Consolidated Annual Report 2016

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial year: 01.01.2016
End of financial year: 31.12.2016

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee
Website address: www.eften.ee

Table of contents

MANAGEMENT REPORT

Comment of the Fund manager

2016 was the second year of operations for the Fund. The most important events in the accounting period were the share issue held in April 2016 and four new property investments. In the course of the share issue, a total of one million new shares of EfTEN Real Estate Fund III AS were offered at a price of EUR 11.0378 per share. The offering was a success and the share issue was 1.35 times oversubscribed. Capital raised from the issue was used to acquire three logistics centres from logistics group DSV. It was a buy-leaseback transaction where DSV sold three logistics centres that had belonged to the company in Tallinn, Riga and Vilnius, and remained a tenant in the buildings under long-term lease. In addition, in October 2016 the Fund acquired the L3 office building in Vilnius. The Fund's investments totalled EUR 34.5 million in 2016.

In 2015, the Fund made two investments in Lithuania, acquiring the Saules Miestas shopping centre in Siauliai and the Ulonu office building in Vilnius. Both investments performed in line with management expectations in 2016. Saules Miestas shopping centre even exceeded expectations - the annual rental income was 5% higher than budgeted.

In 2017 it is planned to expansively renovate the facade of Saules Miestas and begin construction at the expansion of the Riga logistics centre of DSV. Since at the time of preparing the report the Fund's entire share capital is invested in projects, EfTEN Real Estate Fund III AS plans to hold its third share issue in the spring of 2017 for financing further growth of the Fund.

Saules Miestas shopping center in Siauliai

Financial overview

The 2016 consolidated sales revenue of EfTEN Real Estate Fund III AS was EUR 5.333 million, increased by 3.5 times in a year. In 2016 the Group's profit before revaluation of investment properties (including change in the success fee reserve), depreciation and financial income/-costs and income tax expense (EBITDA) totalled EUR 3.925 million (2015: EUR 1.000 million). The Group's net profit for the same period amounted to EUR 4.349 million, increasing 2.9 times compared to 2015.

The consolidated gross profit margin in 2016 was 97% (2015: same), therefore, expenses directly related to management of properties accounted (incl. land tax, insurance, maintenance and improvement costs) for only 3% (2015: same) of the revenue in 2016.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 26.9% of the revenue in 2016. The respective indicator was 33.7% in 2015.

	2016	06.05.2015-31.12.2015
EUR million		
Rental revenue, other fees from investment properties	5,333	1,508
Expenses related to investment properties, incl. marketing costs	-0,591	-0,204
Interest expense and interest income	-0,659	-0,197
Net rental revenue less finance costs	**4,083**	**1,107**
Management fees	-0,344	-0,085
Other revenue and expenses	-0,499	-0,220
Profit before change in the value of investment property, change in the success fee liability, fair value change of interest swap and income tax expense	**3,240**	**0,802**

As at 31.12.2016, the Group total assets were in the amount of EUR 77.233 million (31.12.2015: 38.897 million), including fair value of investment property, which accounted for EUR 73.539 million (31.12.2015: 36.506 million) of the total assets.

	31.12.2016	31.12.2015
EUR million		
Investment property	73,539	36,506
Other non-current assets	0,058	0,080
Current assets, excluding cash	0,444	0,327
Net debt	-43,721	-21,568
Net asset value (NAV)	30,320	15,345
Net asset value (NAV) per share (in euros)	12,7112	11,0772

In a year, the net asset value of the share of EfTEN Real Estate Fund III AS increased 15%, attributable to the growth in operating profit, low interest rates and effective cost management. From the 2015 profit, EUR 411 thousand was paid out in dividends in 2016. Without the dividend payment, the Fund's NAV would have been 16.3% higher in 2016. Return on invested capital (ROIC) was 22.5% in 2016 (2015: 21.5%). Access to flexible financing conditions will help to increase the Group's competitiveness. In 2016, the Group entered into new loan contracts in the total amount of EUR 23.225 million in connection with the acquisition of new property investments. The interest rate of all new loan agreements is fixed and will remain between 1.55% and 1.9%. In addition, in 2016 the Group entered into an interest rate swap contract in the total nominal value of EUR 14,835 thousand by fixing a three-month EURIBOR at the level of 0.35%. The interest rate swap expires in 2023, and contractual quarterly payments will start in the spring of 2018. As at 31.12.2016, the interest rate swap contract covered 34.7% of the Group's loan portfolio.

As at the end of the year, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.67% (2015: 1.75%) and the loan to value ratio was 58% (2015: 57%).

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 2016, the Real Estate Fund III paid EfTEN AS' shareholders (net) dividend of 411 thousand euros, i.e. 3% of the nominal value of shares. In 2017 the Fund's Management Board will propose to the shareholders to pay out EUR 1.5 million in (net) dividend from the 2016 net profit, which represents 6.3% of the share capital paid-in by the end of 2016.

For the accounting period	31.12.2016	31.12.2015
ROE, % (net profit of the period / average equity of the period)x100	19,0	19,4
ROA, % (net profit of the period / average assets of the period)x100	7,5	7,5
ROIC, % (net profit of the period / average invested capital of the period)x100[1]	22,5	21,5
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2,1	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, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2016. the Group had 6 (2015: 2) commercial investment properties with a fair value as at the balance sheet date of EUR 73.5 million and acquisition cost of EUR 69.7 million. The real estate portfolio of the Group is divided into following sectors:

- retail premises 40%; 1 investment
- office premises 25%; 2 investment
- logistics premises 35%; 3 investment

Investment property, as at 31.12.2016	Group's ownership	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %
DSV Tallinn	100	16,014	977	100
DSV Riga	100	5,398	417	100
DSV Vilnius	100	11,687	671	100
Total logistics		**33,099**	**2,065**	**100**
Saules Miestas shopping centre	100	19,881	2,801	95
Total retail		**19,881**	**2,801**	**95**
Ulonu office building	100	5,174	704	100
L3 office building	100	6,151	741	100
Total office		**11,325**	**1,445**	**100**

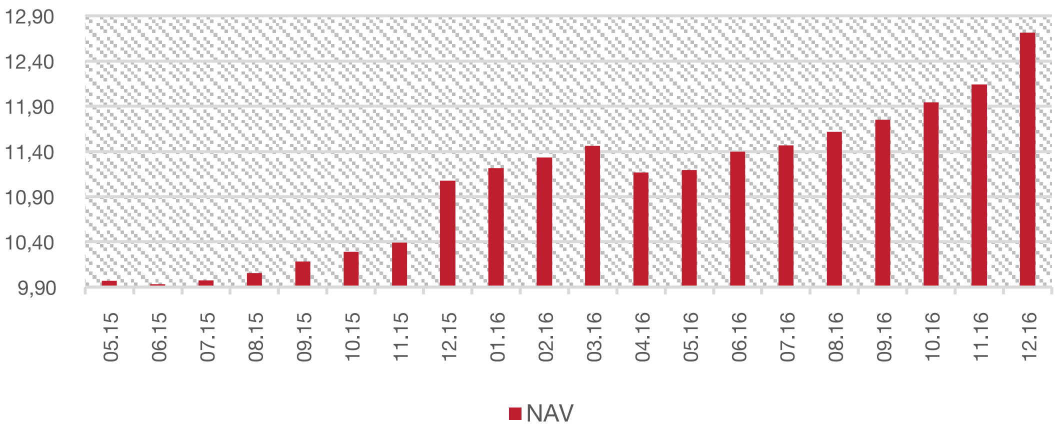
DSV logistics center in Tallinn

The weighted average expiration term of the lease agreements of investment property owned by the Group is 2.7 (2015: 2.8) years and as at 31.12.2016 the Group has a total of 130 (2015: 141) tenants. Contractual revenue generated by 15 customers' accounts for 57% of the consolidated rental revenue.

Customer	% of the consolidated revenue
DSV Transport AS	15,7%
DSV Transport UAB	10,8%
RIMI Lietuva, UAB	7,4%
DSV Transport SIA	6,7%
Valstybinė kainų ir energetikos kontrolės komisija	3,9%
Synergium UAB	1,5%
LPP Lithuania, UAB	1,4%
Drogas, UAB	1,3%
Eurovaistine, UAB	1,3%
GD Bonum Publicum	1,2%
Panevėžio statybos trestas UAB	1,2%
New Yorker Lietuva, UAB	1,2%
Topo grupe, UAB	1,2%
SBA koncernas	1,2%
Amber food, UAB	1,0%
Others	43,0%

Information on shares

As at 31.12.2016, payments made to the share capital of EfTEN Real Estate Fund III AS total EUR 24.891 million (31.12.2015: 13.853 million) and the number of shares as at 31.12.2016 was 2,385,263 (31.12.2015: 1,385,263).



As at 31.12.2016 EfTEN Real Estate Fund III AS had one shareholder with ownership interest in excess of 10% – Altius Energia OÜ, with an ownership interest of 14.2% of the company's shares.

Outlook for 2017

In 2017, the real estate market can be expected to grow further, supported in particular by low interest rates and the increase in domestic consumption caused by wage growth. While the US Federal Reserve has started to raise interest rates, they are not expected to grow in Europe in 2017. An important change compared with the previous year is the return of inflation. Because of the loss of the base effect of low prices of energy carriers, consumer prices in January 2017 in Estonia were 2.7% higher as compared to the year before. Given the fact that rental rates of commercial property are usually indexed to inflation, it creates an opportunity for rental rates to go up. As a counterforce, the growth of rental rates is influenced by significant increase in offering of new commercial premises essentially in all business segments and in the capitals of all Baltic countries. In the combination of two factors, rental prices are expected to move laterally. Due to the offering of new commercial spaces, averages vacancy rates on the market are growing.

The total investment volume in the Baltic commercial real estate in 2016 totaled EUR 1.17 billion, which is lower than in 2015 when the market volume was EUR 1.4 billion. Whereas last year funds managed by EfTEN Capital were the leaders of the Baltic market of commercial real estate with EUR 140 million in the total volume of transactions, we expect the investment pace to slow down considerably in 2017. The reason is continued decrease in yield rates, which makes it difficult to find new investment targets with a suitable risk and yield profile. The liquidity of the Baltic commercial real estate market is several times lower than in the Nordic region. The reason is that foreign institutional capital is leaving the market rather than making new investments.

The investment period of EfTEN Real Estate Fund III AS will expire in 2018 (three years from the Fund's inception). Plans for the next year include listing of the Fund on the Tallinn Stock Exchange. In April 2017 the Fund plans to carry out an additional share issue for investing capital in new projects. Since the price level of the Baltic commercial real estate has increased significantly since the Fund's launch, there are no plans for a major share issue. The volume of the emission is likely to be lower in order to complete existing developments and make a couple of new property investments. The main focus in the development of the existing portfolio is the start of rebuilding the DSV building in Riga and overhaul of the facade of Saules Miestas.

Management

On 25.04.2016, EfTEN Real Estate Fund III held an annual general meeting of shareholders, approving the 2015 annual report and deciding to pay a net dividend of EUR 411 thousand. No extraordinary general meetings of shareholders were held in 2016.

In 2016, a second public offering of Fund's shares was made, during which it was decided to issue 1,000,000 new ordinary shares with a nominal value of EUR 10. The share offering price was EUR 11.0378. In the subscription period (30.03. - 15.04.2016) 1,353,130 shares were subscribed, i.e. the issue was oversubscribed by 1.35 times. On 19.04.2016 the Supervisory Board of the Fund determined the distribution of shares and cancelled 353,130 oversubscribed shares. After the share issue the Fund's new share capital is EUR 23,852,630.

There were no changes in the Fund's management, including membership in the Management Board and Supervisory Board. Since its formation, the fund's Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane ja 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.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016	06.05.2015-31.12.2015
EUR thousand			
Revenue	4,5	5,333	1,508
Cost of services sold	6	-178	-46
Gross profit		**5,155**	**1,462**
Marketing costs	7	-413	-158
General and administrative expenses	8	-1,313	-585
Other income	9	2,520	1,398
Other expenses	9	-163	0
Operating profit	**4**	**5,786**	**2,117**
Finance income		1	0
Finance costs	10	-659	-197
Profit before income tax		**5,128**	**1,920**
Income tax expense	11	-779	-428
Total comprehensive income for the financial year		**4,349**	**1,492**

The Notes on pages 13-42 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016	31.12.2015
EUR thousand			
ASSETS			
Cash and cash equivalents	12	3,192	1,984
Receivables and accrued income	13	411	295
Prepaid expenses		33	32
Total current assets		**3,636**	**2,311**
Long-term receivables	13	17	0
Investment property	4,15	73,539	36,506
Property, plant and equipment	14	37	75
Intangible assets		5	5
Total non-current assets		**73,598**	**36,586**
TOTAL ASSETS		**77,234**	**38,897**
LIABILITIES AND EQUITY			
Borrowings	16	1,948	884
Derivative instruments	19	137	0
Payables and prepayments	17	619	400
Total current liabilities		**2,704**	**1,284**
Borrowings	16	40,719	19,845
Other long-term liabilities	17	383	378
Success fee liability	18	760	280
Deferred income tax liability	11	2,348	1,764
Total non-current liabilities		**44,210**	**22,267**
Total liabilities		**46,913**	**23,551**
Share capital	20	23,853	13,853
Share premium	20	1,038	0
Statutory reserve capital	20	75	0
Retained earnings	21	5,355	1,492
Total equity		**30,321**	**15,345**
TOTAL LIABILITIES AND EQUITY		**77,234**	**38,897**

The Notes on pages 13-42 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016	06.05.2015-31.12.2015
EUR thousand			
Net profit		**4,349**	**1,492**
Adjustments:			
Finance income		-1	0
Finance costs	10	659	197
Gain (loss) from revaluation of investment property	15	-2,356	-1,398
Change in the success fee liability	8	469	280
Depreciation, amortisation and impairment	14	26	1
Income tax expense	11	779	428
Total adjustments with non-cash changes		**-424**	**-492**
Cash flow from operations before changes in working capital		**3,925**	**1,000**
Change in receivables and payables related to operating activities	13,17	-115	-28
Net cash generated from operating activities		**3,810**	**972**
Purchase of property, plant and equipment		-12	0
Purchase of investment property	15	-34,677	-211
Acquisition of subsidiaries	3	38	-20,466
Interest received		1	0
Net cash generated from investing activities		**-34,650**	**-20,677**
Loans received	16	23,225	20,923
Loan repayments on refinancing	16	0	-12,724
Scheduled loan repayments	16	-1,248	-162
Interest paid		-556	-200
Proceeds from issuance of shares	20	11,038	13,853
Dividends paid	19	-411	0
Net cash generated from financing activities		**32,048**	**21,689**
NET CASH FLOW		**1,208**	**1,984**
Cash and cash equivalents at the beginning of the period	**10**	**1,984**	**0**
Change in cash and cash equivalents		1,208	1,984
Cash and cash equivalents at the end of the period	**10**	**3,192**	**1,984**

The Notes on pages 13-42 are an integral part of the financial statements.

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	13,853	0	0	0	**13,853**
Total transactions with owners	**13,853**	**0**	**0**	**0**	**13,853**
Net profit for the financial year	0	0	0	1,492	**1,492**
Total comprehensive income	**0**	**0**	**0**	**1,492**	**1,492**
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**
Dividends paid	0	0	0	-411	**-411**
Transfers to statutory reserve capital	0	0	75	-75	**0**
Total transactions with owners	**10,000**	**1,038**	**75**	**-486**	**10,627**
Net profit for the financial year	0	0	0	4,349	**4,349**
Total comprehensive income	**0**	**0**	**0**	**4,349**	**4,349**
Balance as at 31.12.2016	**23,853**	**1,038**	**75**	**5,355**	**30,321**

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

The Notes on pages 13-42 are an integral part of the financial statements.

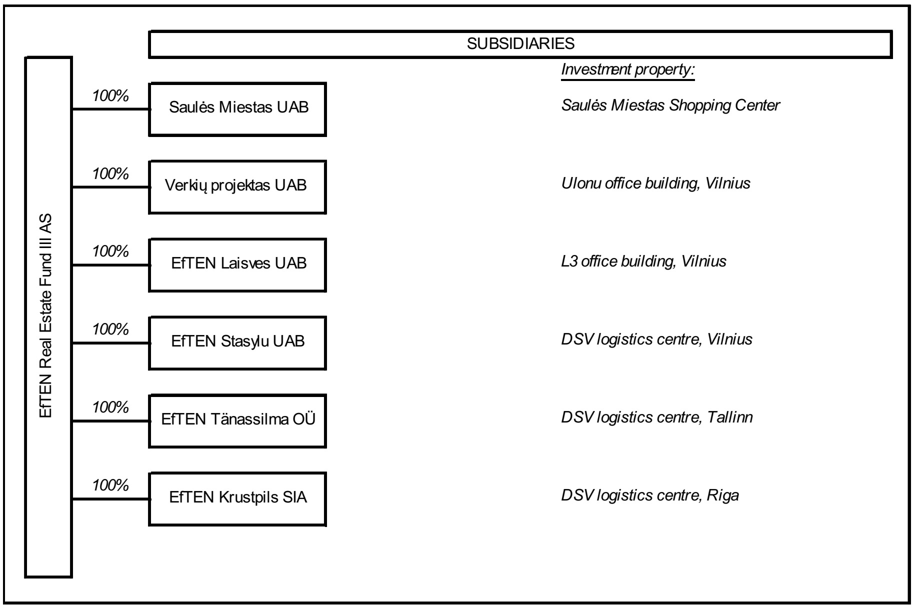
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the financial year ended 31.12.2016 has been signed by the Management Board on 28 February 2017. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board shall be approved at the general meeting of shareholders. These consolidated financial statements form a part of the annual report to be approved by the shareholders and they serve as a basis for the decision concerning the distribution of profit. Shareholders may decide not to approve the annual report, which has been prepared by the Management Board and approved by the Supervisory Board, and may demand that a new annual report be prepared.

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 31.12.2016 is as follows (also 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

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 January 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 *(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 licence 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. Taking into account the changes taking place in the commercial real estate market of Baltic countries and favorable financing conditions, discount rates have decreased as compared with 2015 and depending on the quality and location of the property remain between 7.9% to 8.6% (2015: 8.6% - 10.2%). In 2016 also exit returns have slightly decreased compared to 2015, and are now between 7.5% to 8.5% (2015: 7.75% -9%).

Additional information on the assumptions and sensitivity 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. It also assesses the Group's business activities 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 no 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 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 of risks by real estate sector.

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

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

Business Segment / 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	-	-	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.

In 2015 and 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 the 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 recognized 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 instruments 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. Derivatives are recognised at fair value through profit or loss.

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 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 capitalized and added to the carrying amount of the asset as borrowing costs.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the 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 discharged 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

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, %	
			31.12.2016	31.12.2015
Parent company				
EfTEN Real Estate Fund III AS	Estonia			
Subsidiaries				
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	-
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	100	-
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	100	-
EfTEN Krustpils SIA (former EfTEN Maritim SIA)	Latvia	DSV logistics centre, Riga	100	100

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

On 1 August 2015, EfTEN Real Estate Fund III AS acquired a fully owned subsidiary Saules Miestas UAB (former: Titvesta UAB). EfTEN Real Estate Fund III AS paid the seller EUR 15,922 thousand in exchange for the acquisition of the subsidiary, including repayment of former shareholder loans. The bank account of the subsidiary contained EUR 576 thousand at the time of the acquisition. On 1 December 2015, EfTEN Real Estate Fund III AS acquired 100% of the ownership interest in its Lithuania-based subsidiary, Verkiu Projektas UAB, paying for the ownership interest the amount of EUR 5,577 thousand, including the assumption of former shareholder loans. The company's balance sheet was audited following the transaction and the purchase price was reduced by EUR 38 thousand as a result of the audit. The seller paid for the reduction in purchase price in January 2016.

On 27.05.2016 EfTEN Real Estate Fund III AS founded a wholly-owned subsidiary EfTEN Tänassilma OÜ, contributing EUR 2.5 thousand in the company's share capital. In addition, EUR 4,300 thousand was paid into the company's share capital on 22.06.2016. The subsidiary was established to acquire the logistics centre of DSV in Tallinn.

On 30.05.2016 EfTEN Real Estate Fund III AS founded a wholly-owned subsidiary EfTEN Stasylu UAB in Lithuania, contributing EUR 2.5 thousand in the company's share capital. In addition, EUR 3,005 thousand was paid into the company's share capital on 22.06.2016. The subsidiary was established for the acquisition of a logistics centre of DSV in Vilnius.

On 22.06.2016, EfTEN Real Estate Fund III paid EUR 1,830 thousand in the share capital of its subsidiary EfTEN Krustpils SIA (formerly SIA EfTEN Maritim SIA), founded in 2015. The contribution was made for the acquisition of the logistics centre of DSV in Riga.

On 13.10.2016 EfTEN Real Estate Fund III AS founded a wholly-owned subsidiary EfTEN Laisves UAB in Lithuania, contributing EUR 2.5 thousand in the company's share capital. On 26.10.2016 an additional EUR 3,010 thousand was paid in the company's share capital. The subsidiary was established with the objective of acquiring the L3 office building in Vilnius.

4 Segment reporting

SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
EUR thousand										
Revenue (Note 5), incl.	**835**	**61**	**952**	**0**	**3,545**	**1,446**	**0**	**0**	**5,333**	**1,508**
Estonia	0	0	415	0	0	0	0	0	415	0
Latvia	0	0	181	0	0	0	0	0	181	0
Lithuania	835	61	356	0	3,545	1,446	0	0	4,737	1,508
Operating income, net, incl.	**794**	**58**	**935**	**0**	**3,013**	**1,246**	**0**	**0**	**4,742**	**1,304**
Estonia	0	0	415	0	0	0	0	0	415	0
Latvia	0	0	181	0	0	0	0	0	181	0
Lithuania	794	58	339	0	3,013	1,246	0	0	4,146	1,304
Operating profit, incl.	**1,879**	**49**	**1,040**	**0**	**2,953**	**2,168**	**-85**	**-99**	**5,786**	**2,117**
Estonia	0	0	715	0	0	0	-85	-99	630	-99
Latvia	0	0	59	0	0	0	0	0	59	0
Lithuania	1,879	49	266	0	2,953	2,168	0	0	5,097	2,217
EBITDA, incl.	**707**	**49**	**817**	**0**	**2,486**	**1,050**	**-85**	**0**	**3,925**	**1,099**
Estonia			361	0	0	0	-85	0	276	0
Latvia			149	0	0	0	0	0	149	0
Lithuania	707	49	306	0	2,486	1,050	0	0	3,500	1,099
Operating profit									**5,786**	**2,117**
Net financial expense									-659	-197
Profit before income tax expense									**5,127**	**1,920**
Income tax expense (Note 11)									-778	-428
NET PROFIT FOR THE FINANCIAL YEAR									**4,349**	**1,492**

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
EUR thousand								
Investment property (Note 15)								
Estonia	0	0	12,670	0	0	0	12,670	0
Latvia	0	0	5,049	0	0	0	5,049	0
Lithuania	18,060	8,000	8,420	0	29,340	28,506	55,820	36,506
Total Investment property	**18,060**	**8,000**	**26,139**	**0**	**29,340**	**28,506**	**73,539**	**36,506**
Other non-current assets							58	80
Net debt							-43,721	-21,568
Other short-term assets							444	327
NET ASSETS							**30,320**	**15,345**

In 2016 and 2015 no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that made the property investment is located.

The Group's largest customers are DSV Transport AS and DSV Transport UAB that account for 15.7% and 10.8% of the Group's consolidated rental income, respectively. The revenue from the rest of tenants is less than 10% of consolidated revenue.

5 Revenue

Areas of activity	**2016**	06.05.15-31.12.15
EUR thousand		
Rental income from office premises	826	58
Rental income from retail premises	2,870	1,151
Rental income from warehousing and logistics premises	934	0
Other sales revenue	703	299
Total revenue by areas of activity (Note 4, 15)	**5,333**	**1,508**

Revenue by geographical area	**2016**	06.05.15-31.12.15
EUR thousand		
Estonia	415	0
Latvia	181	0
Lithuania	4,737	1,508
Total revenue by geographical area	**5,333**	**1,508**

6 The cost of services sold

Cost of services sold	**2016**	06.05.15-31.12.15
EUR thousand		
Repair and maintenance of rental premises	-6	0
Property insurance	-16	-9
Land tax and real-estate tax	-119	-35
Wages and salaries, incl. taxes	0	-2
Other sales costs	-32	0
Impairment losses on doubtful receivables	-5	0
Total cost of services sold (Note 15)	**-178**	**-46**

7 Marketing costs

	2016	06.05.15-31.12.15
EUR thousand		
Commission expenses on rental premises	-1	0
Advertising, promotional events	-412	-158
Total marketing costs	**-413**	**-158**

8 General and administrative expenses

	2016	06.05.15-31.12.15
EUR thousand		
Management services (Note 22)	-344	-85
Office expenses	-41	-6
Wages and salaries, incl. taxes	-242	-70
Consulting expenses	-130	-115
Depositary's charges	-32	-2
Change in success fee liability (Note 18)	-469	-280
Other general and administrative expenses	-29	-26
Depreciation (Note 14)	-26	-1
Total general and administrative expenses	**-1,313**	**-585**

9 Other income and and other expenses

Other income	2016	06.05.15-31.12.15
EUR thousand		
Gain on changes in the fair value of investment property (Note 15)	2,519	1,398
Other income	1	0
Total other income	**2,520**	**1,398**

Other expenses	2016	06.05.15-31.12.15
EUR thousand		
Loss on changes in the fair value of investment property (Note 15)	-163	0
Total other expenses	**-163**	**0**

10 Finance costs

Finance costs	2016	06.05.2015-31.12.2015
EUR thousand		
Interest expenses	-522	-177
Change in fair value of interest swaps (Note 19)	-137	0
Other finance costs	0	-20
Total finance costs	**-659**	**-197**

11 Income tax

	2016	06.05.15-31.12.15
EUR thousand		
Income tax expense	-329	-76
Deferred income tax expense	-450	-352
Total income tax expense	**-779**	**-428**

All income tax expenses in the year 2016 and 2015 is related to the taxation of the profit of subsidiaries domiciled in Latvia and Lithuania.

As at 31.12.2016, the Group has a deferred tax liability in connection with fair value gains in property investments in Lithuania and Latvia in the amount of EUR 2,348 thousand (31.12.2015: EUR 1,764 thousand) and deferred income tax assets in the amount of EUR 17 thousand (31.12.2015: 0). The obligation to pay deferred income tax will arise upon the Group sells investment property.

Opening balance 06.05.2015	**0**
Additions from business combinations and acquisition of subsidiaries	1,697
Other changes	-285
Change in deferred income tax liability in the income statement in 2015	352
Balance as at 31.12.2015	**1,764**
Change in deferred income tax liability in the income statement in 2016	434
Expected income tax expense	97
Other changes	53
Balance as at 31.12.2016	**2,348**

12 Cash and cash equivalents

	31.12.2016	31.12.2015
EUR thousand		
Demand deposits	3,180	1,976
Cash in hand	12	8
Total cash and cash equivalents (Note 19)	**3,192**	**1,984**

13 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2016	31.12.2015
EUR thousand		
Receivables from customers	329	300
Allowance for doubtful trade receivables	0	-46
Total trade receivables	**329**	**254**
Other short-term receivables	0	37
Total other short-term receivables	**0**	**37**
Prepaid taxes and receivables for reclaimed value-added tax	81	3
Other accrued income	1	1
Total accrued income	**81**	**4**
Total receivables (Note 19)	**411**	**295**

Long-term receivables

	31.12.2016	31.12.2015
EUR thousand		
Deferred income tax receivable	17	0
Total long-term receivables	**17**	**0**

14 Property, plant and equipment

	Other property, plant and equipment	Prepayments for property, plant and equipment	**Other property, plant and equipment**
EUR thousand			
Carrying amount 06.05.2015	**0**	**0**	**0**
Acquisition cost 06.05.2015	*0*	*0*	*0*
Accumulated depreciation 06.05.2015	*0*	*0*	*0*
Additions from business combinations (Note 3)	57	19	76
Depreciation (Note 7)	-1	0	-1
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	12	0	12
Reclassifications	19	-19	0
Disposals and liquidation	-26	0	-26
Depreciation (Note 8)	-25	0	-25
Carrying amount 31.12.2016	**36**	**0**	**36**
Acquisition cost 31.12.2016	*61*	*0*	*61*
Accumulated depreciation 31.12.2016	*-26*	*0*	*-26*

15 Investment property

As at 31.12.2016, the Group has made investments in the following investment properties:

Name	**Location**	**Net leasable area (m2)**	**Year of construction**	**Date of acquisition**	**Acquisition cost**	**Market value at 31.12.2016**	**Share of market value of the fund's assets**
EUR thousand							
Saules Miestas shopping centre	Saules Miestas, Lithuania	19,881	2007	08.2015	27,285	29,340	38%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,420	11%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,670	16%
DSV logistics centre	Riga, Latvia	5,398	2000	07.2016	5,161	5,049	7%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,591	9,230	12%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,000	8,830	11%
Total		**64,304**			**69,735**	**73,539**	**95%**

For more information on investment property, please see Note 4 “Segment reporting”.

In the year 2016 and 2015, the following changes have occurred in the Group's investment property:

	Total investment property
Balance as at 06.05.2015	**0**
Additions from business combinations (Note 3)	**34,896**
Capitalized improvements	**211**
Gain (loss) on changes in the fair value (Note 9)	**1,398**
Balance as at 31.12.2015	**36,506**
Acquisitions	**34,453**
Capitalized improvements	**224**
Gain (loss) on changes in the fair value [1] (Note 9)	**2,356**
Balance as at 31.12.2016	**73,539**

[1] The value increase of investment property in 2016 is materially caused by the decrease of exit yields of market transactions and decrease of discount rates derived from low interest rates.

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

As at 31 December or the period	2016	06.05.15-31.12.15
Rental income earned on investment property (Note 5)	4,630	1,209
Expenses directly attributable to management of investment property (Note 6)	-178	-46
Carrying amount of investment property pledged as collateral to borrowings	73,539	36,506

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

The terms of lease agreements entered into EfTEN Real Estate Fund III AS and tenants correspond to non-cancellable operating lease terms. Income from the aforementioned lease agreements is divided as follows:

Payments receivable under non-cancellable operating lease agreements	**31.12.2016**	31.12.2015
EUR thousand		
up to 1 year	5,563	2,262
2-5 years	16,585	2,777
Over 5 years	15,124	763
Total	**37,272**	**5,802**

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

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 31.12.2016 and 31.12.2015 was determined using the discounted cash flow method, except the value of office premises as at 31.12.2015 where the transaction price close to balance sheet date was used (there were no significant changes in the real estate market between the transaction date and balance sheet date). The following assumptions were used to determine fair value:

In 2016:

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

In 2015:

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

Fair value sensitivity analysis

The table provided below illustrates **as at 31.12.2016** 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 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 capitalization rate	-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 capitalization rate	-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 capitalization rate	-0.5%	*31,200*	*30,580*	*29,980*
					0.0%	*29,930*	*29,340*	*28,760*
					0.5%	*28,800*	*28,320*	*27,680*

As at 31.12.2015

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%	*-658*	*704*	Change in the capitalization 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 capitalization 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 (Note 19).

16 Borrowings

As at 31.12.2016, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2016	Contract term	Interest rate as at 31.12.2016	Loan collateral	Value of collateral	Loan balance 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 building in Vilnius	8,420	17.7%
SEB	Latvia	3,323	3,264	29.06.21	1.55%	Mortgage - DSV building in Riga	5,049	10.8%
SEB	Estonia	7,950	7,808	29.06.21	1.55%	Mortgage - DSV building in Estonia	12,670	25.8%
SEB	Lithuania	5,620	5,551	30.09.21	1.90%	Mortgage-L3 office building in Vilnius		
SEB	Lithuania	92	92	27.04.17	1.80%		9,230	18.6%
SEB	Lithuania	5,200	4,967	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	8,830	16.4%
Total		**44,185**	**42,737**				**73,539**	**141.0%**

For additional information on borrowings, please see Note 19.

As at 31.12.2015, the Group has the following borrowings:

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	Loan balance share of the fund's net asset value
Swedbank	Lithuania	16,500	16,338	14.08.20	1.70%	Mortgage – Saules Miestas premises	28,506	106.5%
SEB	Lithuania	5,200	4,423	21.12.20	1.75%	Mortgage – Ulonu premises	8,000	28.8%
Total		**21,700**	**20,761**				**36,506**	**135.3%**

Short-term borrowings	**31.12.2016**	31.12.2015
EUR thousand		
Repayments of long-term bank loans in the next period	1,965	891
Discounted contract fees on bank loans	-17	-7
Total short-term borrowings	**1,948**	**884**

Long-term borrowings	**31.12.2016**	31.12.2015
EUR thousand		
Total long-term borrowings (Note 19)	**42,667**	**20,730**
Incl. current portion of borrowings	1,948	884
Incl. non-current portion of borrowings, incl.	40,719	19,846
Bank loans	*40,773*	*19,870*
Discounted contract fees on bank loans	*-54*	*-24*

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	**31.12.2016**	31.12.2015
EUR thousand		
Less than 1 year	1,965	891
2-5 years	40,773	19,870

Cash flows of borrowings	**2016**	06.05.2015-31.12.2015
EUR thousand		
Balance at the beginning of the period	**20,730**	**0**
Bank loans received from business combinations and acquisition of subsidiaries	0	12,724
Bank loans received	23,225	20,923
Bank loans returned on refinancing	0	-12,724
Annuity payments on bank loans	*-1,248*	*-162*
Capitalized contract fees	*-51*	*-32*
Change of discounted contract fees	*11*	*1*
Balance at the end of period	**42,667**	**20,730**

17 Payables and prepayments

Short-term payables and prepayments

	31.12.2016	31.12.2015
EUR thousand		
Other trade payables	177	217
Total trade payables	**177**	**217**
Other payables	0	7
Total other payables	**0**	**7**
Value added tax	117	38
Corporate income tax	75	84
Personal income tax	5	2
Social tax	13	2
Land tax and real-estate tax	54	13
Total tax liabilities	**264**	**139**
Payables to employees	23	6
Tenant security deposits	137	0
Other accrued liabilities	11	1
Total accrued expenses	**172**	**7**
Prepayments received from buyers	6	10
Other deferred income	0	21
Total prepayments	**6**	**31**
Total payables and prepayments	**619**	**400**

Long-term payables

,	31.12.2016	31.12.2015
EUR thousand		
Tenant security deposits	383	378
Total other long-term payables	**383**	**378**

For additional information on payables, please see Note 19.

18 Success fee liability

As at 31.12.2016, the Group has accumulated a success fee liability in the amount of EUR 760 thousand (31.12.2015: 280 thousand).

The basis for accounting for success fees on an accrual basis is the fair value estimates of investment property as at 31.12.2016 and 31.12.2015. Expenses from the change in success fees are included in the general and administrative expenses of the Group (see Note 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. For additional information on the Group's finance costs, please see 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	31.12.2016	31.12.2015
EUR thousand			
Financial assets - loans and receivables			
Cash and cash equivalents	13	3,192	1,984
Trade receivables	14	329	254
Total financial assets		**3,522**	**2,238**
Financial liabilities measured at amortised cost			
Borrowings	16	42,667	20,730
Trade payables	17	177	217
Tenant security deposits	17	520	379
Accrued expenses	17	34	7
Total financial liabilities measured at amortised cost		**43,398**	**21,333**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		137	0
Total financial liabilities measured at fair value		**137**	**0**
Total financial liabilities		**43,535**	**21,333**

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 31.12.2016, 49% of the Group's loan contracts were based on floating interest rate (margin range from 1.70% to 1.8% plus the 3-month and 6-month EURIBOR), and 51% of loan contracts carries fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 76% are related to an interest rate swap contract in which the 3-month Euribor is in turn fixed at 0.35%. In 2016, the

3-month Euribor fluctuated between -0.319% and -0.132% (2015: -0.133% and 0.023%), i.e. the maximum change within the year was 18.7 basis points (2015: 11 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 31.12.2016 was negative in the amount of EUR 137 thousand (31.12.2015: EUR 0). 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 31.12.2016, the Group's interest-bearing liabilities accounted for 58% (31.12.2015: 57%) of rental income generating investment property and the debt coverage ratio was 2.1 (2015:2.8).

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 31.12.2016	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	154	556	1,246	40,781	0	**42,738**
Interest payments	60	178	463	2,009	0	**2,709**
Trade payables	177	0	0	0	0	**177**
Tenant security deposits	4	18	116	289	94	**520**
Accrued expenses	34	0	0	0	0	**34**
Total financial liabilities	**430**	**751**	**1,825**	**43,079**	**94**	**46,178**

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	**380**
Accrued expenses	7	0	0	0	0	**7**
Total financial liabilities	**324**	**301**	**806**	**21,408**	**45**	**22,884**

Report of working capital

	31.12.2016	31.12.2015
EUR thousand		
Cash and cash equivalents (Note 12)	3,192	1,984
Receivables and accrued income (Note 13)	411	295
Prepaid expenses	33	32
Total current assets	**3,636**	**2,311**
Short-term portion of long-term liabilities (Note 16)	-1,948	-884
Short-term payables and prepayments (Note 17)	-756	-400
Total current liabilities	**-2,704**	**-1,284**
Total working capital	**932**	**1,027**

At at 31.12.2016, the Group's working capital was EUR 932 thousand (31.12.2015: EUR 1,027 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 collectibility 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:

	31.12.2016	31.12.2015
Undue	287	218
Past due, incl.	**42**	**82**
up to 30 days	*42*	*29*
30-60 days	*0*	*4*
more than 60 days	*0*	*49*
Allowance for doubtful receivables	0	-46
Total trade receivables	**329**	**254**

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

	31.12.2016	31.12.2015
EUR thousand		
Cash and cash equivalents	3,192	1,984
Trade receivables	329	254
Total maximum credit risk	**3,522**	**2,238**

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 31.12.2016**
A1	1,537
A1	1,633
Aa2	11

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 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 1,500 thousand of dividends, which is 6% of the nominal value of the fund's share capital.

Report of capitalization

	31.12.2016	31.12.2015
EUR thousand		
Mortgage guaranteed short-term liabilities (Note 16)	1,965	891
Unsecured short-term liabilities (Note 17)	739	393
Total short-term liabilities	**2,704**	**1,285**
Mortgage guaranteed long-term liabilities (Note 16)	40,773	19,870
Unsecured long-term liabilities (Note 17)	3,437	2,397
Total long-term liabilities	**44,210**	**22,267**
Share capital and share premium (Note 20)	24,890	13,853
Reserves	75	0
Retained earnings (Note 21)	5,355	1,492
Total shareholder's equity	**30,320**	**15,345**
Total liabilities and equity	**77,234**	**38,897**

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

	31.12.2016	31.12.2015
EUR thousand		
Cash (Note 12)	3,192	1,984
Cash and cash equivalents	0	0
Tradable securities	0	0
Total liquid assets	**3,192**	**1,984**
The short-term portion of long-term liabilities (Note16)	1,965	891
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	**-1,228**	**-1,093**
Long-term bank loans (long-term portion) (Note 16)	**40,773**	19,870
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	**40,773**	**19,870**
Total net debt	**-42,001**	**-20,963**

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 31.12.2016 and 31.12.2015, 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 31.12.2016 the registered share capital of EfTEN Real Estate Fund III AS was EUR 23,853 thousand (31.12.2015: EUR 13,853 thousand). As at 31.12.2016, the share capital consisted of 2,385,263 shares (31.12.2015: 1,385,263 shares) with a nominal value of EUR 10 (31.12.2015: same). Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand.

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 totalled EUR 11,038 thousand (including EUR 1,038 thousand in share premium).

In 2015, EfTEN Real Estate Fund III AS issued 1,385,263 shares with a nominal value of EUR 10 a share. In 2015, share capital contributions totalled EUR 13,853 thousand.

In 2016, EfTEN Real Estate Fund III AS transferred 5% of its 2015 comprehensive income, i.e. EUR 75 thousand to the statutory reserve capital.

Share earnings report of EfTEN Real Estate Fund III AS:

	2016	2015
Net profit for the financial year *(EUR thousand)*	**4,349**	1,492
Weighted average number of shares over the year, pcs	**2,081,153**	1,071,513
Earnings per share in euros	**2.09**	1.39

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

21 Contingent liabilities

Contingent income tax liability

	31.12.2016	31.12.2015
EUR thousand		
The company's retained earnings	5,355	1,492
Potential income tax liability	1,071	298
The amount that can be paid out as dividends	4,284	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 31.12.2016 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.

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 2016 in the amount of EUR 344 thousand (2015: 85 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 2016 or 2015.

In 2016 and 2015, the Group had nine employees who were remunerated including taxes in the amount of EUR 240 thousand (2015: 72 thousand). In addition the Group subsidiaries in Latvia and Lithuania paid EUR 2 thousand of labor tax in 2016 (2015: EUR 0). In 2016 and 2015, 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.

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.

	2016	06.05.15-31.12.15
EUR thousand		
General and administrative expenses	-85	-98
Operating loss	**-85**	**-98**
Gain from subsidiaries	4,376	1,571
Finance income	61	21
Finance costs	-3	0
Net profit for the financial year	**4,349**	**1,494**
Total comprehensive income for the financial year	**4,349**	**1,494**

24 Parent company's separate balance sheet

	31.12.2016	31.12.2015
EUR thousand		
ASSETS		
Cash and cash equivalents	598	548
Receivables and accrued income	162	824
Total current assets	**760**	**1,372**
Non-current assets		
Shares of subsidiaries	28,265	12,185
Long-term receivables	1,800	1,800
Total non-current assets	**30,065**	**13,985**
TOTAL ASSETS	**30,825**	**15,357**
Borrowings	500	0
Payables	3	11
Total current liabilities	**503**	**11**
Total liabilities	**503**	**11**
Share capital	23,853	13,853
Share premium	1,038	0
Statutory reserve capital	75	0
Retained earnings	5,356	1,493
Total equity	**30,322**	**15,346**
TOTAL LIABILITIES AND EQUITY	**30,825**	**15,357**

25 Parent company's separate statement of cash flows

	2016	06.05.2015-31.12.2015
EUR thousand		
Cash flows from operating activities		
Net profit	**4,349**	**1,494**
Adjustments to net profit:		
Finance income and finance costs	-58	-21
Gain on the fair value adjustment of subsidiaries	-3,965	-1,571
Dividends received	-411	0
Cash flow from operations before changes in working capital	**-86**	**-98**
Change in receivables and payables related to operating activities	-19	8
Net cash generated from operating activities	**-104**	**-90**
Cash flows from investing activities		
Acquisition of investments in subsidiaries	-12,114	-11,414
Loans granted	-376	-1,800
Repayment of loans granted	307	0
Dividends received	1,211	0
Net cash generated from investing activities	**-10,972**	**-13,214**
Cash flows from financing activities		
Loans received	500	0
Dividends paid	-411	0
Issue of shares	11,038	13,853
Net cash generated from financing activities	**11,127**	**13,853**
NET CASH FLOW	**50**	**549**
Cash and cash equivalents at the beginning of the period	**548**	**0**
Change in cash and cash equivalents	50	549
Cash and cash equivalents at the end of the period	**598**	**548**

26 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	13,853	0	0	0	**13,853**
Comprehensive income for the financial year	0	0	0	1,493	**1,493**
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
Dividends paid	0	0	0	-411	-411
Transfers to statutory reserve capital	0	0	75	-75	0
Comprehensive income for the financial year	0	0	0	4,349	4,349
Balance as at 31.12.2016	**23,853**	**1,038**	**75**	**5,356**	**30,322**

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:

	31.12.2016	31.12.2015
EUR thousand		
Parent company's unconsolidated equity	30,322	15,346
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-28,265	-12,985
Value of subsidiaries and joint ventures under the equity method (plus)	28,263	12,983
Total	**30,320**	**15,345**

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Real Estate Fund III AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Real Estate Fund III AS (the Company) and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Group's consolidated financial statements that comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AS PricewaterhouseCoopers

/digitally signed/	/digitally signed/
Ago Vilu Auditor's certificate no.325	Rando Rand Auditor's certificate no.617

28 February 2017

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

This independent auditor's report (translation of the Estonian original) should only be used with an annual report initialled for identification purposes by AS PricewaterhouseCoopers.

Profit allocation proposal

The Management Board makes the following profit allocation proposal at the general meeting of EfTEN Real Estate Fund III AS (in EUR):

Retained earnings as at 31.12.2016	5 355 000
Allocation to statutory reserve capital	218 000
Distribution of dividends	1 500 000
Retained earnings after allocations	3 637 000

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Viljar Arakas

Management Board Member

Tõnu Uustalu

Management Board Member

28 February 2017

Signatures of the members of the management board and supervisory board to the 2016 annual report

We hereby confirm the correctness of data presented in the 2016 annual report of EfTEN Real Estate Fund III AS.

________________	________________
Arti Arakas	Siive Penu
Chairman of the Supervisory Board	Member of the Supervisory Board
________________	________________
Sander Rebane	Olav Miil
Member of the Supervisory Board	Member of the Supervisory Board
________________	________________
Viljar Arakas	Tõnu Uustalu
Management Board Member	Management Board Member

Distribution of revenue in accordance with the Estonian Classification of Economic Activities

	Classification of Economic Activities code	2016	Revenue %	Main activity
EUR thousand				
Management of funds	66301	0	-	Yes