	0	18	0	**18**
Accruals	295	0	0	0	0	**295**
Total financial liabilities	**446**	**60**	**159**	**23,600**	**0**	**24,265**

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 trade receivable) and transactions with financial institutions, including by money on accounts and deposits.

Group's activity in preventing reduction of cash flows due to credit risk and minimizing of such risk lies in everyday monitoring and guiding of clients' payment conduct, enabling to implement the operatively necessary measures.

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

If it becomes evident that there is a risk of a buyer 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 180 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.

Accounts receivable are illustrated by the table below:

	30.06.2015	01.12.2014
EUR thousand		
Undue	136	0
Past due	**178**	**0**
Up to 30 days	143	0
30–60 days	26	0
More than 60 days	9	0
Total trade receivables	**314**	**0**

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

	30.06.2015	01.12.2014
EUR thousand		
Cash and cash equivalents	3,416	25
Trade receivable	314	0
Total maximum credit risk	**3,730**	**25**

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 invests into real estate in Estonia, Latvia, and Lithuania that produces commercial and mixed-purpose cash flow. The Group's investment policy states that no more than 30% of the value of the fund's assets is invested into one investment object. 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.

Fair value

The assets and liabilities are analysed by assessment methods in the table below. The assessment methods have been defined as follows:

Level 1 – exchange prices on the trading market;

Level 2 – assets and liabilities either directly or indirectly related to the prices determined on the trading market;

Level 3 – prices on a non-trading market.

As at 30.06.2015, the Group has no fair value assets that would belong to the Level 1 group for the finding of value. All of the Group's investment properties have been reflected in fair value and belong to the group of Level 3 based on the assessment method. All of the Group's borrowings belong to the Level 2 group.

18 Share capital

In December 2014, EfTEN Kinnisvarafond II AS issued 2,500 shares with the nominal value of EUR 10. A total of EUR 25,000 was paid for the new shares in cash.

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

The size of the registered share capital of EfTEN Kinnisvarafond II AS as at 30.06.2015 is EUR 25,025,000. The share capital consisted of 2,502,500 shares with the nominal value of EUR 10 as at 30.06.2015. Without amending the articles of association, the company may increase its share capital to EUR 100,100,000.

19 Contingent liabilities

Conditional income tax liability

	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
The company's retained earnings as of 30 June	1 087	0
Potential income tax obligation	217	0
Can be paid out as dividends	870	0

In calculating the maximum possible income tax obligation, it has been presumed that the total of the net dividends to be divided and the corresponding income tax expenditure may not exceed the distribution profit as at 30.06.2015.

20 Transactions with related parties

EfTEN Kinnisvarafond II AS considers the related parties to be:
- persons who own more than 10% of the share capital of EfTEN Kinnisvarafond II AS;
- Management Board Members and companies owned by the Management Board Members of EfTEN Kinnisvarafond II AS;
- Supervisory Board Members and companies owned by the Supervisory Board Members of EfTEN Kinnisvarafond II AS;
- employees and companies owned by the employees of EfTEN Kinnisvarafond II AS;
- EfTEN Capital AS (management company).

The Group bought a management service from EfTEN Capital AS in the reporting period in the amount of EUR 106,000 and accounting service from the subsidiary of EfTEN Capital AS, EfTEN Kinnisvarateenuste OÜ, in the amount of EUR 5,000. In addition, the Group paid EfTEN Capital AS EUR 14,000 to cover the foundation costs.

In the accounting period, the Group had 138 employees to whom remunerations in the total amount of EUR 849,000 with taxes were accounted. No remunerations were accounted or paid to the members of the Management or Supervisory Board during the accounting period. The Management Board members of the Group work for EfTEN Capital AS, which provides the Group with management services, and the expenses related to the activities of a management board member are part of the management service.

21 Parent company's unconsolidated income statement

According to the Estonian Accounting Act, the notes to a consolidated financial statement must include the separate unconsolidated initial statements of the consolidating unit (parent company). Upon compiling the parent company's primary reports, the same accounting principles have been used that also apply to the compilation of the consolidated accounting annual report. The accounting principles that handle the recognition of subsidiaries in the separate primary reports of the parent company and which have been submitted as notes attached to the consolidated financial statements have been amended respectively to the requirements of IAS 27 "Consolidated and separate accounting reports".

In the primary unconsolidated reports of a parent company, which have been submitted as notes to this consolidated accounting report, the investments into the subsidiaries and joint ventures have been recognized with the fair value method.

	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Sales revenue	100	0
Gross profit	**100**	**0**
General and administrative expenses	-133	0
Operating profit	**-33**	**0**
Gain/loss from subsidiaries	1,182	0
Net profit of the financial year	**1,149**	**0**

22 Parent company's unconsolidated balance sheet

	30.06.2015	1.12.2014
EUR thousand		
ASSETS		
Cash and cash equivalents	1,495	25
Total current assets	**1,495**	**25**
Non-current assets		
Shares of subsidiaries	24,684	0
Total non-current assets	**24,684**	**0**
TOTAL ASSETS	**26,179**	**25**
LIABILITIES AND EQUITY		
Current liabilities		
Payables	5	0
Total current liabilities	**5**	**0**
Total liabilities	**5**	**0**
Equity		
Share capital	25,025	25
Retained earnings	1,149	0
Total equity	**26,174**	**25**
TOTAL LIABILITIES AND EQUITY	**26,179**	**25**

23 Parent company's unconsolidated cash flow statement

	01.12.2014- 30.06.2015	01.12.2014 - 01.12.2014
EUR thousand		
Cash flows from operating activities		
Net profit	**1,149**	**0**
Adjustments to net profit:		
Gain/loss from changes in the fair value of subsidiaries or joint ventures	-1,181	0
Cash flow from operations before changes in working capital	**-32**	**0**
Changes in receivables and payables related to operating activities	5	0
Net cash generated from operating activities	**-27**	**0**
Cash flows from investing activities		
Acquisition of subsidiaries and joint ventures	-23,503	0
Net cash generated from investing activities	**-23,503**	**0**
Cash flows from financing activities		
Issuing of shares	25,000	25
Net cash generated from financing activities	**25,000**	**25**
NET CASH FLOWS	**1,470**	**25**
Cash and cash equivalents at the beginning of the period	**25**	**0**
Change in cash and cash equivalents	1,470	25
Cash and cash equivalents at the end of the period	**1,495**	**25**

24 Parent company's unconsolidated statement of changes in equity

	Share capital	Retained earnings	**Total**
EUR thousand			
Issuing of shares	25	0	**25**
Balance as at 01.12.2014	**25**	**0**	**25**
Reduction of share capital	25,000	0	25,000
Comprehensive income for the financial year	0	1,149	1,149
Balance as at 30.06.2015	**25,025**	**1,149**	**26,174**

For additional information on the changes related to shares, see Note 18.
Adjusted unconsolidated equity of the parent company (to account for correspondence with the requirements set in the Commercial Code) is as follows:

	30.06.2015	1.12.2014
EUR thousand		
Unconsolidated equity of the parent company	26,174	25
Value of subsidiaries or joint ventures in unconsolidated balance of the parent company (minus)	-24,684	0
Value of subsidiaries or joint ventures accounted using the equity method (plus)	24,684	0
Total	**26,174**	**25**

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE SEMI-ANNUAL REPORT 2015

We hereby verify the correctness of data presented in the 2015 Semi-Annual Report of EfTEN Kinnisvarafond II AS.

Arti Arakas
Chairman of the Supervisory Board

Siive Penu
Member of the Supervisory Board

Sander Rebane
Member of the Supervisory Board

Olav Miil
Member of the Supervisory Board

Viljar Arakas
Member of the Management Board

Tõnu Uustalu
Member of the Management Board