

CONSOLIDATED ANNUAL REPORT 2015



EfTEN Real Estate Fund III AS

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MANAGEMENT REPORT

Financial overview

EFTEN Real Estate Fund III AS was formed on 6 May 2015. The fund is the first ever investment fund specialising in investment property under the management of EFTEN Capital AS that offers its shares also to retail investors. In 2015 the fund made its first two real estate investments in Lithuania – the Saules Miestas shopping centre was acquired in August 2015 and the Ulonu office building in Vilnius was acquired at the end of the year 2015.

The consolidated sales revenue of EFTEN Real Estate Fund III AS in the first business year was EUR 1.508 million and the net profit in the same period was EUR 1.492 million. The net profit for the year 2015 included net investment property revaluation gains (change in the value of assets less potential success fee liability) of EUR 1.118 million.

The consolidated gross profit margin in 2015 was 97%, therefore, expenses directly related to management of properties accounted only for 3% of the sales revenue in 2015.

The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 33.7% of the revenues in 2015.

	06.05.2015-31.12.2015
<i>EUR million</i>	
Rental revenue, other fees from properties	1.508
Expenses related to investment properties, incl. marketing costs	-0.204
Interest expense and interest income	-0.197
Net rental revenue less finance costs	1.107
Management fees	-0.085
Other revenue and expenses	-0.219
Profit before change in the value of investment property, change in the success fee liability and income tax expense	0.802

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

	31.12.2015
<i>EUR million</i>	
Investment property	36.506
Other non-current assets	0.080
Current assets, excluding cash	0.327
Net debt	-21.568
Net asset value (NAV)	15.345
Net asset value (NAV) per share (in euros)	11.0772
Proceeds from issuance of shares for investment activities	13.853
Resources invested end-of-period	12.398
Proceeds from issuance of shares not invested end-of-period	1.455

The dividend policy of EFTEN Real Estate Fund III AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. The group proposes to its shareholders to allocate in 2016 the amount of EUR 411 thousand to net dividends, accounting for 3% of the nominal value of the shares.

Accounting period	31.12.2015
ROE, % (net profit of the period / average equity of the period)x100	19.4
ROA, % (net profit of the period / average assets of the period)x100	7.5
ROIC, % (net profit of the period / average invested capital of the period)x100	21.5
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2.8

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

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2015, the Group had two commercial investment properties with a fair value as at the balance sheet date of EUR 36.506 million and acquisition cost of EUR 35.107 million. The real estate portfolio of the Group is divided into following sectors:

- retail premises 78%; 1 investment
- office premises 22%; 1 investment

Investment property, as at 31.12.2015	Group's ownership	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %	The average length of lease agreements, in years
Saules Miestas shopping centre	100	20,693	2,754	89	3.0
Total trade		20,693	2,754	89	
Ulonu office building	100	5,174	693	100	2.3
Total office		5,174	693	100	

Saules Miestas



The shopping center, which is located in the heart of the city of Šiauliai and has the city's best location. Saules Miestas is integrated with the central bus station of the city, ensuring strong flows of the visitors.

Ulonu office building



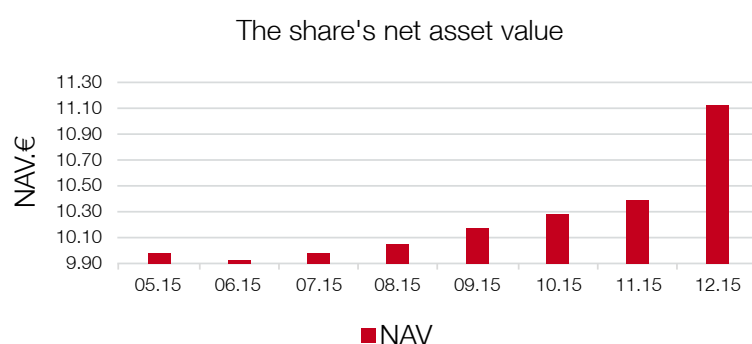
Ulonu business center is located 2 km from Vilnius center business district. It is a new building and is built by the developer as representative building.

The weighted average expiration term of the lease agreements of investment property owned by the Group is 2.8 years and as at 31.12.2015 the Group has a total of 245 tenants. Contractual revenue generated by 14 customers' accounts for 47.7% of the consolidated rental revenue.

Major tenants	% of the consolidated rental revenue
RIMI Lietuva, UAB	13.90%
Valstybinė kainų ir energetikos kontrolės komisija	6.10%
PST Group	4.20%
LPP Lithuania, UAB	3.20%
UAB Synergium	2.80%
Drogas, UAB	2.40%
Eurovaistine, UAB	2.30%
New Yorker Lietuva, UAB	2.30%
Topo grupė, UAB	2.10%
Amber food, UAB	1.90%
SPORTLAND LT, UAB	1.90%
Baltika Lietuva, UAB	1.60%
UAB Columbus Lietuva	1.60%
Deichmann avalynė, UAB	1.50%
Others	52.30%

Information on shares

As at 31.12.2015, payments made to the share capital of EFTEN Real Estate Fund III AS total EUR 13.853 million and the number of shares as at 31.12.2015 was 1,385,263.



As at 31.12.2015, EFTEN Real Estate III AS had one shareholder with ownership interest in excess of 10% – Greatway OÜ, with an ownership interest of 18.6% of the company's shares.

Outlook for 2016

The year 2016 has started in a very turbulent manner for the financial markets. After the United States Federal Reserve raised its base interest rate by 0.25% in the month of December, there is a consensus that further increases in the interest rate are currently off the table and the Fed may even reconsider its December decision on the background of the poor macroeconomic situation. This has also postponed to the distant future any expectations regarding base rate raises in Europe. Based on this knowledge it can be expected that the expansionary monetary policy will be maintained for probably longer than was expected in the mid-part of the previous year. The continuation of a low interest-rate environment has a direct impact on commercial real estate where rates of return can be expected to decline further. The relatively high rates of return in the Baltic States compared to the primary centres of Central and Eastern Europe are attracting new investors into the region.

1.2 billion euros of commercial real estate investments were made in the Baltic States last year. This also surpassed the pre-crisis level from the year 2007 where the volume of all investments was 1.0 billion euros. Yet another record can be expected to be achieved in the year 2016. However, the Baltic commercial real estate market remains many times less liquid compared to the developed real estate markets of Scandinavia. The continuing decrease in rates of return, primarily attributable to the emergence of new investors, is contributing to the increase in the value of commercial real estate. The increase in rent levels is mostly marginal because the supply and demand for new commercial premises is largely in balance. There are certain anomalies across the Baltic States, such as the new retail space being added in Tallinn or the new office space being added in Vilnius but from the bigger perspective demand and supply are relatively well balanced in each segment.

Assuming that the current security situation persists and no new macroeconomic shocks emerge, the year 2016 should be a favourable one for the commercial real estate sector.

Management

EFTEN Real Estate Fund III AS was formed on 6 May 2015 and entered into the Commercial Register on 10 June 2015. The formation was approved by the Estonian Financial Supervision Authority in its decision dated 04.06.2015.

On 11 June 2015, shareholders resolved to approve a new version of the articles of association and to increase share capital by way of issuance of new shares. Amendments to the articles of association and the prospectus for public offering of shares were approved by the Estonian Financial Supervision Authority. The public offering of shares took place from 15 June 2015 to 3 July 2015.

Since its formation, the fund's Supervisory Board is comprised of: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil. The Supervisory Board adopted a total of four resolutions. According to the articles of association, the Supervisory Board is authorised to, among other activities, approve the budget, determine the business strategy and adopt decisions related to significant changes in the business, as well as grant approval for transactions outside of ordinary course of business made by the Management Board.

The management board of the fund is comprised of two members: Viljar Arakas (fund manager) and Tõnu Uustalu (investments manager of the fund).

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

The depositary of the fund is Swedbank AS.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED INCOME STATEMENT

	Notes	06.05.2015-31.12.2015
<i>EUR thousand</i>		
Revenue	4	1,508
Cost of services sold	5	-46
Gross profit		1,462
Marketing costs	6	-158
General and administrative expenses	7	-585
Other income	8	1,398
Operating profit		2,116
Finance costs	9	-197
Profit before income tax		1,920
Income tax expense	10	-428
Net profit for the financial year		1,492
Total comprehensive income for the financial year		1,492

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2015
<i>EUR thousand</i>		
ASSETS		
Cash and cash equivalents	11	1,984
Receivables and accrued income	12	295
Prepaid expenses		32
Total current assets		2,311
Investment property	14	36,506
Property, plant and equipment	13	75
Intangible assets		5
Total non-current assets		36,586
TOTAL ASSETS		38,897
LIABILITIES AND EQUITY		
Borrowings	15	884
Payables and prepayments	16	400
Total current liabilities		1,285
Borrowings	15	19,845
Other long-term liabilities	16	378
Success fee liability	17	280
Deferred income tax liability	10	1,764
Total non-current liabilities		22,268
Total liabilities		23,552
Share capital	19	13,853
Retained earnings	20	1,492
Total equity		15,345
TOTAL LIABILITIES AND EQUITY		38,897

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	06.05.2015-31.12.2015
<i>EUR thousand</i>		
Net profit		1,492
Adjustments:		
Finance costs	9	197
Gain (loss) from revaluation of investment property	14	-1,398
Change in the success fee liability	7	280
Depreciation	13	1
Income tax expense	10	428
Total adjustments with non-cash changes		-492
Cash flow from operations before changes in working capital		999
Change in receivables and payables related to operating activities	12,16	-28
Net cash generated from operating activities		971
Purchase of investment property	14	-211
Acquisition of subsidiaries	3	-20,466
Net cash generated from investing activities		-20,677
Loans received		20,923
Loan repayments on refinancing		-12,724
Scheduled loan repayments		-162
Interest paid		-200
Proceeds from issuance of shares	19	13,853
Net cash generated from financing activities		21,689
NET CASH FLOW		1,984
Cash and cash equivalents at the beginning of the period	11	0
Change in cash and cash equivalents		1,984
Cash and cash equivalents at the end of the period	11	1,984

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
<i>EUR thousand</i>			
Balance as at 06.05.2015	0	0	0
Issue of shares	13,853	0	13,853
Total transactions with owners	13,853	0	13,853
Net profit for the financial year	0	1,492	1,492
Total comprehensive income	0	1,492	1,492
Balance as at 31.12.2015	13,853	1,492	15,345

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EFTEN Real Estate Fund III AS and its subsidiaries for the financial year ended 31.12.2015 has been signed by the Management Board on 29 February 2016. 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.

EFTEN Real Estate Fund III AS owns as at 31.12.2015 two fully owned subsidiaries in Lithuania and one fully owned subsidiary in Latvia. For additional information on subsidiaries, please see Note 3.



2 Statement of compliance and basis for preparation

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

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

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

2.1 Changes in the accounting policies and presentation

New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 January 2016, and which the Group has not early adopted.

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

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

be measured subsequently at fair value through profit or loss (FVPL).

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

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

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

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

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

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

Annual Improvements to IFRSs 2012 (standard will become effective for annual periods beginning on or after 1 February 2015).

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (standard will become effective for annual periods beginning on or after 1 January 2016).

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative – Amendments to IAS 1 (standard will become effective for annual periods beginning on or after 1 January 2016).

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is currently assessing the impact of the amendments on its financial statements.

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

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

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

2.2 Summary of the most important accounting principles

Management's critical estimates and judgements

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

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

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

2.2.1 Estimation uncertainty

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

a) Determination of the fair value of investment property

At each balance sheet date, investment properties are measured at their fair values. The Group's investment property is valued by Colliers International Advisors OÜ. The independent appraiser of the Group values the investment properties on an individual basis using the discounted cash flow method. The investment properties owned by the Group generate (or will start to generate when they are completed) rental revenue, therefore the applied method best indicates the fair value of the investment properties among the alternatives (comparison method for example). The estimates of the cash flows of properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical condition and the tenant risk level. As at the balance sheet date, the Group had one investment property where the cost was used as its fair value due to the fact that the transaction between independent parties occurred close to the balance sheet date. Besides the transaction of purchase and sale of investment property, the management of the Group estimates that no substantial changes have taken place in the real estate market that would have caused any significant change to the fair value.

Additional information on the assumptions used in valuation of fair value can be found in Note 14.

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

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

2.2.2 Classification of real estate

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

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

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

Consolidation

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

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

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

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

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

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

In the separate balance sheet of the parent company (presented in Note 23), the investments in subsidiaries are measured at fair value. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

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

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

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

Finance income

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

As at 31.12.2015, 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.

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Investment property

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

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

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

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

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

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the group where the item has been transferred are applied. For a transfer from investment

property to property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

Financial liabilities

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

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

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

A financial liability is removed from the statement of financial position when it is 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 7).

Provisions and contingent liabilities

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

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

Leases

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

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

Statutory reserve capital

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

Income tax

Parent company

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, %
			31.12.2015
Parent company			
EFTEN Real Estate Fund III AS	Estonia		
Subsidiaries			
EFTEN Maritim SIA	Latvia	-	100
Saulės Miestas UAB	Lithuania	Shopping centre Saulės Miestas	100
Verkių projektas UAB	Lithuania	Ulonu office building	100

Subsidiaries Saulės Miestas UAB and Verkių projektas UAB 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.

	Fair value
Cash	576
Current receivables	264
Investment property (Note 14)	26,896
Property, plant and equipment (Note 13)	70
Intangible assets	4
Bank loan	-10,332
Deferred income tax expense (Note 10)	-1,257
Other liabilities	-299
The fair value of the net assets	15,922
Acquisition cost	15,922
Goodwill	0

Saulės Miestas UAB has generated total revenue during the year 2015 of EUR 1,446 thousand from the acquisition date and total operating expenses incurred were EUR 398 thousand from the acquisition date. From the beginning of the year 2015, Saulės Miestas UAB as a separate entity has generated total revenue of EUR 3,360 thousand and total operating expenses for the entire year amounted to EUR 909 thousand.

On 10 August 2015, EFTEN Real Estate Fund III AS formed a fully owned subsidiary, EFTEN Maritim SIA, in Latvia for the purposes of participation in an auction to purchase investment property. The Group did not win the auction and as at 31.12.2015 the subsidiary does not own any investment property. EFTEN Real Estate Fund III AS contributed EUR 4 thousand to the equity of EFTEN Maritim SIA upon formation of the subsidiary.

On 1 December 2015, EFTEN Real Estate Fund III AS acquired 100% of the ownership interest in its Lithuania-based subsidiary, Verkių 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 and the receivable of EUR 38 thousand is included in the short-term receivables heading of the Group as at 31.12.2015.

The subsidiary owned an investment property in Vilnius at the time of the acquisition. The subsidiary is not engaged in any business other than ownership of the investment property, therefore the acquisition has been accounted for as asset acquisition rather than business combination. The values of the subsidiary's assets and liabilities as at 1 December 2015 have been provided in the table below.

	Value
Cash	459
Current receivables	56
Investment property (Note 14)	8,000
Property, plant and equipment (Note 13)	5
Bank loan	-2,392
Deferred income tax expense (Note 10)	-440
Other liabilities	-148
The value of the net assets	5,539
Acquisition cost	5,539

4 Revenue

Areas of activity	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Rental income from office premises (Note 14)	58
Rental income from retail premises (Note 14)	1,151
Other sales revenue	299
Total revenue by areas of activity	1,508

The whole Group revenue in 2015 was generated in Lithuania.

5 Cost of services sold

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Property insurance	-9
Land tax and real-estate tax	-35
Wages and salaries, incl. taxes	-2
Total cost of services sold (Note 14)	-46

6 Marketing costs

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Advertising, promotional events	-158
Total marketing costs	-158

7 General and administrative expenses

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Management services (Note 21)	-85
Office expenses	-6
Wages and salaries, incl. taxes	-70
Consulting expenses	-116
Change in success fee liability (Note 17)	-280
Other general and administrative expenses	-26
Depreciation (Note 13)	-1
Total general and administrative expenses	-585

8 Other income

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Gain on changes in the fair value of investment property (Note 14)	1,398
Total other income	1,398

9 Finance costs

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Interest expenses	-177
Other finance costs	-20
Total finance costs	-197

10 Income tax

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Income tax expense	-76
Deferred income tax expense	-352
Total income tax expense	-428

Income tax expense in the year 2015 is related to the taxation of the profit of subsidiaries domiciled in Lithuania.

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

Opening balance 06.05.2015	0
Additions from business combinations and acquisition of subsidiaries (Note 3)	1,697
Other changes	-285
Change in deferred income tax liability in the income statement	352
Balance as at 31.12.2015	1,764

11 Cash and cash equivalents

	31.12.2015
<i>EUR thousand</i>	
Demand deposits	1,977
Cash in hand	8
Total cash and cash equivalents	1,984

12 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2015
<i>EUR thousand</i>	
Receivables from customers	300
Allowance for doubtful trade receivables	-46
Total trade receivables	253
Other short-term receivables	38
Total other short-term receivables	38
Prepaid taxes and receivables for reclaimed value-added tax	3
Other accrued income	1
Total accrued income	4
Total receivables and accrued income	295

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

13 Property, plant and equipment

	Other property, plant and equipment	Prepayments for property, plant and equipment	Other property, plant and equipment
<i>EUR thousand</i>			
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

14 Investment property

As at 31.12.2015, the Group has made investments in the following investment properties:

Name	Location	Area (m ²)	Usable area (m ²)	Date of acquisition	Acquisition cost	Market value at 31.12.2015	Share of market value of the fund's assets
<i>EUR thousand</i>							
Saules Miestas shopping centre	Saules Miestas, Lithuania	21,094	19,881	08.2015	26,896	28,506	72%
Ulonu office building	Vilnius, Lithuania	2,200	5,174	12.2015	8,000	8,000	20%
Total			25,055		34,896	36,506	92%

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

	Total investment property
Balance as at 06.05.2015	0
Capitalised improvements	211
Additions from business combinations and subsidiaries (Note 3)	34,896
Gain on changes in the fair value (Note 8)	1,398
Balance as at 31.12.2015	36,506

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	06.05.2015-31.12.2015
Rental income earned on investment property (Note 4)	1,209
Expenses directly attributable to management of investment property (Note 5)	-46
Carrying amount of investment property pledged as collateral to borrowings as at 31.12.2015	36,506

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

The terms of lease agreements entered into by the Group companies 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	31.12.2015
<i>EUR thousand</i>	
up to 1 year	2,262
2-5 years	2,777
Over 5 years	763
Total	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 retail premises investment properties presented in the financial statements of the Group as at 31.12.2015 was determined using the discounted cash flow method. The management of the Group uses the transaction price in determining the fair value of office space because the transaction of purchase and sale took place at the end of the year 2015 and no significant changes have occurred in the real estate market since then.

The following assumptions were used to determine fair value (management's judgment at the time of the acquisition regarding the office space and an independent valuation specialist's judgment as at the balance sheet date regarding the retail space):

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalisation rate	Average rent €/m²
<i>EUR thousand</i>						
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;
- Capitalisation rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market condition and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates as at 31.12.2015 the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions (management's judgment at the time of the acquisition regarding the office space and an independent valuation specialist's judgment as at the balance sheet date regarding the retail space):

Sector	Sensitivity to management estimates			Sensitivity to discount rate and capitalisation rate				
	Assessment	Effect of decrease to value	Effect of increase to value			Change in discount rate		
						-0,5%	0,0%	0,5%
<i>EUR thousand</i>								
Office premises	Change in rental income +/-10%	-658	704	Change in the capitalisation rate	-0,5%	8 534	8 365	8 200
					0,0%	8 161	8 000	7 843
					0,5%	7 831	7 678	7 528
Retail premises	Change in rental income +/-10%	-2 529	2 721	Change in the capitalisation rate	-0,5%	30 305	29 707	29 124
					0,0%	29 076	28 506	27 951
					0,5%	27 984	27 439	26 908

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

15 Borrowings

As at 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	Share of the fund's net asset value
Swedbank	Lithuania	16,500	16,338	18.08.2020	1.70%	mortgage - Saules Miestas premises	28,506	106.5%
SEB	Lithuania	5,200	4,423	21.12.2020	1.75%	mortgage - Ulonu premises	8,000	28.8%
Total		21,700	20,761				36,506	135.3%

Short-term borrowings	31.12.2015
<i>EUR thousand</i>	
Repayments of long-term bank loans in the next period	891
Discounted contract fees on bank loans	-7
Total short-term borrowings	884

Long-term borrowings	31.12.2015
<i>EUR thousand</i>	
Total long-term borrowings (Note 18)	20,730
Incl. current portion of borrowings	884
Incl. non-current portion of borrowings, incl.	19,845
<i>Bank loans</i>	19,870
<i>Discounted contract fees on bank loans</i>	-24

Bank loans are divided as follows according to repayment date:

Repayment of bank loans by maturity dates	31.12.2015
<i>EUR thousand</i>	
Less than 1 year	891
2-5 years	19,870

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

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Balance at the beginning of the period	0
Bank loans received from business combinations and acquisition of subsidiaries	12,724
Bank loans received	20,923
Bank loans returned on refinancing	-12,724
Annuity payments on bank loans	-162
Capitalised contract fees	-32
Discounted contract fees	1
Balance at the end of period	20,730

16 Payables and prepayments

Short-term payables and prepayments

	31.12.2015
<i>EUR thousand</i>	
Trade payables (Note 18)	217
Total trade payables	217
Other payables	7
Total other payables	7
Value added tax	38
Corporate income tax	84
Personal income tax	2
Social tax	2
Land tax and real-estate tax	13
Total tax liabilities	140
Payables to employees	6
Other accrued liabilities	1
Total accrued expenses	7
Prepayments received from buyers	10
Other deferred income	21
Total prepayments	31
Total payables and prepayments	400

Long-term payables

	31.12.2015
<i>EUR thousand</i>	
Tenant security deposits	378
Total other long-term payables	378

17 Success fee liability

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

18 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

	Notes	31.12.2015
<i>EUR thousand</i>		
Financial assets - loans and receivables		
Cash and cash equivalents	11	1,984
Trade receivables	12	253
Total financial assets		2,237
Financial liabilities measured at amortised cost		
Borrowings	15	20,730
Trade payables	16	217
Tenant security deposits	16	379
Accrued expenses	16	7
Total financial liabilities		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 31.12.2015, all of the Group's loan agreements carry floating rates of interest (on the basis of 3-month EURIBOR). During the period that the group has been in business in 2015, the 3-month EURIBOR has fluctuated within the range of -0.133% to -0.023%, i.e. the maximum change was 11 basis points. Considering the existing borrowings of the Group, an increase in the EURIBOR rate of 10 basis points would increase consolidated interest expense by EUR 21 thousand per annum. The EURIBOR rate that, if exceeded, could cause the group's debt coverage ratio to go below the required (1.2) level and therefore have a negative impact on the liquidity of the group is 4.46%. In that case the interest expense of the group would increase to EUR 960 thousand per annum.

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective of 4-7 years.

The Group has not entered into any interest rate swap agreements as at 31.12.2015 for the mitigation of interest rate risk. However, due to the long-term nature of the Group's real estate investments and the long-term borrowings associated with the investments, the Group is considering entering into such agreements presumably in the first half of the year 2016.

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 31.12.2015, the Group's interest-bearing liabilities accounted for 59% of rental income generating investment property and the debt coverage ratio was 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 31.12.2015	Less than 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>EUR thousand</i>						
Interest-bearing liabilities	70	212	569	19,910	0	20,761
Interest payments	30	88	231	1,170	0	1,519
Trade payables	217	0	0	0	0	217
Tenant security deposits	0	1	6	328	45	379
Accrued expenses	7	0	0	0	0	7
Total financial liabilities	324	300	806	21,408	45	22,883

Credit risk

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

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

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

	31.12.2015
<i>Undue</i>	218
Past due, incl.	82
up to 30 days	29
30-60 days	4
more than 60 days	49
Allowance for doubtful receivables	-46
Total trade receivables	253

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

	31.12.2015
<i>EUR thousand</i>	
Cash and cash equivalents	1,984
Trade receivables	253
Total maximum credit risk	2,237

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

Rating	Balance as at 31.12.2015
A1	1,977

Capital management

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

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

After making an investment, the net operating profit on investment of any of the cash flow producing investment properties

cannot be less than 120% of the loan annuity payments.

According to the Group's management estimate the free cash flow of the Group allows to pay out in the form of dividends an average of 75% of the value of invested equity. As the Group acquired its first investment property in the month of August 2015 and the second investment property at the end of the year 2015, the potential dividends for the year 2015 will be at a slightly lower level. In 2016, the management board of EFTEN Real Estate Fund III AS will propose to the shareholders to distribute EUR 411 thousand, which is 3% of the nominal value of the fund, as dividends from the profit of the year 2015.

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

19 Share capital

On 6 May 2015, the memorandum of association of EFTEN Real Estate Fund III AS was signed. No monetary transactions were concluded on the day of formation.

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

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

20 Contingent liabilities

Contingent income tax liability

	31.12.2015
<i>EUR thousand</i>	
The company's retained earnings	1,492
Potential income tax liability	298
The amount that can be paid out as dividends	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 31.12.2015.

Potential liabilities arising from the tax audit

Estonia

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

Latvia and Lithuania

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

21 Related party transactions

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

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

The Group purchased management services from EFTEN Capital AS in 2015 in the amount of EUR 85 thousand (Note 7). EFTEN Real Estate Fund III AS did not purchase from other related parties or sell to other related parties any other goods or services in 2015.

In 2015, the Group had nine employees who were remunerated including taxes in the amount of EUR 72 thousand. No compensations were calculated or paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EFTEN Capital AS, the company providing asset management services to the Group, and expenses related to management board members' activities are included in management services.

22 Parent company's separate income statement

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

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

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
General and administrative expenses	-98
Operating loss	-98
Gain from subsidiaries	1,571
Interest income	21
Net profit for the financial year	1,493
Total comprehensive income for the financial year	1,493

23 Parent company's separate balance sheet

	31.12.2015
<i>EUR thousand</i>	
ASSETS	
Cash and cash equivalents	548
Receivables and accrued income	824
Total current assets	1,373
Non-current assets	
Shares of subsidiaries	12,185
Long-term receivables	1,800
Total non-current assets	13,985
TOTAL ASSETS	15,358
Borrowings	
Payables	11
Total current liabilities	11
Total liabilities	11
Share capital	13,853
Retained earnings	1,493
Total equity	15,346
TOTAL LIABILITIES AND EQUITY	15,358

24 Parent company's separate statement of cash flows

	06.05.2015-31.12.2015
<i>EUR thousand</i>	
Cash flows from operating activities	
Net profit	1,493
Adjustments:	
Interest income and interest expenses	-21
Gain on the fair value adjustment of subsidiaries	-1,571
Cash flow from operations before changes in working capital	-98
Change in receivables and payables related to operating activities	8
Net cash generated from operating activities	-89
Cash flows from investing activities	
Acquisition of investments in subsidiaries	-11,414
Loans granted	-1,800
Net cash generated from investing activities	-13,214
Cash flows from financing activities	
Proceeds from issuance of shares	13,853
Net cash generated from financing activities	13,853
NET CASH FLOW	548
Cash and cash equivalents at the beginning of the period	0
Change in cash and cash equivalents	548
Cash and cash equivalents at the end of the period	548

25 Parent company's separate statement of changes in equity

	Share capital	Retained earnings	Total
<i>EUR thousand</i>			
Balance as at 06.05.2015	0	0	0
Issue of shares	13,853	0	13,853
Comprehensive income for the financial year	0	1,493	1,493
Balance as at 31.12.2015	13,853	1,493	15,346

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

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

	31.12.2015
<i>EUR thousand</i>	
Parent company's unconsolidated equity	15,346
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-12,985
Value of subsidiaries and joint ventures under the equity method (plus)	12,983
Total	15,345



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of EfTEN Real Estate Fund III AS

We have audited the accompanying consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EFTEN Real Estate Fund III AS and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/digitally signed/

Ago Vilu
Auditor's Certificate No. 325

/digitally signed/

Rando Rand
Auditor's Certificate No. 617

29 February 2016

** 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 31.12.2015	1,492,144
Allocation to statutory reserve capital	74,607
Distribution of dividends	411,000
Retained earnings after allocations	1,006,537

Viljar Arakas
Management Board
Member

Tõnu Uustalu
Management Board
Member

29 February 2016

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2015 ANNUAL REPORT

We hereby confirm the correctness of data presented in the 2015 annual report of EFTEN Real Estate Fund III AS.

Arti Arakas
Chairman of the
Supervisory Board

Siive Penu
Member of the
Supervisory Board

Sander Rebane
Member of the
Supervisory Board

Olav Miil
Member of the
Supervisory Board

Viljar Arakas
Management Board
Member

Tõnu Uustalu
Management Board
Member

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

	Classification of Economic Activities code	06.05.2015-31.12.2015	Revenue %	Main activity
<i>EUR thousand</i>				
Management of funds	66301	0	-	Yes

