

# Consolidated Interim Report – Six months ended 30 June 2017

(translation of the Estonian original)

## EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of the reporting period: 01.01.2017

End of the reporting period: 30.06.2017

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## MANAGEMENT REPORT

### Comment of the Fund manager

The Fund's financial results for the first half-year corresponded with the Fund manager's expectations. The vacancy rate of the leaseholds of the portfolio is very low, which contributes to the achievement of good results. In the second half-year the focus is on completing the construction of Laagri Selver and keeping the level of high occupancy of business premises portfolio. In addition, we are actively looking for new investment projects that meet the Fund's conservative investment criteria. As a new investment project, we will start building second Hortes store in Tallinn, in Tähesaju shopping mall.

EFTEN Real Estate Fund III AS conducted the third successful public share issue in the history of the Fund. Shares were offered only to the current shareholders of the Fund. The total emission of EUR 6.3 million was oversubscribed by 3.8 times. After successful emission, the Fund acquired the Hortes gardening centre in Tallinn, Laagri. In addition, the Fund acquired a full ownership in a project company that will build a new Selver store in Tallinn on Pärnu mnt 554. The new Selver store that will be serving Laagri area will be completed in December 2017. In August 2017 the renovation of the facade of the largest investment of the Fund - the Saules Miestas shopping centre in Šiauliai will be completed and in the first half of 2018 DSV Riga logistics centre will go through a major rebuilding.



The new Selver store will be completed in December 2017

## Financial overview

The consolidated sales revenue of EFTEN Real Estate Fund III AS for the first six months of 2017 was EUR 3.537 million, increased by 69% in a year. The Group's profit before revaluation of investment properties (incl. change in the success fee reserve), depreciation costs, financial income/ expenses and income tax expense (EBITDA) was in the amount of EUR 2.763 million in the first half of 2017 (2016 first half of the year: EUR 1.452 million). The Group's net profit for the same period was EUR 4.030 million and net profit increased by 3.3 times compared to the same period in 2016.

The consolidated gross profit margin in 2017 was 98% (first half of 2016: 97%), therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted only for 2% of the sales revenue in the first half of 2017 (2016 first half of the year: 3%).

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 21.5% of the revenues in the first half of 2017. The same indicator for the first half of 2016 was 31.4%.

	First half of the year	
	2017	2016
<i>EUR million</i>		
Rental revenue, other fees from properties	3,537	2,098
Expenses related to investment properties, incl. marketing costs	-0,290	-0,278
Interest expense and interest income	-0,260	-0,452
<b>Net rental revenue less finance costs</b>	<b>2,987</b>	<b>1,368</b>
Management fees	-0,257	-0,124
Other revenue and expenses	-0,213	-0,257
<b>Profit before change in the value of investment property, change in the success fee liability, change in the fair value of the interest swap and income tax expense</b>	<b>2,517</b>	<b>0,987</b>

As at 30.06.2017, the Group's total assets were in the amount of EUR 86.946 (31.12.2016: EUR 77.233) million, including fair value of investment property, which accounted for 95.4%, i.e. EUR 82.931 million (31.12.2016: 95.2%, i.e. EUR 73.539 million) of the total assets.

	30.06.2017	31.12.2016
<i>EUR million</i>		
Investment property	82,931	73,539
Other non-current assets	0,054	0,058
Current assets, excl. cash	0,763	0,444
Net debt	-44,628	-43,721
Net asset value (NAV)	39,120	30,320
Net asset value (NAV) per share (in euro cents)	13,5584	12,7112

The net asset value per share of EFTEN Real Estate Fund III AS increased by 6,7% in a half year as a result of profit increase, low interest rates and efficient management of costs. Dividends paid out in spring of 2017 from the 2016 year profit totaled EUR 1,503 (a year before: EUR 411) thousand. Without dividends, the Fund's NAV would have increased by 10.9% in the first half of 2017. Return on invested capital (ROIC) as at 30.06.2017 was 27.6% (2016: 22.5%). Access to flexible financing conditions help the Group to increase its competitiveness. In 2017, the Group has acquired two new investment properties for which two new loan agreements totaling EUR 4.8 million with an interest rate between 1.4%-1.817% per annum were concluded in July 2017.

The average interest rate of the Group's loan agreements (including the interest swap agreements) at the end of the first half of the year was 1.67% (31.12.2016: the same) and the LTV (Loan to Value) ratio was 50% (2016: 58%).

The dividend policy of EFTEN Real Estate Fund III AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In the spring of 2017, EFTEN Real Estate Fund III AS paid out (net) dividends to shareholders in the amount of EUR 1,503 thousand, i.e. 6.3% of the paid-in share capital.

For 12 months	30.06.2017	31.12.2016
ROE, % (net profit of the period / average equity of the period) * 100	24,2	11,4
ROA, % (net profit of the period / average assets of the period) * 100	9,8	5,1
ROIC, % (net profit of the period / average invested capital of the period) * 100 <sup>1</sup>	28,7	15,7
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2,1	2,8

<sup>1</sup> The average invested capital of the period is the paid-in share capital of EFTEN Real Estate Fund III AS's equity and agio. The indicator does not show the actual investment of the funds raised as equity.

## Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. As at the end of the June 2017, the Group had 8 (31.12.2016: 6) commercial investment properties with a fair value as at the balance sheet date of EUR 82.9 million and acquisition cost of EUR 76.8 million. The real estate portfolio of the Group is divided into following sectors:

- retail premises 45%; 3 investments
- office premises 23%; 2 investments
- warehouse premises 32%; 3 investments

Investment property, as at 30.06.2017	Group's ownership	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %
DSV Tallinn	100	16,014	991	100
DSV Riga	100	5,398	505	100
DSV Vilnius	100	11,687	676	100
<b>Total logistics</b>		<b>33,099</b>	<b>2,172</b>	<b>100</b>
Saules Miestas shopping centre	100	19,881	2,881	95
Laagri Selver	100	3,063	In development stage	
Laagri Hortes	100	3,470	250	100
<b>Total trade</b>		<b>26,414</b>	<b>3,131</b>	<b>96</b>
Ulonu office building	100	5,174	607	100
L3 office building	100	6,151	741	100
<b>Total office</b>		<b>11,325</b>	<b>1,348</b>	<b>100</b>



The weighted average expiration term of the lease agreements of investment property owned by the Group is 5.4 (31.12.2016: 6.1) years and as at 30.06.2017 the Group has a total of 166 tenants. Contractual revenue generated by 15 customers' accounts for 57.5% of the consolidated rental revenue.

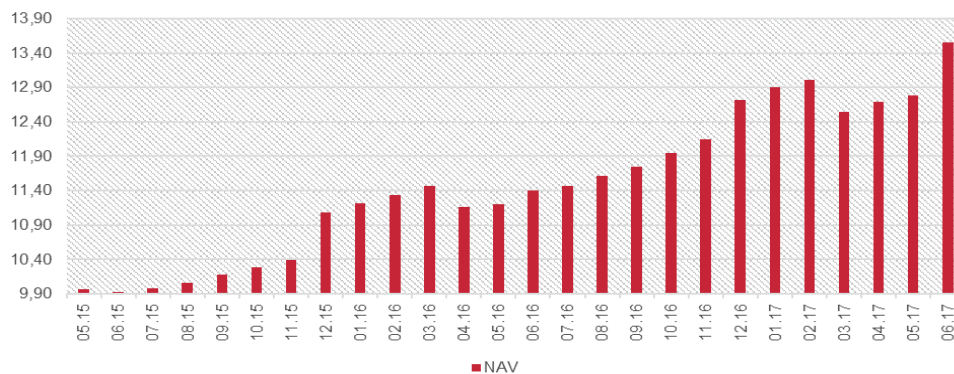
Major tenants	% of the consolidated rental revenue
DSV Transport AS	14,9%
DSV Transport UAB	10,2%
RIMI Lietuva, UAB	7,0%
DSV Transport SIA	6,4%
Hortes AS	3,8%
Valstybinė kainų ir energetikos kontrolės komisija	3,8%
LPP Lithuania, UAB	1,7%
Synergium UAB	1,4%
Koncernas SBA UAB	1,3%
Eurovaistinė, UAB	1,2%
GD Bonum Publicum	1,2%
Drogas, UAB	1,3%
Panevėžio statybos trestas UAB	1,2%
New Yorker Lietuva, UAB	1,2%
Topo grupe, UAB	1,1%
Others	42,5%



DSV logistics center in Tallinn

## Information on shares

As at 30.06.2017, payments made to the share capital of EFTEN Real Estate Fund III AS total EUR 31.163 (31.12.2016: EUR 24.891) million. Number of shares as at 30.06.2017 was 2,885,263 (31.12.2016: 2,385,263).



As at 30.06.2017, EFTEN Real Estate Fund III AS had 3 shareholders with ownership interest above 10%:

- Altius Energia OÜ, with an ownership interest of 15.0% of the company's shares
- Väärtpaperid OÜ, with an ownership interest of 11.4% of the company's shares
- Esraven AS, with an ownership interest of 11.3% of the company's shares

## Management

In the first half of 2017 (30.03.2017), the regular general meeting of shareholders was held which approved 2016 annual report and decided to pay a net dividend in the amount of EUR 1,502,716 or EUR 0.63 per share. No extraordinary general meetings of shareholders were held in the first half of the year.

On 11.04.2017, the Fund's Supervisory Board approved a public offering prospectus for shares and decided to increase the share capital by EUR 5,000,000 by issuing 500,00 new shares. Shares were offered only to the current shareholders of the Fund. The offer price of the shares was EUR 12.5431, of which the nominal value of the share was in the amount of EUR 10. The public offering of shares took place between 18.04.2017 and 02.05.2017. During the subscription period, 1,903,927 shares were subscribed. With the resolution of the Supervisory Board from 05.05.2017, the distribution of shares was determined and 1,403,927 shares that had been oversubscribed were cancelled. After the share issue, the Fund's new share capital is EUR 28,852,630.

There have been no changes in the composition of the Fund's Supervisory Board and Management Board. Since its formation, the Fund's Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. The management board of the Fund is comprised of Viljar Arakas and Tõnu Uustalu.

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



# FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP FOR THE FIRST HALF OF 2017

## CONSOLIDATED INCOME STATEMENT

	Notes	First half of 2017	First half of 2016
<i>EUR thousand</i>			
Revenue	4,5	3,537	2,098
Cost of services sold	6	-74	-71
<b>Gross profit</b>		<b>3,463</b>	<b>2,027</b>
Marketing costs	7	-216	-207
General and administrative expenses	8	-933	-479
Other income	9	2,318	506
<b>Operating profit</b>	4	<b>4,632</b>	<b>1,847</b>
Financial costs	10	-260	-452
<b>Profit before Income tax</b>		<b>4,372</b>	<b>1,395</b>
Income tax expense	11	-342	-183
<b>Net profit for the period</b>		<b>4,030</b>	<b>1,212</b>

Notes on pages 13 to 40 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2017	31.12.2016
<i>EUR thousand</i>			
<b>ASSETS</b>			
Cash and cash equivalents	12	3,198	3,192
Receivables and accrued income	13	631	411
Prepaid expenses		34	33
Inventories		98	0
<b>Total current assets</b>		<b>3,961</b>	<b>3,636</b>
Long-term receivables	13	12	17
Investment property	4,15	82,931	73,539
Property, plant and equipment	14	38	37
Intangible assets		4	5
<b>Total non-current assets</b>		<b>82,985</b>	<b>73,597</b>
<b>TOTAL ASSETS</b>		<b>86,946</b>	<b>77,233</b>
<b>LIABILITIES AND EQUITY</b>			
Borrowings	16	1,871	1,948
Derivative instruments	19	31	137
Payables and prepayments	17	1,961	619
<b>Total current liabilities</b>		<b>3,863</b>	<b>2,704</b>
Borrowings	16	39,780	40,719
Other long-term liabilities	17	438	383
Success fee liability	18	1,222	760
Deferred income tax liability	11	2,523	2,348
<b>Total non-current liabilities</b>		<b>43,963</b>	<b>44,210</b>
<b>Total liabilities</b>		<b>47,826</b>	<b>46,913</b>
Share capital	20	28,853	23,853
Share premium	20	2,309	1,038
Statutory reserve capital	20	293	75
Retained earnings	21	7,665	5,355
<b>Total equity</b>		<b>39,120</b>	<b>30,320</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>86,946</b>	<b>77,233</b>

Notes on pages 13 to 40 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	First half of 2017	First half of 2016
<i>EUR thousand</i>			
<b>Net profit</b>		<b>4,030</b>	<b>1,212</b>
<i>Adjustments to net profit:</i>			
Finance costs	10	260	452
Gain/loss from revaluation of investment property	15	-2,316	-506
Change in the success fee liability	8	461	98
Depreciation, amortisation and impairment	14	12	13
Income tax expense	11	342	183
<b>Total adjustments with non-cash changes</b>		<b>-1,241</b>	<b>240</b>
<b>Cash flow from operations before changes in working capital</b>		<b>2,789</b>	<b>1,452</b>
Change in receivables and payables related to operating activities		-444	-202
<b>Net cash generated from operating activities</b>		<b>2,345</b>	<b>1,250</b>
Purchase of investment property	14	-4,877	-12,775
Acquisition of subsidiaries	3	-841	38
<b>Net cash generated from investing activities</b>		<b>-5,718</b>	<b>-12,737</b>
Loans received	16	0	6,270
Scheduled loan repayments	16	-1,025	-443
Interest paid		-356	-204
Issuance of shares	20	6,272	11,038
Dividends paid	19	-1,503	-411
Income tax paid on dividends		-9	0
<b>Net cash generated from financing activities</b>		<b>3,379</b>	<b>16,249</b>
<b>NET CASH FLOW</b>		<b>6</b>	<b>4,762</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>3,192</b>	<b>1,984</b>
Change in cash and cash equivalents		6	4,762
<b>Cash and cash equivalents at the end of the period</b>		<b>3,198</b>	<b>6,746</b>

Notes on pages 13 to 40 are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	Total
<i>EUR thousand</i>						
<b>Balance as at 01.01.2016</b>	<b>13,853</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,492</b>	<b>15,345</b>
Issuance of shares	10,000	1,038	0	0	0	<b>11,038</b>
Dividends paid	0	0	0	0	-411	<b>-411</b>
Transfers to statutory reserve capital	0	0	75	0	-75	<b>0</b>
<b>Total transactions with owners</b>	<b>10,000</b>	<b>1,038</b>	<b>75</b>	<b>0</b>	<b>-486</b>	<b>10,627</b>
Net profit for the period	0	0	0	0	1,212	<b>1,212</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,212</b>	<b>1,212</b>
<b>Balance as at 30.06.2016</b>	<b>23,853</b>	<b>1,038</b>	<b>75</b>	<b>0</b>	<b>2,218</b>	<b>27,184</b>
<b>Balance as at 31.12.2016</b>	<b>23,853</b>	<b>1,038</b>	<b>75</b>	<b>0</b>	<b>5,355</b>	<b>30,321</b>
Issuance of shares	5,000	1,272	0	0	0	<b>6,272</b>
Dividends paid	0	0	0	0	-1,503	<b>-1,503</b>
Transfers to statutory reserve capital	0	0	218	0	-218	<b>0</b>
<b>Total transactions with owners</b>	<b>5,000</b>	<b>1,272</b>	<b>218</b>	<b>0</b>	<b>-1,721</b>	<b>4,769</b>
Net profit for the period	0	0	0	0	4,030	<b>4,030</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,030</b>	<b>4,030</b>
<b>Balance as at 30.06.2017</b>	<b>28,853</b>	<b>2,310</b>	<b>293</b>	<b>0</b>	<b>7,664</b>	<b>39,120</b>

For additional information on share capital and changes in equity, please see Note 19 and 20.

Notes on pages 13 to 40 are an integral part of the interim consolidated financial statements.

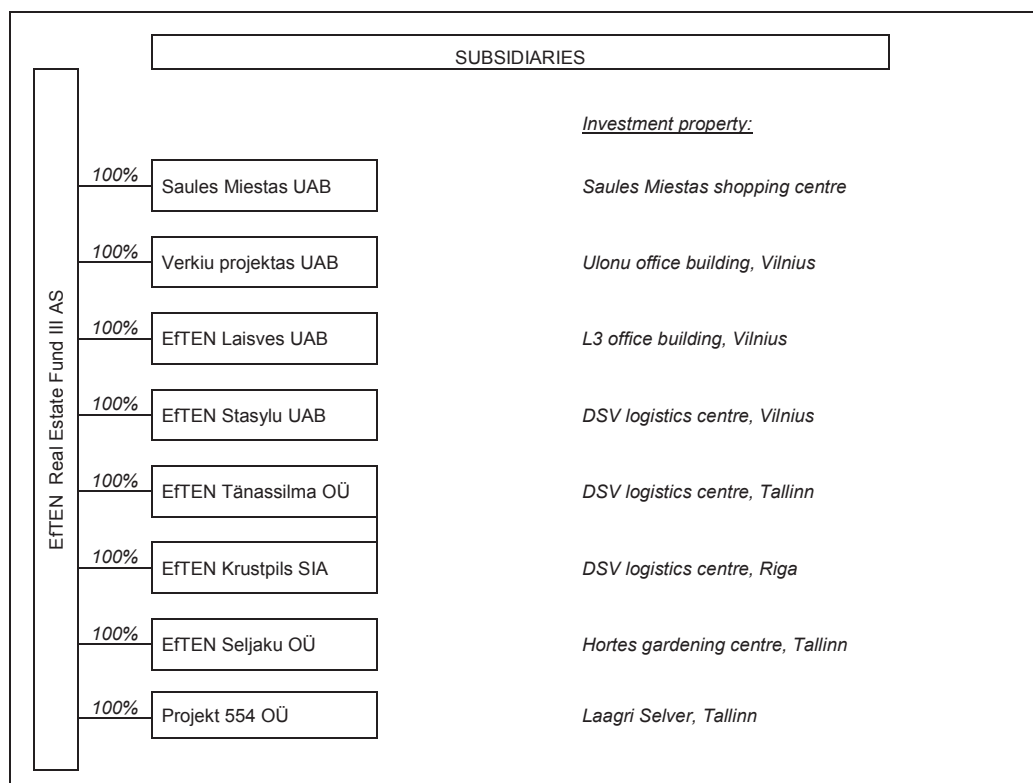
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 General information

The consolidated financial statements of EFTEN Real Estate Fund III AS and its subsidiaries for the six months ended June 30, 2017 has been signed by the Management Board on 22. August 2017.

EFTEN Real Estate Fund III AS (Parent company) is a company registered and operating in Estonia.

The structure of EFTEN Real Estate Fund III AS Group as at 30.06.2017 is as follows (also see Note 3):



## 2 Statement of compliance and basis for preparation

The interim report has been prepared in conformity with International Accounting Standard IAS 34 "Interim Financial Reporting" as approved by the EU. The interim report should be read parallel to the Annual Report 2016, prepared in conformity with International Financial Reporting Standards (IFRS).

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

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

## 2.1 Changes in the accounting policies and presentation

### Adoption of new or revised standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 July 2017, and which the Group has not early adopted.

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

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

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

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

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

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

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

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

**IFRS 15, Revenue from Contracts with Customers, amendment to enforcement of IFRS 15 (effective for annual periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Management of the Group has analysed the effect of the named change to the consolidated income statement and finds that the change does not have significant influence to Group's financial statements because the Group's revenue materially consists of rental income and the Group does not sell goods and services under one contract.

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with



a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements

**Disclosure Initiative – Amendments to IAS 7** (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

**Revenue from Contracts with Customers – Amendments to IFRS 15** (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group is currently assessing the impact of the amendments on its financial statements.

**Transfers of Investment Property – Amendments to IAS 40** (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group is currently assessing the impact of the amendments on its financial statements.

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

## 2.2 Summary of the most important accounting principles

### Management's critical estimates and judgements

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities. Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates. Information about management's critical judgements and estimates that have a material effect on the amounts reported in the financial statements is provided below:

#### 2.2.1 Estimation uncertainty

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

##### a) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. The Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The investment properties owned by the Group generate (or will start to generate when they are completed) rental revenue, therefore the applied method best indicates the fair value of the investment properties among the alternatives (comparison method for example). The estimates of the cash flows of properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. As at the balance sheet date, the Group had one investment property where the cost was used as its fair value due to the fact that the transaction between independent parties occurred close to the balance sheet date. Besides the transaction of

purchase and sale of investment property, the management of the Group estimates that no substantial changes have taken place in the real estate market that would have caused any significant change to the fair value.

Additional information on the assumptions used in valuation of fair value can be found in Note 15.

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

The Group holds a 100% ownership interest in all of its subsidiaries and the members of the management board of the Group's parent entity serve in the corporate governance bodies of subsidiaries and the country managers that are managing real estate investments locally serve on management bodies of the Latvian and Lithuanian management companies. Any transactions outside ordinary course of business and transactions involving investment property require a resolution of the supervisory board of the subsidiaries and such supervisory boards are only comprised of members of management of the Group's parent company. Hence, the Group has full control over its subsidiaries in its distribution of profit and adoption of management decisions.

### 2.2.2 Classification of real estate

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

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

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

### 2.2.3 Investment company

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

## Consolidation

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

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

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

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

The cost of a business combination accounted for using the acquisition method is allocated to the fair value of assets, liabilities and contingent liabilities as at the date of acquisition. The difference between the cost of the acquisition and the fair value of acquired assets,

liabilities and contingent liabilities is recognised as goodwill. If fair value exceeds cost, the difference (negative goodwill) is immediately recognised as income of the period.

## Segment reporting

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

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

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

Premises / country	Estonia	Latvia	Lithuania
Office premises	-	-	Ulonu office building, Vilnius L3 office building, Vilnius
Storage and manufacturing premises	DSV logistics centre, Tallinn	DSV logistics centre, Riga	DSV logistics centre, Vilnius
Retail premises	Hortes gardening centre, Laagri, Tallinn Laagri Selver, Tallinn	-	Saules Miestas shopping centre

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

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

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

## Revenue recognition

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

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

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

### Finance income

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

## Cash and cash equivalents

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

## Financial assets

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

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

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

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

The Group only had financial assets in the "Loans and receivables" category in 2017 and 2016.

## Loans and receivables from other parties

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

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

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

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

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

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

## Derivative instruments

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

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

## Investment property

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

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

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

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

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

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

## Financial liabilities

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

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

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

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

## Success fee liability

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

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

## Provisions and contingent liabilities

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

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

## Leases

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

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

## Statutory reserve capital

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

## Income tax

### Parent company and subsidiaries in Estonia

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

### Subsidiaries in Latvia and Lithuania

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

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



### 3 Subsidiaries

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			30.06.2017	31.12.2016
<b>Parent company</b>				
EFTEN Real Estate Fund III AS	Estonia			
<b>Subsidiaries</b>				
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	100	100
EFTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	100	100
EFTEN Krustpils SIA (previously EFTEN Maritim SIA)	Latvia	DSV logistics centre, Riga	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Tallinn	100	-
Projekt 554 OÜ	Estonia	Laagri Selver, Tallinn	100	-

All subsidiaries are engaged in the lease of investment property. The subsidiaries are not publicly listed.

On May 27, 2016 EFTEN Real Estate Fund III AS founded a new 100%-owned subsidiary EFTEN Tānassilma OÜ, contributing EUR 2.5 thousand to the company's share capital. On June 22, 2016, the company paid additional EUR 4.3 thousand to the company's share capital. The subsidiary was founded with the aim of acquiring DSV logistics centre in Tallinn.

On May 30, 2016 EFTEN Real Estate Fund III AS founded a new 100%-owned subsidiary EFTEN Stasylu UAB in Lithuania, contributing EUR 2.5 thousand to the company's share capital. On June 22, 2016, the company paid additional EUR 3.005 thousand to the company's share capital. The subsidiary was founded with the aim of acquiring DSV logistics centre in Vilnius.

On June 22, EFTEN Real Estate Fund III AS paid EUR 1.830 thousand to the share capital of subsidiary EFTEN Krustpils SIA (previously EFTEN Maritim SIA) that was founded in 2015. The deposit was made with the aim of acquiring DSV logistics centre in Riga.

On October 13, 2016 EFTEN Real Estate Fund III AS founded a new 100%-owned subsidiary EFTEN Laisves UAB in Lithuania, contributing EUR 2.5 thousand to the company's share capital. On October 26, 2016, the company paid additional EUR 3.010 thousand to the company's share capital. The subsidiary was founded with the aim of acquiring L3 office building in Vilnius.

On April 19, 2017 EFTEN Real Estate Fund III AS founded a new 100%-owned subsidiary EFTEN Seljaku OÜ, contributing EUR 2.5 thousand to the company's share capital. On May 29, 2017, the company paid additional EUR 1.24 thousand to the company's share capital. The subsidiary acquired Hortes gardening centre in Laagri, Tallinn at the end of May, 2017.

On May 19, 2017 EFTEN Real Estate Fund III AS acquired a new 100%-owned subsidiary Projekt 554 OÜ, contributing EUR 841 thousand to the company's share capital and received receivables from the subsidiary in the amount of EUR 650 thousand. The subsidiary owns a real estate on Pärnu Street 554, Tallinn, where a Selver shop will be opened in the autumn of 2017. EFTEN Real Estate Fund III AS will pay another EUR 400 thousand for the subsidiary during this year. The fair value of project 554 OÜ is shown in the table below:

	Fair value
<i>EUR thousand</i>	
Cash	0
Receivables from customers	7
Investment property (Note 15)	1,900
Payables	-650
Other liabilities	-16
<b>Fair value of net assets</b>	<b>1,241</b>
Acquisition cost	1,241
<b>Goodwill</b>	<b>0</b>

## 4 Segment reporting

### SEGMENT INCOME

	Office		Logistics		Retail		Unallocated		Total	
	First half of the year		First half of the year		First half of the year		First half of the year		First half of the year	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<i>EUR thousand</i>										
<b>Revenue (Note 5), incl.</b>	<b>741</b>	<b>354</b>	<b>1,033</b>	<b>4</b>	<b>1,763</b>	<b>1,740</b>	<b>0</b>	<b>0</b>	<b>3,537</b>	<b>2,098</b>
Estonia	0	0	487	0	22	0	0	0	509	0
Latvia	0	0	209	0	0	0	0	0	209	0
Lithuania	741	354	337	4	1,741	1,740	0	0	2,819	2,098
<b>Net revenue, incl.</b>	<b>718</b>	<b>345</b>	<b>1,032</b>	<b>4</b>	<b>1,497</b>	<b>1,471</b>	<b>0</b>	<b>0</b>	<b>3,247</b>	<b>1,820</b>
Estonia	0	0	487	0	21	0	0	0	508	0
Latvia	0	0	209	0	0	0	0	0	209	0
Lithuania	718	345	336	4	1,476	1,471	0	0	2,530	1,820
<b>Operating profit, incl.</b>	<b>1,219</b>	<b>687</b>	<b>1,154</b>	<b>-3</b>	<b>2,297</b>	<b>1,233</b>	<b>-38</b>	<b>-70</b>	<b>4,632</b>	<b>1,847</b>
Estonia	0	0	538	-2	6	0	-38	-70	506	-72
Latvia	0	0	209	-5	0	0	0	0	209	-5
Lithuania	1,219	687	407	4	2,291	1,233	0	0	3,917	1,924
<b>EBITDA, incl.</b>	<b>653</b>	<b>296</b>	<b>929</b>	<b>-3</b>	<b>1,246</b>	<b>1,228</b>	<b>-38</b>	<b>-70</b>	<b>2,790</b>	<b>1,451</b>
Estonia	0	0	442	-2	6	0	-38	-70	410	-72
Latvia	0	0	184	-5	0	0	0	0	184	-5
Lithuania	653	296	303	4	1,240	1,228	0	0	2,196	1,528
<b>Operating profit</b>									<b>4,632</b>	<b>1,847</b>
Net finance expenses									-260	-452
<b>Profit before income tax</b>									<b>4,372</b>	<b>1,395</b>
Income tax expense (Note 11)									-342	-183
<b>Net profit for the half-year</b>									<b>4,030</b>	<b>1,212</b>

### SEGMENT ASSETS

	Office		Logistics		Retail		Total	
	30.06		30.06		30.06		30.06	
	2017	2016	2017	2016	2017	2016	2017	2016
<i>EUR thousand</i>								
<b>Investment property (Note 15)</b>								
Estonia	0	0	12,790	4,263	6,617	0	19,407	4,263
Latvia	0	0	5,322	0	0	0	5,322	0
Lithuania	18,772	8,490	8,550	8,455	30,880	28,580	58,202	45,525
<b>Total investment property</b>	<b>18,772</b>	<b>8,490</b>	<b>26,662</b>	<b>12,718</b>	<b>37,497</b>	<b>28,580</b>	<b>82,931</b>	<b>49,788</b>
Other non-current assets							55	73
Net debt							-44,628	-22,998
Other current assets							762	321
<b>NET ASSETS</b>							<b>39,120</b>	<b>27,184</b>

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

The largest customers of the Group in the first half of 2017 are DSV Transport AS and DSV Transport UAB, with 14.9% and 10.2% respectively of the Group's consolidated rental income. The revenue proportion of other tenants is less than 10% of the consolidated revenue.

## 5 Revenue

First half of the year		
Areas of activity	2017	2016
<i>EUR thousand</i>		
Rental income from office premises	723	349
Rental income from retail premises	1,427	1,392
Rental income from warehousing and logistics premises	1,032	4
Other sales revenue	355	353
<b>Total revenues by areas of activity</b>	<b>3,537</b>	<b>2,098</b>

First half of the year		
Geographical areas	2017	2016
<i>EUR thousand</i>		
Estonia	509	0
Latvia	209	0
Lithuania	2,819	2,098
<b>Total revenues by geographical area</b>	<b>3,537</b>	<b>2,098</b>

## 6 Cost of services sold

First half of the year		
	2017	2016
<i>EUR thousand</i>		
Repair and maintenance of rental premises	-55	-61
Property insurance	-2	0
Land tax and real-estate tax	-16	0
Wages and salaries, incl. taxes	0	-10
Other cost of services sold	-1	0
<b>Total cost of services sold</b>	<b>-74</b>	<b>-71</b>

## 7 Marketing costs

First half of the year		
	2017	2016
<i>EUR thousand</i>		
Commission expenses on rental premises	-1	0
Advertising, promotional events	-215	-207
<b>Total marketing costs</b>	<b>-216</b>	<b>-207</b>

## 8 General and administrative expenses

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
Management services (Note 22)	-257	-124
Office expenses	-27	-27
Wages and salaries, incl. taxes	-100	-101
Consulting expenses	-39	-71
Depository expenses	-12	-8
Change in success fee liability (Note 18)	-461	-98
Other general and administrative expenses	-25	-37
Depreciation expense (Note 14)	-12	-13
<b>Total general and administrative expenses</b>	<b>-933</b>	<b>-479</b>

## 9 Other income

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
Gain on changes in the fair value of investment property (Note 15)	2,316	506
Other income	2	0
<b>Total other income</b>	<b>2,318</b>	<b>506</b>

## 10 Finance costs

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
Interest expenses, incl.		
Interest expense on borrowings	-366	-186
Change in the fair value of interest rate derivatives	106	-266
<b>Total finance costs</b>	<b>-260</b>	<b>-452</b>

## 11 Income tax

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
Income tax expense	-287	-131
Deferred income tax expense	-55	-52
<b>Total income tax expense</b>	<b>-342</b>	<b>-183</b>

Income tax expense in the year 2017 in the amount of EUR 35 thousand is related to the payment of dividends by Estonian companies. Rest of the income tax expense in the year 2016 and 2017 is related to the taxation of the profit of subsidiaries domiciled in Lithuania and Latvia.

As at 30.06.2017, the Group has a deferred income tax liability in relation to the change in the fair value of investment property owned in Lithuania and Latvia in the amount of EUR 2,523 (31.12.2016: EUR 2,348) thousand and deferred tax income in the amount of EUR 12 (31.12.2016: EUR 17) thousand. The obligation to pay income tax will arise upon sale of the investment property.

<b>Balance as at 01.01.2016</b>	<b>1,764</b>
Change in deferred income tax expense in relation to the difference between the book value and tax base	38
Change in deferred income tax liability in the income statement in the first half of 2016	52
<b>Balance as at 30.06.2016</b>	<b>1,854</b>
<b>Balance as at 31.12.2016</b>	<b>2,348</b>
Change in deferred income tax liability in the income statement in the first half of 2017	55
Change in deferred income tax expense in relation to the difference between the book value and tax base	120
<b>Balance as at 30.06.2017</b>	<b>2,523</b>

## 12 Cash and cash equivalents

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Demand deposits	18	12
Cash in hand	3,180	3,180
<b>Total cash and cash equivalents</b>	<b>3,198</b>	<b>3,192</b>

## 13 Receivables and accrued income

### Short-term receivables and accrued income

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Receivables from customers	236	329
Allowance for doubtful trade receivables	0	0
<b>Total trade receivables</b>	<b>236</b>	<b>329</b>
Prepaid taxes and receivables for reclaimed value-added tax	355	80
Other accrued income	40	1
<b>Total accrued income</b>	<b>395</b>	<b>81</b>
<b>Total receivables and accrued income</b>	<b>631</b>	<b>411</b>

### Non-current receivables

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Deferred income tax	12	17
<b>Total non-current receivables</b>	<b>12</b>	<b>17</b>

## 14 Property, plant and equipment

	Other property, plant and equipment	Prepayments for property, plant and equipment	Other property, plant and equipment
<i>EUR thousand</i>			
<b>Carrying amount 31.12.2015</b>	<b>56</b>	<b>19</b>	<b>75</b>
<i>Acquisition cost 31.12.2015</i>	<i>57</i>	<i>19</i>	<i>76</i>
<i>Accumulated depreciation 31.12.2015</i>	<i>-1</i>	<i>0</i>	<i>-1</i>
Acquisitions	6	0	6
Reclassifications	19	-19	0
Depreciation (Note 8)	-13	0	-13
<b>Carrying amount 30.06.2016</b>	<b>68</b>	<b>0</b>	<b>68</b>
<i>Acquisition cost 30.06.2016</i>	<i>82</i>	<i>0</i>	<i>82</i>
<i>Accumulated depreciation 30.06.2016</i>	<i>-14</i>	<i>0</i>	<i>-14</i>

	Other property, plant and equipment	Prepayments for property, plant and equipment	Other property, plant and equipment
<b>Carrying amount 31.12.2016</b>	<b>36</b>	<b>0</b>	<b>36</b>
<i>Acquisition cost 31.12.2016</i>	<i>61</i>	<i>0</i>	<i>61</i>
<i>Accumulated depreciation 31.12.2016</i>	<i>-26</i>	<i>0</i>	<i>-26</i>
Acquisitions	14	0	14
Depreciation (Note 8)	-12	0	-12
<b>Carrying amount 30.06.2017</b>	<b>38</b>	<b>0</b>	<b>38</b>
<i>Acquisition cost 30.06.2017</i>	<i>76</i>	<i>0</i>	<i>76</i>
<i>Accumulated depreciation 30.06.2017</i>	<i>-38</i>	<i>0</i>	<i>-38</i>

## 15 Investment property

As at 30.06.2017, the Group has made investments in the following investment properties:

Name	Location	Area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.06.2017	Share of market value of the Fund's assets
<i>EUR thousand</i>							
Saules Miestas shopping centre	Saules Miestas, Lithuania	19,881	2007	08.2015	27,508	30,880	36%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,550	10%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,790	15%
DSV logistics centre	Riga, Latvia	5,398	2000	07.2016	5,402	5,322	6%
L3	Vilnius, Lithuania	6,150	2004	10.2016	8,595	9,642	11%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,000	9,130	11%
Laagri Selver	Tallinn, Estonia	3,063	2017	05.2017	3,509	3,509	4%
Laagri Hortes	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,108	4%
<b>Total</b>		<b>70,837</b>			<b>76,820</b>	<b>82,931</b>	<b>95%</b>

Additional information on investment property is provided in Note 4 „Segment reporting“.



In the first half of 2016 and 2017, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	Prepayments for investment properties	Total investment property
<b>Balance as at 31.12.2015</b>	<b>0</b>	<b>36,506</b>	<b>0</b>	<b>36,507</b>
Acquisition and development	0	8,455	4,263	12,718
Capitalised improvements	0	57	0	57
Gain/loss on changes in the fair value (Note 8)	0	506	0	506
<b>Balance as at 30.06.2016</b>	<b>0</b>	<b>45,524</b>	<b>4,263</b>	<b>49,788</b>
<b>Balance as at 31.12.2016</b>	<b>0</b>	<b>73,539</b>	<b>0</b>	<b>73,539</b>
Acquisitions	1,609	3,108	0	4,717
Capitalised improvements	0	459	0	459
Acquisitions from business connections (Note 3)	1,900	0	0	1,900
Gain/loss on changes in the fair value <sup>1</sup> (Note 8)	0	2,316	0	2,316
<b>Balance as at 30.06.2017</b>	<b>3,509</b>	<b>79,422</b>	<b>0</b>	<b>82,931</b>

<sup>1</sup> The value increase of investment property in the first half of 2017 is mainly caused by the decrease of exit yields of market transactions and decrease of discount rates derived from low interest rates but also improvement of cash flow.

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

	First half of the year	
As at June 30 or the first half of the year	2017	2016
Rental income earned on investment property (Note 5)	3,182	1,745
Expenses directly attributable to management of investment property (Note 6)	-74	-71
Carrying amount of investment property pledged as collateral to borrowings	79,422	45,524

All rental income generating investment properties of EFTEN Real Estate Fund III AS are pledged as collateral to long-term bank loans (Note 16).

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

An independent appraiser values the investment property of the Group. The fair value of investment properties presented in the financial statements of the Group as at 30.06.2017 and 31.12.2016 was determined using the discounted cash flow method, excluding investment property in development stage in value of EUR 3,509 thousand as at 30.06.2017, where the transaction price close to the balance sheet date was used (there were no significant changes in the real estate market between the transaction date and the balance sheet date). The following assumptions were used to determine fair value:

### As at 30.06.2017:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/m2
<i>EUR thousand</i>						
Office premises	18,772	Discounted cash flow	1,347	7.9%	7.5%-8%	1.0
Storage and manufacturing premises	26,662	Discounted cash flow	2,173	8.5%-8.6%	8%	5.5
Retail premises	33,988	Discounted cash flow	3,131	7.9%-8.9%	8.15%-8.25%	10.8
<b>Total</b>	<b>79,422</b>					

**As at 31.12.2016:**

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Exit yield	Average rent €/m2
<i>EUR thousand</i>						
Office premises	18,060	Discounted cash flow	1,399	7.9%-8.6%	7.5%-8%	10.9
Storage and manufacturing premises	26,139	Discounted cash flow	2,062	8.1%-8.6%	7.9%-8%	5.2
Retail premises	29,340	Discounted cash flow	2,859	8.6%	8.5%	11.9
<b>Total</b>	<b>73,539</b>					

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

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

**Fair value sensitivity analysis**

The table provided below illustrates as at 30.06.2017 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	Sensitivity to management estimates			Sensitivity to discount rate and exit yield				
	Assessment	Effect of decrease to value	Effect of increase to value		Change in discount rate			
					-0.5%	0.0%	0.5%	
<i>EUR thousand</i>					<i>Fair value</i>			
Office premises	Change in rental income +/- 10%	-1,530	1,540	Change in the exit yield	-0.5%	20,100	19,690	19,290
					0.0%	19,150	18,772	18,390
					0.5%	18,330	17,960	17,600
Logistic premises	Change in rental income +/- 10%	-2,333	2,324	Change in the exit yield	-0.5%	28,628	28,010	27,417
					0.0%	27,241	26,662	26,098
					0.5%	26,019	25,459	24,922
Retail premises	Change in rental income +/- 10%	-3,140	3,130	Change in the exit yield	-0.5%	36,220	35,480	34,780
					0.0%	34,680	33,988	33,300
					0.5%	33,310	32,640	32,000

**As at 31.12.2016**

Sector	Sensitivity to management estimates			Sensitivity to discount rate and capitalization rate				
	Assessment	Effect of decrease to value	Effect of increase to value		Change in discount rate			
					-0.5%	0.0%	0.5%	
EUR thousand					Fair value			
Office premises	Change in rental income +/- 10%	-1,470	1,590	Change in the exit yield	-0.5%	19,330	18,940	18,570
					0.0%	18,440	18,060	17,710
					0.5%	17,650	17,300	16,950
Storage and manufacturing premises	Change in rental income +/- 10%	-2,304	2,463	Change in the exit yield	-0.5%	28,105	27,488	26,904
					0.0%	26,718	26,139	25,575
					0.5%	25,488	24,947	24,411
Retail premises	Change in rental income +/- 10%	-2,730	2,930	Change in the exit yield	-0.5%	31,200	30,580	29,980
					0.0%	29,930	29,340	28,760
					0.5%	28,800	28,320	27,680

Level three inputs are used to determine the fair value of all of the investment properties of the Group (Note 19).

## 16 Borrowings

As at **30.06.2017**, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2017	Contract term	Interest rate as at 30.06.2017	Loan collateral	Value of collateral	Share of the Fund's net asset value
Swedbank	Lithuania	16,500	15,346	14.08.20	1.70%	Mortgage - Saules Miestas shopping centre	30,880	39.2%
SEB	Lithuania	5,500	5,256	29.06.21	1.55%	Mortgage - DSV property in Vilnius	8,550	13.4%
SEB	Latvia	3,323	3,193	29.06.21	1.55%	Mortgage - DSV property in Riga	5,322	8.2%
SEB	Estonia	7,950	7,636	29.06.21	1.55%	Mortgage - DSV property in Estonia	12,790	19.5%
SEB	Lithuania	5,620	5,434	30.09.21	1.90%	Mortgage L3 office building in Vilnius	9,642	13.9%
SEB	Lithuania	5,200	4,849	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	9,130	12.4%
<b>Total</b>		<b>44,093</b>	<b>41,714</b>				<b>76,314</b>	<b>106.6%</b>

Additional information on borrowings are provided in Note 19.

As at **31.12.2016**, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2017	Contract term	Interest rate as at 30.06.2017	Loan collateral	Value of collateral	Share of the Fund's net asset value
Swedbank	Lithuania	16,500	15,680	14.08.20	1.70%	Mortgage - Saules Miestas shopping centre	29,340	51.7%
SEB	Lithuania	5,500	5,375	29.06.21	1.55%	Mortgage - DSV property in Vilnius	8,420	17.7%
SEB	Latvia	3,323	3,264	29.06.21	1.55%	Mortgage - DSV property in Riga	5,049	10.8%
SEB	Estonia	7,950	7,808	29.06.21	1.55%	Mortgage - DSV property in Estonia	12,670	25.8%
SEB	Lithuania	5,620	5,551	30.09.21	1.90%	Mortgage L3 office building in Vilnius	9,230	18.6%
SEB	Lithuania	92	92	27.04.17	1.80%	Mortgage - Saules Miestas shopping centre	8,830	16.4%
SEB	Lithuania	5,200	4,967	21.12.20	1.75%			
<b>Total</b>		<b>44,185</b>	<b>42,737</b>				<b>73,539</b>	<b>141.0%</b>

Short-term borrowings	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Short-term bank loans	0	0
Repayments of long-term bank loans in the next period	1,888	1,965
Discounted contract fees on bank loans	-17	-17
<b>Total short-term borrowings</b>	<b>1,871</b>	<b>1,948</b>

Long-term borrowings	30.06.2017	31.12.2016
<i>EUR thousand</i>		
<b>Total long-term borrowings</b>	<b>41,651</b>	<b>42,667</b>
Incl. current portion of borrowings	1,871	1,948
Incl. non-current portion of borrowings, incl.	39,780	40,719
<i>Bank loans</i>	39,826	40,773
Discounted contract fees on bank loans	-46	-54

Bank loans are divided as follows according to the repayment date:

Repayment of bank loans by maturity dates	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Less than 1 year	1,888	1,965
2-5 years	39,826	40,773

	First half of the year	
Cash flows of borrowings	2017	2016
<i>EUR thousand</i>		
<b>Balance at the beginning of the period</b>	<b>42,667</b>	<b>20,730</b>
Bank loans received	0	6,270
Annuity payments on bank loans	-1,025	-443
Capitalised contract fees	9	-39
<b>Balance at the end of period</b>	<b>41,651</b>	<b>26,518</b>

## 17 Payables and prepayments

### Short-term payables and prepayments

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Trade payables of non-current assets	932	0
Other trade payables	205	177
<b>Total trade payables</b>	<b>1,137</b>	<b>177</b>
Derivative instruments (Note 3)	400	0
<b>Total other payables</b>	<b>400</b>	<b>0</b>
Valued added tax	102	117
Corporate income tax	90	75
Personal income tax	3	5
Social tax	4	13
Land tax, real-estate tax	23	54
<b>Total tax liabilities</b>	<b>222</b>	<b>264</b>
Payables to employees	18	23
Tenant security deposits	73	137
Other accrued liabilities	86	11
<b>Total accrued expenses</b>	<b>177</b>	<b>172</b>
Prepayments received from buyers	24	6
Other deferred income	1	0
<b>Total prepayments</b>	<b>25</b>	<b>6</b>
<b>Total payables and prepayments</b>	<b>1,961</b>	<b>619</b>

### Long-term payables

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Tenant security deposits	438	383
<b>Total other long-term payables</b>	<b>438</b>	<b>383</b>

Additional information about payables is provided in Note 19.

## 18 Success fee liability

As at 30.06.2017, the Group has accumulated a success fee liability in the amount of EUR 1,222 (31.12.2016: EUR 760) thousand.

The basis for accrual-based calculation of the success fee is the fair value assessment of investment property as at 30.06.2017 and 31.12.2016. The change of the success fee liability is recorded among the Group's general administration expenses (Note 8).

## 19 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables. Additional information on the Group's financial expenses are provided in Note 10.

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

### Carrying amounts of financial instruments

	Notes	30.06.2017	31.12.2016
<i>EUR thousand</i>			
<b>Financial assets – loans and receivables</b>			
Cash and cash equivalents	12	3,198	3,192
Trade receivables	13	236	329
<b>Total financial assets</b>		<b>3,434</b>	<b>3,522</b>
<b>Financial liabilities measured at amortised cost</b>			
Borrowings	16	41,651	42,667
Trade payables	17	1,137	177
Tenant security deposits	17	511	520
Accrued expenses	17	104	34
<b>Total financial liabilities measured at amortised cost</b>		<b>43,403</b>	<b>43,398</b>
<b>Financial liabilities on fair value</b>			
Derivatives (Interest swap agreements)		31	137
<b>Total financial liabilities on fair value</b>		<b>31</b>	<b>137</b>
<b>Total financial liabilities</b>		<b>43,434</b>	<b>43,535</b>

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

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

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

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

### Market risk

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

### Interest rate risk

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

As at 30.06.2017, the Group has 48% of the loan contracts based on floating interest rate (margin ranges from 1.70% to 1.75% plus the 3-month EURIBOR) and 52% of the loan contracts carry a fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 73% are related to an interest rate swap contract in which the 3-month EURIBOR is in turn fixed at 0.35%. In the first half of 2017, the 3-month EURIBOR fluctuated between -0.332% and -0.318% (2016 first half of the year: -0.286% and -0.132%), i.e. the maximum change within the year was 1.4 basis points (2016 first half of the year: 15.4 basis points). All contracts in the loan portfolio of EFTEN Real Estate Fund III have a 0% limit (*floor*) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

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

As a result of the long-term nature of the Group's real estate investments and the long-term borrowings associated with the investments, the management of EFTEN Real Estate Fund III AS decided in 2016 to mitigate the risk of an increase in the long-term floating interest rate applicable to the loan portfolio and hedge part of the loan portfolio by fixing the applicable floating interest rate (3-month EURIBOR). It was decided to use interest rate swap agreements for the risk mitigation whereby the floating interest rate of a subsidiary's loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreements considering the three following conditions:

- (1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold prior to the maturity of the fund (i.e. before the year 2025);
- (2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EFTEN Real Estate Fund III;
- (3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

For hedging the interest rate risk, an interest swap contract was concluded in 2016 in the total nominal amount of EUR 14,835 thousand by fixing the three-month EURIBOR at the level of 0.35%. The maturity of interest rate swaps contracts is in year 2023, whereas quarterly payments of the interest rate swap contract will start in the spring of 2018.

The Group recognizes interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 30.06.2017 was negative in the amount of EUR 31 thousand (31.12.2016: negative in the amount of EUR 137 thousand). Additional information on finding the fair value of interest rate swaps is provided in the section "Fair value" below.

## Liquidity risk

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

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

The objective of the Group is to manage its net cash flows, so as to not use debt in making real estate investments in excess of 70% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 30.06.2017, the Group's interest-bearing liabilities accounted for 55% (31.12.2016: 58%) of rental income generating investment property and the debt coverage ratio was 2.1 (31.12.2016: 2.1).

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



<b>As at 30.06.2017</b>	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	<b>Total</b>
<i>EUR thousand</i>					
Interest-bearing liabilities	157	473	1,269	39,815	<b>41,714</b>
Interest payments	58	173	452	1,593	<b>2,276</b>
Trade payables	1,137	0	0	0	<b>1,137</b>
Tenant security deposits	49	0	24	438	<b>511</b>
Accrued expenses	104	0	0	0	<b>104</b>
<b>Total financial liabilities</b>	<b>1,505</b>	<b>646</b>	<b>1,745</b>	<b>41,862</b>	<b>45,758</b>

<b>As at 31.12.2016</b>	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	<b>Total</b>
<i>EUR thousand</i>						
Interest-bearing liabilities	154	556	1,246	40,781	0	<b>42,738</b>
Interest payments	60	178	463	2,009	0	<b>2,709</b>
Trade payables	177	0	0	0	0	<b>177</b>
Tenant security deposits	4	18	116	289	94	<b>520</b>
Accrued expenses	34	0	0	0	0	<b>34</b>
<b>Total financial liabilities</b>	<b>430</b>	<b>751</b>	<b>1,825</b>	<b>43,079</b>	<b>94</b>	<b>46,178</b>

## Report of working capital

	<b>30.06.2017</b>	31.12.2016
<i>EUR thousand</i>		
Cash and cash equivalents (Note 12)	3,198	3,192
Receivables and accrued income (Note 13)	631	411
Prepaid expenses	34	33
Inventory	98	0
<b>Total current assets</b>	<b>3,961</b>	<b>3,636</b>
Short-term portion of long-term liabilities (Note 16)	-1,871	-1,948
Short-term payables and prepayments (Note 17)	-1,992	-756
<b>Total current liabilities</b>	<b>-3,863</b>	<b>-2,704</b>
<b>Total working capital</b>	<b>98</b>	<b>932</b>

As at 30.06.2017, the Group's working capital was EUR 98 thousand (31.12.2016: EUR 932 thousand). The Group estimates that the working capital is sufficient for the meeting the claims occurring in the Group's day to day business.

## Credit risk

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

The Group's activity in preventing reduction of cash flows due to credit risk and minimising such risk lies in the daily monitoring and guiding of clients' payment behaviour, so that appropriate measures could be applied on a timely basis. In addition, agreements with customers generally provide payment of rent at the beginning of the calendar month, giving sufficient time for monitoring the customers' payment discipline and ensuring existence of sufficient liquidity on bank accounts at the date of annuity payment of financing contracts. For hedging the risk, the Group has entered into a contract with one anchor tenant under which the tenant's financial institution has underwritten rental payments during the entire rent period. Most rent contracts also include the obligation to pay guarantee funds that entitle the Group to cover debts incurred in case of the tenant's insolvency.

The Group's companies generally only enter into rental contracts with parties that have been determined to be eligible for credit. The corresponding analysis of customers is carried out before entering into a rental contract. If it becomes evident that there is a risk of a tenant becoming insolvent, the Group assesses each receivable individually and decides whether the receivables should be classified

as doubtful. In general, receivables that have exceeded the payment term by more than 180 days are classified as doubtful, except in cases where the Group has sufficient certainty as to the collectability of the receivable or there is a payment schedule in place for the payment of the receivables.

Accounts receivable are illustrated by the table below:

	30.06.2017	31.12.2016
Undue	189	287
<b>Past due, incl.</b>	<b>47</b>	<b>42</b>
<i>up to 30 days</i>	30	42
<i>30-60 days</i>	12	0
<i>more than 60 days</i>	5	0
<b>Total trade receivables</b>	<b>236</b>	<b>329</b>

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

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Cash and cash equivalents (Note 12)	3,198	3,192
Trade receivables	236	329
<b>Total maximum credit risk</b>	<b>3,434</b>	<b>3,521</b>

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

Rating	Balance as at 30.06.2017
A1	1,686
A1	1,490
A1	4

## Capital management

The Group's capital includes borrowings and equity.

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

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

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

According to the Group's management estimate the free cash flow of the Group allows to pay out in the form of dividends an average of 75% of the value of invested equity. EFTEN Real Estate Fund III AS distributed EUR 411 thousand as dividends from the profit of its first operating period (May to December 2015), which is 3% of the Fund's paid-in share capital. In 2016, the Management Board of EFTEN Real Estate Fund III AS proposes to the shareholders to distribute EUR 1,503 thousand of dividends, which is 6% of the nominal value of the Fund's share capital.

**Report of capitalization**

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Mortgage guaranteed short-term liabilities (Note 16)	1,888	1,965
Unsecured short-term liabilities (Note 17)	1,975	739
<b>Total short-term liabilities</b>	<b>3,863</b>	<b>2,704</b>
Mortgage guaranteed short-term liabilities (Note 16)	39,826	40,773
Unsecured short-term liabilities (Note 17)	4,137	3,437
<b>Total long-term liabilities</b>	<b>43,963</b>	<b>44,210</b>
Share capital and share premium (Note 20)	31,162	24,890
Reserves	293	75
Retained earnings (Note 21)	7,665	5,355
<b>Total shareholder's equity</b>	<b>39,120</b>	<b>30,320</b>
<b>Total liabilities and equity</b>	<b>86,946</b>	<b>77,233</b>

More detailed information on mortgages established as collateral for the obligations provided in the capitalisation report is available in Note 16 of the report.

**Report of net debt**

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Cash (Note 12)	3,198	3,192
Cash and cash equivalents	0	0
Tradable securities	0	0
<b>Total liquid assets</b>	<b>3,198</b>	<b>3,192</b>
The short-term portion of long-term liabilities (Note 16)	1,888	1,965
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
<b>Net short-term debt</b>	<b>-1,310</b>	<b>-1,228</b>
Long-term bank loans (long-term portion) (Note 16)	39,826	40,773
Issued debt securities	0	0
Other long-term loans	0	0
<b>Total long-term debt</b>	<b>39,826</b>	<b>40,773</b>
<b>Total net debt</b>	<b>-41,136</b>	<b>-42,001</b>

**Fair value**

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As at 30.06.2017 and 31.12.2016, the Group had no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy (see Note 15). All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

For hedging the interest rate risk, the Group has entered into interest rate swaps the fair value of which is obtained by discounting the cash flows of interest rate swaps in a way incoming and outgoing cash flows are determined according to EURIBOR market expectations

and they are discounted at zero rate. For recognising the fair value of interest rate swaps, the Group uses information received from credit institutions who are contract partners.

## 20 Share capital

As at 30.06.2017 the registered share capital of EFTEN Real Estate Fund III AS was EUR 23,853 (31.12.2016: EUR 23,853) thousand. As at 30.06.2017, the share capital consisted of 2,885,263 shares (31.12.2016: 2,885,263 shares) with a nominal value of EUR 10 (31.12.2016: same). Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand.

In May 2017, EFTEN Real Estate Fund III AS issued 500,000 new shares with a nominal value of EUR 10. Contributions in increasing the share capital totaled EUR 6,272 thousand (including EUR 1,272 thousand in share premium).

In 2016, EFTEN Real Estate Fund III AS issued 1,000,000 new shares with a nominal value of EUR 10. Contributions in increasing the share capital totaled EUR 11,038 thousand (including EUR 1,038 thousand in share premium).

In March 2017, EFTEN Real Estate Fund III AS transferred 5% of its 2016 comprehensive income, i.e. EUR 218 thousand (2016: EUR 75 thousand) to the statutory reserve capital.

Share earnings report of EFTEN Real Estate Fund III AS:	First half of the year	
	2017	2016
Net profit for the financial year (EUR thousand)	4,030	1,212
Weighted average number of shares over the year, pcs	2,526,930	1,772,003
Earnings per share in euros	1.59	0.68

The report on changes in non-consolidated equity of the parent company is provided in Note 26.

## 21 Contingent liabilities

### Contingent income tax liability

	30.06.2017	31.12.2016
EUR thousand		
The company's retained earnings	7,665	5,355
Potential income tax liability	1,533	1,071
The amount that can be paid out as dividends	6,132	4,284

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution at 30.06.2017 and 31.12.2016.

### Potential liabilities arising from the tax audit

#### Estonia

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

#### Latvia and Lithuania

The management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

## 22 Related party transactions

EFTEN Real Estate Fund III AS considers the following as related parties:

- persons who own more than 10% of the share capital of EFTEN Real Estate Fund III AS;
- management board members and companies owned by the management board members of EFTEN Real Estate Fund III AS;
- supervisory board members and companies owned by the supervisory board members of EFTEN Real Estate Fund III AS;
- employees and companies owned by the employees of EFTEN Real Estate Fund III AS;
- EFTEN Capital AS (fund management company).

The Group purchased management services from EFTEN Capital AS in the first half of 2017 in the amount of EUR 247 (2016 first half of the year: EUR 124) thousand (see Note 8). EFTEN Real Estate Fund III AS did not purchase from other related parties or sell to other related parties any other goods or services in the first half of 2017 and 2016.

The Group has nine employees who were remunerated in the amount of EUR 100 thousand including taxes (2016 first half of the year: EUR 101 thousand). No compensations were accounted for or paid to the Management and Supervisory Board members of the Group. Members of the Group's Management Board are employed by EFTEN Capital AS, the company providing asset management services to the Group, and expenses related to Management Board members' activities are included in management services.

## 23 Parent company's separate income statement

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

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

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
Revenue	0	0
<b>Gross profit</b>	<b>0</b>	<b>0</b>
General and administrative expenses	-40	-72
<b>Operating profit</b>	<b>-40</b>	<b>-72</b>
Gain/Loss from subsidiaries	4,050	1,254
Finance income	33	28
Finance expense	-8	0
<b>Profit before income tax</b>	<b>4,035</b>	<b>1,210</b>
Dividend income tax expense	-9	0
<b>Net profit for the half-year</b>	<b>4,026</b>	<b>1,210</b>

## 24 Parent company's separate balance sheet

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
<b>ASSETS</b>		
Cash and cash equivalents	1,042	598
Receivables and accrued income	1,995	162
<b>Total current assets</b>	<b>3,037</b>	<b>759</b>
<b>Non-current assets</b>		
Shares of subsidiaries	35,031	28,265
Long-term receivables	1,960	1,800
<b>Total non-current assets</b>	<b>36,991</b>	<b>30,065</b>
<b>TOTAL ASSETS</b>	<b>40,028</b>	<b>30,824</b>
<b>LIABILITIES AND EQUITY</b>		
Borrowings	500	500
Payables	411	3
<b>Total current liabilities</b>	<b>911</b>	<b>503</b>
<b>Total liabilities</b>	<b>911</b>	<b>503</b>
<b>Equity</b>		
Share capital	28,853	23,853
Share premium	2,309	1,038
Statutory reserve capital	293	75
Retained earnings	7,662	5,356
<b>Total equity</b>	<b>39,117</b>	<b>30,321</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>40,028</b>	<b>30,824</b>

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

	First half of the year	
	2017	2016
<i>EUR thousand</i>		
<b>Cash flows from operating activities</b>		
<b>Net profit</b>	<b>4,026</b>	<b>1,210</b>
<i>Adjustments to net profit:</i>		
Finance income and finance costs	-25	-28
Gain/loss on the fair value adjustment of subsidiaries	-2,582	-843
Dividends received	-1,468	-411
Corporate income tax expense	9	0
<b>Total adjustments with non-cash changes</b>	<b>-4,066</b>	<b>-1,282</b>
<b>Cash flow from operations before changes in working capital</b>	<b>-40</b>	<b>-72</b>
Change in receivables and payables related to operating activities	3	-13
<b>Net cash generated from operating activities</b>	<b>-37</b>	<b>-85</b>
<b>Cash flows from investing activities</b>		
Acquisition of investments in subsidiaries	-3,784	-9,102
Loans granted	-2,020	-357
Repayment of loans granted	50	0
Interest received	6	0
Dividends received	1,468	1,211
<b>Net cash generated from investing activities</b>	<b>-4,280</b>	<b>-8,248</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-1,502	-411
Dividend income tax paid	-9	0
Issue of shares	6,272	11,038
<b>Net cash generated from financing activities</b>	<b>4,761</b>	<b>10,627</b>
<b>NET CASH FLOW</b>	<b>444</b>	<b>2,294</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>598</b>	<b>548</b>
Change in cash and cash equivalents	444	2,294
<b>Cash and cash equivalents at the end of the period</b>	<b>1,042</b>	<b>2,841</b>

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

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
<i>EUR thousand</i>					
<b>Balance as at 31.12.2015</b>	<b>13,853</b>	<b>0</b>	<b>0</b>	<b>1,493</b>	<b>15,346</b>
Issue of shares	10,000	1,038	0	0	<b>11,038</b>
Dividends paid	0	0	0	-411	<b>-411</b>
Transfers to statutory reserve capital	0	0	75	-75	<b>0</b>
Comprehensive income for the financial period	0	0	0	1,210	<b>1,210</b>
<b>Balance as at 30.06.2016</b>	<b>23,853</b>	<b>1,038</b>	<b>75</b>	<b>2,217</b>	<b>27,183</b>
<b>Balance as at 31.12.2016</b>	<b>23,853</b>	<b>1,038</b>	<b>75</b>	<b>5,357</b>	<b>30,323</b>
Issue of shares	5,000	1,271	0	0	6,271
Dividends paid	0	0	0	-1,503	-1,503
Transfers to statutory reserve capital	0	0	218	-218	0
Comprehensive income for the financial period	0	0	0	4,026	4,026
<b>Balance as at 30.06.2017</b>	<b>28,853</b>	<b>2,309</b>	<b>293</b>	<b>7,662</b>	<b>39,117</b>

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

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

	30.06.2017	31.12.2016
<i>EUR thousand</i>		
Parent company's unconsolidated equity	39,117	30,323
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-35,031	-28,265
Value of subsidiaries and joint ventures under the equity method (plus)	35,034	28,261
<b>Total</b>	<b>39,120</b>	<b>30,320</b>

## 27 Subsequent events

In July 2017, after the balance sheet date, two Group's subsidiaries in Estonia entered into two loan agreements in the total amount of EUR 4.8 million at an interest rate of 1.4%-1.817% per annum in regard to investments to new investment properties. The loan repayment date is in 2022.



*Signatures of the members of the Management Board and Supervisory Board to the interim report ended 30 June 2017*

We hereby confirm the correctness of data presented in the interim report ended 30 June 2017 of EFTEN Real Estate Fund III AS.

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Arti Arakas

Chairman of the Supervisory Board

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Siive Penu

Member of the Supervisory Board

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Sander Rebane

Member of the Supervisory Board

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Olav Miil

Member of the Supervisory Board

---

Viljar Arakas

Management Board Member

---

Tõnu Uustalu

Management Board Member