INVL Baltic Real Estate

INVL Baltic Real Estate, AB Consolidated Interim Report for 6 months* of 2014

Prepared in accordance with The Rules for the Preparation and the Submission of the Periodic and Additional Information. approved by the decision No. 03-48 of the Board of the Bank of Lithuania passed on 28 February 2013.

Approved by the Board of INVL Baltic Real Estate, AB on 19 August 2014.

***** The report covers the first interim financial period of the Company, starting from the Company's establishment date on 29 April 2014 and ending on 30 June 2014.

Translation note:
This version of the Consolidated Interim Report for 6 months of 2014 is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over this translation.

CONTENTS

I. General Information

1. Reporting period for which the report is prepared

The report covers the first interim financial period of INVL Baltic Real Estate, starting from the Company's establishment date on 29 April 2014 and ending on 30 June 2014. The report is unaudited.

2. General information about the Issuer and other companies comprising the Issuer's group

2.1. Information about the Issuer

Name of the Issuer	The public joint-stock INVL Baltic Real Estate, hereinafter INVL Baltic Real Estate, AB
Code	303299735
Registered address	Kalvariju str. 11A-20, LT-09310, Vilnius, Lithuania
Address	Seimyniskiu str. 1A, LT-09312, Vilnius, Lithuania
Telephone	+370 5 279 0601
Fax	+370 5 279 0530
E-mail	realestate@invaldalt.com
Website	www.invlbalticrealestate.lt
Legal form	public joint-stock company
Date and place of registration	29 April 2014. Register of Legal Entities
Register in which data about the Company are accumulated and stored	Register of Legal Entities

2.2. Information on company's goals, philosophy and strategy

The public joint-stock company INVL Baltic Real Estate was established on 29 April 2014 on the basis of a part of assets split-off from Invalda LT, AB (code 121304349). The split-off terms are published on website http://www.invaldalt.com/en/main/news/Material_events?ID=929. Following the split-off, 30.9% of assets, equity and liabilities of Invalda LT, AB were transferred to INVL Baltic Real Estate, AB.

INVL Baltic Real Estate seeks to earn from investments in commercial real estate, ensuring the growth of rental income. The companies of INVL Baltic Real Estate have invested in an office, warehouse, manufacturing real estate objects in Lithuania and Latvia. Group companies have about 51 700 sq. m. of the real estate space.

Almost all objects give rental income and have further development prospects.

Shares of INVL Baltic Real Estate are listed on NASDAQ OMX Vilnius stock exchange since 4 June 2014.

INVL Baltic Real Estate, AB later will apply to the Bank of Lithuania for closed-end investment company license and in its essence will become similar to investment fund.

2.3. Information about the Issuer's group of companies

Companies of INVL Baltic Real Estate group owns 12 real estate properties in Vilnius and Riga.

Fig. 2.3.1. Simplified group structure of INVL Baltic Real Estate, AB as of 30 June 2014.

2.3.1. Real estate objects owned by group companies in Vilnius (Lithuania)

Fig. 2.3.2. Real estate objects owned by group companies of INVL Baltic Real Estate, AB in Vilnius (Lithuania)

Investments in real estate

IBC class A and B business centers at Seimyniskiu str. 1a, Seimyniskiu str. 3, A.Juozapaviciaus str. 6, Slucko str. 2 in Vilnius (Invaldos Nekilnojamojo Turto Fondas, AB)

IBC Business Center – a versatile, functional business premises complex. IBC is located in a very convenient location – on the right bank of the Neris River in the central part of Vilnius, situated near important public institutions and businesses, at the main business artery in the Constitution Avenue, therefore is easily and quickly accessible from any place in Vilnius.

IBC Class A business center consists of two buildings, in which about 6 700 sq. m. are being leased (the total area of buildings - 11 400 sq. m). The center owns 250 spots parking lot in the protected courtyard, also in the two-storey covered and underground garages. IBC Business Center is being constantly developed, more and more services are offered each year.

Block F basic information:

Total area: 4 500 sq. m

Leased area: 3 400 sq. m

Land area: 1.47 ha (total area of the IBC complex)

Property market value in 2013: LTL 22.5 mln.

Block G basic information:

Total area: 6 900 sq. m

Leased area: 3 300 sq. m

Land area: 1.47 ha (total area of the IBC complex)

Property market value in 2013: LTL 20.9 mln.

INVL Baltic Real Estate

IBC Class B business center consists of 4 buildings, in which about 9 900 sq. m of different purpose premises are being leased (the total area of buildings – 11 200 sq. m). The center owns 200 spots parking lot in the protected courtyard.

The IBC business center has a development opportunity, detailed plan of the area is prepared.

Block A basic information:

Total area: 2 100 sq. m

Leased area: 1 700 sq. m

Land area: 1.47 ha (total area of the IBC complex)

Property market value in 2013: LTL 6.5 mln.

Block B basic information:

Total area: 7 300 sq. m

Leased area: 6 900 sq. m

Land area: 1.47 ha (total area of the IBC complex)

Property market value in 2013: LTL 22.6 mln.

Block C basic information:

Total area: 200 sq. m

Leased area: 100 sq. m

Land area: 1,47 ha (total area of the IBC complex)

Property market value in 2013: LTL 0.7 mln.

Block D basic information:

Total area: 1 600 sq. m

Leased area: 1 200 sq. m

Land area: 1.47 ha (total area of the IBC complex)

Property market value in 2013: LTL 3.8 mln.

Office building at Palangos str. 4/Vilniaus str. 33, Vilnius (Invaldos Nekilnojamojo Turto Fondas, AB)

Business center is located in one of the busiest places in the Old Town of Vilnius, between Vilnius, Pamenkalnio, Islandijos and Palangos streets. Vilnius Old Town - one of the most important components of the city and its center, the oldest part of the city of Vilnius, situated on the left bank of the Neris River. Old Town area - protected and managed in accordance with the special heritage protection well, small business and residential function are being supported. There is a closed, guarded parking and underground garage in the area, convenient public transport access. Radvilų Palace, Teacher's House, Lithuanian Technical Library, St. Catherine's Church and other cultural attractions, cafes, restaurants are located near the building.

Block A basic information:

Total area: 5 100 sq. m

Leased area: 3 800 sq. m

Land area: 0.49 ha (total area of the complex)

Property market value in 2013: LTL 14.9 mln.

Block B basic information:

Total area: 4 700 sq. m

Leased area: 2 400 sq. m

Land area: 0.49 ha (total area of the complex)

Property market value in 2013: LTL 10.1 mln.

Zygio Business Center – office building at J. Galvydzio str. 7 / Zygio str. 97, Vilnius (Invaldos Nekilnojamojo Trurto Fondas, AB)

Zygio business center – the yellow brick, authentic nineteenth century architecture, renovated office building, perfectly adapted to modern office activities. The building stands in the Northern Town (J. Galvydzio str. 7 / Zygio str. 97) – in a strategically attractive, busy part of Vilnius, easily accessible by car and public transport. Other commercial and business centers, banks, the State Tax Inspectorate, Social Insurance, Employment Exchange, medical clinics and various business services companies, attracting large flows of people, are located nearby. Also, even four large shopping centers – Domus Gallery, Parkas, Hyper Rimi, Banginis-Senukai, are located near the business center. Distance to the center of Vilnius is about 3.5 km. 70 spots covered parking lot is installed next to the building.

The object has a development potential, building permit for the construction of a new building is obtained.

Basic information:

Total area: 3 200 sq. m

Leased area: 2 600 sq. m

Land area: 0.60 ha

Property market value in 2013: LTL 10.2 mln.

OFFICE BUILDING AT KIRTIMŲ STR. 33, VILNIUS (INVALDOS NEKILNOJAMOJO TRURTO FONDAS, AB)

Administrative buildings and warehouses are in a strategically convenient location, in respect to storage/manufacturing, in the industrial area, the southwestern part of Vilnius, Kirtimų street. This complex is very suitable for logistics, as it is located near the Western city bypass, which is one of the most important traffic arteries of Vilnius city. Engineering infrastructure is well-developed in the area.

Basic information:

Total area: 3 000 sq. m

Leased area: 2 500 sq. m

Land area: 0.67 ha

Property market value in 2013: LTL 2.6 mln.

Residential house at Kalvariju str. 11, Vilnius (Rovelija, UAB)

The house borders with IBC complex area owned by Invaldos Nekilnojamojo Turto Fondas, AB. Company owns all apartments located in this building.

Basic information:

Total area: 276 sq. m

Property market value: LTL 2 mln.

2.3.2. Real estate objects owned by group companies in Riga (Latvia)

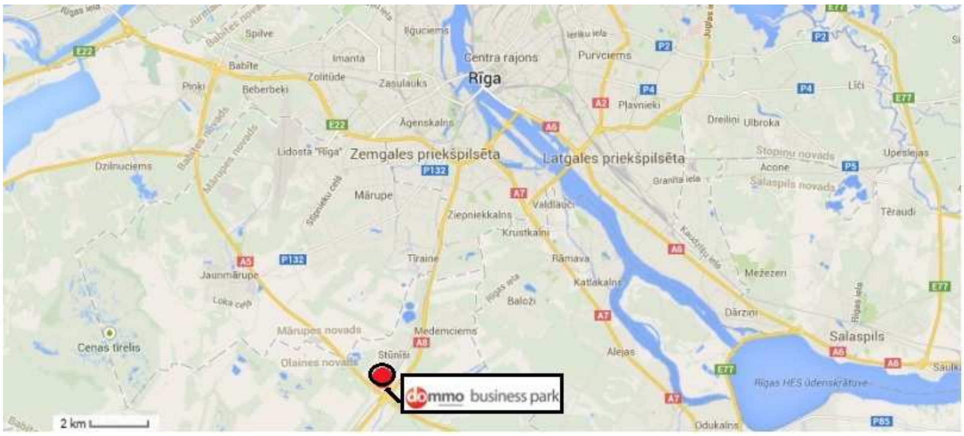

Fig. 2.3.3. Real estate objects owned by group companies of INVL Baltic Real Estate, AB in Riga (Latvia)

Dommo Business Park manufacturing/warehouse and office premises complex in Latvia (assets are owned by SIA DOMMO Group and SIA DOMMO Biznesa Parks, INVL Baltic Real Estate, AB, owns 50% of creditorial claims in these companies)

The area is strategically well-located, to the right of Jelgava road, in front of the intersection with Jurmala - Tallinn bypass. Distance to the center of Riga and the airport is 13 km, the port - 16 km. The area is suitable for the development of logistics centers.

Basic information:

Total area: 12 800 sq. m

Leased area: 12 600 sq. m

Land area: 58.21 ha

Property market value in 2013: LTL 27.6 mln.

3. Agreements with intermediaries on public trading in securities

INVL Baltic Real Estate has signed the agreement with this intermediary:

- Finasta, AB FMI (Maironio str. 11, Vilnius, Lithuania. tel. +370 5 203 2233) – the agreement on management of securities accounting.

4. Information on Issuer's branches and representative offices

INVL Baltic Real Estate, AB has no branches or representative offices.

II. INFORMATION ABOUT SECURITIES

5. The order of amendment of Issuer's Articles of Association

The Articles of Association of INVL Baltic Real Estate, AB may be amended by resolution of the General Shareholders' Meeting, passed by more than 2/3 of votes (except in cases provided for by the Law on Companies of the Republic of Lithuania).
Actual wording of the Articles of Association is dated as of 29 April 2014.

6. Structure of the authorized capital

Table 6.1. Structure of INVL Baltic Real Estate, AB authorised capital as of 30 June 2014.

Type of shares	Number of shares, units	Total voting rights granted by the issued shares, units	Nominal value, LTL	Total nominal value, LTL	Portion of the authorised capital, %
Ordinary registered shares	7,044,365	7,044,365	1	7,044,365	100

All shares are fully paid-up and no restrictions apply on their transfer.

6.1. Information about the Issuer's treasury shares

INVL Baltic Real Estate or its subsidiary have not implemented acquisition of shares in INVL Baltic Real Estate directly or indirectly under the order of subsidiary by persons acting by their name.

7. Trading in Issuer's securities as well as securities, which are deemed to be a significant financial investment to the Issuer on a regulated market

Table 7.1. Main characteristics of INVL Baltic Real Estate, AB shares admitted to trading

Shares issued, units	7,044,365
Shares with voting rights, units	7,044,365
Nominal value, LTL	1
Total nominal value, LTL	7,044,365
ISIN code	LT0000128746
Name	INR1L
Exchange	NASDAQ OMX Vilnius
List	Baltic Secondary List
Listing date	4 June 2014

Company uses no services of liquidity providers.

Table 7.2. Trading in INVL Baltic Real Estate, AB shares

	6 months of 2014*
Share price, EUR	
- open	2.000
- high	2.120
- low	1.900
- medium	1.999
- last	1.900
Turnover, units	2,357
Turnover, EUR	4,650.59
Traded volume, units	25

* Data as of 4 June 2014, since the begining of the listing of the company in the Stock Exchange.

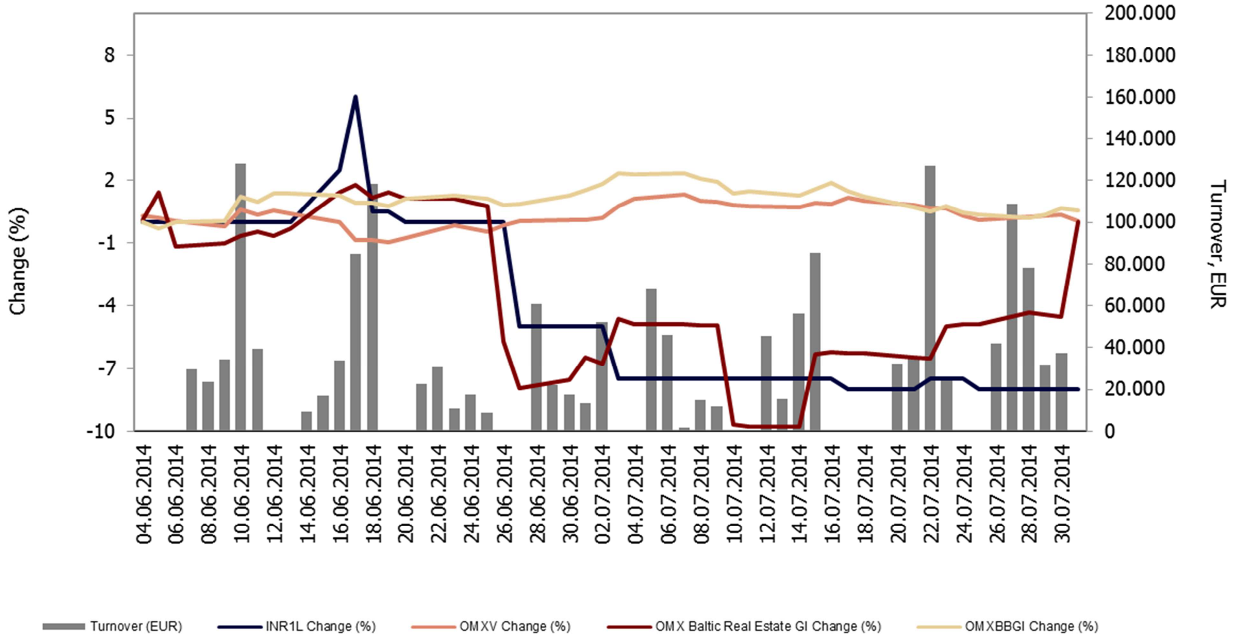

Fig. 7.3. Turnover of INVL Baltic Real Estate, AB shares, change of share price and indexes[1]

[1] OMX index is an all-share index which includes all the shares listed on the Main and Secondary lists on the NASDAQ OMX Vilnius with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares. The OMX Baltic Real Estate GI index is based on the Industry Classification Benchmark (ICB) developed by FTSE Group (FTSE).

8. Shareholders

Table 8.1. Shareholders who held title to more than 5% of INVL Baltic Real Estate, AB authorised capital and/or votes as of 30 June 2014.

Name of the shareholder or company	Number of shares held by the right of ownership, units	Share of the authorised capital held, %	Share of the votes, %		
			Share of votes given by the shares held by the right of ownership, %	Indirectly held votes, %	Total, %
LJB Investments, UAB code 300822575, Juozapavičiaus str. 9A, Vilnius	2,144,351	30.4	30.4	0	30.4
Irena Ona Mišeikienė	2,035,918	28.9	28.9	0	28.9
Invalda LT, AB code 121304349, Seimyniskiu str. 1A, Vilnius	875,038	12.4	12.4	0	12.4
Lucrum Investicija, UAB code 300806471, Šeimyniškių str. 3, Vilnius	574,349	8.2	8.2	2.0[2]	10.2
Alvydas Banys	540,750	7.7	7.7	42.6[3]	50.3
Darius Šulnis	0,00	0.00	0.00	50.3[4]	50.3
Indrė Mišeikytė	140,618	2.00	2.00	48.3[5]	50.3

The total number of shareholders in INVL Baltic Real Estate increase 3800.

There are no shareholders entitled to special rights of control.

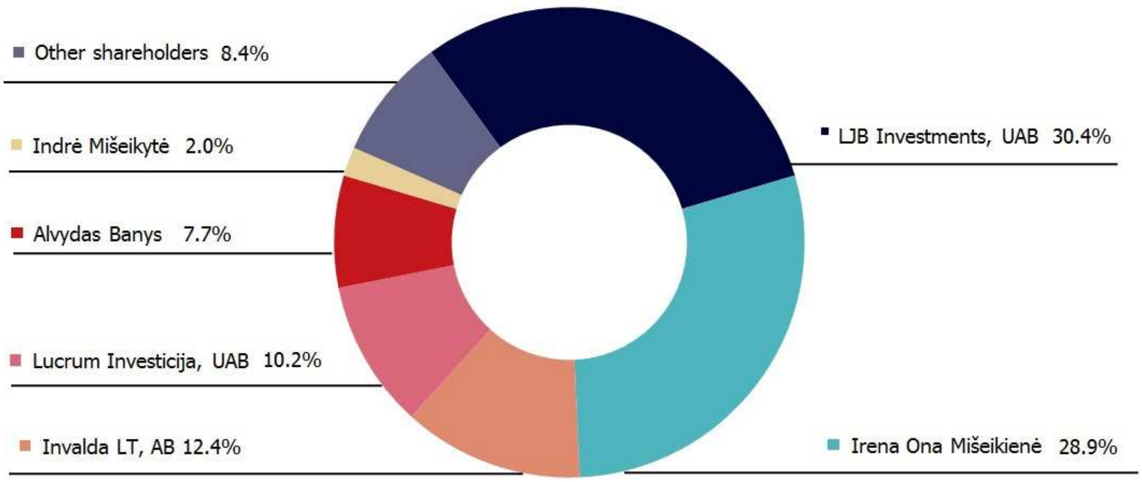

Fig. 8.2. Votes as of 30 June 2014

[2] Lucrum Investicija, UAB has 2% of votes according to a repurchase agreement.
[3] According to Part 6 of Paragraph 1 of Article 24 and Paragraph 2 of Article 24 of the Law on Securities of the Republic of Lithuania, it is considered that Alvydas Banys has votes of LJB Investments, a company controlled by him, and also votes of Darius Sulnis and Indre Miseikyte, managers of INVL Baltic Real Estate.
[4] According to Part 6 of Paragraph 1 of Article 24 and Paragraph 2 of Article 24 of the Law on Securities of the Republic of Lithuania, it is considered that Darius Sulnis has votes of Lucrum Investicija, a company controlled by him, and also votes of Alvydas Banys and Indre Miseikyte, managers of INVL Baltic Real Estate.
[5] According to Paragraph 2 of Article 24 of the Law on Securities of the Republic of Lithuania, it is considered that Indre Miseikyte has votes of Alvydas Banys and Darius Sulnis, managers of INVL Baltic Real Estate.

III. Issuer's Managing Bodies

9. The managing bodies of the Issuer

General Shareholders' Meeting

The Board (3 members)

Director

The governing bodies of INVL Baltic Real Estate, AB are: the General Shareholders' Meeting, sole governing body – the director and a collegial governing body – the Board. The Supervisory Board is not formed.
Information about Members of the Board and director of the company.

The Board of INVL Baltic Real Estate, AB was elected during the General Shareholders' Meeting of INVL Baltic Real Estate, AB the company split-off from Invalda LT, AB on 28 April 2014. Mr. Banys was elected as the Chairman of the Board. Mr. Šulnis and Ms. Mišeikytė were elected as the Members of the Board. Mr. Šulnis was appointed as the director of the company on 28 April 2014.

Alvydas Banys – Chairman of the Board

The term of office	From 2014 untill 2017
Educational background and qualifications	Vilnius Gediminas Technical University. Faculty of Civil Engineering. Master in Engineering and Economics. Junior Scientific co-worker. Economic's Institute of Lithuania's Science Academy.
Work experience	Since 1 July 2013 Invalda LT, AB - Advisor Since 2007 LJB Investments, UAB - Director Since 2007 LJB Property, UAB - Director 1996 – 2006 Invalda, AB - Vice President 1996 – 2007 Nenuorama, UAB - President
Owned amount of shares in INVL Baltic Real Estate, AB	Personally: 540,750 units of shares, 7.7 % of authorised capital, 7.7 % of votes. Together with controlled company LJB Investments: 2,685,101 units of shares, 38.1 % of authorized capital, 38.1 % of votes. Total votes together with other Board members of INVL Baltic Real Estate - 50.3 %.
Participation in other companies	Invalda LT, AB – Chairman of the Board BAIP Grupe, UAB – Member of the Board Invalda LT Investments, UAB – Chairman of the Board INVL Baltic Farmland, AB – Chairman of the Board INVL Technology, AB – Chairman of the Board Litagra, UAB – Member of the Board
Owned shares and votes of other companies	Invalda LT, AB – 91.59 % (together with persons acting in concert) INVL Baltic Farmland, AB – 62.7 % (together with persons acting in concert) INVL Technology, AB – 50.3 % (together with persons acting in concert) LJB Property, UAB – 99.99 %. LJB Investments, UAB – 82.26 %. Gulbinu Turizmas, UAB – 7.7 %.

INVL Baltic Real Estate

Indrė Mišeikytė – Member of the Board

The term of office	From 2014 untill 2017
Educational background and qualifications	Vilnius Gedimino Technical University. Faculty of Architecture. Master in Architecture
Work experience	Since May 2012 Invalda LT, AB - Advisor Since June 2013 Invalda Privatus Kapitalas, AB – Advisor Since 2002 Inreal Valdymas, UAB - Architect Since 2002 Gildeta, UAB - Architect
Owned amount of shares in INVL Baltic Real Estate, AB	Personally: 140,618 units of shares, 2 % of authorised capital - 2 % of votes Total votes together with other Board members of INVL Baltic Real Estate - 50.3 %.
Participation in other companies	Invalda LT, AB – Member of the Board Invalda Privatus Kapitalas, AB – Member of the Board INVL Baltic Farmland, AB – Member of the Board INVL Technology, AB – Member of the Board
Owned shares and votes of other companies	Invalda LT, AB – 91.59 % (together with persons acting in concert) INVL Baltic Farmland – 62.7 % (together with persons acting in concert) INVL Technology, AB – 50.3 % (together with perssons acting in concert) DIM Investment, UAB – 25 %. Tuta, UAB – 5.25 %.

Darius Šulnis – Member of the Board, director

The term of office	From 2014 untill 2017
Educational background and qualifications	Duke University (USA). Business Administration. Global Executive MBA. Vilnius University. Faculty of Economics. Master in Accounting and Audit. Financial broker's license (General) No. A109.
Work experience	2006 – 2011 Invalda, AB – President. 2011 – 2013 Invalda, AB – Advisor. Since May 2013 Invalda LT, AB – President. 2002 – 2006 Invalda Real Estate, UAB (current name Inreal Valdymas) – Director 1994 – 2002 FBC Finasta, AB – Director
Owned amount of shares in INVL Baltic Real Estate, AB	Personally: 0 units of shares, 0,00 % of authorised capital and votes Together with controlled company Lucrum Investicija: 574,349 units of shares, 8.2 % of authorised capital, 10.2 % of votes (including votes granted by the shares transferred by the repurchase agreement). Total votes together with other Board members of INVL Baltic Real Estate - 50.3 %.

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Participation in other companies	Invalda LT, AB – Member of the Board, the president Invaldos Nekilnojamojo Turto Fondas, AB – Chairman of the Board Litagra, UAB – Member of the Board BAIP Grupe, UAB – Chairman of the Board Invalda LT Investments, UAB – director, Member of the Board INVL Baltic Farmland, AB – director, Member of the Board INVL Technology, AB – director, Member of the Board
Owned shares and votes of other companies	Invalda LT, AB – 91.59 % (together with persons acting in concert) INVL Baltic Farmland, AB – 62.7 % (together with persons acting in concert) INVL Technology, AB – 50.3 % (together with persons acting in concert) Lucrum Investicija, UAB – 100 %. Golfas, UAB – 31 %.

Invalda LT, AB provides accounting services and preparation of the documents related with bookkeeping for INVL Baltic Real Estate, AB according to an agreement signed on 30 April 2014 No. 20140430/01.

10. Information on the amounts calculated by the Issuer, other assets transferred and guarantees granted to the Members of the Board, director and company providing accounting services

Members of Board of INVL Baltic Real Estate, AB did not receive annual benefit (bonus) since the start of activity of the company until the end of the reporting period.
The calculated remuneration to the director of the Company totalled to 2048 litas, on the average 1000 litas per month.

The payment for the company providing accounting services amounted to 400 litas since the beginning of company's activity until the end of the reporting period.

During the reporting period the Issuer transferred no assets, granted no guarantees, paid no bonuses or dividends and made no special payouts for the Company's manager and Members of the Board.

IV. INFORMATION ABOUT THE ISSUER'S AND ITS GROUP COMPANIES' ACTIVITY

11. Overview of the Issuer and its group activity

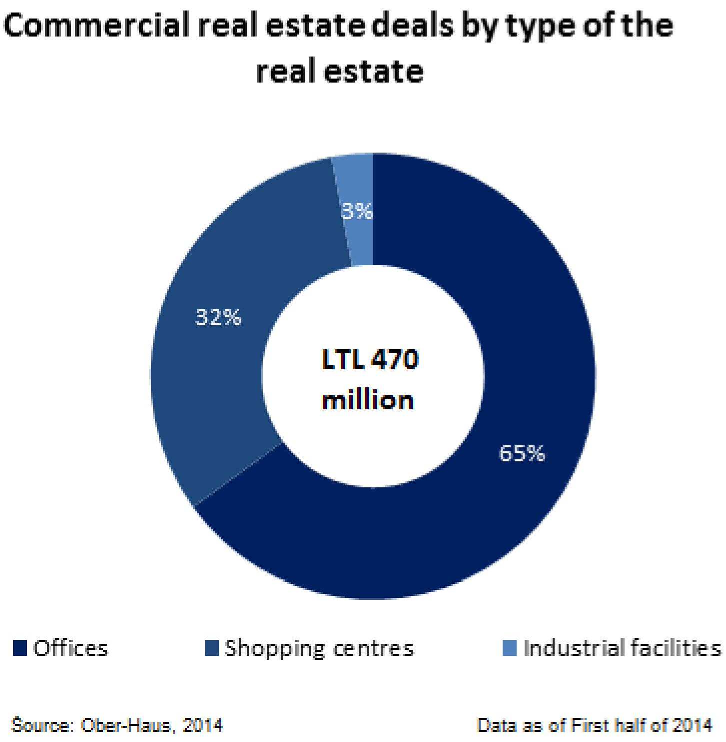
11.1. Operational environment conditions

Commercial real estate sector

Lithuanian commercial real estate market demonstrates strong growth. Financial position of businesses is strengthening and demand for office space is growing together with improving economic situation. According to Ober-Haus, UAB 2014 second quarter market comment, after a relatively strong 2013 when the total amount of deals summed up to LTL 540 million, the first half of 2014 has almost reached last year annual result. Until 30th of June 2014 there were deals amounting to LTL 470 million and 113 thousand of square meters in total.

Looking at the deals of different commercial real estate type separately, the biggest part of total amount of LTL 470 million was invested in offices (65 percent). Share represented by shopping centres accounted only to 32 percent - significant change compared to decade lasting dominance until 2012. Finally, the last 3 percent of deals were industrial real estate deals. From geographical perspective commercial real estate deals were concentrated in Vilnius (96 percent) and only 4 percent were completed in Kaunas.

In the above mentioned report by Ober-Haus, UAB is stated that such a skewed distribution of deals was impacted mainly by a single deal amounting to LTL 213 million and taking almost half of the total amount of the first half of 2014. The deal was a class A business centre Vilniaus Verslo Uostas acquisition performed by Swedish investment company East Capital Explorer. The deal is the fourth biggest investment into real estate transaction in Lithuania since the independence.



Investment returns on real estate transactions show negative trend. According to Ober-Haus, UAB, return during the first half of 2014 for the class A office buildings and shopping centres was 7-7.5 percent and for lower class spaces averaged to 8-9 percent.

Since the growing demand for the commercial real estate is satisfied by the increasing supply of new modern premises, the real estate prices remains relatively stable. In Vilnius class A office space rental price was around LTL 42-52 per square meter, while class B office premises – LTL 27-38 per square meter. In Kaunas and Klaipeda, where large transactions were not recorded in the market, class A office space rental price rose by 4-5 percent to LTL 30-40 per square meter, while class B - up to LTL 18-25 per square meter.

The situation is different in warehouse and logistics real estate sector. Recently, intense conflict between Russia and Ukraine brought turmoil in the logistics business. A large portion of Lithuanian exports consist of re-exports from the Western countries, therefore logistics industry is directly dependent on its eastern neighbours economic and political stability. According to Inreal, UAB overview of the first half of 2014, market situation was not favourable for the tenants seeking larger than 1 thousand square meters of warehouse space. Therefore part of the large businesses has decided to build warehouses for their own use and lease the remaining space.

According to Inreal, UAB report, available vacant spaces of warehouses and logistics centres in areas of major cities of Lithuania was very low. In Vilnius and Kaunas it was below 5 percent. In Klaipeda - the level was about 20 percent, because a new logistics centre, which occupies 19.2 thousand square meters, opened in the second half of 2014 and at the end of the publication of the report there was still 15 thousand square meters of vacant space.

Based on the fact that a sell of a few large commercial real estate properties is expected and given that the value of currently known objects accounts for LTL 300 million, Ober-Haus, UAB predicts that the market activity of the commercial real estate will be substantial in the second half of the year. Meanwhile, situation in the warehouses and logistics centres market is a little more complex due to the conflicts in the eastern neighbouring countries and export restrictions. Low vacancy rates and fairly strong demand in the market makes the situation a bit tense. However, projects under development are likely to be completed only in the second quarter of 2015.

In Latvia activity of the industrial real estate market remained high in the first half of 2014. According to a market overview of Colliers International, warehouses space increased by 7.5 thousand square meters in the first quarter of 2014. Two major projects - Balt Cargo Solutions and BLS should be completed in Riga region by the end of 2014 with a total area of 56 thousand square meters. Industrial real estate market keeps pace with the demand; therefore there is a balance in the market. The most popular rental area is 500-2,000 square meters mainly for the use of small to medium-size enterprises. During the first quarter of 2014, the amount of vacant real estate space on the market increased by 0.6 percentage points to 3.3 percent, this small growth is associated with the completion of a single object (UA Investor) in the end of the first quarter of 2014. It is assumed that in the near future plots of vacant area get back to the 2013 level. The balance of the market is reflected in the average rental prices which have remained stable compared to the same period in 2013 and was LTL 13-16 per square meter for class A industrial premises.

11.2. Significant Issuer's and its group events during the reporting period and since the end of it, affect on the financial statement

The Company

- On 20 May 2014 the company informed that the Supervison Service of the Bank of Lithuania decided to treat the information submitted in the split-off terms of Invalda LT, AB related documentation, in the list of references related to INVL Baltic Real Estate, AB, in the description of the risk factors as information equivalent to the information that is required to be disclosed in the prospectus of INVL Baltic Real Estate, AB. The Board of INVL Baltic Real Estate decided to apply NASDAQ OMX Vilnius stock exchange to admit company's shares into the Secondary list since 4 June 2014.
- On 2 June 2014 INVL Baltic Real Estate, AB disclosed its managed assets and plans. Subsidiary companies of INVL Baltic Real Estate have invested in real estate in Vilnius and Riga and manage about 52 thousand sq. m. of the real estate space. The company's equity value was LTL 49 million (EUR 14.2 million) at the end of March 2014, the value of real estate assets, managed by the Group companies – LTL 144 million (EUR 41.7 million).

The group

Since the begining of the activity of the Issuer until the end of the reporting period, there were no important events in the activities of the real estate companies. The companies performed usual activity during the reporting period.

Key figures of INVL Baltic Real Estate, AB group

LTL million (if not stated otherwise)	30 June 2014
Managed common area	51,676 sq. m
Managed rental area	40,500 sq. m
The real estate value*	116.7
Value of the loans granted for companies in Latvia	13.7
Long-term prepayment under the sublease agreement	2.8
Cash	0.5
Other assets	2.0
ASSETS	**135.7**
Equity	49.4
Loans from credit institutions	55.8
Loans from Invalda LT	15.9
Deferred tax liability	12.4
Other payables	2.2
TOTAL EQUITY AND LIABILITIES	**135.7**

*Value estimated based on appraisers assessment at the end 2013.

Income of INVL Baltic Real Estate, AB group

LTL million	30 June 2014
Income	2.90
rental income from own objects	*1.47*
rental income from property owned by clients	*0.96*
other income	*0.47*
Profit before tax	0.192
Net profit	0.145

12. A description of the principal risks and uncertainties

Information, provided in this document, should not be considered complete and covering all aspects of the risk factors associated with public company's INVL Baltic Real Estate activity and securities.

Risk factors, associated with activities of the public joint-stock company INVL Baltic Real Estate

The total investment risk

The value of the investment in real estate can vary in the short term, depending on the general economic conditions, rent and purchase prices of real estate, demand and supply fluctuations. Investment in real estate should be carried out in the medium and long term, so that investor can avoid the short-term price fluctuations. Investing in real estate is connected with the higher than medium risks. After failure of investments or under other ill-affected circumstances (having been unable to pay for the creditors) the bankruptcy proceedings may be initiated.

Liquidity risk

It is the risk of incurring losses due to low liquidity of the market, when it becomes difficult to sell the assets at the desired time and at the desired price. In order to manage this risk, public joint-stock company INVL Baltic Real Estate will keep monitoring the real estate market, will prepare in advance for property sales process, thereby reducing the liquidity risk.

Real estate development risk

Real estate development projects, undertaken by the public joint-stock company INVL Baltic Real Estate, may take longer than anticipated or be more costly than expected, which may reduce the return on investments of the public joint-stock company INVL Baltic Real Estate. In managing this risk, the company will allocate sufficient resources to the real estate development project budgets' and time control.

Leverage usage risk

Leverage usage risk is associated with potential real estate depreciation, which was acquired using borrowed money. The higher the leverage used, the greater the likelihood of this risk. The level of bank loans of the public joint-stock company's INVL Baltic Real Estate subsidiary - Invaldos Nekilnojamojo Turto Fondas, AB, is close to 50% of its real estate market value. Loan agreements are valid until 15 December 2015, principal loan amount is repaid at maturity.

Investment diversification risk

This is the risk that one failed investment will significantly influence results of the public joint-stock company INVL Baltic Real Estate. In order to reduce the risk, company will include a sufficient number of different real estate properties in its portfolio, thus maintaining an appropriate level of diversification.

Tax increase risk

Tax laws change may lead to a greater taxation of the public joint-stock company INVL Baltic Real Estate and its group companies, which in turn may reduce the profits and assets of the company.

Inflation and deflation risk

It is likely that during its operational period public joint-stock company INVL Baltic Real Estate will face both inflation and deflation risks as investments in real estate are long term. At high inflation, the value of lease agreements, which are not subject to inflation or at high deflation, the value of lease contracts, which are linked to inflation, will decrease.

Credit risk

Public joint-stock company INVL Baltic Real Estate will seek to lease real estate in the highest price possible. There is a risk that tenants will not fulfill their obligations - it would adversely affect the profit of INVL Baltic Real Estate. Large parts of liabilities not fulfilled in time may cause disturbances in activities of public joint-stock company INVL Baltic Real Estate, there might be a need to seek additional sources of financing, which may not always be available.

Public joint-stock company INVL Baltic Real Estate has granted loans to the other companies. There is a risk that if the financial state of these companies become worse, INVL Baltic Real Estate may not receive all the loans granted.

Public joint-stock company INVL Baltic Real Estate also bears the risk of holding funds in bank accounts or investing in short-term financial instruments.

Currency risk

Public joint-stock company INVL Baltic Real Estate forms transactions in Litas or Euros; therefore the currency risk is low. Lithuania plans to adopt the Euro since 2015. There is a risk that before the introduction Lithuanian Central Bank may change fixed LTL/EUR rate, which may reduce the investment value of the public joint-stock company INVL Baltic Real Estate.

Changes in the currency (Litas turning into Euros) affect the recalculation of the authorised capital as well as amount of shares in the company; therefore the part of the authorised capital owned by the shareholders after the recalculation may change slightly due to the rounding.

Interest rate risk

Interest rate risk mainly includes loans with a variable interest rate. Rising interest rates will increase the public joint-stock company's INVL Baltic Real Estate debt service costs, which will reduce the return on investment. If considered necessary, the public joint-stock company INVL Baltic Real Estate will get insured from interest rate risk engaging in the relevant transactions.

Reliance on the company's assets administrator

Invaldos Nekilnojamojo Turto Fondas, AB has entered into an agreement at a market price with Inreal Valdymas, UAB for the company's asset management and administration services. Under this agreement, Inreal Valdymas, UAB, as an administrator of the property, is committed to increase companies' value and maintain high quality of service for buildings' tenants and employees. In case of change in administrative prices in the market, new contracts under less favorable conditions can be created with administrator, which may directly influence company's costs' increase.

Dependence on tenants

If subsidiaries of public joint-stock company INVL Baltic Real Estate fail to achieve expected revenue from the rental of buildings or maintain high employment rate, they may be faced with permanent non-reimbursable cost problem of tenants. This risk may appear due to dramatic increase in rented accommodation supply and a drop in demand, the fall in rents. Failing to lease space under expected price/volume or after current tenants terminate their leases, could cause corporate earnings to be reduced without a change in fixed costs. Accordingly, their profits will also fall.

Sub-lease agreement risk

In 2007, Invaldos Nekilnojamojo Turto Fondas, AB has sold 5 real estate properties and entered into the lease agreement with the buyer, under which they agreed to sub-lease the property until 2017 August. Currently, the company is incurring about LTL 100 000 loss per month due to sublease. This amount varies depending on the income from the sub-lease, property maintenance costs incurred and the rent paid.

Large shareholders risk

Three public joint-stock company's INVL Baltic Real Estate shareholders together with related parties at the start of the company's activity hold more than 60% of shares and their voting will influence the election of the Members of the Board of company, essential decisions regarding the management, operations and financial position of the public joint-stock company INVL Baltic Real Estate. There is no guarantee that the major shareholders' decisions will always coincide with the opinion and interest of the minority shareholders. Large shareholders have the right to block the proposed solutions of other shareholders.

The Split-Off from the public joint-stock company Invalda LT risk

The public joint-stock company INVL Baltic Real Estate established in the process of Split-Off of the public joint-stock company Invalda LT and took over 30.9 percent of assets, equity and liabilities of the public joint-stock company Invalda LT. If certain public joint-stock company's Invalda LT obligations will not be distributed to all companies operating after the separation, then all post-split-off-based companies will be jointly liable for it. Each of the companies' responsibility will be limited by the size of equity, attributable under the Split-Off conditions.

When any obligation of the public joint-stock company Invalda LT under the terms of the split-off will be assigned to one of the companies',established after the split-off, that company will be liable to answer the obligation. If this company does not meet the whole or part of the obligation, and there is no additional guarantee provided to creditors under the Company Law, all post-split-off companies will be jointly liable for that obligation (or part of it). Each of the companies' responsibility will be limited by the size of equity, attributable under the Split-Off conditions.

Market-related risks

Market risk

Shareholders of public joint-stock company INVL Baltic Real Estate bear the risk of incurring losses due to adverse changes in the market price of the shares. The stock price drop may be caused by negative changes in company's assets value and profitability, general stock market trends in the region and the world. Trading in shares of the public joint-stock company INVL Baltic Real Estate may depend on the broker and analyst comments and published independent analyses of the company and its activities. The unfavorable analysts' outlook of the shares of public joint-stock company INVL Baltic Real Estate may adversely affect the market price of the shares. Non-professional investors assessing the shares are advised to seek the assistance of intermediaries of public trading or other experts in this field.

Liquidity risk

If demand for shares decreases or they are unlisted from the stock exchange, investors will face the problem of realization of shares. If financial situation of public joint-stock company INVL Baltic Real Estate deteriorates, the demand for company's shares may drop, which will lead to fall in share price.

Dividend payment risk

Dividend payment to shareholders of public joint-stock company INVL Baltic Real Estate is not guaranteed and will depend on the company's profitability, investment plans and the overall financial situation.

Tax and legal risk

Changes in the equity-related legislation or state tax policy can change attractiveness of shares of the public joint-stock company INVL Baltic Real Estate. This may reduce the liquidity of the shares of the company and/or price.

Inflation risk

When inflation increases, the risk, that the stock price change may not offset the current rate of inflation, appears. In this case, the real returns from capital gain on market shares for traders may be less than expected.

The initial stock price risk

Shares of joint-stock company INVL Baltic Real Estate, prior to inclusion in the stock market, have not been publicly traded. As a result, their stock price, having added them to the trading list, will be determined on the basis of the purchase and sale orders, which may depend on subjective factors, such as the market and the economic situation, performance evaluation of the public joint-stock company INVL Baltic Real Estate, the interest of investors. As a result, the initial share price may not reflect accurately the true value and have high fluctuations.

The legal status change risk

Public joint-stock company INVL Baltic Real Estate intends to have closed-end investment company license, issued by the Bank of Lithuania. This will lead to changes in the protection of the company's shareholders' and certain operating restrictions. Closed-end investment company shareholders are under no obligation to publish an official tender offer and the mandatory repurchase of shares; the company has a limited duration and is a subject to certain diversification requirements. Becoming a closed-end investment company will influence only certain restrictions on the activities and supervision, which may increase the company's operating costs.

13. Significant investments made during the reporting period

During the reporting period INVL Baltic Real Estate, AB has not made any acquisitions.

14. Information on the related parties' transactions

Information on the related parties' transactions is disclosed in consolidated interim condenced unaudited financial statements' explanatory notes for 6 months of 2014.

15. Activity plans and forecast of the Issuer and it's group

INVL Baltic Real Estate intends to apply for a closed-end investment company licence and in its essence will become similar to fund.

Management of INVL Baltic Real Estate, AB, will be transferred to Invalda LT Investments, company owned by Invalda LT. Company does not plan to finance its activities with considerable amount of borrowed capital. Generated cash flow should be used for dividend payments or buying up of own shares.

After closed-end investment company license is granted, the company plans to evaluate the investment environment and attract additional capital.

Director Darius Šulnis

AB INVL BALTIC REAL ESTATE

CONSOLIDATED INTERIM CONDENSED NOT-AUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN
UNION

GENERAL INFORMATION

Board of Directors

Mr. Alvydas Banys (chairman of the Board)
Ms. Indrė Mišeikytė
Mr. Darius Šulnis

Management

Mr. Darius Šulnis (president)

Address and company code

Registration address
Kalvarijų Str. 11A-20,
Vilnius,
Lithuania

Office address
Šeimyniškių Str. 1A,
Vilnius,
Lithuania

Company code 303299735

Banks

AB DNB Bankas
AB Šiaulių Bankas

The financial statements were approved and signed by the Management and the Board of Directors on 19th August 2014.

Mr. Darius Šulnis Director	Mr. Raimondas Rajeckas Authorized person according to the agreement to conduct accounting

Interim consolidated income statement

		I Half Year 2014
		Unaudited
Sales revenue		
Rent revenue	5	2,431
Utilities revenue		462
Other services revenue		11
Total sales revenue		**2,904**
Other income		-
Net gains (losses) on disposal of subsidiaries		-
Net gains (losses) from fair value adjustments on investment property	6	(10)
Employee benefits expenses		(9)
Premises rent	5	(1,049)
Utilities		(413)
Repair and maintenance cost of premises		(282)
Management and brokerage costs		(185)
Other taxes		(198)
Depreciation and amortisation		(6)
Other expenses		(225)
Operating profit (loss)		**527**
Finance costs		(335)
Profit (loss) before income tax		**192**
Income tax credit (expenses)		(47)
PROFIT (LOSS) FOR THE PERIOD		**145**
Attributable to:		
Equity holders of the parent		145
Non-controlling interests		-
Basic and diluted earnings (deficit) per share (in LTL)		0.02

Interim consolidated statement of comprehensive income

	I Half Year 2014
	Unaudited
Profit (loss) for the year	**145**
Net other comprehensive income (loss) that may be subsequently reclassified to profit or loss subsequent periods	-
Net other comprehensive income (loss) not to be reclassified to profit or loss	-
Other comprehensive income (loss) for the period, net of tax	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**145**
Attributable to:	
Equity holders of the parent	145
Non-controlling interests	-

Interim consolidated statement of financial position

	Notes	As at 30 June 2014
		Unaudited
ASSETS		
Non-current assets		
Property, plant and equipment		23
Investment properties	6	116,725
Intangible assets		808
Other non-current assets		2,848
Total non-current assets		**120,404**
Current assets		
Trade and other receivables		1,097
Current loans granted	7	13,686
Prepayments and deferred charges		86
Cash and cash equivalents		451
Total current assets		**15,320**
Total assets		**135,724**
EQUITY AND LIABILITIES		
Equity		
Equity attributable to equity holders of the parent		
Share capital	3	7,044
Share premium	3	10,240
Reserves	3	23,765
Retained earnings		8,394
		49,443
Non-controlling interests		**-**
Total equity		**49,443**
Liabilities		
Non-current liabilities		
Deferred income tax liability		12,358
Other non-current liabilities		1,523
Total non-current liabilities		**13,881**
Current liabilities		
Current portion of non-current borrowings	8	55,785
Current borrowings	8	15,852
Trade payables		370
Advances received		150
Other current liabilities		243
Total current liabilities		**72,400**
Total liabilities		**86,281**
Total equity and liabilities		**135,724**

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent								
				Reserves					
Group	**Share capital**	**Own shares**	**Share premium**	**Legal reserve**	**Reserve of purchase of own shares**	**Retained earnings (accumulated deficit)**	**Subtotal**	**Non-controlling interests**	**Total equity**
Balance as at 29 April 2014	**7,044**	**-**	**10,240**	**970**	**22,795**	**8,249**	**49,298**	**-**	**49,298**
Profit (loss) for the I half year of 2014	-	-	-	-	-	145	145	-	145
Other comprehensive income (loss) for the I half year of 2014	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the I half year of 2014	**-**	**-**	**-**	**-**	**-**	**145**	**145**	**-**	**145**
Changes in reserves	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2014 (unaudited)	**7,044**	**-**	**10,240**	**970**	**22,795**	**8,394**	**49,443**	**-**	**49,443**

Consolidated statement of cash flows

	I Half Year 2014
	Unaudited
Cash flows from (to) operating activities	
Net profit (loss) for the period	145
Adjustments for non-cash items and non-operating activities:	
Valuation (gain) loss, net	10
Depreciation and amortization	6
(Gain) loss on disposal of property, plant and equipment	-
(Gain) loss on disposal of subsidiaries	-
Interest (income)	-
Interest expenses	335
Deferred taxes	47
Current income tax expenses	-
Allowances	-
Changes in working capital:	
Decrease (increase) in trade and other receivables	140
Decrease (increase) in other current assets	72
(Decrease) increase in trade payables	139
(Decrease) increase in other current liabilities	(28)
Cash flows (to) from operating activities	**866**
Income tax (paid)	-
Net cash flows (to) from operating activities	**866**

(cont'd on the next page)

Consolidated statement of cash flows (cont'd)

		I Half Year 2014
Cash flows from (to) investing activities		Unaudited
(Acquisition) of non-current assets (except investment properties)		-
Proceeds from sale of non-current assets (except investment properties)		-
(Acquisition) of investment properties		(10)
Proceeds from sale of investment properties		-
(Acquisition) and establishment of subsidiaries, net of cash acquired		-
Proceeds from sales of subsidiaries, net of cash disposed		-
Loans (granted)		-
Repayment of granted loans		-
Interest received		-
Net cash flows (to) investing activities		**(10)**
Cash flows from (to) financing activities		
Cash flows related to Group owners		
(Acquisition) of own shares		-
Dividends (paid) to equity holders of the parent		-
		-
Cash flows related to other sources of financing		
Cash received according to split-off terms	3	155
Proceeds from loans	9	312
(Repayment) of loans	3; 8	(1,112)
Interest (paid)		(152)
		(797)
Net cash flows (to) from financial activities		**(797)**
Impact of currency exchange on cash and cash equivalents		**-**
Net (decrease) increase in cash and cash equivalents		**(59)**
Cash and cash equivalents at the beginning of the period	3	**392**
Cash and cash equivalents at the end of the period		**451**

(the end)

Notes to the interim condensed financial statements

1 General information

AB INVL Baltic Real Estate (hereinafter the Company) is a joint stock company registered in the Republic of Lithuania. It was established on 29 April 2014, following the split-off of 30.90% assets, equity and liabilities from AB Invalda LT (code 121304349). Entities, which business is investment into investment properties held for future development and in commercial real estate and its rent, were transferred to the Company (hereinafter split-off). More details about the split-off are disclosed in Note 3.

The registration address is as follows:

Kalvarijų str. 11A-20,
Vilnius,
Lithuania.

The address of the office is as follows:

Šeimyniškių str. 1A,
Vilnius,
Lithuania.

These financial statements cover the first interim financial period of the Company, starting from the Company's establishment date 29 April 2014 and ending on 30 June 2014.

The Company manages shares of entities investing into commercial real estate and investment properties held for future development (detailed list of subsidiaries is presented below). The Group is operated in one segment – real estate segment. The Group has invested in an office, warehouse, manufacturing real estate objects in Lithuania directly and in Latvia indirectly. All objects give rental income, almost all objects have further development prospects.

The Company's share capital is divided into 7,044,365 ordinary registered shares with the nominal value of LTL 1 each. All the shares of the Company were fully paid. Subsidiaries did not hold any shares of the Company. As at 30 June 2014 the shareholders of the Company were (by votes)*:

	Number of votes held	Percentage
UAB LJB Investments	2,144,351	30.44
Mrs. Irena Ona Mišeikiene	2,035,918	28.90
AB Invalda LT	875,038	12.42
UAB Lucrum Investicija	714,967	10.15
Mr. Alvydas Banys	540,750	7.68
Ms. Indrė Mišeikytė	140,618	2.00
Other minor shareholders	592,723	8.41
Total	7,044,365	100.00%

* Some shareholders have sold part of their shares under repo agreement (so did not hold the legal ownership title of shares), but they retained the voting rights of transferred shares.

The Company's shares are traded on the Baltic Secondary List of NASDAQ OMX Vilnius from 4 June 2014.

1 General information (cont'd)

The Group consists of the Company and the following directly and indirectly owned subsidiaries (hereinafter the Group):

Company	Registration country	Share of the stock held by the Group (%)	Main activities
AB Invaldos nekilnojamojo turto fondas	Lithuania	100.00	Real estate investor
UAB Rovelija	Lithuania	100.00	Real estate investor
UAB Perspektyvi veikla	Lithuania	100.00	Dormant
UAB Proprietas	Lithuania	100.00	Dormant

Subsidiary AB Invaldos nekilnojamojo turto fondas also owned 100% of the shares of UAB INTF investicija. In May 2014 the bankruptcy was instituted in this entity, therefore, the Group does not control and not consolidate this entity.

2 Basis of preparation and accounting policies

The principal accounting policies applied in preparing the Group's financial statements for the six months ended 30 June 2014 are as follows:

2.1. Basis of preparation

The interim condensed financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting.

These financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value. The financial statements are presented in thousands of Litas (LTL) and all values are rounded to the nearest thousand except when otherwise indicated.

2 Basis of preparation and accounting policies (cont'd)

Adoption of new Standards and Interpretations, which are mandatory from 1 January 2014, is noted below.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC-12 *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. IFRS 10 had no impact on the Group's consolidation structure.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. IFRS 11 had no impact on the Group's financial statements for six months ended 30 June of 2014.

IFRS 12 *Disclosure of Interest in Other Entities*

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, *Consolidated financial statements*, and IFRS 11, *Joint arrangements*, and replaces the disclosure requirements currently found in IAS 28*, Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements. Accordingly, the Group has not made such disclosures.

IAS 27 *Separate Financial Statements*

IAS 27 was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 *Consolidated Financial Statements*. The amendment had no impact on the Group's financial statements for six months ended 30 June of 2014.

IAS 28 *Investments in Associates and Joint Ventures*

The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment had no impact on the Group's financial statements for six months ended 30 June of 2014.

Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendment had no impact on the Group's financial statements for six months ended 30 June of 2014.

2 Basis of preparation and accounting policies (cont'd)

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12

The amendments clarify the transition guidance in IFRS 10 *Consolidated Financial Statements*. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2013 for a calendar year-end entity that adopts IFRS 10 in 2014) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amendment had no impact on the Group's financial statements for six months ended 30 June of 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment entities*

The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendment had no impact on the Group's financial statements for six months ended 30 June of 2014.

Amendments to IAS 39 - *Novation of Derivatives and Continuation of Hedge Accounting*

The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendments are not relevant to the Group currently, because it has not recognised any hedging instrument.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are all entities (including structured 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. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent and is presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or retained earnings, as appropriate.

2 Basis of preparation and accounting policies (cont'd)

2.3. Functional and presentation currency

The consolidated financial statements are prepared in local currency of the Republic of Lithuania, Litas (LTL), and presented in LTL thousand. Litas is the Company's functional and the Group's and the Company's presentation currency. Starting from 2 February 2002 Lithuanian Litas is pegged to euro at the rate of 3.4528 Litas for 1 euro. The exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

As these financial statements are presented in LTL thousand, individual amounts were rounded. Due to the rounding, totals in the tables may not add up.

2.4. Business combinations and goodwill

The group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred from 1 January 2010 (until that they were included in the acquisition cost). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

2.5. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when the cost is incurred, if the recognition criteria are met. Replaced parts are written off.
The carrying values of property, plant and equipment are reviewed for impairment when events or change in circumstances indicate that the carrying value may not be recoverable.
Depreciation is calculated using the straight-line method over the following estimated useful lives.

Other non-current assets	4–6 years

The asset residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment.
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net

disposal proceeds and the carrying amount of the asset) is included in the income statement within “other income” in the year the asset is derecognised.

2 Basis of preparation and accounting policies (cont’d)

2.6. Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the consolidated Group, are classified as investment properties. Investment properties also include properties that are being constructed or developed for future use as investment properties.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. Land is not presented separately from the buildings as these assets cannot be acquired or sold separately.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement within “Net gains (losses) from fair value adjustments on investment property” in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy adopted for property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any differences between fair value of the property at that date and its previous carrying amount are recognised in the income statement.

2.7. Intangible assets other than goodwill

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets other than goodwill are assessed to be finite. Intangible assets are amortised using the straight-line method over the best estimate of their useful lives.

<u>Other intangible assets</u>

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other intangible assets are amortised during 3 - 4 years.

2 Basis of preparation and accounting policies (cont'd)

2.8. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement within “impairment, write-down and provisions”.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

2.9. Financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the financial assets were acquired. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial asset or financial liability not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through amortisation process. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise ‘loans granted’, ‘trade and other receivables’, ‘cash and cash equivalents’ in the statement of financial position.

2 Basis of preparation and accounting policies (cont'd)

2.10. Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each reporting date whether is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:
- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) Adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through use of an allowance account.

The Group assesses whether objective evidence of impairment exists individually for financial assets. When financial asset is assessed as uncollectible and all collateral has been realised or has been transferred to the Group the impaired asset is derecognised. The objective evidence for that is insolvency proceedings against the debtor is initiated and the debtor has not enough assets to pay to creditors, the debtor could not be found.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss within "impairment, write-down, allowances and provisions", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.11. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank account as well as deposit in bank with an original maturity of three months or less.

2 Basis of preparation and accounting policies (cont'd)

2.12. Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The measurement of financial liabilities depends on their classification as follows:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.13. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group or the Company have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

2 Basis of preparation and accounting policies (cont'd)

2.14. Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

<u>Operating lease</u>

Group as a lessee

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2 Basis of preparation and accounting policies (cont'd)

2.15. Revenue recognition

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

<u>Rental income</u>

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. When the Group provides incentives to its tenants, the cost of incentives is recognised over lease term, on a straight-line basis, as a reduction of rental income.

<u>Interest income</u>

Income is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

2.16. Cash and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. In Lithuania a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. The liability for non-cash distributions is measured at the fair value of the assets to be distributed with subsequent fair value re-measurement recognised directly in equity as adjustment to the amount of the distribution.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

2.17. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

2 Basis of preparation and accounting policies (cont'd)

2.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The standard income tax rate in Lithuania was 15 % in 2014. Starting from 2010, tax losses can be transferred at no consideration or in exchange for certain consideration between the group companies if certain conditions are met.

Deferred income taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

By Lithuanian Income Tax Law shall be not taxed sale of shares of an entity, registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and brought into effect and which is a payer of corporate income tax or an equivalent tax, to another entity or a natural person where the entity transferring the shares held more than 25% of voting shares in that entity for an uninterrupted period of at least two years. If mentioned condition is met or will be met by judgement of the management of the Company, there are not recognised any deferred tax liabilities or assets in respect of temporary differences associated with this investments.

Deferred income tax asset has been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred income tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Deferred tax asset are not recognised:
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. From 1 January 2014 current year taxable profit could be decreased by previous year tax losses only up to 70%.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

2 Basis of preparation and accounting policies (cont'd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognised in equity as a deduction, net of tax, from the proceeds. Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.20. Employee benefits

Social security contributions

The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

Bonus plans

The Company and the Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.22. Events after the reporting period

Events after the reporting period that provide additional information about the Group's position as at the end of the reporting period (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3 Split-off

On 21 March 2014 the split-off terms of AB Invalda LT (code 121304349) were announced. The Extraordinary General Shareholders Meeting approved the terms of the Company's split-off on 28 April 2014. The Split-off was completed on 29 April 2014. According to the terms, three entities AB INVL Baltic Farmland, AB INVL Baltic Real Estate and AB INVL Technology, comprising 47.95% of AB Invalda LT assets calculated at carrying amounts, were split-off from AB Invalda LT. Following the split-off, 30.90% of the assets, equity and liabilities were transferred to the Company.

The Company's equity was formed in accordance with procedure set forth in the terms of the split-off, whereas assets received and liabilities assumed were estimated at fair values at the date of Split-off. Investments into subsidiaries were estimated according to their equity, which represents the fair value (3 level). The main assets of subsidiaries are investment properties, which are estimated at fair value (Note 6). The carrying amounts of trade receivables, other assets and liabilities are approximated their fair value. Subsidiaries have not any identifiable assets and liabilities, which are not recognised in their balance sheet.

Below the starting statement of financial position of the Group is presented:

	As at 29 April 2014
Intangible assets	808
Property, plant and equipment	29
Investment properties	116,725
Other non-current assets	2,848
Loans granted	13,686
Prepayments	158
Trade and other receivables	1,392
Cash and cash equivalents	392
Total assets	**136,038**
Share capital	7,044
Share premium	10,240
Reserves	23,765
Retained earnings	8,249
Total equity	*49,298*
Deferred income tax liability	12,311
Other non-current liabilities	1,524
Current portion of non-current borrowings	56,429
Borrowings	15,825
Trade payables	231
Advances received	150
Other liabilities	270
Total liabilities	*86,740*
Total equity and liabilities	**136,038**

During the split-off part of liability rising from credit agreement with Šiaulių bankas was transferred to the Company (LTL 428 thousand). The credit was fully repaid in the beginning of May 2014.

4 Seasonality of operations

There is no seasonality of operations in the Group.

5 Rent revenue and lease expenses

The Group has earned rent revenue from owned premises and from leased premises. Subsidiary AB Invaldos nekilnojamojo turto fondas leases premises until August 2017 according to the lease agreement of 10 August 2007. During the reporting period the Group has suffered LTL 1,037 thousand lease expenses from this agreement. Detalisation of rent revenue by ownership of premises is presented below:

	As at 30 June 2014
Rent revenue from owned premises	1,476
Rent revenue from leased premises	955
Total rent revenue	2,431

6 Investment properties

	Other investment properties valued using sales comparison method	Leased Investment properties	Investment properties held for future redevelopment	I Half Year 2014
Fair value hierarchy	Level 2	Level 3	Level 3	
Balance as at 29 April 2014	**1,975**	**108,170**	**6,580**	**116,725**
Additions	-	-	-	-
Subsequent expenditure	-	10	-	10
Disposals	-	-	-	-
Gain from fair value adjustment	-	-	-	-
Loss from fair value adjustment	-	(10)	-	(10)
Balance as at 30 June 2014	**1,975**	**108,170**	**6,580**	**116,725**
Unrealised gains and losses for the period included within 'Net gains (losses) from fair value adjustments on investment property' in the income statement	**-**	**(10)**	**-**	**(10)**

Investment properties of the Group are office buildings, warehouses. The majority of buildings and warehouses are leased under the operating lease agreements and generate rental income

Investment properties are stated at fair value. Leased investment properties and investment properties held for future redevelopment were valued using income approach by accredited valuer UAB OBER-HAUS Nekilnojamasis Turtas as at 26 -29 November 2013. There were no significant changes in the market at the end of 2013 and during the 1st half year of 2014 that could have an effect on the value of those investment properties, therefore the updated valuation was not performed as at 30 June 2014. Other investment properties are valued by management using sales comparison method.

The fair value represents the price that would be received selling an asset in an orderly transaction between market participants at the measurement date, in compliance with the International Valuation Standards set out by the International Valuation Standards Committee. An investment property's fair value was based either on the market approach by reference to sales in the market of comparable properties or the income approach by reference to rentals obtained from the subject property or similar properties. Market approach refers to the prices of the analogues transactions in the market. These values are adjusted for differences in key attributes such as property size and quality of interior fittings. The most significant input into this valuation approach is price per square metre.

6 Investment properties (cont'd)

Income approach is based on the assumption that defined correlation between net activity future income and fair value of the objects exists. For leased investment properties main inputs include:
- Future rental cash inflows based on the actual location, type and quality of the properties and supported by the terms of any - existing lease, other contracts or external evidence such as current market rents for similar properties;
- Discount rates reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Estimated vacancy rates based on current and expected future market conditions after expiry of any current lease;
- Maintenance costs including necessary investments to maintain functionality of the property for its expected useful life;
- Capitalisation rates based on actual location, size and quality of the properties and taking into account market data at the valuation date;
- Terminal value taking into account assumptions regarding maintenance costs, vacancy rates and market rents.

Investment properties held for future redevelopment were estimated taking into account the following estimates (in addition to the inputs noted above):
- Costs to complete that are based on the valuers' experience and knowledge of market conditions and term sheets outlined in approved detailed plans. Costs to complete also include a reasonable profit margin;
- Completion dates, as properties under construction require approval or permits from oversight bodies at various points in the development process, including approval or permits in respect of initial design, zoning, commissioning, and compliance with environmental regulations. Based on management's experience with similar developments, all relevant permits and approvals are expected to be obtained. However, the completion date of the development may vary depending on, among other factors, the timeliness of obtaining approvals and any remedial action required by the Group.

There were no changes to the valuation techniques during the period.

Description of valuation techniques used and key inputs to valuation on investment properties:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**
Leased investment properties	Discounted cash flows	Discount rate (%)	9 – 11 (9)
		Capitalisation rate for terminal value (%)	7.5 – 10 (7.6)
		Vacancy rate (%)	5 – 10
		Rent price Lt per sq. m. (without VAT)	6 – 42 (27.9)
Investment properties held for future redevelopment	Discounted cash flows with estimated costs to complete	Discount rate (%)	
		Capitalisation rate for terminal value	15 – 17 (15.7)
		Cost to completion Lt per sq. m (without VAT)	2,100 – 2,200 (2,157)
		Sales price per Lt sq. m. (with VAT)	4,800 – 8,000 (6,633)

The sensitivity analysis of investment properties valued using income approach as at 30 June 2014 is as follows:

Estimates	**Increase of estimates**		**Decrease of estimates**	
	Leased Investment properties	**Investment properties held for future redevelopment**	**Leased Investment properties**	**Investment properties held for future redevelopment**
Change in future rental rates by 10 %	10,390	-	(10,390)	-
Change in future sale prices of developed properties by 10%	-	1,750	-	(1,740)
Change in construction costs by 10%	-	(1,510)	-	1,520
Change in expected vacancy rates by 20%	(1,260)	-	1,160	-
Change in discount and capitalization rate by 50 bps	(6,870)	(80)	7,630	220

6 Investment properties (cont'd)

As at 30 June 2014 investment properties with carrying amount of LTL 114,750 thousand were pledged to the banks as collateral for the loans.

There were no restrictions on the realisation of investment properties or the remittance of income and proceeds of disposals during the 1st half year of 2014. No material contractual obligations to purchase, construct, repair or enhance investment properties existed at the end of the period.

7 Granted loans

As at 30 June 2014 the Group owned 50 % of the claims to Latvian entities SIA Dommo Grupa and SIA Dommo Biznesa Parks according to loans agreements. The above mentioned entities comprise one group and own about 12,800 square meters of warehouse space and over 58 hectares of land around Riga, suitable for the development of logistics hub. These assets are pledged to secure the claims to SIA Dommo Biznesa Parks. Due to economic crisis in 2008 these entities were in the process of bankruptcy. Now is initiated the termination of bankruptcy process. The Group has the right to 50 % of entities' generated cash flows. In the statement of financial position these claims are accounted at fair value, estimated in the business combination – LTL 13,672 thousand.

8 Borrowings

	As at 30 June 2014
Current:	
Current portion of non-current borrowings	55,785
Borrowings from related parties	15,852
Total borrowings	71,637

Borrowings at the end of the 1st half year of 2014 in local and foreign currencies expressed in LTL were as follows:

Borrowings denominated in:	As at 30 June 2014
EUR	55,785
LTL	15,852
	71,637

Borrowings at the end of the 1st half year of 2014 with fixed or floating interest rate (with changes in 1, 3, 6 months period) were as follows:

Interest rate type:	As at 30 June 2014
Fixed	15,852
Floating	55,785
	71,637

The amounts pledged to the banks are as follows:

	As at 30 June 2014
Investment properties	114,750
Cash	53

Due to default under the credit agreement between Nordea bank from one side and UAB INTF investicija and UAB Sago from the other side, according to the terms of credit agreements between AB Invaldos nekilnojamojo turto fondas and Nordea bank, the bank had demanded to repay LTL 3,739 thousand earlier than is set in the credit agreement. By the opinion of management the amount which has to be paid to the bank is LTL 1,156 thousand. Dispute is settled in the court. The bank had deducted the amount of LTL 1,351 thousand of the restricted cash of the entity to cover the above mentioned liability. The mature of the borrowings of AB Invaldos nekilnojamojo turto fondas is 15 December 2015. The entity pay instalments according to repayment schedule of borrowing. The bank assumes that the entity inappropriately fulfils its obligation. Therefore, according to IAS 1, the borrowing was reclassified to current liabilities. According to repayment schedule the entity has to repay to the bank the amount of LTL 51,281 thousand of borrowings during 2015. The Group has repaid to the bank LTL 684 thousand during May - June.

9 Related party transactions

The related parties of the Group were the shareholders of the Company (note 1) and the entities of the group of AB Invalda LT. The Group was established after the split-off from Invalda LT (transactions were with AB Invalda LT, UAB Inservis).

The Group's transactions with related parties during the 1st half year of 2014 and related half year-end balances were as follows:

I Half Year 2014 Group	**Amounts in LTL**			
	Sales to related parties	**Purchases from related parties**	**Receivables from related parties**	**Payables to related parties**
AB Invalda LT (accounting services)	-	5,700	-	22,870
AB Invalda LT (loans)	-	142,671	-	15,852,182
UAB Inservis (maintenance and repair services)	-	158,591	-	191,602
UAB Inservis (rent and utilities)	1,780	-	-	-
	1,780	306,962	-	16,066,654
Liabilities to shareholders and management	-	-	-	-

From the Group activities' start date until the end of the 1st half year of 2014, the Group received LTL 311,970 of loans from AB Invalda LT.