Consolidated Interim Report – Six months ended 30 June 2016

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of the reporting period: 01.01.2016
End of the reporting period: 30.06.2016

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MANAGEMENT REPORT

Financial overview

EfTEN Real Estate Fund III AS is the first ever investment fund specialising in investment property under the management of EfTEN Capital AS that offers its shares also to retail investors. As at 30.06.2016 the Fund has three real estate investments in Lithuania, with two additional real estate investments in the logistics sector in Riga and Tallinn added in July 2016. As at the end of the first half of 2016, the volume of the Fund's real estate investments amounted to EUR 49.8 million, increasing by EUR 13.2 million as a result of new acquisitions in July.

The consolidated sales revenue of EfTEN Real Estate Fund III AS for the 6 months period ended 30 June 2016 was EUR 2.098 million (1st half of 2015: EUR 0) and the net profit in the same period was EUR 1.212 million (1st half of 2015: EUR -23 thousand). The net profit for the first half of 2016 included net investment property revaluation gains (change in the value of assets less potential success fee liability) of EUR 0.408 million.

The consolidated gross profit margin in the 6 months period ended 30 June 2016 was 97%, therefore, expenses directly related to management of properties accounted only for 3% of the sales revenue in the first half of 2016.

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

	1st half of 2016
EUR million	
Rental revenue, other fees from properties	2,098
Expenses related to investment properties, incl. marketing costs	-0,278
Interest expense and interest income	-0,452
Net rental revenue less finance costs	**1,368**
Management fees	-0,124
Other revenue and expenses	-0,256
Profit before change in the value of investment property, change in the success fee liability and income tax expense	**0,987**

As at 30.06.2016, the Group total assets were in the amount of EUR 56.927 million (31.12.2015: EUR 38.897 million), including fair value of investment property, which accounted for EUR 49.788 million (31.12.2015: EUR 36.506 million) of the total assets.

	30.06.2016	31.12.2015
EUR million		
Investment property	49,788	36,506
Other non-current assets	0,073	0,080
Current assets, excluding cash	0,320	0,327
Net debt	-22,997	-21,568
Net asset value (NAV)	27,184	15,345
Net asset value (NAV) per share (in euros)	11,3961	11,0772
Proceeds from issuance of shares for investment activities	24,890	13,853
Resources invested end-of-period	19,669	12,398
Proceeds from issuance of shares not invested end-of-period	5,222	1,455

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 spring 2016, the general meeting of EfTEN Real Estate Fund III decided to distribute the amount of EUR 411 thousand to net dividends, accounting for 3% of the nominal value of the shares.

Key profitability ratios:

12 months	30.06.2016	31.12.2015
ROE, % (net profit of the period / average equity of the period)x100	11,4	19,4
ROA, % (net profit of the period / average assets of the period)x100	5,1	7,5
ROIC, % (net profit of the period / average invested capital of the period1)x100	15,7	21,5
DSCR (EBITDA/(interest expenses + scheduled loan payments)	2,8	2,8

[1] The average invested capital of the period is the paid-in share capital of EfTEN Real Estate Fund III AS's equity. 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 30.06.2016, the Group had three commercial investment properties with a fair value as at the balance sheet date of EUR 45.526 million (31.12.2015: EUR 36.506 million) and acquisition cost of EUR 43.351 million (31.12.2015: EUR 35.107 million). The real estate portfolio of the Group is divided into following sectors:

- retail premises 62.8%; 1 investment
- office premises 18.6%; 1 investment
- warehouse premises 18.6%; 1 investment

After the balance sheet date, in July 2016, EfTEN Real Estate Fund III acquired two new logistics centers that increased the share of the logistics sector in the total portfolio to 41%. After the acquisitions, commercial properties and office space accounted for 45% and 13%, respectively.

Investment property, as at 30.06.2016	Group's ownership	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %
Saules Miestas shopping centre	100	20 693	2 830	89
Total trade		**20 693**	**2 830**	**89**
Ulonu office building	100	5 174	687	100
Total office		**5 174**	**687**	**100**
DSV logistic centre	100	11 687	669	100
Total logistic		**11 687**	**669**	**100**

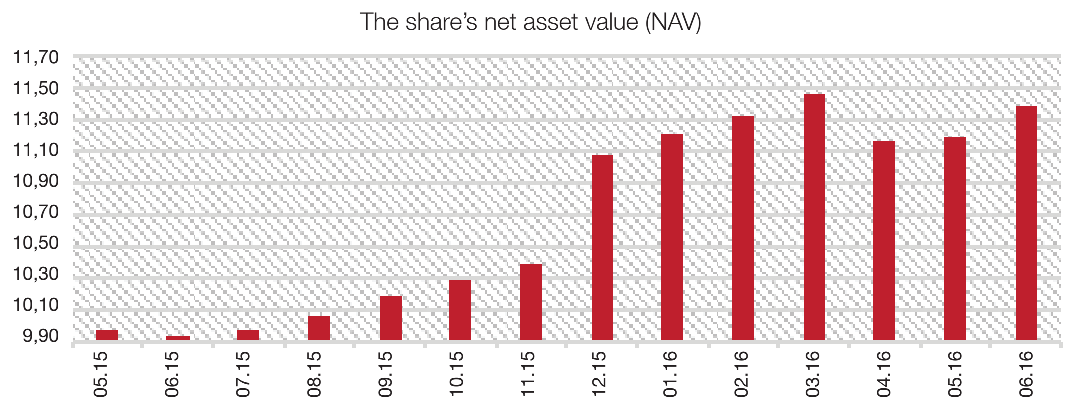
DSV logistics center in Tallinn

The weighted average expiration term of the lease agreements of investment property owned by the Group is 2.8 years and as at 30.06.2016 the Group has a total of 246 tenants. Contractual revenue generated by 15 customers' accounts for 56.4% of the consolidated rental revenue.

Major tenants	% of the consolidated rental revenue
DSV Transport UAB	16,80%
RIMI Lietuva, UAB	11,50%
Valstybinė kainų ir energetikos kontrolės komisija	5,10%
PST Group	3,50%
LPP Lithuania, UAB	2,70%
UAB Synergium	2,30%
Drogas, UAB	2,00%
Eurovaistine, UAB	1,90%
New Yorker Lietuva, UAB	1,90%
Topo grupe, UAB	1,80%
Amber food, UAB	1,60%
SPORTLAND LT, UAB	1,60%
Baltika Lietuva, UAB	1,30%
UAB Columbus Lietuva	1,30%
Deichmann avalynė, UAB	1,20%
Others	43,60%

Information on shares

As at 30.06.2016, payments made to the share capital of EfTEN Real Estate Fund III AS total EUR 24.891 million (31.12.2015: EUR 13.853 million) and the number of shares as at 30.06.2016 was 2,385,263 (31.12.2015: 1,385,263).



As at 30.06.2016, EfTEN Real Estate III AS had no shareholders with ownership interest in excess of 10%. As at 31.12.2015, EfTEN Real Estate III AS had one shareholder with ownership interest in excess of 10% – Greatway OÜ, with an ownership interest of 18.6% of the company's shares.

Outlook for 2016

The pace of the Baltic commercial real estate market in the first half of 2016 was similar as in the previous year. CBRE estimates that in the first half of 2016, the financial volume of real estate transactions made in the Baltic countries was 15% lower than the year before earlier, with 19 real estate transactions for a total amount of EUR 353 million. However, major transactions that are already known and will take place in the second half are likely to bring the total annual volume of transactions to the same level as in 2015 that was a record year for Baltic commercial real estate market, with the total transaction volume of EUR 1.3 billion. The main investors are local real estate funds that have been operating in the Baltic countries for years. The arrival of new foreign investors is being held back primarily by continued uncertainty about the security situation in the Baltic countries.

Thanks to the ongoing zero-interest rate environment in which expectations of an interest rate raise have again deferred further into the future has pushed down also rates of return of Baltic commercial real estate, and are pushing up real estate prices. In the first half of 2016, the market's average prime yield has decreased by an average of 50 base points, leading to the growth of real estate prices. On the other hand, extremely favourable environment of financing bank loans where lending margins in the Baltic countries are even lower than in Scandinavia, means that the spread between return rates and interest rates continues to be the largest in the history, which ensures strong dividend inflow for investors. Property prices are set to grow further due to the decrease of rates of return, and not because of growth in rental rates. Growth of rental rates are held back by the increase in the supply of new spaces and by the deflationary economic environment.

Management

In the first half of 2016, the second public offering of shares of the Fund was held and it was decided to issue 1,000,000 new ordinary shares with a nominal value of EUR 10. The share offer price was EUR 11.0378. The public offering of shares took place between 30.03.2016 and 15.04.2016. During the subscription period, 1,353,130 shares were subscribed, i.e. the issue was oversubscribed by 1.35 times. With the resolution of the Supervisory Board from 19.04.2016, the distribution of shares was determined and 353,130 shares that had been oversubscribed were cancelled. After the share issue, the Fund's new share capital is EUR 23,852,630.

At the regular general meeting of shareholders held on 25.04.2016, the 2015 annual report was approved and it was decided to pay out EUR 411,000 in net dividend. No extraordinary general meetings of shareholders were held in the first half of the year.

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 two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

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.

The depositary of the fund is Swedbank AS.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

	Notes	1st half 2016	2015
EUR thousand			
Revenue	4	2,098	0
Cost of services sold	5	-71	0
Gross profit		**2,027**	**0**
Marketing costs	6	-207	0
General and administrative expenses	7	-479	-23
Other income	8	506	0
Operating profit		**1,847**	**-23**
Finance costs	9	-452	0
Profit before income tax		**1,395**	**-23**
Income tax expense	10	-183	0
Net profit for the half-year		**1,212**	**-23**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2016	31.12.2015
EUR thousand			
ASSETS			
Cash and cash equivalents	11	6,746	1,984
Receivables and accrued income	12	269	295
Prepaid expenses		51	32
Total current assets		**7,067**	**2,311**
Investment property	14	49,788	36,506
Property, plant and equipment	13	68	75
Intangible assets		5	5
Total non-current assets		**49,861**	**36,586**
TOTAL ASSETS		56,928	38,897
LIABILITIES AND EQUITY			
Borrowings	15	937	884
Payables and prepayments	16	612	400
Total current liabilities		**1,548**	**1,285**
Borrowings	15	25,581	19,845
Other long-term liabilities	16	382	378
Success fee liability	17	378	280
Deferred income tax liability	10	1,855	1,764
Total non-current liabilities		**28,195**	**22,268**
Total liabilities		**29,744**	**23,552**
Share capital	19	23,853	13,853
Share premium	19	1,038	0
Statutory reserve capital		75	0
Retained earnings	20	2,218	1,492
Total equity		**27,184**	**15,345**
TOTAL LIABILITIES AND EQUITY		56,927	38,897

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1st half 2016	2015
EUR thousand			
Net profit		**1,212**	**-23**
Adjustments to net profit:			
Finance costs	9	452	0
Gain (loss) from revaluation of investment property	14	-506	0
Change in the success fee liability	7	98	0
Depreciation	13	13	0
Income tax expense	10	183	0
Total adjustments with non-cash changes		**240**	**0**
Cash flow from operations before changes in working capital		**1,452**	**-23**
Change in receivables and payables related to operating activities		-202	0
Net cash generated from operating activities		**1,250**	**-23**
Purchase of investment property	14	-12,775	0
Acquisition of subsidiaries	12	38	0
Net cash generated from investing activities		**-12,737**	**0**
Loans received		6,270	0
Scheduled loan repayments		-443	0
Dividends paid	18	-411	0
Interest paid		-205	0
Proceeds from issuance of shares	19	11,038	3,360
Net cash generated from financing activities		**16,249**	**3,360**
NET CASH FLOW		**4,762**	**3,337**
Cash and cash equivalents at the beginning of the period	**11**	**1,984**	**0**
Change in cash and cash equivalents		4,762	3,337
Cash and cash equivalents at the end of the period	**11**	**6,746**	**3,337**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
EUR thousand					
Balance as at 06.05.2015	**0**	**0**	**0**	**0**	**0**
Issue of shares	3,360	0	0	0	**3,360**
Net profit for the half-year	0,	0	0	-23	**-23**
Balance as at 30.06.2016	**0**	**0**	**0**	**-23**	**3,337**
Balance as at 31.12.2015	**13,853**	**0**	**0**	**1,492**	**15,345**
Issue of shares	10,000	1,038	0	0	**11,038**
Announcement of dividends	0	0	0	-411	**-411**
Transfers to statutory reserve capital	0	0	75	-75	**0**
Net profit for the half-year	0	0	0	1,212	**1,212**
Balance as at 30.06.2016	**23,853**	**1,038**	**75**	**2,218**	**27,184**

For additional information on share capital and changes in equity, please see Note 18, 19 and 20.

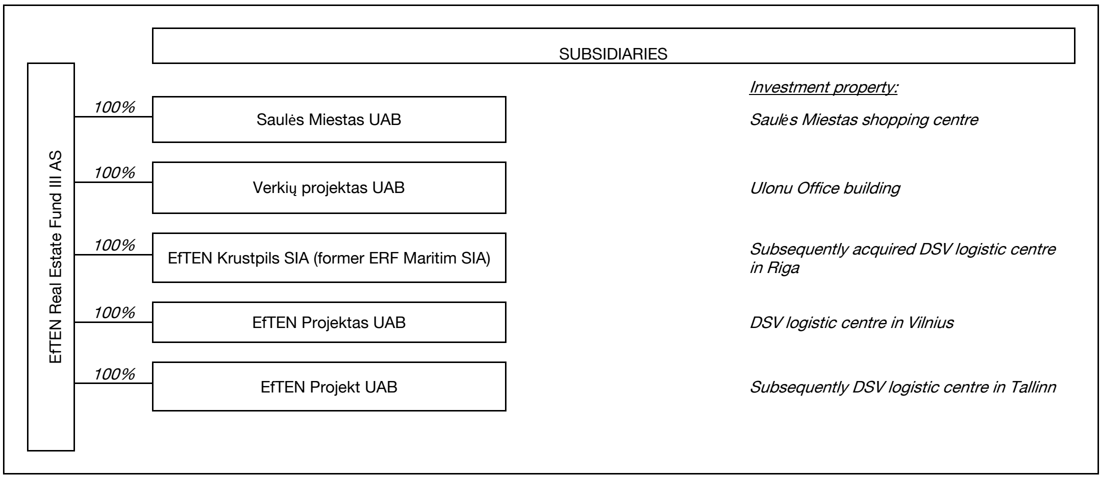
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the six months ended June 30, 2016 has been signed by the Management Board on 30 August 2016.

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

EfTEN Real Estate Fund III AS owns as at 30.06.2016 three fully owned subsidiaries in Lithuania, one fully owned subsidiary in Latvia and one fully owned subsidiary in Estonia. For additional information on subsidiaries, please see Note 3.



2 Statement of compliance and basis for preparation

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

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

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

New accounting pronouncements

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 2016, 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)*

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 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.

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 14.

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.

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.

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

In the separate balance sheet of the parent company (presented in Note 23), 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.

As at 30.06.2016, the Group only had financial assets in the "Loans and receivables" category.

Loans and receivables from other parties

After initial recognition, loans and receivables are measured at 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.

Derivative instruments are measured at fair value through profit or loss.

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Investment property

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

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

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square metre 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 7).

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, % 30.06.2016	31.12.2015
Parent company				
EfTEN Real Estate Fund III AS	Estonia			
Subsidiaries				
EfTEN Krustpils SIA (previously ERF Maritim SIA)	Latvia	Subsequently acquired DSV logistic centre in Riga	100	100
Saulės Miestas UAB	Lithuania	Shopping centre Saulės Miestas	100	100
Verkių projektas UAB	Lithuania	Ulonu office building	100	100
EfTEN Projekt OÜ	Estonia	Subsequently acquired DSV logistic centre in Tallinn	100	-
EfTEN projektas UAB	Lithuania	DSV logistic centre in Vilnius	100	-

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

In May 2016, EfTEN Real Estate Fund III AS founded two new wholly-owned subsidiaries in Estonia and Lithuania. Upon incorporation, EUR 2.5 thousand was contributed to the share capital of both subsidiaries. In connection with planned real estate investments, EfTEN Real Estate Fund III paid an additional EUR 9,135 thousand in the share capital of EfTEN Krustpils SIA, EfTEN projektas UAB and EfTEN Projekt OÜ.

4 Revenue

Areas of activity	1st half 2016	2015
EUR thousand		
Rental income from office premises	349	0
Rental income from government institutions	1,392	0
Rental income from warehousing and logistics premises	4	0
Other sales revenue	354	0
Total revenue	**2,098**	**0**

The whole Group revenue in the first half of 2016 was generated in Lithuania.

5 Cost of services sold

	1st half 2016	2015
EUR thousand		
Repair and maintenance of rental premises	-58	0
Improvement costs	-3	0
Wages and salaries, incl. taxes	-10	0
Total cost of services sold (Note 14)	**-71**	**0**

6 Marketing costs

	1st half 2016	2015
EUR thousand		
Advertising, promotional events	-207	0
Total marketing costs	**-207**	**0**

7 General and administrative expenses

	1st half 2016	2015
EUR thousand		
Management services (Note 21)	-124	0
Office expenses	-26	0
Wages and salaries, incl. taxes	-101	0
Consulting expenses	-79	-23
Change in success fee liability (Note 17)	-98	0
Other general and administrative expenses	-37	0
Depreciation (Note 13)	-13	0
Total general and administrative expenses	**-479**	**-23**

8 Other income

	1st half 2016	2015
EUR thousand		
Gain on changes in the fair value of investment property (Note 14)	506	0
Total other income	**506**	**0**

9 Finance costs

	1st half 2016	2015
EUR thousand		
Interest expenses	-186	0
Interest expense on borrowings	-186	0
Loss from change in the fair value of interest rate derivatives (Notes 16, 18)	-266	0
Total finance costs	**-452**	**0**

10 Income tax

	1st half 2016	2015
EUR thousand		
Income tax expense	-131	0
Deferred income tax expense	-52	0
Total income tax expense	**-183**	**0**

Income tax expense in the year 2016 is related to the taxation of the profit of subsidiaries domiciled in Lithuania.

As at 30.06.2016, the Group has a deferred income tax liability in relation to the difference between the fair value and taxable value of investment property owned in Lithuania in the amount of EUR 1,854 thousand (31.12.2015: EUR 1,764 thousand). The obligation to pay income tax will arise upon the Group's disposition of the investment property (which is expected to occur not earlier than in one year). The details of the deferred income tax liability in the half-year are provided in the table below:

Balance as at 31.12.2015	**1,764**
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	52
Balance as at 30.06.2016	**1,855**

11 Cash and cash equivalents

	30.06.2016	31.12.2015
EUR thousand		
Cash in hand	13	8
Demand deposits (Note 18)	6,734	1,977
Total cash and cash equivalents	**6,746**	**1,984**

12 Receivables and accrued income

Short-term receivables and accrued income

	30.06.2016	31.12.2015
EUR thousand		
Receivables from customers	243	300
Allowance for doubtful trade receivables	0	-46
Total trade receivables (Note 18)	**243**	**253**
Other short-term receivables	0	38
Total other short-term receivables	**0**	**38**
Prepaid taxes and receivables for reclaimed value-added tax	25	3
Other accrued income	2	1
Total accrued income	**27**	**4**
Total receivables and accrued income	**269**	**295**

As at 31.12.2015, the Group had a receivable from the seller regarding a reimbursement for the cost of an ownership stake in the subsidiary acquired in December amounting to EUR 38 thousand. The receivable was paid in January 2016.

13 Property, plant and equipment

	Other property, plant and equipment	Prepayments for property, plant and equipment	**Other property, plant and equipment**
EUR thousand			
Carrying amount 31.12.2015	**56**	**19**	**75**
Acquisition cost 31.12.2015	*57*	*19*	*76*
Accumulated depreciation 31.12.2015	*-1*	*0*	*-1*
Acquisitions	6	0	6
Reclassifications	19	-19	0
Depreciation (Note 7)	-13	0	-13
Carrying amount 30.06.2016	**68**	**0**	**68**
Acquisition cost 30.06.2016	*82*	*0*	*82*
Accumulated depreciation 30.06.2016	*-14*	*0*	*-14*

14 Investment property

As at 30.06.2016, the Group has made investments in the following investment properties:

Name	Location	Area (m2)	Usable area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.06.2016	Share of market value of the fund's assets
EUR thousand								
Saules Miestas shopping centre	Saules Miestas, Lithuania	21,094	19,881	2007	08.2015	26,896	28,580	50%
DSV logistic centre	Vilnius, Lithuania	64,149	11,687	2005	06.2016	8,455	8,455	15%
Ulonu office building	Vilnius, Lithuania	2,200	5,174	2012	12.2015	8,000	8,490	15%
Total			**36,742**			**43,351**	**45,525**	**80%**

During the half-year ending 30 June 2016, the following changes have occurred in the Group's investment property:

	Completed investment property	Prepayments for investment properties	**Total investment property**
Balance as at 31.12.2015	**36,506**	**0**	**36,506**
Acquisition and development	8,455	4,263	**12,718**
Capitalised improvements	57	0	**57**
Gain/loss on changes in the fair value (Note 8)	506	0	**506**
Balance as at 30.06.2015	**45,525**	**4,263**	**49,788**

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

	1st half	
As at 30 June or the period	2016	2015
Rental income earned on investment property (Note 4)	1,744	0
Expenses directly attributable to management of investment property (Note 5)	-71	0
Carrying amount of investment property pledged as collateral to borrowings	45,525	0

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

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

An independent appraiser values the investment property of the Group. The fair value of retail premises investment properties presented in the financial statements of the Group as at 30.06.2016 and 31.12.2015 was determined using the discounted cash flow method. The following assumptions were used to determine fair value as at 30.06.2016:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent €/,m2
EUR thousand						
Office premises	8,490	Discounted cash flows	687	7.9%	7.5%	11.3
Logistic premises	8,455	Discounted cash flows	669	8.5%	7.9%	4.8
Retail premises	28,580	Discounted cash flows	2,831	9.0%	8.5%	11.8
Total	**45,525**		**4,187**			

As at 31.12.2015:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent €/,m2
EUR thousand						
Office premises	8,000	The transaction price	693	8.9%	8.0%	11.2
Retail premises	28,506	Discounted cash flows	2,727	9.0%	8.5%	11.1
Total	**36,506**					

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 30.06.2016 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 capitalisation 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%	*-750*	*800*	Change in the capitalisation rate	-0.5%	*9,117*	*8,930*	*8,749*
					0.0%	*8,668*	*8,490*	*8,321*
					0.5%	*8,413*	*8,109*	*7,946*
Logistic premises	Change in rental income +/-10%	*-650*	*696*	Change in the capitalisation rate	-0.5%	*9,031*	*8,851*	*8,675*
					0.0%	*8,628*	*8,455*	*8,291*
					0.5%	*8,207*	*8,111*	*7,952*
Retail premises	Change in rental income +/-10%	*-2,646*	*2,847*	Change in the capitalisation rate	-0.5%	*30,386*	*29,785*	*29,200*
					0.0%	*29,151*	*28,580*	*28,021*
					0.5%	*28,053*	*27,505*	*26,972*

As at 31.12.2015:

Sector	Sensitivity to management estimates			Sensitivity to discount rate and capitalisation 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%	*-658*	*704*	Change in the capitalisation rate	-0.5%	*8,534*	*8,365*	*8,200*
					0.0%	*8,161*	*8,000*	*7,843*
					0.5%	*7,831*	*7,678*	*7,528*
Retail premises	Change in rental income +/-10%	*-2 529*	*2 721*	Change in the capitalisation rate	-0.5%	*30,305*	*29,707*	*29,124*
					0.0%	*29,076*	*28,506*	*27,951*
					0.5%	*27,984*	*27,439*	*26,908*

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

15 Borrowings

As at 30.06.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2016	Contract term	Interest rate as at 30.06.2016	Loan collateral	Value of collateral	Share of the fund's net asset value
Swedbank	Lithuania	16,500	16,011	14.08.20	1.70%	mortgage - Saules Miestas property	28,580	58.9%
SEB	Lithuania	5,493	5,493	29.06.21	1.55%	mortgage - DSV property	8,455	20.2%
SEB	Lithuania	5,200	5,084	21.12.20	1.75%	mortgage - Ulonu property	8,490	18.7%
Total		**27,193**	**26,588**				**45,525**	**167.5%**

As at 31.12.2015

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2015	Contract term	Interest rate as at 31.12.2015	Loan collateral	Value of collateral	Share of the fund's net asset value
Swedbank	Lithuania	16,500	16,338	18.08.2020	1.70%	mortgage - Saules Miestas property	28,506	106.5%
SEB	Lithuania	5,200	4,423	21.12.2020	1.75%	mortgage - Ulonu property	8,000	28.8%
Total		**21,700**	**20,761**				**36,506**	**135.3%**

Short-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	946	891
Discounted contract fees on bank loans	-10	-7
Total short-term borrowings	**937**	**884**

Long-term borrowings	30.06.2016	31.12.2015
EUR thousand		
Total long-term borrowings (Note 18)	**26,518**	**20,730**
Incl. current portion of borrowings	937	884
Incl. non-current portion of borrowings, incl.	25,581	19,845
Bank loans	*25,641*	*19,870*
Discounted contract fees on bank loans	-60	*-24*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	30.06.2016	31.12.2015
EUR thousand		
Less than 1 year	946	891
2-5 years	25,641	19,870

The movements related to the bank loans of the group during the half-year are provided in the table below:

	1st half	
Cash flows of borrowings	**2016**	2015
EUR thousand		
Balance at the beginning of the period	**20,730**	**0**
Bank loans received	6,270	0
Annuity payments on bank loans	*-443*	*0*
Capitalised contract fees	*-39*	*0*
Balance at the end of period	**26,518**	**0**

16 Payables and prepayments

Short-term payables and prepayments

	30.06.2016	31.12.2015
EUR thousand		
Trade payables (Note 18)	171	217
Total trade payables	**171**	**217**
Derivative instruments (Notes 9, 18)	266	0
Other payables	1	7
Total other payables	**268**	**7**
Value added tax	110	38
Corporate income tax	3	84
Personal income tax	2	2
Social tax	6	2
Land tax and real-estate tax	0	13
Total tax liabilities	**120**	**140**
Payables to employees	13	6
Other accrued liabilities	3	0
Total accrued expenses	**15**	**6**
Prepayments received from buyers	37	10
Other deferred income	0	21
Total prepayments	**37**	**31**
Total payables and prepayments	**612**	**400**

Long-term payables

	30.06.2016	31.12.2015
EUR thousand		
Tenant security deposits	382	378
Total other long-term payables	**382**	**378**

17 Success fee liability

As at 30.06.2016, the Group has accumulated a success fee liability in the amount of EUR 378 thousand (31.12.2015: EUR 280 thousand). The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property as at 30.06.2016 and 31.12.2015. Expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 7).

18 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	30.06.2016	31.12.2015
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	11	6,746	1,984
Trade receivables	12	243	253
Total financial assets		**6,989**	**2,237**
Financial liabilities measured at amortised cost			
Borrowings	15	26,518	20,730
Trade payables	16	171	217
Tenant security deposits	16	383	378
Accrued expenses	16	15	6
Total financial liabilities		**27,088**	**21,331**

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 of 30.06.2016, the Group has two loan agreements based on floating interest rate (3-month EURIBOR) and has fixed the Euribor rate of one loan contract at 0% (as of 31.12.2015, the Group's all loan agreements were linked to 3-month Euribor). In the first half of 2016, Euribor has fluctuated between -0.286% and -0.132% (2015: between 0.133% and -0.023%), i.e. maximum change was 15.4 basis points. Considering the Group's existing loan commitments, the increase of EURIBOR by 10 basis points would increase consolidated interest expenses by EUR 27 thousand per year.

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 of 4-7 years.

For hedging the interest rate risk, the Group signed an interest rate swap contract in March 2016, fixing the three-month Euribor rate at 0.35%. The due date of the interest rate swap contract is 2023, and swap payments will start in March 2018. The base contract amount is EUR 14,835 thousand, representing 55.8% of the Group's loan portfolio.

The decision was made to enter into the interest rate swap agreement considering the two 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 loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap.

The Group accounts interest rate swap agreements at fair value through profit or loss. The total fair value of the group's interest rate swap agreements as at 30.06.2016 was negative in the amount of EUR 266 thousand. Additional information on the methods used to determine the fair value of the interest rate swap agreements has been provided below in the paragraph titled 'Fair value' (Notes 9, 16).

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 30.06.2016, the Group's interest-bearing liabilities accounted for 58% of rental income generating investment property and the debt coverage ratio was 2.5.

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):

As at 30.06.2016	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	91	275	738	25,484	0	**26,588**
Interest payments	30	90	235	1,046	0	**1,400**
Trade payables	171	0	0	0	0	**171**
Tenant security deposits	0	0	0	337	45	**382**
Accrued expenses	15	0	0	0	0	**15**
Total financial liabilities	**308**	**364**	**972**	**26,867**	**45**	**28,556**

As at 31.12.2015	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
EUR thousand						
Interest-bearing liabilities	70	212	569	19,910	0	**20,761**
Interest payments	30	88	231	1,170	0	**1,519**
Trade payables	217	0	0	0	0	**217**
Tenant security deposits	0	1	6	328	45	**379**
Accrued expenses	7	0	0	0	0	**7**
Total financial liabilities	**324**	**300**	**806**	**21,408**	**45**	**22,883**

Credit risk

Credit risk is the risk that the counterparty of a financial instrument will cause a financial loss to the Group by failing to repay 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 the purposes of risk mitigation, the Group has stipulated in all material lease agreements the obligation of paying security deposits, against which the group is entitled to settle any outstanding receivables arising from the tenant's insolvency or alternatively the agreements stipulate an obligation of the customer to provide a guarantee.

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:

	30.06.2016	31.12.2015
Undue	184	218
Past due, incl.	**59**	**82**
up to 30 days	*51*	*29*
30-60 days	*3*	*4*
more than 60 days	*4*	*49*
Allowance for doubtful receivables	0	-46
Total trade receivables (Note 12)	**243**	**253**

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

	30.06.2016	31.12.2015
EUR thousand		
Cash and cash equivalents (Note 11)	6,746	1,984
Trade receivables (Note 12)	243	253
Total maximum credit risk	**6,989**	**2,237**

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	30.06.2016	31.12.2015
A1 (Note 11)	6,734	1,977
Total	**6,734**	**1,977**

Capital management

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

The Group 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. Following this principle, EfTEN Real Estate Fund III decided to distribute the amount of EUR 411 thousand to net dividends in spring 2016, accounting for 3% of the nominal value of the shares.

Fair value

The valuation methods used to analyse 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 30.06.2016 and 31.12.2015, the Group has no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy. All of the borrowings of the Group are included within Level 2.

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

19 Share capital

In the first half of 2016, EfTEN Real Estate Fund III issued 1,000,000 new shares with a nominal value of EUR 10 per share. The shares were paid with a share premium according to the share's net value at the time of the issue, ie EUR 11.0378 per share. Contributions made for the increase of share capital thus totalled EUR 11,037,800.

In the year 2015, EfTEN Real Estate Fund III AS issued 1,385,263 shares at nominal value of EUR 10 per share. Contributions to share capital therefore equalled EUR 13,852,630.

The amount of registered share capital of EfTEN Real Estate Fund III as at 30.06.2016 is EUR 23,853 thousand (31.12.2015: EUR 13.853 thousand) and as at 30.06.2016 the amount of share premium is EUR 1,038 thousand (31.12.2015: EUR 0). As at 30.06.2016, payments made to the share capital of EfTEN Real Estate Fund III total EUR 24,890 thousand.

Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand.

20 Contingent liabilities

Contingent income tax liability

	30.06.2016	31.12.2015
EUR thousand		
The company's retained earnings	2,218	1,492
Potential income tax liability	444	298
The amount that can be paid out as dividends	1,774	1,194

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 30.06.2016 and 31.12.2015.

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.

21 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 2016 in the amount of EUR 124 thousand (1st half of 2015: EUR 0) (Note 7). 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 2016 and 2015.

As at 30.06.2016, the Group had nine employees (31.12.2015: unchanged) who were remunerated including taxes in the amount of EUR 101 thousand (1st half of 2015: EUR 0). No compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

22 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.

	1st half 2016	2015
EUR thousand		
General and administrative expenses	-72	-23
Operating loss	**-72**	**-23**
Gain from subsidiaries	1,254	0
Interest income	28	0
Net profit for the half-year	**1,210**	**-23**

There were no differences between net profit and comprehensive income in the first half of 2016.

23 Parent company's separate balance sheet

	30.06.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	2,841	548
Receivables and accrued income	414	824
Total current assets	**3,255**	**1,373**
Shares of subsidiaries	22,130	12,185
Long-term receivables	1,800	1,800
Total non-current assets	**23,930**	**13,985**
TOTAL ASSETS	**27,184**	**15,358**
Payables	1	11
Total current liabilities	**1**	**11**
Total liabilities	**1**	**11**
Share capital	23,853	13,853
Share premium	1,038	0
Statutory reserve capital	75	0
Hedging reserve	1,007	0
Retained earnings	1,210	1,494
Total equity	**27,183**	**15,346**
TOTAL LIABILITIES AND EQUITY	**27,184**	**15,358**

24 Parent company's separate statement of cash flows

	1st half	
	2016	2015
EUR thousand		
Cash flows from operating activities		
Net profit	1,213	-23
Adjustments to net profit:		
Interest income and interest expenses	-28	0
Gain (loss) on the fair value adjustment of subsidiaries	-843	0
Dividends received	-411	0
Cash flow from operations before changes in working capital	**-69**	**-23**
Change in receivables and payables related to operating activities	-18	0
Net cash generated from operating activities	**-87**	**-23**
Cash flows from investing activities		
Acquisition of investments in subsidiaries	-9,102	0
Loans granted	-357	0
Dividends received	1,211	0
Net cash generated from investing activities	**-8,248**	**0**
Cash flows from financing activities		
Dividends paid	-411	0
Proceeds from issuance of shares	11,038	3,360
Net cash generated from financing activities	**10,627**	**3,360**
NET CASH FLOW	2,292	3,337
Cash and cash equivalents at the beginning of the period	**548**	**0**
Change in cash and cash equivalents	2,292	3,337
Cash and cash equivalents at the end of the period	**2,841**	**3,337**

25 Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
EUR thousand					
Balance as at 06.05.2015	**0**	**0**	**0**	**0**	**0**
Issue of shares	3 360	0	0	0	**3 360**
Comprehensive income for the half-year	0	0	0	-23	**-23**
Balance as at 30.06.2015	**3 360**	**0**	**0**	**-23**	**3 337**
Balance as at 31.12.2015	**13 853**	**0**	**0**	**1 493**	**15 346**
Issue of shares	10 000	1 038	0	0	11 038
Announcement of dividends	0	0	0	-411	-411
Transfers to statutory reserve capital	0	0	75	-75	0
Comprehensive income for the half-year	0	0	0	1 210	1 210
Balance as at 30.06.2016	**23 853**	**1 038**	**75**	**2 217**	**27 183**

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

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

	30.06.2016	31.12.2015
EUR thousand		
Parent company's unconsolidated equity	27,183	15,346
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-22,130	-12,985
Value of subsidiaries and joint ventures under the equity method (plus)	22,130	12,985
Total	**27,183**	**15,346**

26 Subsequent events

In July 2016 the Group acquired two new real estate investments: DSV logistics center in Riga and DSV logistics centre in Tallinn. For the two logistics centers the Group paid a total of EUR 17,389 thousand, including an advance of EUR 4,263 thousand made in June (see Note 14). For the acquisition, the Group borrowed a total of EUR 11,273 thousand in bank loans, i.e. 64.8% of the value of the real estate investments. The interest rate of the loans is 1.55% per annum and they are due on 2021.

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Viljar Arakas

Management Board Member

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Tõnu Uustalu

Management Board Member

30 August 2016

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE INTERIM REPORT ENDED 30 JUNE 2016

We hereby confirm the correctness of data presented in the interim report ended 30 June 2016 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