Consolidated Interim Report – Six months ended 30 June 2019

(translation of the Estonian original)

EfTEN Kinnisvarafond AS

Commercial register number: 11505393

Beginning of financial period: 01.01.2019

End of financial period: 30.06.2019

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Table of contents

MANAGEMENT REPORT

Financial overview

The consolidated sales revenue of EfTEN Kinnisvarafond AS in the first half of 2019 was EUR 7.946 million, an increase of 3% compared to the first half of 2018. The increase in sales revenue compared to the same period last year occured mainly due to rebuilding UKU Center and RAF Centrs and also due to reducing the vacancy in NTP logistics park. The Group's net profit for the same period was EUR 3.922 million (six months of 2018: EUR 4.471 million). Net profit decreased substantially due to a larger amount of paid dividends and the income tax expense related to it, also due to a loss from joint ventures (EfTEN SPV11, hotel Palace owner venture).

The consolidated gross profit margin in the first half of the year 2019 was 93% (six months of 2018: same), therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 7% of the sales revenue in the first half of 2019, as well as 2018.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 17.9% of the revenues in the first half of 2019. The respective indicator was 16.7% in the first half of 2018.

	First half of the year	
	2019	**2018**
EUR million		
Rental revenue, other fees from properties	7.946	7.724
Expenses related to investment properties, incl. marketing costs	-0.698	-0.657
Interest expense and interest income	-1.015	-0.970
Net rental revenue less finance costs	**6.233**	**6.097**
Management fees	-0.557	-0.587
Other revenue and expenses	-0.165	-0.047
Profit before change in the value of investment property, profits/losses from joint ventures and income tax expense	**5.511**	**5.463**

As at 30.06.2019, the Group's total assets were in the amount of EUR 203.791 (31.12.2018: EUR 215.246) million, including fair value of investment property, which accounted for EUR 193.428 (31.12.2018: EUR 193.212) million of total assets.

	30.06.2019	**31.12.2018**
EUR million		
Investment property	193.428	193.212
Other non-current assets	3.501	4.132
Current assets, excluding cash	0.536	0.767
Net debt	-95.718	-92.845
Net asset value (NAV)	101.747	105.266
Net asset value (NAV) per share (in euros)	2.58	2.67

Group's access to flexible financing conditions helps to improve its competitiveness. In the first half of 2019, the Group extended existing loan agreements in the total amount of EUR 20 million, incl. EUR 2.5 million of additional funds from refinancing.

The average interest rate of the Group's loan agreements (including the interest swap agreements) as at the end of the first half of 2019 was 2.0% (31.12.2018: same) and the LTV (Loan to Value) ratio was 49% (31.12.2018: same). As at 30.06.2019, 48.5% (31.12.2018: 50%) of the Group's loan agreements are linked to fixed EURIBOR levels between 0.60%-0.67%.

The dividend policy of EfTEN Kinnisvarafond AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends each accounting year. In spring 2019, EfTEN Kinnisvarafond decided at the general meeting to divide EUR 7,090 thousand, equal to 18 cents per share, from the 2018 profits. In spring 2018, EfTEN Kinnisvarafond AS paid out (net) dividends to shareholders in the amount of EUR 5,357 thousand, equal to 13.6 cents per share. Additionally, in september 2018 the extraordinary general meeting decided to reduce fund's share capital, which resulted in disburstments to shareholders in the amount of EUR 9,060 thousand (23 cents per share). Also, in autumn 2018 the extraordinary general meeting decided to distribute additional dividends in the amount of EUR 394 thousand (1 cent per share).

Key financial indicators:

For 6 months	30.06.2019	30.06.2018
ROE, % (net profit of the period / average equity of the period)x100	3.8	4.1
ROA, % (net profit of the period / average assets of the period)x100	1.9	2.1
ROIC, % (net profit of the period / average invested capital of the period)x1001	7.5	7.3
EBITDA (€ thousand)	6 577	6 517
EBITDA marginal, %	83%	84%
EBIT (€ thousand)	6,321	6,110
EBIT marginal, %	80%	79%
Liquidity ratio *(current assets / current liabilities)*	0.3	0.4
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	2.5	2.6

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

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of the first half of 2019, the Group had 19 commercial investment properties (31.12.2018: same) with a fair value as at the balance sheet date of EUR 193.428 million and acquisition cost of EUR 172.825 million. In addition, a joint venture of the Group owns the hotel Palace in Tallinn with a fair value of EUR 11.030 million as at 30.06.2019. The real estate portfolio of the Group is divided into following sectors:

- retail premises 37%; 6 investments
- office premises 27%; 6 investments
- storage and manufacturing premises 27%; 5 investments
- other (hotel and government) 9%; 2 investments

Investment property, as at 30.06.2019	Group's ownership interest, %	Cost of acquisition	Fair value	Net leasable area	Estimated rental income next year	Occupancy, %	Average length of lease agreement
Tallinn Cold Storage (Tallinna Külmhoone)	100	6,237	6,480	6,863	567	100	3,0
Kuuli 10/Punane 73	100	9,171	10,380	15,197	839	100	8,7
Betooni 1a	100	7,347	7,990	10,678	687	100	1,8
Betooni 6	100	9,781	8,960	16,838	753	96	2,4
Nordic Technology Park	100	20,627	20,683	42,230	1,928	96	1,4
Total storage and logistics		**53,163**	**54,493**	**91,806**	**4,774**	**97**	**3,1**
Võru Rautakesko	100	3,270	2,900	3,120	246	100	3,8
UKU Center	100	10,296	12,300	7,866	954	98	4,3
Mustika Center	100	31,057	36,400	27,244	2,867	90	4,3
RAF Centrs	100	8,107	8,744	6,177	766	99	2,8
Depo shopping center in Jelgava	100	2,323	2,323	*Development stage*			
Tammsaare road Rautakesko	100	12,930	14,800	9,120	1,258	100	2,7
Total retail		**67,983**	**77,467**	**53,527**	**6,091**	**97**	**3,8**
Lauteri 5	100	3,360	5,170	3,942	402	96	2,2
Pärnu mnt 102	100	12,386	16,070	9,178	1,172	93	2,3
Pärnu mnt 105	100	7,856	7,740	4,778	611	98	2,0
Kadaka road 63	100	7,411	8,420	7,610	736	92	3,0
Terbata office building	100	9,710	9,368	4,843	689	100	1,2
Menulio 11 Police Building	100	6,016	7,800	5,620	675	100	4,0
Total office		**46,739**	**54,568**	**35,971**	**4,285**	**96**	**2,4**
Rakvere Police Building (government)	100	4,940	6,900	5,744	676	100	6,3
Hotel Palace (hotels)	50	10,957	11,030	4,870	755	100	
TOTAL		**183,782**	**204,458**	**191,918**	**16,581**	**97**	**3,1**

As at 30.06.2019, the Group has a total of 329 (31.12.2018: 331) tenants. Contractual revenue generated by 12 customers' accounts for 52.3% of the consolidated rental revenue.

Customer	% of the consolidated rental revenue
Kesko Senukai Estonia AS	9.9%
Prisma Peremarket AS	9.0%
Logistika Pluss OU	5.6%
Riigi Kinnisvara	4.5%
DHL Logistics Estonia OU	4.5%
Premia Tallinna Külmhoone AS	3.7%
Eesti Energia AS	3.5%
VIniaus apskrities vyriausiasis policijos komisariatas	2.8%
Livonia Print SIA	2.7%
Kinnisvaravalduse AS	2.2%
Icefire OU	2.1%
Dukascopy Bank SA Sveices Konfederacija	2.0%
Others	48%

Investment properties in the first half of 2018

Focusing on managing the existing portfolio the Group did not make any new investments into EfTEN Kinnisvarafond. Since the Fund's investment period has ended, no new share capital is being raised in the Fund.

The maturity date of the Fund is in the year 2027. The Fund will continue to implement its strategic objectives, consisting of the disposal of smaller investments and focusing on larger investments.

Valuation of investment property

EfTEN Kinnisvarafond revalues its investment properties twice a year – in June and in December. Starting from 2016, the Group's investment property has been valued by Colliers International Advisors OÜ. As a result of revaluation, the total value of investment property decreased by 0.1% in the first half of 2019 (six months of 2018: value decreased by 0.2%) and the Group recognised a loss from fair value adjustment on investment property in the amount of EUR 0.256 (six months of 2018: loss in the amount of EUR 0.407) million.

The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The estimates of the cash flows of all properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. Compared to 2018, the exit yields and discount rates in the Group's investment portfolio remained on the same level for most of the investment properties and were correspondingly within the range of 7.0%-8.7% and 7.9% - 9.5%.

Information on shares

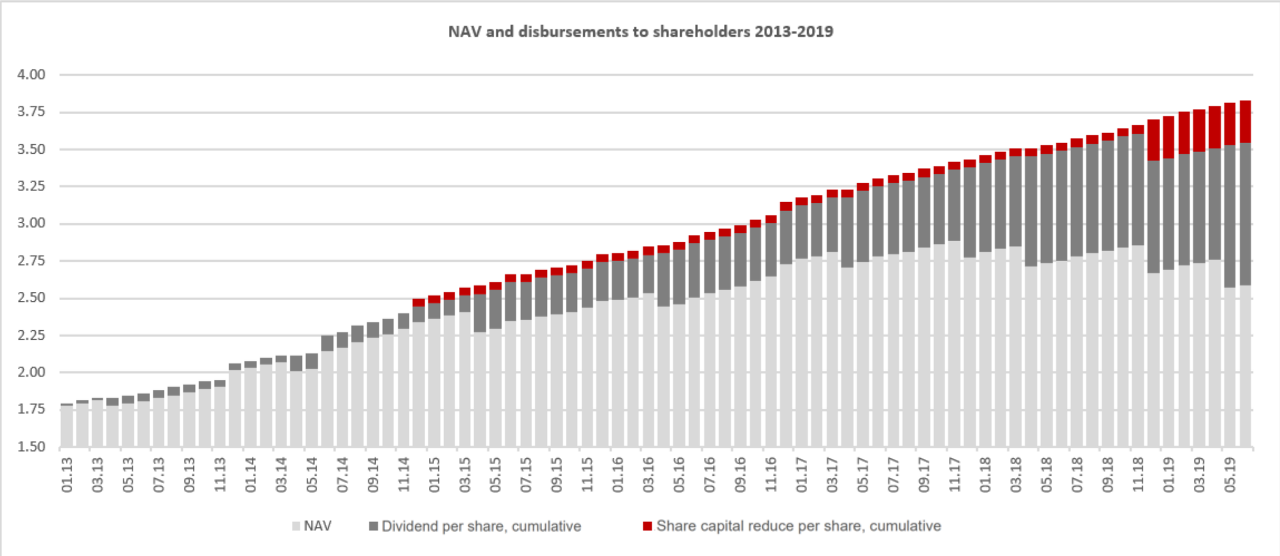
As at 30.06.2019, payments made to the share capital of EfTEN Kinnisvarafond AS total EUR 52.071 million (31.12.2018: 61.131). As at 30.06.2019, the number of shares was 39,391,371 (31.12.2018: same).

€ thousand	30.06.2019	31.12.2018
Net asset value calculated in accordance with IFRS	101,747	105,266
Number of shares at the balance sheet date	39,391,371	39,391,370
IFRS net asset value per share, in euros	2.58	2.67

In addition to NAV calculated in accordance with IFRS, EfTEN Kinnisvarafond AS also calculates NAV, which is recommended by EPRA (European Public Real Estate Association), in order to offer investors the most up to date fair value of net assets. The EPRA recommended guide requires a long-term economic strategy for real estate companies and therefore temporary differences in situations, where asset sales are unlikely to occur in the foreseeable future, obscure the transparency of the fair value of the fund's net assets. Therefore, the fair value of deferred tax expense on investment property and the fair value of financial instruments (interest swaps) are eliminated from the net asset value calculated in accordance with IFRS.

€ thousand	30.06.2019	30.06.2018
Net asset value calculated in accordance with IFRS	101,747	108,405
Exclusion of deferred income tax on investment properties	444	395
Exclusion of fair value of financial instruments	1,533	1,186
EPRA net asset value	**103,724**	**109,986**

Number of shares at the balance sheet date	39,391,371	39,391,370
EPRA net asset value per share, in euros	**2.63**	**279**
EPRA NAV growth, in euros	-0.08	-0.02
Dividend paid per share, in euros	0.18	0.14
Income tax on dividends paid per share, in euros	0.032	0.03
Reduction of share capital per share, in euros	0.00	0.00
Period earnings per share, in euros	**0.133**	**0.148**
Period earnings per share, growth	**4.9%**	**5.3%**



Shareholder structure of EfTEN Kinnisvarafond AS as at 30.06.2019

	Shareholding, %
LHV Pension Funds	46.5
Trio Holding OÜ	11.1
Ambient Sound Investments OÜ	6.3
Swedbank Pension Funds	3.7
Luminor Pension Funds	3.1
Others	29.3

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE FIRST HALF OF 2019

CONSOLIDATED INCOME STATEMENT

		First half of the year	
	Notes	2019	2018
€ thousand			
Revenue	4,5	7,946	7,724
Cost of services sold	6	-583	-547
Gross profit		**7,363**	**7,177**
Marketing costs	7	-115	-110
General and administrative expenses	8	-678	-724
Gain / loss from revaluation of investment properties	15	-256	-407
Other income and expenses		7	174
Operating profit	**4**	**6,321**	**6,110**
Profit/ (-loss) from subsidiaries and joint ventures	9	-67	414
Interest income		1	1
Finance costs	10	-1,016	-971
Profit before income tax		**5,239**	**5,554**
Income tax expense	11	-1,317	-1,083
Net profit for the financial year	**4,12**	**3,922**	**4,471**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		First half of the year	
		2019	2018
€ thousand			
Net profit for the financial year		3,922	4,471
Other comprehensive profit/ -loss:			
Profit/ -loss from revaluation of hedging instruments	19	-351	-91
Total other comprehensive profit/ -loss		**-351**	**-91**
Total comprehensive income for the financial year		**3,571**	**4,380**

Notes on pages 10-35 are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2019	31.12.2018
€ thousand			
ASSETS			
Cash and cash equivalents	13	6,326	17,135
Receivables and accrued income	14	458	722
Prepaid expenses		64	31
Inventories		14	14
Total current assets		**6,862**	**17,902**
Long-term receivables	14	80	51
Investments in joint ventures	3	3,378	4,044
Investment property	4,15	193,428	193,212
Property, plant and equipment		43	37
Total non-current assets		**196,929**	**197,344**
TOTAL ASSETS		**203,791**	**215,246**
LIABILITIES AND EQUITY			
Borrowings	16	24,456	39,445
Derivative instruments	19	1,533	1,182
Payables and prepayments	17	693	9,821
Total current liabilities		**26,682**	**50,448**
Borrowings	16	70,163	54,300
Other long-term liabilities	17	761	792
Success fee liability	18	3,994	4,045
Deferred income tax liability	11	444	395
Total non-current liabilities		**75,362**	**59,532**
Total liabilities		**102,044**	**109,980**
Share capital	20	19,696	23,635
Share premium		32,375	37,496
Statutory reserve capital	20	4,084	3,544
Reserve for reduction of share capital	20	0	-9,060
Hedging reserve	19	-1,533	-1,182
Retained earnings	21	47,125	50,833
Omakapital kokku		**101,747**	**105,266**
KOHUSTUSED JA OMAKAPITAL KOKKU		**203,791**	**215,246**

Notes on pages 10-35 are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	First half of the year 2019	2018
€ thousand			
Net profit		**3,922**	**4,471**
Adjustments to net profit:			
Gain/-loss from joint ventures	9	67	-414
Interest income		-1	0
Finance costs	10	1,016	971
Gains/-losses from investment property revaluation	15	256	407
Gain/-loss on sale of investment property		0	-50
Change in the success fee liability	8	-51	-34
Depreciation, amortization and impairment		5	5
Income tax expense	11	1,317	1,083
Total adjustments with non-cash changes		**2,609**	**1,967**
Cash flow from operations before changes in working capital		**6,531**	**6,438**
Change in receivables and payables related to operating activities		68	78
Net cash generated from operating activities		**6,599**	**6,516**
Purchase of property, plant and equipment		-9	-1
Purchase of investment property		-451	-3,491
Proceeds from sale of investment property		0	1,800
Dividends received	3	600	0
Interest received		1	1
Net cash generated from investing activities		**141**	**-1,691**
Loans received	16	2,500	2,665
Loan repayments on sale and refinancing of investment properties	16	0	-661
Scheduled loan repayments	16	-1,606	-1,348
Interest paid		-1,025	-967
Reduction of share capital	20	-9,060	0
Dividends paid	19	-7,090	-9,457
Income tax paid on dividends	12	-1,268	-2,021
Net cash generated from financing activities		**-17,549**	**-11,789**
NET CASH FLOW		**-10,809**	**-6,964**
Cash and cash equivalents at the beginning of the period	13	**17,135**	**21,978**
Change in cash and cash equivalents		-10,809	-6,964
Cash and cash equivalents at the end of the period	13	**6,326**	**15,014**

Notes on pages 10-35 are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANSES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	**Total**	Share capital
€ thousand							
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**-1,095**	**46,322**	**109,382**
Dividends announced	0	0	0	0	0	-5,357	**-5,357**
Transfers to statutory reserve capital	0	0	520	0	0	-520	**0**
Total transactions with owners	**0**	**0**	**520**	**0**	**0**	**-5,877**	**-5,357**
Net profit for the financial year	0	0	0	0	0	4,471	**4,471**
Other comprehensive loss	0	0	0	0	-91	0	**-91**
Total comprehensive income	**0**	**0**	**0**	**0**	**-91**	**4,471**	**4,380**
Balance as at 30.06.2018	**23,635**	**37,496**	**3,544**	**0**	**-1,186**	**44,915**	**108,405**
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**-1,182**	**50,833**	**105,266**
Reduction of share capital	-3,939	-5,121	0	9,060	0	0	**0**
Dividends announced	0	0	0	0	0	-7,090	**-7,090**
Transfers to statutory reserve capital	0	0	540	0	0	-540	**0**
Total transactions with owners	**-3,939**	**-5,121**	**540**	**9,060**	**0**	**-7,630**	**-7,090**
Net profit for the financial period	0	0	0	0	0	3,922	**3,922**
Other comprehensive loss	0	0	0	0	-351	0	**-351**
Total comprehensive income	**0**	**0**	**0**	**0**	**-351**	**3,922**	**3,571**
Balance as at 30.06.2019	**19,696**	**32,375**	**4,084**	**0**	**-1,533**	**47,125**	**101,747**

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

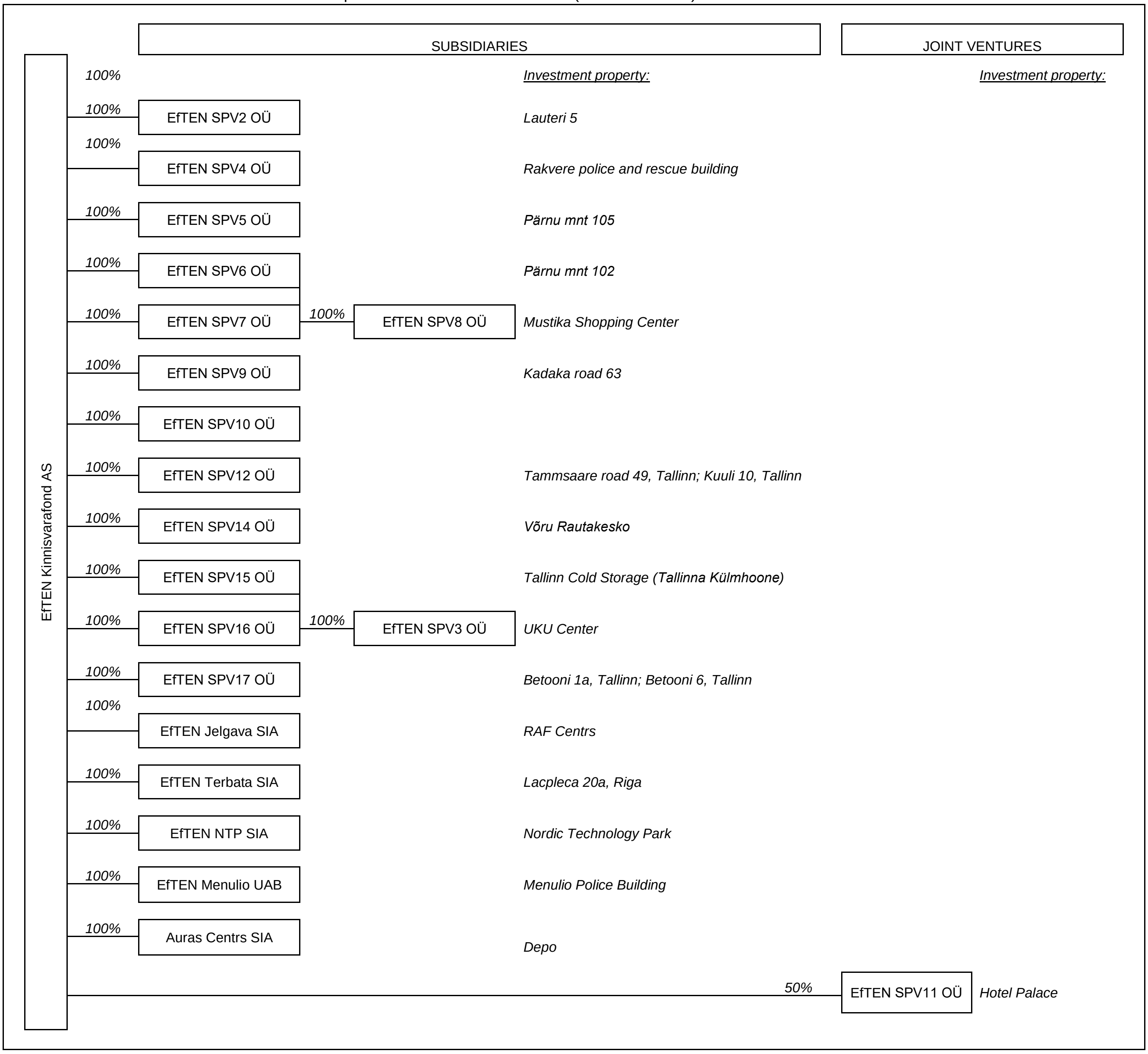
Notes on pages 10-35 are an integral part of the interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

The structure of EfTEN Kinnisvarafond AS Group as at 30.06.2018 is as follows (see also Note 3):



2 Statement of compliance and basis for preparation

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

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

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

2.1 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

2.1.1 Estimation uncertainty

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

a) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. Starting from the year 2016, the Group's investment property is valued by

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

Additional information on the assumptions and sensitivity used in valuation can be found in Note 15.

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

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

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

2.1.2 Classification of real estate

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond 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 AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. In addition, 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 AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond 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. The Group's business activities are also assessed based on rental income, profit margins, volume of assets and other financial ratios characteristic to real estate companies, which cannot be made only based on a fair value of the subsidiary.

2.1.3 Investment company

The Group's management has assessed their compliance with the definition of an investment company, and finds that EfTEN Kinnisvarafond 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 AS expect their capital investment to both increase asset value and generate profit from current economic activity, EfTEN Kinnisvarafond AS in its investments assumes significant development risks that are characteristic to more traditional real estate company. In addition, 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 AS, the fair value is assessed indirectly - assets that are in the subsidiaries of EfTEN Kinnisvarafond 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. The Group's business activities are also assessed based on rental income, profit margins, volume of assets and other financial ratios characteristic to real estate companies, which cannot be made only based on a fair value of the subsidiary.

Consolidation

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

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

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

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

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

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

Segment reporting

The Group allocates raised capital and available resources for investments in accordance with the Group's investment policy, analyzing 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:

<table>
<tr><th>Premises / Country</th><th>Estonia</th><th>Latvia</th><th>Lithuania</th></tr>
<tr><td rowspan="4">Office premises</td><td>Lauteri 5, Tallinn</td><td>Terbata Office Building, Riga</td><td>Menulio 11, Vilnius</td></tr>
<tr><td>Pärnu mnt 105, Tallinn</td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td>Pärnu mnt 102, Tallinn</td></tr>
<tr><td>Kadaka road 63</td></tr>
<tr><td rowspan="4">Storage and manufacturing premises</td><td>Kuuli 10, Tallinn</td><td>Nordic Technology Park, Riga</td><td rowspan="4"></td></tr>
<tr><td>Premia Cold Storage, Tallinn</td><td rowspan="3"></td></tr>
<tr><td>Betooni 1a, Tallinn</td></tr>
<tr><td>Betooni 6, Tallinn</td></tr>
<tr><td rowspan="4">Retail premises</td><td>UKU Center, Viljandi</td><td>RAF Centrs, Jelgava</td><td rowspan="4"></td></tr>
<tr><td>Mustika Shopping Center, Tallinn</td><td>Depo, Jelgava</td></tr>
<tr><td>Tammsaare road Rautakesko</td><td rowspan="2"></td></tr>
<tr><td>Võru Rautakesko</td></tr>
<tr><td>Government</td><td>Rakvere Police Building</td><td></td><td></td></tr>
</table>

The main indicators used by the management in making business decisions are 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 and joint ventures in the separate balance sheet of the parent company

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

Revenue recognition

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

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

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

<u>Finance income</u>

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 2019, 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 recognised.

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.

Investment property

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

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

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

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

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

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property. Period expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 8).

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

<u>Parent company and subsidiaries registered in Estonia and Latvia</u>

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

<u>Subsidiaries in Lithuania</u>

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

3 Subsidiaries and joint ventures

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			30.06.2019	31.12.2018
Parent company				
EfTEN Kinnisvarafond AS	Estonia			
Subsidiaries				
EfTEN SPV2 OÜ	Estonia	Lauteri 5, Narva mnt 59 Tallinn	100	100
EfTEN SPV3 OÜ	Estonia	UKU Center, Viljandi	100	100
EfTEN SPV4 OÜ	Estonia	Rakvere Police Building	100	100
EfTEN SPV5 OÜ	Estonia	Pärnu mnt 105, Tallinn	100	100
EfTEN SPV6 OÜ	Estonia	Pärnu mnt 102, Tallinn	100	100
EfTEN SPV7 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV8 OÜ	Estonia	Mustika Centre, Tallinn	100	100
EfTEN SPV9 OÜ	Estonia	Kadaka road 63, Tallinn	100	100
EfTEN SPV10 OÜ	Estonia	-	100	100
EfTEN SPV12 OÜ	Estonia	Kuuli 10; Tammsaare road Rautakesko	100	100
EfTEN SPV14 OÜ	Estonia	Võru Rautakesko	100	100
EfTEN SPV15 OÜ	Estonia	Tallinn Cold Storage (Tallinna Külmhoone)	100	100
EfTEN SPV16 OÜ	Estonia	Narva Prisma – investment property sold	100	100
EfTEN SPV17 OÜ	Estonia	Betooni 1a, Betooni 6, Tallinn	100	100
EfTEN Jelgava SIA	Latvia	RAF shopping center, Jelgava	100	100
EfTEN NTP SIA	Latvia	Nordic Technology Park, Riga	100	100
EfTEN Terbata SIA	Latvia	Lāčplēša iela 20A, Riga	100	100
Auras Centrs SIA	Latvia	Depo building materials' store property	100	100
EfTEN Menulio UAB	Lithuania	Menulio Police Building	100	100
Joint ventures				
EfTEN SPV11 OÜ	Estonia	Palace Hotel	50	50

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

As at 30.06.2019, the Group owned one joint venture. The key financial indicators of the joint venture are provided in the table below:

EfTEN SPV11 OÜ	**30.06.2019 or for 6 months of the year 2019**	**30.06.2018 or for 6 months of the year 2018**
€ thousand		
Cash and cash equivalents	196	1,304
Other current assets	88	86
Total current assets	**284**	**1,390**
Investment property	11,030	10,810
Total non-current assets	**11,030**	**10,810**
TOTAL ASSETS	**11,314**	**12,200**
Short-term borrowings	4,542	100
Other short-term liabilities	17	82
Total current liabilities	**4,559**	**182**
Long-term borrowings	0	4,540
Total non-current liabilities	**0**	**4,540**
TOTAL LIABILITIES	**4,559**	**4,722**
NET ASSETS	**6,755**	**7,478**
Revenue	304	317
Net income	**-133**	**829**

In 2019 and 2018, the following changes have occurred in investments in joint ventures:

	30.06.2019	30.06.2018
Carrying value at the beginning of period	**4,044**	**3,325**
Dividends received ,	-600	0
Profit from joint ventures using the equity metho (Note 9)	-66	414
Carrying value at the end of period	**3,378**	**3,739**

The net assets of the entire entity EfTEN SPV11 OÜ as at 30.06.2019 amounted to EUR 6,755 thousand (30.06.2018: EUR 7,748 thousand). The Group owns 50% of the joint venture and therefore the value of the entity in the group's balance sheet equals the value of the joint venture entity's net assets.

4 *Segment reporting*

SEGMENT INCOME

	Office		Storage and manufacturing		Retail		Government		Unallocated		Total	
First half of the year	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
€ thousand												
Revenue (Note 5), incl.	**2,062**	**2,130**	**2,429**	**2,331**	**3,119**	**2,934**	**336**	**329**	**0**	**0**	**7,946**	**7 724**
Estonia	1,374	1,419	1,400	1,413	2,728	2,620	336	329	0	0	5,838	5 781
Latvia	325	359	1,029	918	391	314	0	0	0	0	1,745	1 591
Lithuania	363	352	0	0	0	0	0	0	0	0	363	352
Net revenue, incl.	**1,885**	**1,896**	**2,282**	**2,181**	**2,797**	**2,711**	**284**	**279**	**0**	**0**	**7,248**	**7 067**
Estonia	1,217	1,244	1,327	1,365	2,484	2,466	284	279	0	0	5,312	5 354
Latvia	298	351	955	816	313	245	0	0	0	0	1,566	1 412
Lithuania	370	301	0	0	0	0	0	0	0	0	370	301
Operating profit, incl.	**1,414**	**1,965**	**2,197**	**1,061**	**2,465**	**2,924**	**328**	**300**	**-83**	**-139**	**6,321**	**6 111**
Estonia	847	1,387	1,368	371	2,256	2,624	328	300	-83	-139	4,716	4 543
Latvia	209	309	829	690	209	300	0	0	0	0	1,247	1 299
Lithuania	358	269	0	0	0	0	0	0	0	0	358	269
EBITDA, incl.	**1,723**	**1,729**	**1,713**	**1,982**	**1,943**	**2,547**	**280**	**276**	**-83**	**-94**	**5,576**	**6 440**
Estonia	1,116	1,143	845	1,253	1,713	2,394	280	276	-83	-94	3,871	4 972
Latvia	265	309	868	729	230	153	0	0	0	0	1,363	1 191
Lithuania	342	277	0	0	0	0	0	0	0	0	342	277
Operating profit											**6,321**	**6 111**
Profit /-loss from subsidiaries and joint ventures (Note 9)											-67	414
Net finance expenses (Note 10)											-1,015	-971
Profit before income tax											**5,239**	**5 554**
Income tax expenses (Note 11)											-1,317	-1 083
Net profit for the reporting period											**3,922**	**4,471**

SEGMENT ASSETS

	Office		Storage and manufacturing		Retail		Government		Total	
As at balance sheet date	**30.06.19**	31.12.18	**30.06.19**	31.12.18	**30.06.19**	31.12.18	**30.06.19**	31.12.18	**30.06.19**	31.12.18
€ thousand										
Investment property (Note 15)										
Estonia	37,400	37,450	33,810	33,640	66,400	66,360	6,900	6,840	144,510	144,290
Latvia	9,368	9,416	20,683	20,659	11,067	11,067	0	0	41,118	41,142
Lithuania	7,800	7,780	0	0	0	0	0	0	7,800	7,780
Total investment property	**54,568**	**54,646**	**54,493**	**54,299**	**77,467**	**77,427**	**6,900**	**6,840**	**193,428**	**193,212**
Other non-current assets									3,501	4,132
Net debt									-95,718	-92,845
Other current assets									536	767
NET ASSETS									**101,747**	**105,266**

In the first half of 2019 and 2018, 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 owns the investment property.

5 Revenue

Areas of activity	First half of the year 2019	2018
€ thousand		
Rental income from office premises	1,982	2,041
Rental income from government institutions	336	329
Rental income from retail premises	3,007	2,834
Rental income from warehousing and logistics premises	2,292	2,220
Rental income from parking premises	83	71
Other sales revenue	246	229
Total revenue by areas of activity	**7,946**	**7,724**

Geographical areas	First half of the year 2019	2018
€ thousand		
Estonia	5,838	5,781
Latvia	1,746	1,591
Lithuania	362	352
Total revenue by geographical areas	**7,946**	**7,724**

10.5% of the consolidated rental income of the Group in the first half of the year 2018 comes from Kesko Senukai Estonia OÜ, which rents commercial and office premises in three properties that belong to the subsidiaries of the Group. The revenue proportion of other tenants is less than 10% of the consolidated revenue.

6 Cost of services sold

Cost of services sold	First half of the year 2019	2018
€ thousand		
Repair and maintenance of rental premises	-194	-223
Property insurance	-29	-28
Land tax and real-estate tax	-88	-86
Improvement costs	-193	-122
Utilities for vacant spaces	-72	-56
Depreciation	-4	-3
Impairment losses on doubtful receivables	0	1
Other expenses of services sold	-3	-30
Total cost of services sold (Note 15)	**-583**	**-547**

7 Marketing costs

	First half of the year	
	2019	2018
€ thousand		
Commission expenses on rental premises	-11	-42
Advertising, promotional events	-104	-68
Total marketing costs	**-115**	**-110**

8 General and administrative expenses

	First half of the year	
	2019	2018
€ thousand		
Management services (Note 22)	-557	-587
Office expenses	-16	-13
Wages and salaries, incl. taxes	-45	-25
Consulting expenses	-72	-96
Regulatory expenses	-34	-32
Change in success fee liability (Note 18)	51	34
Other general and administrative expenses	-3	-3
Depreciation	-2	-2
Total general and administrative expenses	**-678**	**-724**

9 Profit/loss from subsidiaries and joint ventures

	First half of the year	
	2019	2018
€ thousand		
Profit from joint ventures using the equity method (Note 3)	-67	414
Total profit/loss from subsidiaries and joint ventures	**-67**	**414**

10 Finance costs

	First half of the year	
	2019	2018
€ thousand		
Interest expenses, incl.	-1,016	-971
Interest expense on borrowings	-785	-730
Interest expense on derivatives (-)/ reduction of expense (+)	-231	-241
Total finance costs	**-1,016**	**-971**

11 Income tax

	First half of the year	
	2019	2018
€ thousand		
Income tax expenses on dividends	-1,268	-1,006
Deferred income tax expense	-49	-77
Total income tax expense (Note 4)	**-1,317**	**-1,083**

As at 30.06.2019, the Group has a deferred income tax liability in relation to tax depreciation in Lithuanian subsidiaries in the amount of EUR 444 (31.12.2018: 395) thousand.

12 Share profit

	First half of the year	
	2019	2018
Net profit income, € thousand	**3,922**	4,471
Weighted average number of shares over the period, in pcs	**39,391,371**	39,391,371
Earnings per share, in EUR	**0.10**	0.11
Dividend per share, in EUR	**18.00**	14.60

13 Cash and cash equivalents

	30.06.2019	31.12.2018
€ thousand		
Demand deposits	5,856	17,134
Term deposits	470	0
Cash	0	1
Total cash and cash equivalents	**6,326**	**17,135**

14 Receivables and accrued income

Short-term receivables and accrued income

	30.06.2019	31.12.2018
€ thousand		
Receivables from customers	355	457
Allowance for doubtful trade receivables	-3	-3
Total trade receivables (Note 19)	**352**	**454**
Prepaid taxes and receivables for reclaimed value-added tax	1	9
Other accrued income	105	259
Total accrued income	**106**	**268**
Total receivables (Note 19)	**458**	**722**

Non-current receivables

	30.06.2019	31.12.2018
€ thousand		
Prepayments and receivables related to real estate development projects (Note 15)	80	51
Total non-current receivables	**80**	**51**

15 Investment property

As at 30.06.2019, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m2	Date of acquisition	Acquisition cost	Market value at 30.06.2019	Share of market value of the Fund's assets
€ thousand						
Tallinn Cold Storage (Tallinna Külmhoone)	Betooni 4, Tallinn	6,863	September 08	6,237	6,480	3%
Võru Rautakesko	Kreutzwaldi 89, Võru	3,120	September 08	3,270	2,900	1%
UKU Centre	Tallinna 41, Viljandi	7,866	August 10	10,296	12,300	6%
Rakvere Police Building	Kreutzwaldi 5a, Rakvere	5,744	November 10	4,940	6,900	3%
Lauteri 5	Lauteri 5, Tallinn	3,942	December 10	3,360	5,170	3%
Pärnu mnt 102	Pärnu mnt 102, Tallinn	9,178	December 11	12,386	16,070	8%
Pärnu mnt 105	Pärnu mnt 105, Tallinn	4,778	December 11	7,856	7,740	4%
Mustika Centre	Tammsaare road 116	27,244	July 12	31,057	36,400	18%
RAF Centrs	Riia mnt 48, Jelgava	6,177	March 13	8,107	8,744	4%
Kadaka road 63	Kadaka road 63, Tallinn	7,610	January 13	7,411	8,420	4%
Kuuli 10/Punane 73	Kuuli 10/Punane 73, Tallinn	15,197	July 13	9,171	10,380	5%
Tammsaare road Rautakesko	Tammsaare road 49, Tallinn	9,120	July 13	12,930	14,800	7%
Betooni 1a	Betooni 1a, Tallinn	10,678	June 14	7,347	7,990	4%
Betooni 6	Betooni 6, Tallinn	16,838	June 14	9,781	8,960	4%
Terbata office bulding	Lacpleca 20a, Riga	4,843	December 14	9,710	9,368	5%
Nordic Technology Park	Jūrkalnes 15/25, Riia, Läti	42,230	August 14	20,627	20,683	10%
Menulio Police Building	Menulio 11, Vilnius	5,620	December 15	6,016	7,800	4%
Depo shopping center	Jelgava, Läti	development stage	January 15	2,323	2,323	1%
Total		**187,048**		**172,825**	**193,428**	**95%**

In addition to the investment properties presented in the table above, the Group's joint venture with a 50% ownership interest, EfTEN SPV11 OÜ, owns an investment property at Vabaduse square 3 /Pärnu mnt 14, Tallinn (Palace Hotel). The investment property was acquired in 2013 and its fair value as at 30.06.2019 is EUR 11 030 (31.12.2018: EUR 10 810) thousand.

In 2019 and 2018, the following changes have occurred in the Group's investment property:

	Investment propety in the development stage	Completed investment propety	**Total investment property**
Balace as at 31.12.2017 (Note 4)	**2,317**	**187,124**	**189,441**
Acquisitions and developments	4	2,882	**2,886**
Capitalized improvements	0	252	**252**
Disposals	0	-1,900	**-1,900**
Gain/loss on changes in the fair value (Note 9)	0	-407	**-407**
Balance as at 30.06.2018 (Note 4)	**2,321**	**187,951**	**190,272**
Balance as at 31.12.2018 (Note 4)	**2,323**	**190,889**	**193,212**
Capitalized improvements	0	472	**472**
Gain/loss on changes in the fair value (Note 9)	0	-256	**-256**
Balance as at 30.06.2019 (Note 4)	**2,323**	**191,105**	**193,428**

he 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	
As at 30 June or first half of the year	30.06.2019	30.06.2018
Rental income earned on investment property (Note 5)	7,700	7,495
Expenses directly attributable to management of investment property (Note 6)	-583	-547
Carrying amount of investment property pledged as collateral to borrowings (Note 16)	191,105	187,951

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

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

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 30.06.2019 and 31.12.2018 was determined using the discounted cash flow method. The following assumptions were used to determine fair value:

Balance as at 30.06.2019:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent €/m2
€ thousand						
Office premises	54,568	Discounted cash flows	4,286	7.9%-8.5%	7.0%-8.0%	10.3
Storage and manufacturing premises	54,493	Discounted cash flows	4,773	8.6%-9.5%	7.8%-8.7%	4.3
Retail premises	75,144	Discounted cash flows	6,092	8.1%-9.2%	7.5%-8.5%	8.3
Government	6,900	Discounted cash flows	676	9.0%	8.2%	9.7
Investment property in development phase	2,323	Comparable offerings	-	-	-	-
Total	**193,428**					

Balance as at 31.12.2018:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent €/m2
€ thousand						
Office premises	54,646	Discounted cash flows	4,340	7.9%-8.6%	7.0%-8.0%	10.5
Storage and manufacturing premises	54,299	Discounted cash flows	4,720	8.6%-9.5%	7.8%-8.7%	4.2
Retail premises	75,104	Discounted cash flows	6,030	8.1%-9.2%	7.5%-8.5%	8.2
Government	6,840	Discounted cash flows	669	9.0%	8.2%	9.6
Investment property in development phase	2,323	Comparable offerings	-	-	-	-
Total	**193,212**					

Independent expert valuation as to 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 **as at 30.06.2019** the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	**Sensitivity to management estimates**			**Sensitivity to discount rate and capitalization rate**				
	Assessment	**Effect of decrease**	**Effect of**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Office premises	Change in rental income +/-10%	*-5,938*	*5,962*	Change in the capitalization rate	-0.5%	*58,560*	*57,360*	*56,210*
					0.0%	*55,690*	*54,568*	*53,490*
					0.5%	*53,190*	*52,120*	*51,090*
Storage and manufacturing premises	Change in rental income +/-10%	*-5,963*	*5,967*	Change in the capitalization rate	-0.5%	*58,030*	*56,890*	*55,780*
					0.0%	*55,570*	*54,493*	*53,440*
					0.5%	*53,410*	*52,370*	*51,350*
Retail premises	Change in rental income +/-10%	*-8,096*	*8,067*	Change in the capitalization rate	-0.5%	*80,346*	*78,737*	*77,183*
					0.0%	*76,664*	*75,144*	*73,639*
					0.5%	*73,407*	*71,955*	*70,547*
Government	Change in rental income +/-10%	*-810*	*830*	Change in the capitalization rate	-0.5%	*7,360*	*7,210*	*7,070*
					0.0%	*7,050*	*6,900*	*6,780*
					0.5%	*6,780*	*6,650*	*6,520*

Balance as at 31.12.2018

Sector	**Sensitivity to management estimates**			**Sensitivity to discount rate and capitalization rate**				
	Assessment	**Effect of decrease to valye**	**Effect of increase to value**			Change in discount rate		
						-0.5%	0.0%	0.5%
€ thousand						*Fair value*		
Office premises	Change in rental income +/-10%	*-5,906*	*5,894*	Change in the capitalization rate	-0.5%	*58,570*	*57,380*	*56,230*
					0.0%	*55,770*	*54,646*	*53,570*
					0.5%	*53,310*	*52,270*	*51,220*
Storage and manufacturing premises	Change in rental income +/-10%	*-5,959*	*5,941*	Change in the capitalization rate	-0.5%	*57,820*	*56,680*	*55,560*
					0.0%	*55,380*	*54,299*	*53,220*
					0.5%	*53,200*	*52,170*	*51,150*
Retail premises	Change in rental income +/-10%	*-8,019*	*7,958*	Change in the capitalization rate	-0.5%	*80,274*	*78,664*	*77,099*
					0.0%	*76,605*	*75,104*	*73,588*
					0.5%	*73,350*	*71,906*	*76,528*
Government	Change in rental income +/-10%	*-810*	*810*	Change in the capitalization rate	-0.5%	*7,280*	*7,140*	*7,000*
					0.0%	*6,980*	*6,840*	*6,710*
					0.5%	*6,710*	*6,580*	*6,450*

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

16 Borrowings

As at 30.06.2019, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2019	Contract terrm	Interest rate as 30.06.2019	Loan collateral	Value of collateral	Share of the Fund's net asset value
SEB	Estonia	4,300	3,270	30.04.22	1.45%	mortgage - Betooni 4, Tallinn	6,480	3.2%
DnB Nord	Estonia	2,239	1,507	15.12.20	1.70%	mortgage - Kreutzwaldi 89, Võru	2,900	1.5%
SEB	Estonia	2,514	1,929	13.06.21	1.80%	mortgage - Lauteri 5, Tallinn	5,170	1.9%
SEB	Estonia	7,029	5,313	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	12,300	5.2%
Swedbank	Estonia	4,133	3,085	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	6,900	3.0%
Swedbank	Estonia	4,153	3,939	30.08.23	1.95%	mortgage - Pärnu mnt 105, Tallinn	7,740	3.9%
Swedbank	Estonia	8,508	8,274	30.08.23	1.50%	mortgage - Pärnu mnt 102, Tallinn	16,070	8.1%
SEB	Estonia	20,000	16,851	31.08.19	1.33%	mortgage - Tammsaare road 116, Tallinn	36,400	16.6%
SEB	Estonia	4,740	3,807	29.12.20	1.47%	mortgage - Kadaka road 63, Tallinn	8,420	3.7%
Swedbank	Estonia	15,622	14,997	25.06.23	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,180	14.7%
SEB	Latvia	12,060	10,518	08.08.24	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,683	10.3%
SEB	Estonia	9,300	9,279	26.06.22	1.95%	mortgage - Betooni 1a, Betooni 6, Tallinn	16,950	9.1%
SEB	Latvia	4,561	3,932	17.04.22	3.00%	mortgage - Rigas Street 48, Jelgava	8,744	3.9%
Swedbank	Latvia	5,850	4,839	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,368	4.8%
Swedbank	Lithuania	3,786	3,188	07.12.20	2.15%	mortgage - Menulio 11, Vilnius	7,800	3.1%
Total		**108,795**	**94,728**				**191,105**	**93.1%**

As at 31.12.2018, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2019	Contract term	Interest rate as 30.06.2019	Loan collateral	Value of collateral	Share of the Fund's net asset value
SEB	Estonia	4,300	3,325	30.04.22	1.45%	mortgage - Betooni 4, Tallinn	6,410	3.3%
DnB Nord	Estonia	2,239	1,557	15.12.20	1.70%	mortgage - Kreutzwaldi 89, Võru	2,880	1.5%
SEB	Estonia	2,514	1,929	16.06.21	1.80%	mortgage - Lauteri 5, Tallinn	12,300	1.9%
SEB	Estonia	7,029	5,496	31.05.22	1.80%	mortgage - Tallinna 41, Viljandi	6,840	5.4%
Swedbank	Estonia	4,133	3,142	25.10.22	1.50%	mortgage - Kreutzwaldi 52, Rakvere	5,140	3.1%
Swedbank	Estonia	4,153	3,056	30.08.23	1.95%	mortgage - Pärnu mnt 105, Tallinn	7,610	3.0%
Swedbank	Estonia	8,508	6,902	30.08.23	1.50%	mortgage - Pärnu mnt 102, Tallinn	16,110	6.8%
SEB	Estonia	20,000	17,029	31.08.19	1.33%	mortgage - Tammsaare road 116, Tallinn	36,380	16.7%
SEB	Estonia	4,740	3,848	29.12.20	1.47%	mortgage - Kadaka road 63, Tallinn	8,590	3.8%
Danske	Estonia	15,622	15,310	25.06.23	1.30%	mortgage - Tammsaare 49, Kuuli 10, Tallinn	25,100	15.0%
SEB	Latvia	12,060	10,629	08.08.19	1.48%	mortgage - Jurkalnes iela 15/25, Riga	20,659	10.4%
Danske	Estonia	10,755	9,362	28.06.19	1.50%	mortgage - Betooni 1a, Betooni 6, Tallinn	16,930	9.2%
SEB	Latvia	4,561	3,983	17.04.22	3.00%	mortgage - Rigas Street 48, Jelgava	8,744	3.9%
Swedbank	Latvia	5,850	4,970	30.04.20	1.90%	mortgage - Lacpleca 20, Riga	9,416	4.9%
Swedbank	Lithuania	3,786	3,298	07.12.20	2.15%	mortgage – Menulio 11, Vilnius	7,780	3.2%
Total		**110,250**	**93,836**				**190,889**	**92.2%**

Short-term borrowings	**30.06.2019**	31.12.2018
€ thousand		
Repayments of long-term bank loans in the next period	24,494	39,487
Discounted contract fees on bank loans	-38	-42
Total short-term borrowings	**24,456**	**39,445**

[1] Among repayments of long-term bank loans in the next period as at 30.06.2019 there is a loan of a subsidiary from SEB bank in amount of EUR 16,851 thousand. This loan agreement was extended after the balance sheet date in July 2019.

Long-term borrowings	**30.06.2019**	31.12.2018
€ thousand		
Total long-term borrowings	**94,619**	**93,745**
Incl. current portion of borrowings	24,456	39,445
Incl. non-current portion of borrowings, incl.	70,163	54,300
Bank loans	*70,233*	*54,347*
Discounted contract fees on bank loans	-70	*-47*

Bank loans are divided as follows according to repayment date:

Bank loan repayments by repayment date	30.06.2019	31.12.2018
€ thousand		
Less than 1 year	24,494	39,487
2-5 years	70,233	54,347

	First half of the year	
Cash flows of borrowings	**2019**	2018
€ thousand		
Balance at the beginning of period	**93,745**	**92,155**
Bank loans received	2,500	2,665
Bank loans returned on refinancing and sale of investments	0	-661
Annuity payments on bank loans	*-1,606*	-1,348
Discounted change of contract fees	*-20*	6
Balance at the end of period	**94,619**	**92,817**

For additional information on borrowings, please see Note 19.

17 Payables and prepayments

Short-term payables and prepayments

	30.06.2019	31.12.2018
€ thousand		
Other trade payables	123	138
Total trade payables	**123**	**138**
Other payables	28	19
Total other payables	**28**	**19**
Value added tax	249	292
Personal income tax	2	2
Social tax	3	4
Land tax and real-estate tax	8	28
Other tax liabilities	1	2
Total tax liabilities	**263**	**328**
Interest payable	41	30
Payables to employees	5	5
Payables to shareholders[1]	0	9 060
Tenant security deposits	195	188
Other accrued liabilities	23	42
Total accrued expenses	**264**	**9 325**
Other deferred income	15	11
Total prepayments	**15**	**11**
Total payables and prepayments (Note 19)	**693**	**9 821**

Long-term payables

	30.06.2019	31.12.2018
€ thousand		
Tenant security deposits	761	792
Total other long-term payables (Note 19)	**761**	**792**

18 Success fee liability

As at 30.06.2019, the Group has accumulated a success fee liability in the amount of EUR 3,994 (31.12.2018: EUR 4,045) thousand. The basis for accrual-based calculation of the success fee is the fair value assessment of investment property. The change of the success fee liability is recorded among the Group's general administration expenses (Note 8).

19 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	30.06.2019	31.12.2018
€ thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	13	6,326	17,135
Trade receivables	14	352	454
Total financial assets		**6,678**	**17,589**
Financial liabilities measured at amortized cost			
Borrowings	16	94,619	93,745
Trade payables	17	123	138
Tenant security deposits	17	956	980
Other accrued expenses	17	69	9,137
Success fee liabilities	18	3,994	4,045
Total financial liabilities measured at amortized cost		**99,761**	**108,045**
Financial liabilities on fair value			
Derivatives (interest swap agreements)		1,533	1,182
Total financial liabilities on fair value		**1 533**	**1,182**
Total financial liabilities		**101,294**	**109,227**

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.

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 dierctly from making investments in real estate, including the market risk, liquidity risk and credit risk, thus reducing the company´s financial capacity or reducing the value of investments.

Market risk

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

Interest rate risk

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

As at 30.06.2019, all of the Group's borrowings bear interest based on floating interest rate, 66% (31.12.2018: 76%) of which are linked to the 1-month EURIBOR, 24% to the 3-month EURIBOR and 10% to the 6-mont EURIBOR. For 69% of the loan portfolio of EfTEN Kinnisvarafond, a 0% limit (floor) has been set as protection against negative EURIBOR, i.e. in case of negative EURIBOR, the loan margin of these loan commitments does not decrease.

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The fund's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 3-5 years.

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

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

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

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

The Group entered into six interest rate swap agreements in 2015 with a total notional amount of EUR 53,440 thousand for the purposes of mitigating interest rate risk. 1-month EURIBOR was fixed at the rate of 0.64%-0.67% in five agreements and the 3-month EURIBOR was fixed at the rate of 0.685% in one agreement. In 2016, repayment schedules of three loan contracts related to the said swap contracts were extended, whereas for ensuring the effectiveness of the swap contracts also the repayment schedules of derivative instrument contracts were respectively amended. In the course of the amendment, the fixed interest rate of three interest rate contracts decreased, a result of which as at 31.12.2016 the EURIBOR is fixed at the levels of 0.6%-0.67% (30.06.2018: same). The expiry of all of the interest rate swap agreements is in the year 2022.

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 30.06.2019 was negative in the amount of EUR 1,533 thousand (31.12.2018: EUR 1,182 thousand) and due to the fair value changes, the loss for the first six months of 2019 was EUR 351 thousand (six months of 2018: EUR 91 thousand). Additional information on the methods used to determine the fair value of the interest rate swap agreements has been provided below in the paragraph titled 'Fair value'.

Liquidity risk

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

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

The objective of the Group is to manage its net cash flows, so as to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 30.06.2019, the Group's interest-bearing liabilities accounted for 49% of rental income generating investment property (31.12.2018: same) and the debt coverage ratio was 2.5 (31.12.2018: 2.6).

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

As at 30.06.2018	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
€ thousand						
Interest-bearing liabilities	264	14,163	10,971	67,504	0	**92,902**
Interest payments	123	330	820	1,845	0	**3,118**
Interest payable	28	0	0	0	0	**28**
Trade payables	212	0	0	0	0	**212**
Tenant security deposits	1	55	123	614	149	**942**
Accrued expenses	25	0	0	0	0	**25**
Success fee liabilities	0	0	0	5,335	0	**5,335**
Total financial liabilities	**653**	**14,548**	**11,914**	**75,298**	**149**	**102,562**

As at 30.06.2019	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
€ thousand						
Interest-bearing liabilities	286	17,588	6,631	61,066	9,157	**94,728**
Interest payments	131	371	866	2,789	23	**4,180**
Interest payable	41	0	0	0	0	**41**
Trade payables	123	0	0	0	0	**123**
Tenant security deposits	20	86	89	518	243	**956**
Accrued expenses	28	0	0	0	0	**28**
Success fee liabilities	0	0	0	0	3,994	**3,994**
Total financial liabilities	**629**	**18,045**	**7,586**	**64,373**	**13,417**	**104,050**

During the period from 01.07.2019 to 30.06.2020, the maturity date arrives for two of the Group's loan agreements in the total amount of (residual value as at 30.06.2019) EUR 21,689 thousand. One of the contracts with residual value of EUR 16,850 thousand was prolonged after the balance sheet date in July 2019. The investment properties pledged as the collateral to ending loan agreements have strong existing cash flow and tenant base, which is why the Group's management estimates it to be unlikely that the Group would be unable to engage debt financing under the same conditions and that it would cause liquidity problems for the Group.

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. In addition, agreements with customers generally provide payment of rent at the beginning of the calendar month, giving sufficient time for monitoring the customers' payment discipline and ensuring existence of sufficient liquidity on bank accounts at the date of annuity payment of financing contracts. To manage risk, the Group has entered into an agreement with several of anchor tenants, according to which the financial institution of the tenant must guarantee rental payments throughout the rental period. In addition, most of the rental contracts also stipulate an obligation to make security deposits, on account of which the Group can settle debts resulting from insolvency of a tenant.

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

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

The table below illustrates accounts receivables:

	30.06.2019	31.12.2018
Undue	207	237
Past due	**148**	**220**
up to 30 days	*94*	*209*
30-60 days	*21*	*5*
more than 60 days	*33*	*6*
Allowance for doubtful receivables	-3	-3
Total trade receivables (Note 14)	**352**	**454**

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

	30.06.2019	31.12.2018
€ thousand		
Cash and cash equivalents (Note 13)	6,326	17,135
Trade receivables (Note 14)	352	454
Total maximum credit risk	**6,678**	**17,589**

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

Rating	**30.06.2019**
A2	470
A3	57
Aa2	5,799
Total	**6,326**

Capital management

The Group's capital includes borrowings and equity.

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

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

The free cash flow of the Group allows the Group to pay out in the form of dividends an average of 4-6% of the value of invested equity. In spring 2019, the Management Board of EfTEN Kinnisvarafond decided to distribute EUR 7,090 thousand as dividends from the profit of year 2018.

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As at 30.06.2019 nor 31.12.2018, 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 are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

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

20 Share capital

The amount of registered share capital of EfTEN Kinnisvarafond AS as at 30.06.2019 was EUR 19,696 thousand (31.12.2018: 23 635). The share capital consisted of 39,391,371 shares as at 30.06.2019 (31.12.2018: same) with a nominal value of EUR 0.5 (31.12.2018: 0.6 EUR).

In September 2018, the general meeting of EfTEN Kinnisvarafond AS decided to decrease the share capital by decreasing the share nominal value from EUR 0.6 EUR to EUR 0.5. Share capital decreased in relation to this decision by EUR 3,939 thousand. When decreasing the share capital, EUR 9,060 thousand was paid out to shareholders.

Without amending the articles of association, the company may increase its share capital to EUR 60,137 thousand.

For additional information on parent company's unconconsolidated equity, please see Note 26.

21 Contingent liabilities

Contingent income tax liability

	30.06.2019	31.12.2018
€ thousand		
The company's retained earnings	47,125	50,833
Potential income tax liability	9,425	10,167
The amount that can be paid out as dividends	37,700	40,666

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution at 30.06.2019 and 31.12.2018.

22 Related party transactions

EfTEN Kinnisvarafond AS considers the following as related parties:

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

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

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

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

- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in the first half of 2019 in the amount of EUR 557 thousand (six months of 2018: EUR 587), (see Note 8). EfTEN Kinnisvarafond AS did not purchase from other related parties or sell to other related parties any other goods or services in the first half of the years 2019 or 2018.

In the first half of the year 2019, the Group had three employees (six months of 2018: two employees, who were remunerated including taxes in the amount of EUR 35 thousand (six months of 2018: EUR 55 thousand). In addition, the Group's subsidiaries in Latvia and Lithuania paid EUR 10 thousand of labor tax in the first half of 2019 (six months of 2018: same). In the first half of the years 2019 and 2018, no compensations were accounted for or paid to the Management and Supervisory Board members of the Group. Members of the Group's Management Board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to Management Board members' activities are included in management services.

23 *Parent company's separate income statement*

Pursuant to the Accounting Act of the Republic of Estonia, information of the interim 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 interim 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	
	2019	2018
€ thousand		
Revenue	519	538
Gross profit	**519**	**538**
General and administrative expenses	-600	-678
Operating profit	**-81**	**-140**
Gain/-loss from subsidiaries	3,757	4,195
Gain/-loss from joint ventures	-67	414
Finance income	35	38
Finance costs	-72	-128
Total net income for the financial year	**3,572**	**4,379**

24 Parent company's separate balance sheet

	30.06.2019	31.12.2018
€ thousand		
ASSETS		
Cash and cash equivalents	981	3,022
Receivables and accrued income	1,241	13,201
Total current assets	**2,222**	**16,223**
Non-current assets		
Shares of subsidiaries	95,009	98,570
Shares of joint ventures	3,378	4,044
Long-term receivables	2,086	2,086
Total non-current assets	**100,473**	**104,700**
TOTAL ASSETS	**102,695**	**120,923**
Borrowings	0	5,719
Payables and prepayments	947	9,938
Total current liabilities	**947**	**15,657**
Total liabilities	**947**	**15,657**
Share capital	19,696	23,635
Share premium	32,375	37,496
Statutory reserve capital	4,084	3,544
Reserve for reduction of share capital	0	-9,060
Retained earnings	45,593	49,651
Total equity	**101,748**	**105,266**
TOTAL LIABILITIES AND EQUITY	**102,695**	**120,923**

25 Parent company's separate statement of cash flows

	First half of the year	
	2019	2018
€ thousand		
Cash flows from operating activities		
Net profit	**3,572**	**4,379**
Adjustments to net profit:		
Interest income and interest expenses	37	90
Gain/-loss on the fair value adjustment of subsidiaries and joint ventures	4,228	667
Dividends received	-7,918	-5,276
Change in the success fee liability	0	47
Cash flow from operations before changes in working capital	**-81**	**-93**
Change in receivables and payables related to operating activities	-26	-21
Net cash generated from operating activities	**-107**	**-114**
Cash flows from investing activities		
Acquisition of investments in subsidiaries and joint ventures	5,316	0
Loans granted	-18	-2,659
Repayment of loans granted	1,000	362
Dividends received	7,918	8,219
Interest received	0	3
Net cash flows from investing activities	**14,216**	**5,925**
Cash flows from financing activities		
Dividends paid	-7,090	-9,457
Dividends income tax	0	-220
Reduction of share capital	-9,060	0
Net cash generated from financing activities	**-16,150**	**-9,677**
NET CASH FLOW	**-2,041**	**-3,866**
Cash and cash equivalents at the beginning of the period	**3,022**	**7,658**
Change in cash and cash equivalents	-2,041	-3,866
Cash and cash equivalents at the end of the period	**981**	**3,791**

26 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Reduction of unregistred share capital and share premium	Retained earnings	**Total**
€ thousand						
Balance as at 31.12.2017	**23,635**	**37,496**	**3,024**	**0**	**45,229**	**109,384**
Dividends paid	0	0	0	0	-5,357	**-5,357**
Transfers to statutory reserve capital	0	0	520	0	-520	**0**
Comprehensive income for the financial year	0	0	0	0	4,379	**4,379**
Balance as at 30.06.2018	**23,635**	**37,496**	**3,544**	**0**	**43,731**	**108,406**
Balance as at 31.12.2018	**23,635**	**37,496**	**3,544**	**-9,060**	**49,651**	**105,266**
Reduction of share capital	-3,939	-5,121	0	9,060	0	0
Dividends paid	0	0	0	0	-7,090	-7,090
Transfers to statutory reserve capital	0	0	540	0	-540	0
Comprehensive income for the financial year	0	0	0	0	3,572	3,572
Balance as at 30.06.2019	**19,696**	**32,375**	**4,084**	**0**	**45,593**	**101,748**

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

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

	30.06.2019	31.12.2018
€ thousand		
Parent company's unconsolidated equity	101,748	105,266
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-98,387	-102,614
Value of subsidiaries and joint ventures under the equity method (plus)	98,386	102,614
Total	**101,747**	**105,266**

Signatures of the members of the Management Board and Supervisory Board to the interim report ended 30 June 2019

We hereby confirm that EfTEN Kinnisvarafond AS consolidated interim report of 2019 provides a true and fair overview of the Group's assets, liabilities, financial position and a description of the main risks and the development and results of the business activities of the consolidated entities as a whole.

_________________	_________________	_________________
Arti Arakas	Siive Penu	Kristo Oidermaa
/signed/	*/signed/*	*/signed/*
Chairman of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
_________________	_________________	_________________
Sander Rebane	Jaan Pillesaar	Laire Piik
/signed/	*/signed/*	*/signed/*
Member of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board

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Tauno Tats

/signed/

Member of the Supervisory Board

_________________	_________________
Viljar Arakas	Tõnu Uustalu
	/signed/
Management Board Member	Management Board Member