# Consolidated Interim Report – Six months ended 30 June 2018

(translation of the Estonian original)

# EfTEN Kinnisvarafond II AS

**Commercial register number: 12781528**

**Beginning of financial period: 01.01.2018**

**End of financial period: 30.06.2018**

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# MANAGEMENT REPORT

## Comment of the Chairman of the Board

In the first half of the year, EfTEN Kinnisvarafond II acquired its sixth investment, the Marienthal commercial center in Tallinn, Mustamäe, with a 8% entry yield. In addition, the Radisson Blu Sky Hotel and the Domina Center´s complete launch after a thorough rebuild have been a great success for the fund. As at the end of the half-year, EfTEN Kinnisvarafond II AS has exceeded the volume stated in its business plan. With regard to this, the fund manager will suspend any new investments to the fund and will launch EfTEN Real Estate Fund IV in the second half of 2018, which will be aimed only at institutional investors and which will continue the current core and core plus investment strategy of EfTEN Kinnisvarafond II.

## Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond II AS for the six months of 2018 was EUR 14 million (six months of 2017: EUR 11 million) and net profit was EUR 7.6 million (six months of 2017: EUR 5.4 million). The consolidated gross profit margin was 74% (six months of 2017: 70%).

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 42% of the revenues in the first half of 2018 (first half of 2017: 47%).

| | First half of the year | |
|---|---|---|
| | **2018** | 2017 |
| *EUR million* | | |
| Revenue | 13.892 | 10.961 |
| Expenses related to investment properties, incl. marketing costs | -4.430 | -3.938 |
| Interest expense and interest income | -0.822 | -0.688 |
| **Net revenue less finance costs** | **8.640** | **6.335** |
| Management fees | -0.578 | -0.473 |
| Other revenue and expenses | -0.796 | -0.736 |
| **Profit before change in the value of investment property, change in the success fee liability and income tax expense** | **7.266** | **5.126** |

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

As at 30.06.2018, the Group's total assets were in the amount of EUR 252 million, including investment property at fair value and fixed assets, which accounted for EUR 237 million of the total assets.

| | **30.06.2018** | **31.12.2017** |
|---|---|---|
| *EUR million* | | |
| Investment property | 189.739 | 162.090 |
| Property, plant and equipment | 47.546 | 46.442 |
| Other non-current assets | 0.052 | 0.008 |
| Current assets, excluding cash | 1.277 | 1.051 |
| Net debt | -111.736 | -99.278 |
| Net asset value (NAV) | 126.878 | 110.313 |
| Net asset value (NAV) per share (in euros) | 13.7704 | 13.6665 |

Net asset value of the share of EfTEN Kinnisvarafond II AS increased by 0.8% in the first half of year, including the dividend payment made in April 2018, and the related income tax expense totaling EUR 7.8 million. Without dividends, the NAV would have increased by 5.8%. Return on invested capital (ROIC) was 25.5%. The weighted average interest rate of the Group's borrowings (including interest swap contracts) was 1.17% at the end of the reporting period (31.12.2017: 1.09%).

| For 12 months | **30.06.2018** | **31.12.2017** |
|---|---|---|
| ROE, % *(net profit of the period / average equity of the period)x100* | 20.2 | 19.5 |
| ROA, % *(net profit of the period / average assets of the period)x100* | 9.9 | 9.6 |
| ROIC, % *(net profit of the period / average invested capital of the period)x100*[1] | 25.5 | 24.0 |
| DSCR (EBITDA/*(interest expenses + scheduled loan payments)*) | 3.7 | 3.5 |

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

## Real estate portfolio

In the first half of 2018, the Group made one investment. In April, the office and shopping center at Mustamäe tee 16, Tallinn was purchased with the investment amount of EUR 24.8 million. As at 30.06.2017, the Group holds six investments:

| Premises | Address | Type | Net leasable area (m2) | Acquisition time |
|---|---|---|---|---|
| Radisson Blu Sky hotel | Rävala pst 3/ Kuke tn 2 Tallinn Estonia | hotel | 24,499 | 01.2015 |
| Duntes Biroji office building | Duntes 6, Riga Latvia | office building | 12,650 | 11.2015 |
| Magistral shopping center | Sõpruse pst 201/203 Tallinn Estonia | shopping center | 11,720 | 02.2016 |
| Domina shopping center | Ieriku 3, Riga Latvia | shopping center | 47,493 | 07.2016 |
| Kaunas Terminal logistics center | Terminalo 8 and 10, Kaunas Lithuania | Logistics center | 28,114 | 08.2017 |
| Marienthal center | Mustamäe tee 16, Tallinn Estonia | Office building and shopping center | 13,990 | 04.2018 |
| **Total** | | | **138,466** | |

Weighted average expiry of rental agreements of investment property of the Group is 3.7 years (31.12.2017: 3.3 years), and as at 30.06.2018, the Group has a total of 397 (31.12.2017: 360) rental agreements. Rental income from none of the rental agreements exceeds 10% of consolidated rental income.

## Valuation of investment property

EfTEN Kinnisvarafond II AS revalues its investment properties twice a year – in the month of June and in the month of December. In 2018 and 2017, the Group's investment property was valued by Colliers International Advisors OÜ.

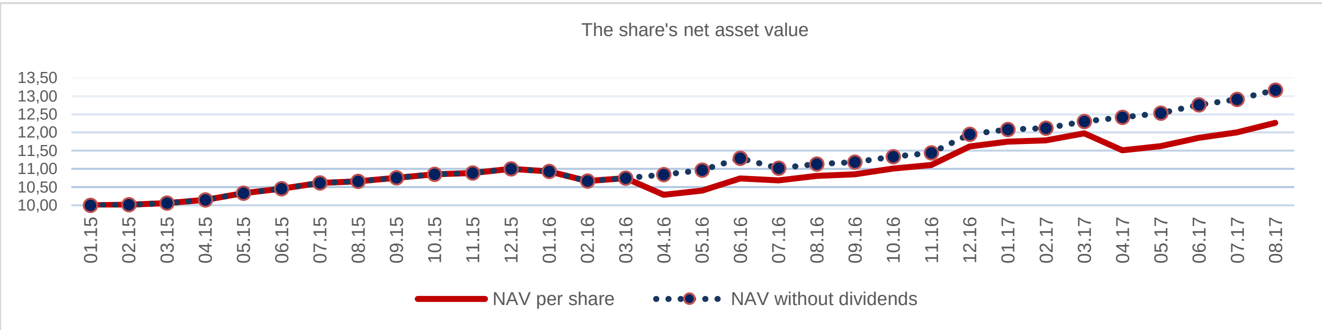
The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending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

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

## Information on shares

As at 30.06.2018, payments made to the share capital of EfTEN Kinnisvarafond II AS total EUR 92.14 million:

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Number of shares outstanding at the beginning of the period** | **8,071,756** | **8,071,756** |
| Issue of shares during the period | 1,142,000 | 0 |
| **Number of shares outstanding at the end of the period** | **9,213,756** | **8,071,756** |




The dividend policy of EfTEN Kinnisvarafond II AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In 2018, the shareholders were paid dividends in the amount of EUR 7 million (2016: EUR 4 million).

# FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE FIRST HALF OF 2018

## CONSOLIDATED INCOME STATEMENT

| | Notes | First half of the year 2018 | 2017 |
|---|---|---|---|
| *EUR thousand* | | | |
| Revenue | 4, 3 | 13,892 | 10,961 |
| Cost of services and goods sold | 5 | -3,602 | -3,279 |
| **Gross profit** | | **10,290** | **7,682** |
| | | | |
| Marketing costs | 6 | -828 | -659 |
| General and administrative expenses | 7 | -1,991 | -1,377 |
| Gain / loss from revaluation of investment properties | 14 | 1,851 | 1,088 |
| Other income | 8 | 18 | 14 |
| Other expenses | 8 | -3 | -44 |
| **Operating profit** | | **9,337** | **6,704** |
| | | | |
| Finance income | | 0 | 1 |
| Finance costs | 9 | -823 | -689 |
| **Profit before income tax** | | **8,514** | **6,016** |
| | | | |
| Income tax expense | 10 | -875 | -616 |
| **Net profit for the accounting period** | | **7,639** | **5,400** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | First half of the year 2018 | 2017 |
|---|---|---|---|
| *EUR thousand* | | | |
| Net profit for the financial period | | 7,639 | 5,400 |
| | | | |
| Other comprehensive income/loss: | | | |
| Revaluation of property, plant and equipment | 15 | 1,155 | -22 |
| Profit/loss from revaluation of hedging instruments | 19 | -167 | 534 |
| **Total other comprehensive income/loss** | | **988** | **512** |
| **Total comprehensive income for the financial year** | | **8,627** | **5,912** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30.06.2018 | 31.12.2017 |
|---|---|---|---|
| *EUR thousand* | | | |
| **ASSETS** | | | |
| Cash and cash equivalents | 11 | 13,475 | 11,874 |
| Receivables and accrued income | 12 | 1,059 | 886 |
| Prepaid expenses | 13 | 104 | 52 |
| Inventories | | 114 | 113 |
| **Total current assets** | | **14,752** | **12,925** |
| | | | |
| Long-term receivables | | 44 | 0 |
| Long-term investments in securities | | 8 | 8 |
| Investment property | 14 | 189,739 | 162,090 |
| Property, plant and equipment | 15 | 47,546 | 46,442 |
| **Total non-current assets** | | **237,337** | **208,540** |
| **TOTAL ASSETS** | | **252,089** | **221,465** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Borrowings | 16 | 26,027 | 2,649 |
| Derivative instruments | 19 | 870 | 703 |
| Payables and prepayments | 17 | 2,358 | 2,831 |
| **Total current liabilities** | | **29,255** | **6,183** |
| | | | |
| Borrowings | 16 | 90,449 | 100,335 |
| Other long-term liabilities | 17 | 1,593 | 1,354 |
| Success fee liability | 18 | 3,838 | 3,236 |
| Deferred income tax liability | 10 | 76 | 44 |
| **Total non-current liabilities** | | **95,956** | **104,969** |
| **Total liabilities** | | **125,211** | **111,152** |
| | | | |
| Share capital | 21 | 92,138 | 80,718 |
| Share premium | 21 | 5,861 | 2,321 |
| Statutory reserve capital | | 1,673 | 676 |
| Hedging reserve | 19 | -870 | -703 |
| Revaluation reserve | 15 | 1,802 | 647 |
| Retained earnings | 22 | 26,274 | 26,654 |
| **Total equity** | | **126,878** | **110,313** |
| **TOTAL LIABILITIES AND EQUITY** | | **252,089** | **221,465** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | | First half of the year | |
|---|---|---|---|
| | Notes | 2018 | 2017 |
| *EUR thousand* | | | |
| **Net profit** | | **7,639** | **5,400** |
| *Adjustments:* | | | |
| Finance income | | -1 | -1 |
| Finance costs | 9 | 823 | 689 |
| Gains/losses from investment property revaluation | 14 | -1,851 | -1,088 |
| Change in success fee liability | 7 | 602 | 198 |
| Depreciation | 15 | 185 | 158 |
| Income tax expense | 10 | 875 | 616 |
| **Total adjustments with non-cash changes** | | **633** | **572** |
| **Cash flow from operations before changes in working capital** | | **8,272** | **5,972** |
| Change in receivables and payables related to operating activities | | -380 | -86 |
| Change in inventories | | 0 | -20 |
| **Net cash generated from operating activities** | | **7,892** | **5,867** |
| | | | |
| Purchase of property, plant and equipment | 15 | -134 | -267 |
| Purchase of investment property | | -26,045 | -4,549 |
| Acquisition of subsidiaries, net cash flow | | 98 | 0 |
| Interest received | | 1 | 1 |
| **Net cash generated from investing activities** | | **-26,080** | **-4,815** |
| | | | |
| Loans received | 16 | 14,900 | 2,160 |
| Scheduled loan repayments | 16 | -1,408 | -1,168 |
| Interest paid | | -816 | -668 |
| Proceeds from issuance of shares | 21 | 14,960 | 0 |
| Dividends paid | | -7,022 | -4,000 |
| Income tax paid on dividends | 10 | -825 | -631 |
| **Net cash generated from financing activities** | | **19,789** | **-4,307** |
| | | | |
| **NET CASH FLOW** | | **1,601** | **-3,256** |
| | | | |
| **Cash and cash equivalents at the beginning of the period** | 11 | **11,874** | **16,890** |
| Change in cash and cash equivalents | | 1,601 | -3,256 |
| **Cash and cash equivalents at the end of the period** | 11 | **13,475** | **13,634** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Statutory reserve capital | Hedging reserve | Revaluation reserve | Retained earnings | **Total** |
|---|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | | |
| **Balance as at 31.12.2016** | **80,718** | **2,321** | **151** | **-1,260** | **595** | **11,249** | **93,774** |
| Transfers to reserve capital | 0 | 0 | 525 | 0 | 0 | -525 | **0** |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -4,000 | **-4,000** |
| **Total transactions with owners** | **0** | **0** | **525** | **0** | **0** | **-4,525** | **-4,000** |
| | | | | | | | |
| **Net profit for the period** | **0** | **0** | **0** | **0** | **0** | **5,400** | **5,400** |
| Revaluation of property, plant and equipment | 0 | 0 | 0 | 0 | -22 | 0 | **-22** |
| Income from revaluation of hedging instruments | 0 | 0 | 0 | 534 | 0 | 0 | **534** |
| **Total comprehensive income** | **0** | **0** | **0** | **534** | **-22** | **5,400** | **5,912** |
| **Balance as at 30.06.2017** | **80,718** | **2,321** | **676** | **-726** | **573** | **12,124** | **95,686** |
| | | | | | | | |
| **Balance as at 31.12.2017** | **80,718** | **2,321** | **676** | **-703** | **647** | **26,654** | **110,313** |
| Issue of shares | 11,420 | 3,540 | 0 | 0 | 0 | 0 | **14,960** |
| Transfers to reserve capital | 0 | 0 | 997 | 0 | 0 | -997 | **0** |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -7,022 | **-7,022** |
| **Total transactions with owners** | **11,420** | **3,540** | **997** | **0** | **0** | **-8,019** | **7,938** |
| | | | | | | | |
| **Net profit for the period** | **0** | **0** | **0** | **0** | **0** | **7,639** | **7,639** |
| Revaluation of property, plant and equipment | 0 | 0 | 0 | 0 | 1,155 | 0 | **1,155** |
| Loss from revaluation of hedging instruments | 0 | 0 | 0 | -167 | 0 | 0 | **-167** |
| **Total comprehensive income** | **0** | **0** | **0** | **-167** | **1,155** | **7,639** | **8,627** |
| **Balance as at 30.06.2018** | **92,138** | **5,861** | **1,673** | **-870** | **1,802** | **26,274** | **126,878** |

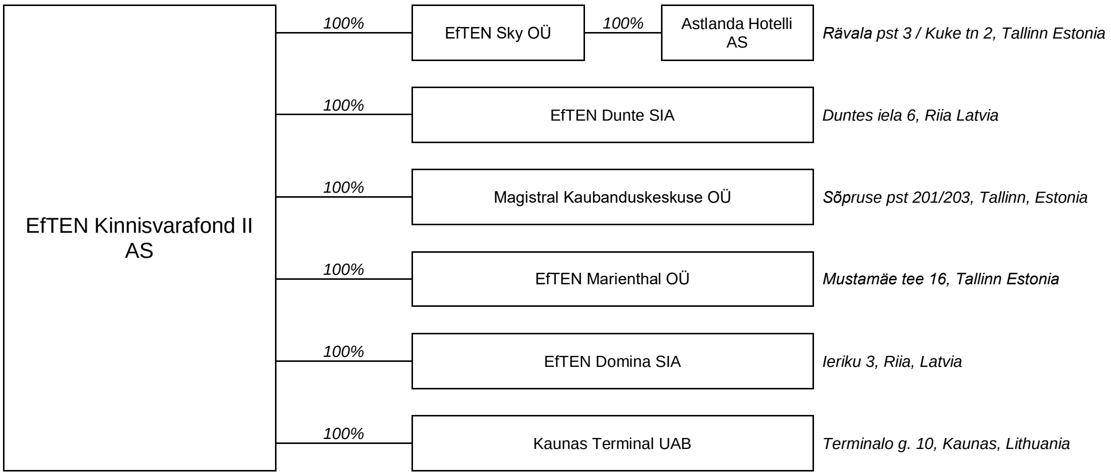
More information on share capital and changes in equity is provided in Notes 19, 21 and 22.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2018

## *1 General principles used in preparing the financial statements*

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

The structure of EfTEN Kinnisvarafond II AS Group as at 30.06.2018 is as follows:




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

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

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

### *1.1 Summary of the most important accounting principles*

### Management's critical estimates and judgements

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

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

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

**Estimation uncertainty**

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

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

Management has evaluated as at 30.06.2018 the value of property, plant and equipment measured using the revaluation model (fair value less subsequent depreciation and impairment) based upon an appraisal provided by an independent valuation specialist for the market value of the asset. The Group owns land and buildings (Radisson Blu Sky Hotel) that are measured using the revaluation model. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of fair value. Independent valuation specialist of the Group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and prevailing market conditions. The carrying amount of the property, plant and equipment measured using the revaluation model as at 30.06.2018 is provided in Note 15.

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

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

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

c) Determination of the fair value of investment property

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

More information on the assumptions used in valuation of fair value is provided in Note 14.

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

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

**Classification of real estate**

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

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

**Investment company**

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond II AS does not meet the definition of an investment company, since it has characteristics of a real estate company rather than of a purely investment firm. Although also the investors of EfTEN Kinnisvarafond II AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond II AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. Also, in accordance with IFRS 10, an investment firm should make direct investments in companies, which are valued at fair value. In case of the parent company of EfTEN Kinnisvarafond II AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond II AS are assessed for fair value, thereby obtaining the fair value of the subsidiary, which may not necessarily be the final market price of the subsidiary. It also assesses the Group's business activities based on rental income, profit margins, volume of assets and other financial ratios characteristic to real estate companies, which cannot be made based on only the fair value of the subsidiary.

## Consolidation

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

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

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

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

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

## Segment reporting

The Group allocates raised capital and available resources for investments in accordance with the Group's investment policy, analysing the reasonable allocation of risks by real estate sector.

In disclosing information on segments, the Group adheres to the principles of grouping used in the Group's internal accounting and reporting. Independent business segments are sub-sectors of commercial real estate, which differentiate from one another by type of rented space and have different yield rates (rental income per sqm, acquisition price of one sqm capitalization rates).

The Group's four business segments and three geographical segments are presented in the following table:

| **Premises / Country** | **Estonia** | **Latvia** | **Lithuania** |
|---|---|---|---|
| Retail premises | Sõpruse pst 201/203, Tallinn | Ieriku 3, Riga | |
| | Mustamäe tee 16, Tallinn | | |
| Office premises | Rävala pst 3 / Kuke tn 2, Tallinn | Duntes iela 6, Riga | |
| | Mustamäe tee 16, Tallinn | | |
| Logistics | | | Terminalo 8 and 10, Kaunas |
| Hotels and restaurants | Rävala pst 3 / Kuke tn 2, Tallinn | | |

The main indicators used by the management in making business decisions is sales revenue, net operating income (net sales less the cost of sales and marketing costs), EBITDA and operating profit. It is also important to monitor the volume of property investments by segments. The Group analyzes all indicators on a monthly basis.

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

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

## Revenue recognition

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

Rental income from investment properties is recognized 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 – amortized cost;
- Loans and receivables – amortized 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 2018 and 2017, 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 amortized cost using the effective interest rate method. Amortized 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 amortized 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 recognized.

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

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

## Derivative instruments

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

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

*Cash flow hedge*

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

## Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

## Investment property

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

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

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

An investment property is derecognized 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 amortized cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.

The amortized cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in their net realizable value. For determining the amortized 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 capitalized 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 authorized 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 discharged or cancelled or expires.

## Success fee liability

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

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

## Provisions and contingent liabilities

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

Present obligations arising from events that occurred before the balance sheet date, the realization 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.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Subsidiaries in Latvia and Lithuania

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

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognized in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

## *2 Subsidiaries*

| Company name | Country of domicile | Investment property | Group's ownership interest, % | |
|---|---|---|---|---|
| | | | 30.06.2018 | 31.12.2017 |
| **Parent company** | | | | |
| EfTEN Kinnisvarafond II AS | Estonia | | | |
| **Subsidiaries** | | | | |
| EfTEN Sky OÜ | Estonia | Rävala pst 3 / Kuke tn 2, Tallinn, Estonia | 100 | 100 |
| Astlanda Hotelli As | Estonia | Hotelli operator company, Rävala pst 3 / Kuke tn 2, Tallinn, Estonia | 100 | 100 |
| EfTEN Dunte SIA | Latvia | Duntes 6, Riga, Latvia | 100 | 100 |
| Magistral Kaubanduskeskuse OÜ | Estonia | Sõpruse pst 201/203, Tallinn, Estonia | 100 | 100 |
| EfTEN Domina SIA | Latvia | Ieriku 3, Riga, Latvia | 100 | 100 |
| Kaunas Terminal UAB | Lithuania | Terminalo q. 10, Kaunas, Lithuania | -100 | -100 |
| EfTEN Marienthal OÜ | Estonia | Mustamäe tee 16, Tallinn, Estonia | 100 | 0 |

On February 08, 2018, EfTEN Kinnisvarafond II AS founded a 100% subsidiary, EfTEN Marienthal OÜ. The subsidiary was founded with the aim of acquiring investment property at Mustamäe tee 16 in Tallinn, Estonia (Note 14).

No shares of a subsidiary are publicly listed.

## 3 *Segment reporting*

**SEGMENT INCOME**

| | Retail | | Office | | Logistics | | Hotels and restaurants | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6 months | | 6 months | | 6 months | | 6 months | | 6 months | | 6 months | |
| *EUR thousand* | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Revenue (Note 4), incl.** | **6,271** | **5,162** | **1,397** | **1,142** | **718** | **0** | **5,506** | **4,657** | **0** | **0** | **13,892** | **10,961** |
| Estonia | 1,378 | 1,307 | 463 | 223 | 0 | 0 | 5,506 | 4,657 | 0 | 0 | 7,347 | 6,187 |
| Latvia | 4,893 | 3,855 | 934 | 919 | 0 | 0 | 0 | 0 | 0 | 0 | 5,827 | 4,774 |
| Lithuania | 0 | 0 | 0 | 0 | 718 | 0 | 0 | 0 | 0 | 0 | 718 | 0 |
| **Net revenue, incl.** | **5,468** | **4,425** | **1,313** | **1,045** | **702** | **0** | **2,807** | **2,212** | **0** | **0** | **10,290** | **7,682** |
| Estonia | 1,332 | 1,274 | 408 | 157 | 0 | 0 | 2,807 | 2,212 | 0 | 0 | 4,547 | 3,643 |
| Latvia | 4,136 | 3,151 | 905 | 888 | 0 | 0 | 0 | 0 | 0 | 0 | 5,041 | 4,039 |
| Lithuania | 0 | 0 | 0 | 0 | 702 | 0 | 0 | 0 | 0 | 0 | 702 | 0 |
| **Operating profit, incl.** | **5,463** | **4,285** | **1,272** | **991** | **804** | **0** | **1,858** | **1,506** | **-60** | **-78** | **9,337** | **6,704** |
| Estonia | 1,779 | 988 | 314 | 125 | 0 | 0 | 1,858 | 1,506 | -60 | -78 | 3,891 | 2,541 |
| Latvia | 3,684 | 3,297 | 958 | 866 | 0 | 0 | 0 | 0 | 0 | 0 | 4,642 | 4,163 |
| Lithuania | 0 | 0 | 0 | 0 | 804 | 0 | 0 | 0 | 0 | 0 | 804 | 0 |
| **EBITDA, incl.** | **4,405** | **3,490** | **1,174** | **935** | **571** | **0** | **2,183** | **1,625** | **-60** | **-78** | **8,273** | **5,972** |
| Estonia | 1,117 | 1,100 | 363 | 141 | 0 | 0 | 2,183 | 1,625 | -60 | -78 | 3,603 | 2,788 |
| Latvia | 3,288 | 2,390 | 811 | 794 | 0 | 0 | 0 | 0 | 0 | 0 | 4,099 | 3,184 |
| Lithuania | 0 | 0 | 0 | 0 | 571 | 0 | 0 | 0 | 0 | 0 | 571 | 0 |
| **Operating profit** | | | | | | | | | | | **9,337** | **6,704** |
| Net finance expenses | | | | | | | | | | | **-823** | **-688** |
| **Profit before income tax** | | | | | | | | | | | **8,514** | **6,016** |
| **Income tax expenses (Note 10)** | | | | | | | | | | | -875 | **-616** |
| **Net profit for the financial year** | | | | | | | | | | | **7,639** | **5,400** |

**SEGMENT ASSETS**

| | Retail | | Office | | Logistics | | Hotels and restaurants | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *EUR thousand* | **30.06.2018** | 31.12.2017 | **30.06.2018** | 31.12.2017 | **30.06.2018** | 31.12.2017 | **30.06.2018** | 31.12.2017 | **30.06.2018** | **31.12.2017** |
| **Investment property (Note 14)** | | | | | | | | | | |
| Estonia | 33,128 | 26,090 | 18,652 | 0 | 0 | 0 | 0 | 0 | 51,780 | 26,090 |
| Latvia | 95,792 | 94,346 | 23,977 | 23,764 | 0 | 0 | 0 | 0 | 119,769 | 118,110 |
| Lithuania | 0 | 0 | 0 | 0 | 18,190 | 17,890 | 0 | 0 | 18,190 | 17,890 |
| **Total investment property** | **128,920** | **120,436** | **42,629** | **23,764** | **18,190** | **17,890** | **0** | **0** | **189,739,** | **162,090** |
| **Non-current assets (Note 15)** | | | | | | | | | | |
| Estonia | 3 | 3 | 6,000 | 6,000 | 0 | 0 | 41,500 | 40,390 | 47,502 | 46,393 |
| Latvia | 43 | 49 | 0 | 0 | 0 | 0 | 0 | 0 | 43 | 49 |
| **Total non-current assets** | **46** | **52** | **6,000** | **6,000** | **0** | **0** | **41,500** | **40,390** | **47,546** | **46,442** |
| Other non-current assets | | | | | | | | | 52 | 8 |
| Net debt | | | | | | | | | -111,736 | -99,278 |
| Other current assets | | | | | | | | | 1,277 | 1,051 |
| **NET ASSETS** | | | | | | | | | **126,878** | **110,313** |

In 2017 and in 2016, no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that made the investment property is located.

Income from none of the rental agreements exceeds 10% of consolidated rental income.

## 4 Revenue

| **Areas of activity** | **First half of the year 2018** | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Rental income from office premises | 1,245 | 1,002 |
| *incl. investment property rental income* | *1,117* | *867* |
| *incl. fixed assets rental income* | *128* | *135* |
| Rental income from retail premises | 5,166 | 4,335 |
| *incl. investment property rental income* | 5,094 | 4,260 |
| *incl. fixed assets rental income* | 72 | 75 |
| Rental income from warehouses | 715 | 0 |
| *Incl. real estate investment income* | 715 | 0 |
| Other revenue from rental premises | 1,260 | 966 |
| Hotel revenue from rooms | 3,854 | 3,179 |
| Hotel revenue from food and beverage | 1,327 | 883 |
| Hotel other revenue | 324 | 595 |
| Other sales revenue | 1 | 1 |
| **Total revenue by areas of activity** | **13,892** | **10,961** |

| **Geographical areas** | **First half of the year 2018** | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Estonia | 7,347 | 6,187 |
| Latvia | 5,827 | 4,774 |
| Lithuania | 718 | 0 |
| **Total revenue by geographical areas** | **13,892** | **10,961** |

## 5 Cost of goods and services sold

| **Cost of services and goods sold** | **First half of the year 2018** | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Repair and maintenance of leasable area | -597 | -529 |
| Hotel direct costs from rooms | -424 | -406 |
| Hotel direct costs from food and beverage | -447 | -427 |
| Hotel royalty fees | -175 | -148 |
| Other direct costs related to hotel operation | -41 | -25 |
| Wages and salaries related to hotel operation, incl. taxes | -1,007 | -885 |
| Administrative expenses related to hotel operation | -388 | -364 |
| Property insurance | -35 | -37 |
| Land tax | -193 | -227 |
| Other administrative expenses | -39 | -40 |
| Amortization expense (Note 15) | -185 | -158 |
| Improvement costs | -31 | -23 |
| Impairment of receivables | -40 | -11 |
| **Total cost of services and goods sold** | **-3,602** | **-3,279** |

## 6 Marketing costs

| Marketing costs | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Commission expenses on rental property | -40 | -1 |
| Wages and salaries, incl. taxes | -93 | -84 |
| Advertising, promotional events | -541 | -449 |
| Corporate marketing | -154 | -125 |
| **Total marketing costs** | **-828** | **-659** |

## 7 General and administrative expenses

| General and administrative expenses | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Management services (Note 23) | -578 | -473 |
| Office expenses | -124 | -114 |
| Wages and salaries, incl. taxes | -459 | -427 |
| Consulting expenses | -195 | -134 |
| Change in success fee liability (Note 18) | -602 | -198 |
| Other general and administrative expenses | -33 | -31 |
| **Total general and administrative expenses** | **-1,991** | **-1,377** |

## 8 Other income and other expenses

| Other income | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Contractual penalties and late payment fees received | 9 | 13 |
| Other income | 9 | 1 |
| **Total other income** | **18** | **14** |

| Other expenses | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Other expenses | -3 | -44 |
| **Total other expenses** | **-3** | **-44** |

## 9 Finance costs

| Finance costs | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Interest expenses, incl. | -823 | -689 |
| Interest expense on borrowings | -624 | -523 |
| Interest expense on swap deals (Note 19) | -199 | -166 |
| **Total finance costs** | **-823** | **-689** |

## 10 Income tax

| | First half of the year 2018 | 2017 |
|---|---|---|
| *EUR thousand* | | |
| Income tax expense of Lithuanian (2017: Latvian and Lithuanian) subsidiaries | -50 | 15 |
| Income tax on dividends | -825 | -631 |
| **Total income tax expenses** | **-875** | **-616** |

The Group has a deferred income tax liability of 76 thousand euros as at 30.06.2018 in connection with the use of tax amortization in a Lithuanian subsidiary (as at 31.12.2017: deferred tax liability of 44 thousand euros in connection with the use of tax amortization in Lithuanian subsidiaries). Deferred income tax liability arises upon the Group after the expiry of the tax amortization period.

## 11 Cash and cash equivalents

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Demand deposits | 13,442 | 11,820 |
| Cash in hand | 33 | 54 |
| **Total cash and cash equivalents** | **13,475** | **11,874** |

## 12 Receivables and accrued income

**Short-term receivables**

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| **Trade receivables** | | |
| Receivables from customers | 805 | 634 |
| Allowance for doubtful trade receivables | -32 | -50 |
| **Total trade receivables** | **773** | **584** |
| ***Other short-term receivables*** | | |
| Receivable from business combinations | 0 | 98 |
| Other short-term receivables | 21 | 22 |
| **Total other short-term receivables** | **21** | **120** |
| ***Accrued income*** | | |
| Other accrued income | 265 | 182 |
| **Total accrued income** | **265** | **182** |
| **Total receivables** | **1,059** | **886** |

| **Trade receivables** | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Undue | 426 | 337 |
| **Expired, incl.** | **379** | **297** |
| *Up to 30 days* | *282* | *206* |
| *30-60 days* | *59* | *22* |
| *More than 60 days* | *38* | *69* |
| Allowance for doubtful receivables | -32 | -50 |
| **Total trade receivables** | **773** | **584** |

## 13 Prepayments

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Prepayments to suppliers | 0 | 2 |
| Prepayments of insurance | 5 | 10 |
| Prepayments of utility fees intermediation | 47 | 3 |
| Deferred expenses | 52 | 37 |
| **Total prepayments** | **104** | **52** |

## 14 Investment property

As at 30.06.2018, the Group owns two investment properties in Estonia, two in Latvia and one in Lithuania:

| Name of the property | Location | Net leasable area (m2) | Date of acquisition | Acquisition cost | Market value at 30.06.2018 | Share of market value of the fund's assets |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Duntes Biroji office building | Duntes 6, Riga Latvia | 12,650 | 11.2015 | 23,746 | 23,977 | 10% |
| Magistral shopping center | Sõpruse pst 201/203 Tallinn Estonia | 11,720 | 02.2016 | 24,000 | 26,910 | 11% |
| Domina shopping center | Ieriku 3, Riga Latvia | 47,493 | 07.2016 | 74,500 | 95,792 | 38% |
| Kaunas Terminal logistics center | Terminalo 8 and 10, Kaunas, Lithuania | 28,114 | 08.2017 | 16,200 | 18,190 | 7% |
| Marienthal center | Mustamäe tee 16, Tallinn, Estonia | 13,990 | 04.2018 | 24,837 | 24,870 | 10% |
| **Total** | | **113,967** | | **163,283** | **189,739** | **75%** |

In 2018, the following changes have occurred in the Group's investment property:

| | Completed investment property | Prepayments for investment property | **Total investment property** |
|---|---|---|---|
| *EUR thousand* | | | |
| **Balance as at 31.12.2016** | **129,590** | **301** | **129,891** |
| Capitalized improvements | 4,162 | 0 | **4,162** |
| Reclassification | 131 | -131 | **0** |
| Gain/loss on changes in the fair value | 1,088 | 0 | **1,088** |
| **Balance as at 30.06.2017** | **134,971** | **170** | **135,141** |
| **Balance as at 31.12.2017** | **162,059** | **31** | **162,090** |
| Acquisition and development | 25,798 | 0 | **25,798** |
| Reclassification | 31 | -31 | **0** |
| Gain/loss on changes in the fair value | 1,851 | 0 | **1,851** |
| **Balance as at 30.06.2018** | **189,739** | **0** | **189,739** |

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

| | **First half of the year** | |
|---|---|---|
| | **2018** | 2017 |
| Rental income earned on investment property | 6,925 | 5,127 |
| Expenses directly attributable to management of investment property | -852 | -768 |
| Prepayments for investment property | 0 | 170 |
| Carrying amount of investment property pledged as collateral to borrowings as at June 30 | 189,739 | 134,971 |

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

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

| **Payments receivable under non-cancellable operating lease agreements** | **30.06.2018** | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| up to 1 year | 13,629 | 11,467 |
| 2-5 years | 30,221 | 22,974 |
| Over 5 years | 9,274 | 6,312 |
| **Total** | **53,124** | **40,753** |

## 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 was determined using the discounted cash flow method.

The following assumptions are used to determine fair value:

| | Fair value | Valuation method | Rental income per annum | Discount rate | Capitalization rate | Average rent €/,m2 |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Office premises | 42,629 | Discounted cash flows | 3,308 | 7.6%-8.6% | 7.0%-7.5% | 11.89 |
| Logistics | 18,190 | Discounted cash flows | 1,703 | 8.6% | 8.5% | 5.05 |
| Retail premises | 128,920 | Discounted cash flows | 10,597 | 7.7%-8.6% | 7.2%-7.6% | 14.09 |
| **Total** | **189,739** | | | | | |

As at 31.12.2017

| | Fair value | Valuation method | Rental income per annum | Discount rate | Capitalization rate | Average rent €/,m2 |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Office premises | 23,764 | Discounted cash flows | 1,687 | 7.60% | 7.0% | 11.67 |
| Logistics | 17,890 | Discounted cash flows | 1,459 | 8.6% | 8.5% | 4.54 |
| Retail premises | 120,405 | Discounted cash flows | 9,569 | 7.5%-8.6% | 7.2%-7.6% | 13.99 |
| **Total** | **162,059** | | | | | |

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

- Rental income: real 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;
- Capitalization rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and risks associated with the property.

## Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions, which were made on the acquisition as at 30.06.2018:

| Sector | Sensitivity to management estimates | | | Sensitivity to discount rate and capitalization rate | | | | |
|---|---|---|---|---|---|---|---|---|
| | Assess-ment | 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% | *-4,568* | *4,542* | Change in the capitalization rate | -0.5% | *45,845* | *44,913* | *44,002* |
| | | | | | 0.0% | *43,515* | *42,629* | *41,771* |
| | | | | | 0.5% | *41,488* | *40,652* | *39,837* |
| Logistics premises | Change in rental income +/- 10% | *-1,930* | *1,910* | Change in the capitalization rate | -0.5% | *19,350* | *18,970* | *18,590* |
| | | | | | 0.0% | *18,560* | *18,190* | *17,830* |
| | | | | | 0.5% | *17,850* | *17,500* | *17,160* |
| Retail premises | Change in rental income +/- 10% | *-15,357* | *15,241* | Change in the capitalization rate | -0.5% | *132,105* | *136,045* | *133,192* |
| | | | | | 0.0% | *129,885* | *128,920* | *124,110* |
| | | | | | 0.5% | *125,723* | *122,710* | *120,156* |

As at 31.12.2017

| Sector | Sensitivity to management estimates | | | Sensitivity to discount rate and capitalization rate | | | | |
|---|---|---|---|---|---|---|---|---|
| | Assess-ment | 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% | *-2,554* | *2,526* | Change in the capitalization rate | -0.5% | *25,624* | *25,100* | *24,580* |
| | | | | | 0.0% | *24,260* | *23,764* | *23,280* |
| | | | | | 0.5% | *23,080* | *22,610* | *22,152* |
| Logistics premises | Change in rental income +/- 10% | *-1,900* | *1,880* | Change in the capitalization rate | -0.5% | *19,030* | *18,650* | *18,280* |
| | | | | | 0.0% | *18,250* | *17,890* | *17,540* |
| | | | | | 0.5% | *17,560* | *17,220* | *16,880* |
| Retail premises | Change in rental income +/- 10% | *-14,155* | *14,045* | Change in the capitalization rate | -0.5% | *129,400* | *126,760* | *124,168* |
| | | | | | 0.0% | *122,900* | *120,405* | *117,960* |
| | | | | | 0.5% | *117,233* | *114,860* | *112,553* |

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

Additional information about real estate investments can be found in Notes 2 and 20.

## 15 Property, plant and equipment

| | Land and buildings[1] | Depreciated buildings | Machinery and equipment | Other property, plant and equipment | Advance payments | Total |
|---|---|---|---|---|---|---|
| **Carrying amount 31.12.2016** | **44,539** | **1,212** | **248** | **322** | **58** | **46,379** |
| *Cost 31.12.2016* | 44,539 | 1,500 | 394 | 898 | 58 | *47,389* |
| *Accumulated depreciation 31.12.2016* | 0 | -288 | *-146* | *-576* | *0* | *-1,010* |
| Purchases | 0 | 0 | 52 | 183 | 32 | 267 |
| Reclassification | 0 | 0 | 30 | 17 | -47 | 0 |
| Revaluation through comprehensive income | -22 | 0 | 0 | 0 | 0 | -22 |
| Depreciation charge | 0 | -75 | -21 | -62 | 0 | -158 |
| **Carrying amount 30.06.2017** | **44,517** | **1,137** | **309** | **460** | **43** | **46,466** |
| *Cost 30.06.2017* | 44,517 | 1,500 | 476 | 1,098 | 43 | *47,634* |
| *Accumulated depreciation 30.06.2017* | 0 | *-363* | *-167* | *-638* | *0* | *-1,168* |
| **Carrying amount 31.12.2017** | **44,591** | **1,062** | **290** | **448** | **51** | **46,442** |
| *Cost 31.12.2017* | 44,591 | 1,500 | 481 | 1,166 | 51 | *47,789* |
| *Accumulated depreciation 31.12.2017* | 0 | -438 | *-191* | *-718* | *0* | *-1,347* |
| Purchases | 0 | 8 | 0 | 0 | 126 | 134 |
| Reclassification | 0 | 0 | 2 | 48 | -50 | 0 |
| Revaluation through comprehensive income | 1,155 | 0 | 0 | 0 | 0 | 1,155 |
| Depreciation charge | 0 | -75 | -25 | -85 | 0 | -185 |
| **Carrying amount 30.06.2018** | **45,746** | **995** | **267** | **411** | **127** | **47,546** |
| *Cost 30.06.2018* | 45,746 | 1,508 | 483 | 1,214 | 127 | *49,078* |
| *Accumulated depreciation 30.06.2018* | 0 | *-513* | *-216* | *-803* | *0* | *-1,532* |

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

If the cost method had been used, the residual value of land and buildings would have been as follows:

| | Land and buildings | Depreciated buildings |
|---|---|---|
| **Carrying amount 31.12.2017** | **43,944** | **1,062** |
| *Cost 31.12.2017* | 43,944 | 1,500 |
| *Accumulated depreciation 31.12.2017* | 0 | -438 |
| | | |
| Depreciation charge | 0 | -75 |
| **Carrying amount 30.06.2018** | **43,944** | **987** |
| *Cost 30.06.2018* | 43,944 | 1,500 |
| *Accumulated depreciation 30.06.2018* | 0 | -513 |

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

1) Property, plant and equipment of insignificant residual value whereby the cost is depreciated to profit and loss over the useful life of the asset;

2) Property, plant and equipment with a significant residual value, for which only the depreciable portion of the difference between the cost and the residual value is depreciated into an expense over their useful lives.

The group owns Radisson Blu Sky Hotel, which is subject to appraisal of its residual value at each balance sheet date. The appraisal provided by Colliers International Advisors OÜ as to the market value of the hotel has been used in the estimation of residual value. Independent valuation specialist of the group has valued the assets using the discounted cash flows method, taking into account the location, condition and wear and tear of the assets and market conditions. As a result of the appraisal of residual value that was carried out, it was concluded that the asset is not sold at a significantly lower value compared to its carrying amount as at 30.06.2018 because it is very favorably located in central Tallinn and the hotel is new and does not require major capital expenditure. If the cost model had been used, the carrying amount of land and buildings (incl. depreciated buildings) as at 30.06.2018 would have amounted to EUR 44,931 (as at 31.12.2017: 45,006) thousand.

## Assumptions and basis for the calculation of fair value of land and buildings

Radisson Blu Sky Hotel, the Group's sole asset in the land and buildings category, is appraised by an independent valuation specialist. The fair value of the land and buildings as provided in the Group's financial statements as at 30.06.2018 has been determined with discounted cash flows method. The following assumptions were used to determine fair value:

| | **Fair value** | **Valuation method** | **Rental income per annum** | **Discount rate** | **Capitalization rate** | **Average rent €/,m2** |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Radisson Blu Sky hotel | 46,741 | Discounted cash flows | 3,822 | 8.1% | 7.0% | 13.00 |
| **Total** | **46,741** | | | | | |

As at 31.12.2017

| | **Fair value** | **Valuation method** | **Rental income per annum** | **Discount rate** | **Capitalization rate** | **Average rent €/,m2** |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Radisson Blu Sky hotel | 45,653 | Discounted cash flows | 3,496 | 8.1% | 7.0% | 11.89 |
| **Total** | **45.653** | | | | | |

## Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of land and buildings included in the balance sheet of the Group as at 30.06.2018 to the most significant assumptions:

| | **Sensitivity to management estimates** | | | **Sensitivity to discount rate and capitalization rate** | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Assess-ment** | **Effect of decrease to value** | **Effect of increase to value** | | | Change in discount rate | | |
| | | | | | | -0.5% | 0.0% | 0.5% |
| *EUR thousand* | | | | | | | *Fair value* | |
| Radisson Blu Sky hotel | Change in rental income +/-10% | *-5,020* | *5,010* | Change in the capitalization rate | -0.5% | *51,120* | *50,090* | *49,080* |
| | | | | | 0.0% | *48,470* | *46,741* | *46,550* |
| | | | | | 0.5% | *46,170* | *45,250* | *44,350* |

As at 31.12.2017

| | Sensitivity to management estimates | | | Sensitivity to discount rate and capitalization rate | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Assess-ment** | **Effect of decrease to value** | **Effect of increase to value** | | | Change in discount rate | | |
| | | | | | | -0.5% | 0.0% | 0.5% |
| *EUR thousand* | | | | | | *Fair value* | | |
| Radisson Blu Sky hotel | Change in rental income +/-10% | *-4,920* | *4,900* | Change in the capitalization rate | -0.5% | *49,193* | *48,920* | *47,193* |
| | | | | | 0.0% | *47,340* | *45,653* | *45,460* |
| | | | | | 0.5% | *44,353* | *44,190* | *42,573* |

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

| | First half of the year | |
|---|---|---|
| | **2018** | 2017 |
| *EUR thousand* | | |
| Revenue from hotel operation | 5,506 | 4,657 |
| Direct costs related to hotel operation | -2,641 | -2,388 |
| Rental income from property, plant and equipment | 200 | 210 |
| Direct costs attributable to management of property, plant and equipment | -34 | -49 |
| Depreciation expense on property, plant and equipment | -185 | -158 |
| Carrying amount of property, plant and equipment provided as collateral to secure borrowings as at 30 June | 46,741 | 44,655 |

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

| **Payments received under non-cancellable operating lease agreements** | **30.06.2018** | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| up to 1 year | 895 | 454 |
| 2-5 years | 2,821 | 683 |
| Over 5 years | 1,869 | 410 |
| **Total** | **5,585** | **1,547** |

## 16 Borrowings

As at 30.06.2018, the Group has the following borrowings:

| Lender | Country of lender | Loan amount as per agreement, EUR thousand | Loan balance as at 30.06.2018 | Contract term | Interest rate as at 30.06.2018 | Loan collateral (Note 14, 15) | Value of collateral | Loan balance share of the fund's net asset value |
|---|---|---|---|---|---|---|---|---|
| SEB | Estonia | 23,000 | 23,000 | 28.01.19 | 0.708% | mortgage - Rävala 3, Astlanda Hotelli AS warranty | 47,500 | 18.1% |
| SEB | Latvia | 4,420 | 4,028 | 30.11.20 | 1.30% | mortgage - Duntes iela 6, Riga Latvia | 23,977 | 3.2% |
| SEB | Latvia | 9,780 | 8,864 | 30.11.20 | 1.30% | | | 7.0% |
| SEB | Estonia | 14,900 | 14,838 | 17.04.23 | 1.84% | mortgage – Mustamäe tee 16, Tallinn Estonia | 24,870 | 11.7% |
| Danske | Estonia | 12,000 | 11,042 | 25.02.21 | 1.35% | mortgage - Sõpruse pst 201/203, Tallinn Estonia | 26,910 | 8.7% |
| Luminor | Latvia | 27,360 | 25,924 | 25.06.21 | 1.30% | mortgage - Ieriku 3, Riga Latvia | 95,792 | 20.4% |
| Luminor | Latvia | 20,640 | 19,523 | 25.06.21 | 1.30% | | | 15.4% |
| Luminor | Lithuania | 9,720 | 9,379 | 30.06.22 | 1.27% | mortgage – Terminalo 8 and 10, Kaunas Lithuania | 18,190 | 7.4% |
| **Total** | | **121,820** | **116,598** | | | | **237,239** | **92%** |

| Short-term borrowings | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Repayments of long-term bank loans in the next period | 26,070 | 2,691 |
| Discounted contract fees on bank loans | -43 | -42 |
| **Total short-term borrowings** | **26,027** | **2,649** |

| Long-term borrowings | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| **Total long-term borrowings** | **116,476** | **102,984** |
| Incl. current portion of borrowings | 26,027 | 2,649 |
| *Bank loans* | 26,070 | *2,691* |
| *Discounted contract fees on bank loans* | -43 | *-42* |
| Incl. non-current portion of borrowings, incl. | 90,449 | 100,335 |
| *Bank loans* | 90,528 | 100,414 |
| *Discounted contract fees on bank loans* | -79 | -79 |

Bank loans are divided as follows according to repayment date:

| Repayment of bank loans by maturity dates | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Less than 1 year | 26,070 | 2,691 |
| 2-5 years | 90,528 | 100,414 |
| **Total repayment of bank loans** | **116,598** | **103,105** |

Cash flows related to bank loans in the first half of the year 2018:

| Lender | Loan balance as at 31.12.2017 | Loans received | Loan repayments | Loan balance as at 30.06.2018 |
|---|---|---|---|---|
| EUR thousand | | | | |
| SEB | 23,000 | 0 | 0 | 23,000 |
| SEB | 4,106 | 0 | -77 | 4,028 |
| SEB | 9,034 | 0 | -170 | 8,864 |
| SEB | 0 | 14,900 | -62 | 14,838 |
| Danske Bank | 11,250 | 0 | -208 | 11,042 |
| Luminor Bank | 46,166 | 0 | -720 | 45,446 |
| Luminor Bank | 9,549 | 0 | -171 | 9,379 |
| **Total** | **103,105** | **14,900** | **-1,408** | **116,598** |

Additional information in Note 20.

## 17 *Payables and prepayments*

**Short-term payables and prepayments**

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Payables from fixed asset transactions | 8 | 255 |
| Other trade payables | 483 | 490 |
| **Total trade payables** | **491** | **745** |
| | | |
| ***Tax liabilities*** | | |
| Value added tax | 363 | 255 |
| Corporate income tax | 8 | 427 |
| Personal income tax | 52 | 55 |
| Social tax | 133 | 121 |
| Other tax liabilities | 33 | 14 |
| ***Total tax liabilities*** | **589** | **872** |
| | | |
| ***Accrued expenses*** | | |
| Interest payable | 24 | 14 |
| Payables to employees | 241 | 200 |
| Tenant security deposits | 401 | 413 |
| Other accrued liabilities | 388 | 511 |
| ***Total accrued expenses*** | **1,054** | **1,138** |
| | | |
| ***Prepayments*** | | |
| Prepayments received from buyers | 218 | 73 |
| Other deferred income | 6 | 3 |
| ***Total prepayments*** | **224** | **76** |
| **Total payables and prepayments** | **2,358** | **2,831** |

**Long-term payables**

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Tenant security deposits | 1,593 | 1,354 |
| **Total other long-term payables** | **1,593** | **1,354** |

## 18 *Success fee liability*

As at 30.06.2018, the Group has accounted for a success fee liability in the amount of EUR 3,838 (31.12.2017: EUR 3,236) thousand. The basis for accrual-based calculation of the success fee is the fair value assessment of investment property as at the balance sheet date. The change of the success fee liability is recorded among the Group's general administration expenses (Note 7).

## 19 Derivative instruments

As at 30.06.2018, the Group had three effective interest rate swap agreements fixing the interest rate on long-term borrowings at notional value of EUR 58,303 (31.12.2017: three agreements at notional value of EUR 58,883) thousand.
The terms and payment schedule of the interest rate swap transactions correspond to the loan repayment schedule of the loan that is subject to the hedge and has been accounted for as a cash flow hedging instrument.
The derivative instruments will expire in the year 2021 and 2022, the base interest rate is the 1- or 3-month EURIBOR. The Group's floating interest rate is fixed at the level of 0-0.65% according to the interest rate swap agreement.
The basis for the fair value of the derivative instruments is the quotation provided by the banks that are contractual partners, the fair value of the derivative position as at 30.06.2018 was negative in the amount of EUR 870 (31.12.2017: negative in the amount of EUR 703) thousand.
The Group's interest expense attributable to the interest rate swap transactions in the first six months of 2018 was EUR 199 (first half of the year in 2017: EUR 166) thousand (Note 9).

More information on derivative instruments is provided in Note 20.

## 20 Financial instruments, management of financial risks

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

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

### Carrying amounts of financial instruments

| | Notes | 30.06.2018 | 31.12.2017 |
|---|---|---|---|
| *EUR thousand* | | | |
| **Financial assets - loans and receivables** | | | |
| Cash and cash equivalents | 11 | 13,475 | 11,874 |
| Trade receivables | 12 | 773 | 584 |
| **Total financial assets** | | **14,248** | **12,458** |
| | | | |
| **Financial liabilities** | | | |
| Borrowings | 16 | 116,476 | 102,984 |
| Trade payables | 17 | 491 | 745 |
| Tenant security deposits | 17 | 1,994 | 1,767 |
| Success fee liability | 18 | 3,838 | 3,236 |
| Accrued expenses | 17 | 388 | 511 |
| **Financial liabilities measured at amortized cost** | | **123,187** | **109,243** |
| | | | |
| Derivative instruments (interest derivatives) | 19 | 870 | 703 |
| **Financial liabilities measured at fair value** | | **870** | **703** |
| **Total financial liabilities** | | **124,057** | **109,946** |

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

The following changes took place in the balance sheet values of financial liabilities in the first half of 2018:

| | As at 31.12.2017 | Change in cash flow | Non-monetary change: Change in fair value | Non-monetary change: Other non-monetary changes | As at 30.06.2018 |
|---|---|---|---|---|---|
| *EUR thousand* | | | | | |
| Borrowings | 102,983 | 13,493 | 0 | 0 | 116,477 |
| Trade payables | 745 | -255 | 0 | 0 | 490 |
| Tenant security deposits | 1,767 | 227 | 0 | 0 | 1,994 |
| Accrued expenses | 511 | -123 | 0 | 0 | 388 |
| Success fee liability | 3,236 | 0 | 0 | 602 | 3,838 |
| Derivative instruments (interest derivatives) | 703 | 0 | 167 | 0 | 870 |
| **Total financial liabilities** | **109,946** | **13,342** | **167** | **602** | **124,057** |

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

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

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

### Market risk

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

### Interest rate risk

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

As at 30.06.2018, all of the Group's borrowings bear an interest based on a floating interest rate and are linked to the 1- or 3-month EURIBOR. In the first half of 2018 the 1-month EURIBOR fluctuated within the range of -0.368% to -0.372% (in the first half of 2017: -0.368% to -0.374%) and 3-month EURIBOR fluctuated within the range of -0.321% to -0.329% (in the first half of 2017: 0.318% to -0.332%). The covenants of the Group's loan agreements require the Group to maintain a debt coverage ratio in excess of 3.0. As at 30.06.2018, the Group's debt coverage ratio was 3.7 (31.12.2017: 3.5).

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

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

(1) The asset that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2025);

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

For hedging the interest rate risk, three interest rate swap contracts have been concluded:

| | Country of lender | The nominal amount of the contract, in EUR thousand | Fixed interest rate | Deadline of the agreement | Fair value, in EUR thousand: 30.06.2018 | Fair value, in EUR thousand: 31.12.2017 |
|---|---|---|---|---|---|---|
| SEB | Estonia | 23,000 | 1-month EURIBOR 0,65% | 30.08.2022 | -631 | -579 |
| Luminor | Latvia | 25,924 | 1-month EURIBOR 0% | 25.06.2021 | -127 | -42 |
| Luminor | Lithuania | 9,379 | 3-month EURIBOR 0,35% | 30.06.2022 | -112 | -82 |
| **Total** | | **58,303** | | | **-870** | **-703** |

As at 30.07.2018 the borrowings related to interest rate swap agreements made up 50% of all the Group's borrowings (31.12.2017: 57%).

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 30.06.2018 was negative in the amount of EUR 870 (31.12.2017: negative in the amount of EUR 703) thousand (Note 19).

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

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

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

| **As at 30.06.2018** | Less than 1 month | 1-4 months | Between 4 and 12 months | Between 1 and 5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Interest-bearing liabilities | 223 | 754 | 25,050 | 90,449 | 0 | **116,476** |
| Interest payments | 143 | 433 | 964 | 3,177 | 0 | **4,717** |
| Interest derivatives liabilities | 0 | 0 | 0 | 870 | 0 | **870** |
| Interest payable | 24 | 0 | 0 | 0 | 0 | **24** |
| Trade payables | 491 | 0 | 0 | 0 | 0 | **491** |
| Success fee liability | 0 | 0 | 0 | 0 | 3,838 | **3,838** |
| Tenant security deposits | 6 | 236 | 159 | 1,027 | 566 | **1,994** |
| Accrued expenses | 388 | 0 | 0 | 0 | 0 | **388** |
| **Total financial liabilities** | **1,275** | **1,423** | **26,173** | **95,523** | **4,404** | **128,798** |

| **As at 31.12.2017** | Less than 1 month | 1-4 months | Between 4 and 12 months | Between 1 and 5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|---|
| *EUR thousand* | | | | | | |
| Interest-bearing liabilities | 192 | 662 | 1,794 | 100,336 | 0 | **102,984** |
| Interest payments | 126 | 377 | 999 | 2,670 | 0 | **4,173** |
| Interest derivatives liabilities | 0 | 0 | 0 | 703 | 0 | **703** |
| Interest payable | 14 | 0 | 0 | 0 | 0 | **14** |
| Trade payables | 745 | 0 | 0 | 0 | 0 | **745** |
| Success fee liability | 0 | 0 | 0 | 0 | 3,236 | **3,236** |
| Tenant security deposits | 4 | 177 | 232 | 1,034 | 320 | **1,767** |
| Accrued expenses | 511 | 0 | 0 | 0 | 0 | **511** |
| **Total financial liabilities** | **1,593** | **1,217** | **3,025** | **104,743** | **3,556** | **114,133** |

### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the group by failing to discharge 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 minimizing such risk lies in the daily monitoring and guiding of clients' payment behavior, so that appropriate measures could be applied on a timely basis.

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

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

The table below illustrates accounts receivables:

| **Trade receivables** | **30.06.2018** | 31.12.2017 |
|---|---|---|
| Undue | 426 | 337 |
| **Past due** | **379** | **297** |
| *up to 30 days* | *282* | *206* |
| *30-60 days* | *59* | *22* |
| *more than 60 days* | *38* | *69* |
| Allowance for doubtful receivables | -32 | -50 |
| **Total trade receivables** | **773** | **584** |

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

| | **30.06.2018** | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Cash and cash equivalents | 13,475 | 11,874 |
| Trade receivables | 773 | 584 |
| **Total maximum credit risk** | **14,248** | **12,458** |

The balances of bank accounts recognized in the Group´s cash and cash equivalents are classified according to the ratings of banks (Moody´s long-term) as follows:

| **Rating** | **30.06.2018** | 31.12.2017 |
|---|---|---|
| A1 | 2,043 | 2,418 |
| Aa3 | 11,399 | 9,402 |
| **Total** | **13,442** | **11,820** |

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

## Fair value

The table below analyses assets and liabilities measured at fair value by valuation methods. The valuation methods have been defined as follows:

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As at 30.06.2018, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties (Note 14) and property, plant and equipment measured at revaluation method (Note 15) are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

The group has entered into interest rate swap agreements (Note 19) 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.

## *21 Share capital*

In April 2018, EfTEN Kinnisvarafond II AS issued 1,142,000 new shares with a nominal value of EUR 10 and a premium of EUR 3.10 per share. As a result, the share capital increased by EUR 11,420 thousand and the share premium by EUR 3,540 thousand. A total of EUR 14,960 thousand was paid in cash for new shares and in share premium.

The amount of registered share capital of EfTEN Kinnisvarafond II AS as at 30.06.2018 is EUR 92,138 thousand. The share capital consisted of 9,213,756 shares as at 30.06.2018 with nominal value of EUR 10. Without amending the articles of association, the company may increase its share capital to EUR 100,100 thousand.

In the accounting period EUR 997 thousand of the net profit was allocated to the statutory reserve.

More information on share capital is provided in Note 27.

## *22 Contingent liabilities*

### Contingent income tax liability

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| The company's retained earnings | 26,274 | 26,654 |
| Potential income tax liability | 5,255 | 5,331 |
| The amount that can be paid out as dividends | 21,019 | 21,323 |

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution as at 30.06.2018 and 31.12.2017.

### Potential liabilities arising from the tax audit

**Estonia**

The tax authorities have neither started nor performed any tax audits or individual case audits in any of the Group companies. The tax authorities have the right to verify the company's tax records up to 5 years from the time of filing the tax return and upon finding errors, impose additional taxes, interest and fines. The management estimates that there are not any circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

**Latvia and Lithuania**

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

## *23 Related party transactions*

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

The Group purchased management services from EfTEN Capital AS in the accounting period in the amount of EUR 578 (2017 first six months: 473) thousand (Note 7) and accounting and intermediary services in the amount of EUR 15 (2017 first six months: EUR 16) thousand from the subsidiaries and affiliated companies of EfTEN Capital AS.

In the accounting period, the Group had 149 (2017 first six months: 131) employees who were remunerated including taxes in the amount of EUR 1,558 (2017 first six months: 1,396) thousand. In the accounting period no compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

## 24 Parent company's separate income statement

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

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

| | **First half of the year** | |
|---|---|---|
| | **2018** | 2017 |
| *EUR thousand* | | |
| Revenue | 566 | 432 |
| **Gross profit** | **566** | **432** |
| | | |
| General and administrative expenses | -626 | -510 |
| **Operating profit** | **-60** | **-78** |
| | | |
| Gain from subsidiaries | 1,566 | 1,893 |
| Dividend income | 7,023 | 4,000 |
| Interests income | 98 | 97 |
| **Profit before income tax** | **8,627** | **5,912** |
| | | |
| **Total comprehensive income for the financial year** | **8,627** | **5,912** |

## 25 Parent company's separate balance sheet

| | 30.06.2018 | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| **ASSETS** | | |
| Cash and cash equivalents | 3,457 | 1,514 |
| Receivables and accrued income | 97 | 44 |
| **Total current assets** | **3,554** | **1,558** |
| | | |
| ***Non-current assets*** | | |
| Shares of subsidiaries | 114,928 | 103,358 |
| Long-term receivables | 8,408 | 5,408 |
| **Total non-current assets** | **123,336** | **108,766** |
| **TOTAL ASSETS** | **126,890** | **110,324** |
| | | |
| **LIABILITIES AND EQUITY** | | |
| ***Current liabilities*** | | |
| Payables | 12 | 11 |
| ***Total current liabilities*** | **12** | **11** |
| **Total liabilities** | **12** | **11** |
| | | |
| **Equity** | | |
| Share capital | 92,138 | 80,718 |
| Share premium | 5,861 | 2,321 |
| Statutory reserve capital | 1,673 | 676 |
| Retained earnings | 27,206 | 26,598 |
| **Total equity** | **126,878** | **110,313** |
| **TOTAL LIABILITIES AND EQUITY** | **126,890** | **110,324** |

## 26 Parent company's separate statement of cash flows

| | First half of the year | |
|---|---|---|
| | **2018** | 2017 |
| *EUR thousand* | | |
| **Cash flows from operating activities** | | |
| **Net profit** | **8,627** | **5,912** |
| *Adjustments to net profit:* | | |
| Financial income and costs | -98 | -97 |
| Gain/-loss on the fair value adjustment of subsidiaries | -1,566 | -1,893 |
| Dividends received | -7,023 | -4,000 |
| **Total adjustments with non-cash changes** | **-8,687** | **-5,990** |
| **Cash flow from operations before changes in working capital** | **-60** | **-78** |
| Change in receivables and payables related to operating activities | 43 | 0 |
| **Net cash generated from operating activities** | **-17** | **-78** |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition and establishment of investments in subsidiaries | -10,004 | 0 |
| Loans granted | -3,000 | -450 |
| Dividends received | 7,023 | 4,000 |
| Interest received | 3 | 277 |
| **Net cash generated from investing activities** | **-5,978** | **3,827** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of shares | 14,960 | 0 |
| Dividends paid | -7,022 | -4,000 |
| **Net cash generated from financing activities** | **7,938** | **-4,000** |
| | | |
| **NET CASH FLOW** | **1,943** | **-251** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **1,514** | **7,436** |
| Change in cash and cash equivalents | 1,943 | -251 |
| **Cash and cash equivalents at the end of the period** | **3,457** | **7,185** |

## 27 Parent company's separate statement of changes in equity

| | Share capital | Share premium | Statutory reserve capital | Retained earnings | **Total** |
|---|---|---|---|---|---|
| *EUR thousand* | | | | | |
| **Balance as at 31.12.2016** | **80,718** | **2,321** | **151** | **10,584** | **93,774** |
| Issue of shares | 0 | 0 | 0 | 0 | **0** |
| Dividends paid | 0 | 0 | 0 | -4,000 | -4,000 |
| Transfers to reserve capital | 0 | 0 | 525 | -525 | 0 |
| Profit for the financial period | 0 | 0 | 0 | 5,912 | 5,912 |
| **Balance as at 30.06.2017** | **80,718** | **2,321** | **676** | **11,971** | **95,686** |
| | | | | | |
| **Balance as at 31.12.2017** | **80,718** | **2,321** | **676** | **26,598** | **110,313** |
| Issue of shares | 11,420 | 3,540 | 0 | 0 | 14,960 |
| Fees for raising of capital | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | -7,022 | -7,022 |
| Transfers to reserve capital | 0 | 0 | 997 | -997 | 0 |
| Profit for the financial period | 0 | 0 | 0 | 8,627 | 8,627 |
| **Balance as at 30.06.2018** | **92,138** | **5,861** | **1,673** | **27,206** | **126,878** |

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

| | **30.06.2018** | 31.12.2017 |
|---|---|---|
| *EUR thousand* | | |
| Parent company's unconsolidated equity | 126,878 | 110,313 |
| Carrying amount of subsidiaries in the separate balance sheet of the parent company (minus) | -114,928 | -103,358 |
| Value of subsidiaries under the equity method (plus) | 114,928 | 103,358 |
| **Total** | **126,878** | **110,313** |

## ***Signatures of the members of the Management Board and Supervisory Board to the interim report ended 30 June 2018***

We hereby confirm the correctness of data presented in the interim report ended 30 June 2018 of EfTEN Kinnisvarafond II AS.

| | |
|---|---|
| _________________ | _________________ |
| Arti Arakas | Siive Penu |
| Chairman of the Supervisory Board | Member of the Supervisory Board |

| | |
|---|---|
| _________________ | _________________ |
| Sander Rebane | Olav Miil |
| Member of the Supervisory Board | Member of the Supervisory Board |

| | |
|---|---|
| _________________ | _________________ |
| Viljar Arakas | Tõnu Uustalu |
| Management Board Member | Management Board Member |