



EFTEN Real Estate Fund III

EFTEN Real Estate Fund III AS

Commercial register number: 12864036

Consolidated Interim report for the 4th quarter and 12 months of 2017

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MANAGEMENT REPORT

Comment of the Chairman of the Board

For EFTEN Real Estate Fund III AS, the most significant event in 2017 and also the fourth quarter was the listing of the Fund's shares in the Nasdaq Baltic main list. In total, the IPO process attracted 3.5 million euros in new equity capital, which was oversubscribed by 5.7 times by the investors. In 2017, the Fund made two new investments by acquiring Hortes gardening center and the company developing Laagri Selver grocery store. Laagri Selver was opened in December 2017 as initially planned.

Last year, Saules Miestas, the Fund's largest investment so far, celebrated its 10th year of operation. The Fund made an important investment in upgrading the exterior of Saules Miestas, investing a total of 500 thousand euros in the replacement of the Center's exterior facade.

Financial overview

The consolidated sales revenue of EFTEN Real Estate Fund III AS for year 2017 was EUR 7.300 million, which increased by 37% in a year. In 2017 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 5.659 million (2016: EUR 3.925 million). The Group's net profit for the same period amounted to EUR 6.574 million, increasing by 51% compared to 2016.

The consolidated gross profit margin in 2017 was 98% (2016: 97%), therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for only 2% (2016: 3%) of the revenue in 2017. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 22.8% of the revenue in 2017. The respective indicator was 22.9% in 2016.

	4th quarter		12 months	
	2017	2016	2017	2016
<i>EUR million</i>				
Rental revenue, other fees from investment properties	1,965	1,771	7,300	5,333
Expenses related to investment properties, incl. marketing costs	-0,200	-0,161	-0,611	-0,591
Interest expense and interest income	-0,206	-0,179	-0,770	-0,521
Net rental revenue less finance costs	1,559	1,431	5,919	4,220
Management fees	-0,149	-0,119	-0,549	-0,344
Other revenue and expenses	-0,180	-0,158	-0,501	-0,499
Profit before change in the value of investment property, change in the success fee liability, fair value change of interest rate swap and income tax expense	1,230	1,154	4,869	3,378

As at 31.12.2017, the Group's total assets were in the amount of EUR 97.291 million (31.12.2016: 77.233 million), including fair value of investment property, which accounted for EUR 88.390 million (31.12.2016: 73.539 million) of the total assets.

	31.12.2017	2016
<i>EUR million</i>		
Investment property	88.390	73.539
Other non-current assets	0.090	0.058
Current assets, excluding cash	0.678	0.444
Net debt	-42.773	-43.721
Net asset value (NAV)	46.385	30.320
Net asset value (NAV) per share (in euros)	14.39	12.71

In a year, the net asset value of the share of EFTEN Real Estate Fund III AS increased by 13%, attributable to the growth in operating profit, low interest rates and effective cost management. From the 2016 profit, EUR 1.503 thousand was paid out as dividends in 2017. Without the dividend payment, the Fund's NAV would have increased by 17% compared to 2016. Return on invested capital (ROIC) was 21.6% in 2017 (2016: 22.5%). Access to flexible financing conditions will help to increase the Group's competitiveness. In 2017, the Group entered into new loan contracts in the total amount of EUR 5.1 million in connection with the acquisition of new investment properties. One of the new loan agreements was concluded at a fixed interest rate of 1.82% and the other at the rate of 1 month EURIBOR plus a margin of 1.4%.

As at the end of the year, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.73% (2016: 1.67%) and the LTV (loan to value) ratio was 52% (2016: 58%).

The dividend policy of EFTEN Real Estate Fund III AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In 2017, EFTEN Real Estate Fund III AS paid the shareholders (net) dividends in the amount of 1.5 million euros (2016: 411 thousand euros) i.e. 6% (2016: 3%) of paid-in capital. In 2018, the Fund's Management Board will propose to the shareholders to pay out EUR 2.2 million in (net) dividend from the 2017 net profit, which represents 6.1% of the share capital paid in by the end of 2017.

For the accounting period	31.12.2017	31.12.2016
ROE, % (net profit of the period / average equity of the period) x 100	17.1	19.0
ROA, % (net profit of the period / average assets of the period) x 100	7.5	7.5
ROIC, % (net profit of the period / average invested capital of the period) x 100 ¹	21.6	22.5
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2.0	2.1

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 2017, the Group had 8 (2016: 6) commercial investment properties with a fair value as at the balance sheet date of EUR 88.4 million (31.12.2016: 73.5 million) and acquisition cost of EUR 81.7 million (31.12.2016: 69.7 million). The real estate portfolio of the Group is divided into following sectors:

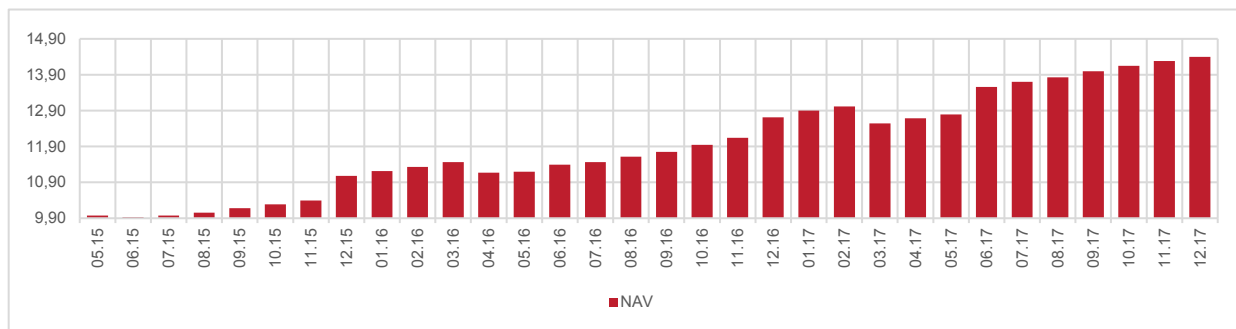
Investment property, as at 31.12.2017	Group's ownership	Fair value of investment property	Net leaseable area	Rental revenue per annum (EUR thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	13,070	16,014	1,014	100	8,6	1
DSV Riga	100	6,980	5,398	641	100	8,6	1
DSV Vilnius	100	8,600	11,687	681	100	8,5	1
Total logistics		28,650	33,099	2,336	100	8,6	3
Saules Miestas shopping centre	100	30,990	19,881	2,884	98	4,5	115
Hortes gardening centre	100	3,210	3,470	255	100	14,4	1
Selver grocery store	100	6,580	3,063	496	100	9,5	9
Total retail		40,780	26,414	3,636	99	5,9	125
Ulonu office building	100	9,200	5,174	706	85	1,9	16
L3 office building	100	9,760	6,151	752	100	1,8	35
Total office		18,960	11,325	1,458	93	1,8	51
Total portfolio		88,390	70,838	7,430			179

Contractual revenue generated by 15 customers accounts for 57.7% of the consolidated rental revenue.

Client	% of the consolidated revenue
DSV Transport AS	14.2%
DSV Transport UAB	9.8%
UAB "RIMI Lietuva"	6.7%
DSV Transport SIA	6.1%
Selver AS	4.3%
Hortes AS	3.6%
Valstybinė kainų ir energetikos kontrolės komisija	3.6%
LPP Lithuania, UAB	1.3%
Koncernas SBA UAB	1.3%
Eurovaistinė, UAB	1.2%
Bonum Publicum UAB	1.2%
Drogas, UAB	1.1%
Panevėžio statybos trestas AB	1.1%
New Yorker Lietuva, UAB	1.1%
Topo grupė, UAB	1.1%
Others	42.3%

Information on shares

As at 31.12.2017, payments made to the share capital of EFTEN Real Estate Fund III AS total EUR 35.883 million (31.12.2016: 24.891 million) and the number of shares as at 31.12.2017 was 3,222,535 (31.12.2016: 2,385,263). EFTEN Real Estate Fund III AS listed its shares on NASDAQ Tallinn Stock Exchange in November 2017.



As at 31.12.2017 EFTEN Real Estate Fund III AS had two shareholders with ownership interest in excess of 10% – Altius Energia OÜ, with an ownership interest of 14.1% and Järve Kaubanduskeskus OÜ, with an ownership interest of 10.2% of the company's shares.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Lisad	4th quarter		12 months	
		2017	2016	2017	2016
<i>EUR thousand</i>					
Revenue	4,5	1 965	1 771	7 300	5 333
Cost of services sold	6	-91	-58	-167	-178
Gross profit		1 874	1 713	7 133	5 155
Marketing costs	7	-109	-103	-444	-413
General and administrative expenses	8	-361	-359	-1 556	-1 313
Gain / loss from revaluation of investment properties	14	539	1 838	2 855	2 356
Other income		32	-9	45	1
Operating profit	4	1 975	3 080	8 033	5 786
Interest income		0	0	0	1
Finance costs	9	-189	28	-691	-659
Profit before income tax		1 786	3 108	7 342	5 128
Income tax expense	10	-510	-542	-768	-779
Total comprehensive income for the financial year		1 276	2 567	6 574	4 349
Earnings per share	11				
- basic		0,42	1,08	2,39	2,09
- diluted		0,42	1,08	2,39	2,09

The notes on pages 9-25 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2017	31.12.2016
<i>EUR thousand</i>			
ASSETS			
Cash and cash equivalents	12	8,133	3,192
Receivables and accrued income	13	641	411
Prepaid expenses		37	33
Total current assets		8,811	3,637
Long-term receivables	13	49	17
Investment property	4,14	88,390	73,539
Property, plant and equipment		37	37
Intangible assets		4	5
Total non-current assets		88,480	73,597
TOTAL ASSETS		97,291	77,234
LIABILITIES AND EQUITY			
Borrowings	15	2,109	1,948
Derivative instruments	18	58	137
Payables and prepayments	16	1,848	619
Total current liabilities		4,015	2,704
Borrowings	15	43,667	40,719
Other long-term liabilities	16	360	383
Success fee liability	17	0	760
Deferred income tax liability	10	2,864	2,348
Total non-current liabilities		46,891	44,210
Total liabilities		50,906	46,913
Share capital	19	32,225	23,853
Share premium	19	3,658	1,038
Statutory reserve capital	19	293	75
Retained earnings	20	10,209	5,355
Total equity		46,385	30,320
TOTAL LIABILITIES AND EQUITY		97,291	77,234

The notes on pages 9-25 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Lisad	2017	2016
<i>EUR thousand</i>			
Net profit		6,574	4,349
<i>Adjustments:</i>			
Finance income		0	-1
Finance costs	9	691	659
Gain (loss) from revaluation of investment properties	14	-2,855	-2,356
Gain from selling investment properties		-40	0
Change in success fee liability	8	461	469
Depreciation, amortisation and impairment	8	20	26
Income tax expense	10	768	779
Total adjustments with non-cash changes		-955	-424
Cash flow from operations before changes in working capital		5,619	3,925
Change in receivables and payables related to operating activities		-1,471	-115
Net cash generated from operating activities		4,148	3,810
Purchase of property, plant and equipment		-20	-12
Purchase of investment property	14	-9,880	-34,677
Sell of investment property	14	40	0
Acquisition of subsidiaries	3	-1,141	38
Interest received		0	1
Net cash generated from investing activities		-11,001	-34,650
Loans received	15	5,111	23,225
Scheduled loan repayments	15	-2,003	-1,248
Interest paid		-770	-556
Proceeds from issuance of shares	19	10,993	11,038
Dividends paid	18	-1,503	-411
Income tax paid on dividends		-35	0
Net cash generated from financing activities		11,793	32,048
NET CASH FLOW		4,940	1,209
Cash and cash equivalents at the beginning of period	12	3,193	1,984
Change in cash and cash equivalents		4,940	1,209
Cash and cash equivalents at the end of period	12	8,133	3,193

The notes on pages 9-25 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
<i>EUR thousand</i>					
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
Issue of shares	8,372	2,620	0	0	10,992
Dividends paid	0	0	0	-1,503	-1,503
Transfers to statutory reserve capital	0	0	218	-218	0
Total transactions with owners	8,372	2,620	218	-1,721	9,489
Net profit for the financial year	0	0	0	6,574	6,574
Total comprehensive income	0	0	0	6,574	6,574
Balance as at 31.12.2017	32,225	3,658	293	10,209	46,385

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

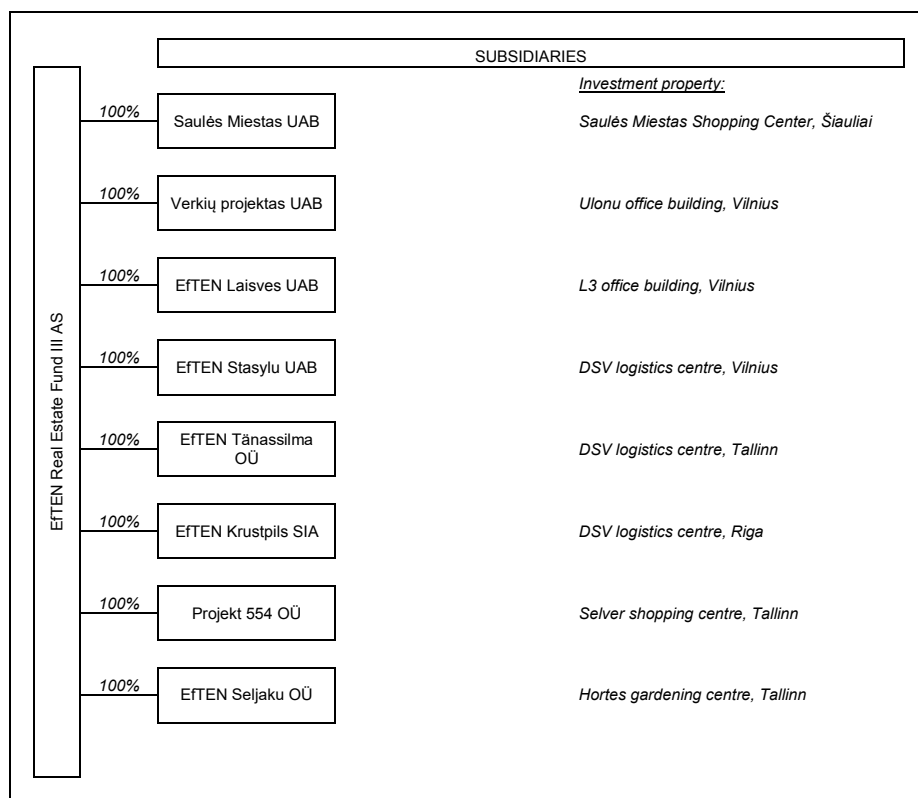
The notes on pages 9-25 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED STATEMENTS

1 General information

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 31.12.2017 is as follows (see also 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. Current consolidated interim financial statements are prepared in accordance with the International Accounting Standard IAS 34: Interim Financial Reporting. The interim financial statements have been prepared using the same accounting policies as in the financial statements for the year ended 31.12.2016. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2016, which is prepared in accordance with International Financial Reporting Standards (IFRS). According to the Management Board's estimate, EFTEN Real Estate Fund III AS financial statements for the fourth quarter and 12 months of the year 2017 present a true and fair view of the results of the Group's operations in accordance with the continuity principle. Current interim financial statements have not been audited or otherwise checked by the auditors and contain only Group's consolidated reports. The reporting currency is the euro. The consolidated interim financial statements are prepared in thousands of euros and all figures are rounded to the nearest thousand, if not indicated otherwise.

3 Subsidiaries

Company name	Country of domicile	Investment property	Group's ownership interest, %	
			31.12.2017	31.12.2016
Parent company				
EFTEN Real Estate Fund III AS	Estonia			
Subsidiaries				
Saules Miestas UAB	Lithuania	Shopping centre, Šiauliai	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics centre, Vilnius	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Saue	100	-
Projekt 554 OÜ	Estonia	Selver grocery store, Tallinn	100	-

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

On 27.05.2016 EFTEN Real Estate Fund III AS founded a wholly-owned subsidiary EFTEN Tānassilma 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 DSV logistics centre in Tallinn.

On 30.05.2016 EFTEN Real Estate Fund III AS founded a wholly-owned subsidiary EFTEN Stasyļu 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 to acquire the DSV logistics centre 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 DSV logistics centre 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.

On 19.05.2017, EFTEN Real Estate Fund III AS acquired a wholly-owned subsidiary Projekt 554 OÜ for the price of EUR 1,241 thousand. EUR 1,141 thousand of the acquisition cost was paid by the end of the year 2017 and EUR 100 thousand is due in 2018. On 24.05.2017, EFTEN Real Estate Fund III paid an additional EUR 1,700 thousand in the company's share capital. The subsidiary was acquired with the objective of building a Selver store in Laagri. The store was opened in mid-December of 2017.

	Fair value
<i>EUR thousand</i>	
Cash	0
Receivables	7
Investment properties (Note 15)	1,900
Payables for fixed assets	-650
Other payables	-16
Fair value of net asset	1,241
Purchase price	1,241
Goodwill	0

On 19.04.2017, EFTEN Real Estate Fund III AS founded a wholly-owned subsidiary EFTEN Seljaku OÜ with the objective of acquiring the Hortes gardening center in Tallinn. Upon founding the company, EUR 2,500 was paid in the share capital of the subsidiary. In May 2017, an additional EUR 1,240 thousand was paid in the company's share capital.

4 Segment reporting

SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<i>EUR thousand</i>										
Revenue (Note 5), incl.	1,470	835	2,065	952	3,765	3,545	0	0	7,300	5 333
Estonia	0	0	977	415	172	0	0	0	1,149	415
Latvia	0	0	417	181	0	0	0	0	417	181
Lithuania	1,470	835	671	356	3,593	3,545	0	0	5,734	4 737
Operating income, net, incl.	1,412	794	2,063	935	3,214	3,013	0	0	6,689	4 742
Estonia	0	0	977	415	167	0	0	0	1,144	415
Latvia	0	0	417	181	0	0	0	0	417	181
Lithuania	1,412	794	669	339	3,047	3,013	0	0	5,128	4 146
Operating profit, incl.	1,953	1,879	2,458	1,040	3,763	2,953	-141	-85	8,033	5 786
Estonia	0	0	1,302	715	563	0	-141	-85	1,724	630
Latvia	0	0	399	59	0	0	0	0	399	59
Lithuania	1,953	1,879	757	266	3,200	2,953	0	0	5,910	5 097
EBITDA, incl.	1,275	707	1,847	817	2,638	2,486	-141	-85	5,619	3 925
Estonia	0	0	886	361	98	0	-141	-85	843	276
Latvia	0	0	358	149	0	0	0	0	358	149
Lithuania	1,275	707	603	306	2,540	2,486	0	0	4,418	3 500
Operating profit									8,033	5 786
Net financial expense									-691	-659
Profit before income tax expense									7,342	5,127
Income tax expense (Note 10)									-768	-778
NET PROFIT FOR THE FINANCIAL YEAR									6,574	4,349

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<i>EUR thousand</i>								
Investment property (Note 14)								
Estonia	0	0	13,070	12,670	9,790	0	22,860	12,670
Latvia	0	0	6,980	5,049	0	0	6,980	5,049
Lithuania	18,960	18,060	8,600	8,420	30,990	29,340	58,550	55,820
Total investment property	18,960	18,060	28,650	26,139	40,780	29,340	88,390	73,539
Other non-current assets							90	58
Net debt							-42,773	-43,721
Other short-term assets							678	444
NET ASSETS							46,385	30,320

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

The Group's largest customers are DSV Transport AS and DSV Transport UAB, that account for 14.2% and 9.8% of the Group's consolidated rental income, respectively. The individual share of revenue from the rest of the tenants accounts for less than 7% of the consolidated revenue.

5 Revenue

Areas of activity	2017	2016
<i>EUR thousand</i>		
Rental income from office premises	1,437	826
Rental income from retail premises	3,092	2,870
Rental income from warehousing and logistics premises	2,065	934
Other sales revenue	706	702
Total revenue by areas of activity (Note 4, 14)	7,300	5,333

Revenue by geographical area	2017	2016
<i>EUR thousand</i>		
Estonia	1,148	415
Latvia	417	181
Lithuania	5,735	4,737
Total revenue by geographical area	7,300	5,333

6 *The cost of services sold*

Cost of services sold	2017	2016
<i>EUR thousand</i>		
Repair and maintenance of rental premises	-29	-6
Property insurance	-13	-16
Land tax and real-estate tax	-104	-119
Wages and salaries, incl. taxes	0	0
Other sales costs	-30	-31
Impairment losses of doubtful receivables	9	-5
Total cost of services sold (Note 14)	-167	-177

7 *Marketing costs*

Marketing costs	2017	2016
<i>EUR thousand</i>		
Commission expenses on rental premises	-2	-1
Advertising, promotional events ¹	-442	-412
Total marketing costs	-444	-413

¹The expenses of advertising and promotional events include mainly marketing events of shopping centers, which are mainly covered by tenant marketing fees.

8 General and administrative expenses

General and administrative expenses	2017	2016
<i>EUR thousand</i>		
Management services (Note 21)	-549	-344
Office expenses	-45	-41
Wages and salaries, incl. taxes	-241	-242
Consulting expenses	-172	-130
Depository's charges	-27	-32
Change in success fee liability (Note 17)	-461	-469
Other general and administrative expenses	-41	-29
Depreciation	-20	-26
Total general and administrative expenses	-1,556	-1,313

9 Finance costs

Finance costs	2017	2016
<i>EUR thousand</i>		
Interest expenses	-770	-522
Interest expenses from loans	-770	-522
Change in fair value of interest swaps (Note 18)	79	-137
Total finance costs	-691	-659

10 Income tax

	2017	2016
<i>EUR thousand</i>		
Income tax from dividends	-35	0
Deferred income tax in Latvian and Lithuanian subsidiaries	-295	-451
Income tax expense from profit earned in Latvia and Lithuania	-438	-328
Total income tax expense	-768	-779

As at 31.12.2017, the Group has a deferred tax liability in connection with the use of tax amortization in Lithuania and Latvia in the amount of EUR 2,864 thousand (31.12.2016: EUR 2,348 thousand). As at 31.12.2016 the Group had a deferred income tax asset in the amount of EUR 17 thousand. Deferred tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

The change in deferred tax liability consists of the following components:

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
Change in deferred income tax liability in the income statement in 2017	295
Expected income tax expense	221
Balance as at 31.12.2017	2,864

11 Earnings per share

Earnings per share	4th quarter		12 months	
	2017	2016	2017	2016
Net profit of the period, <i>EUR thousands</i>	1,275	2,566	6,574	4,349
Weighted average number of shares over the period, pcs	3,052,046	2,385,263	2,749,761	2,081,153
Earnings per share, euros	0.42	1.08	2.39	2.09

12 Cash and cash equivalents

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Demand deposits	8,114	3,180
Cash in hand	19	12
Total cash and cash equivalents (Note 18)	8,133	3,192

13 Receivables and accrued income

Short-term receivables and accrued income

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Receivables from customers	480	329
Prepaid taxes and receivables for reclaimed value-added tax	65	80
Other accrued income	96	1
Total accrued income	161	81
Total receivables	641	411

Long-term receivables

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Deferred income tax receivable	0	17
Other receivables and prepayments for investment properties	49	0
Total long-term receivables	49	17

14 Investment property

As at 31.12.2017, the Group has made investments in the following investment properties:

Name	Location	Net leaseable area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 31.12.2017	Share of market value of the fund's assets
<i>EUR thousand</i>							
Saules Miestas shopping centre	Saules Miestas, Lithuania	19,881	2007	08.2015	28,043	30,990	32%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,600	9%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,227	13,070	13%
DSV logistics centre	Riga, Latvia	5,398	2000	07.2016	6,933	6,980	7%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,656	9,760	10%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,000	9,200	9%
Hortes gardening centre	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,210	3%
Selver grocery store	Tallinn, Estonia	3,063	2017	05.2017	6,218	6,580	7%
Total		70,837			81,655	88,390	91%

For more information on investment properties, please see Note 4 "Segment reporting".

In the year 2017 and 2016, the following changes have occurred in the Group's investment properties:

	Investment property in development stage	Completed investment property	Total investment property
Balance as at 31.12.2015	0	36,505	36,505
Aquisitions	0	34,453	34,453
Additions from business combinations (Note 3)	0	224	224
Capitalized improvements	0	0	0
Gain/-loss on changes in fair value (Note 8)	0	2,356	2,356
Balance as at 31.12.2016	0	73,539	73,539
Aquisitions	4,318	5,068	9,386
Additions from business combinations (Note 3)	1,900	0	1,900
Capitalized improvements	0	710	710
Reclassifications	-6,218	6,218	0
Gain/-loss on changes in fair value (Note 8) ¹	0	2,855	2,855
Balance as at 31.12.2017	0	88,390	88,390

¹ The increase in value of investment properties in 2017 is mainly caused by improved cash flow projections.

The income statement and the 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	2017	2016
Rental income earned on investment property (Note 5)	6,594	4,630
Expenses directly attributable to management of investment property (Note 6)	-167	-177
Amounts owed from the acquisition of investment property (Note 16)	1,000	0
Prepayments for investment property (Note 13)	49	0
Carrying amount of investment property pledged as collateral to borrowings	88,390	73,539

All investment properties of EFTEN Real Estate Fund III AS generating rental income are pledged as collateral to long-term bank loans (Note 15).

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

The Group's investment property has been evaluated by an independent appraiser. The fair value of all investment properties presented in the financial statements of the Group as at 31.12.2017 and 31.12.2016 was determined using the discounted cash flow method. The following assumptions were used to determine fair value:

In 2017:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent, €/m ²
<i>EUR thousand</i>						
Office premises	18,960	Discounted cash flows	1,476	7.9%	7.5%-8%	11.2
Logistics premises	28,650	Discounted cash flows	2,336	8.25%-8.6%	7.9%-8%	5.9
Retail premises	40,780	Discounted cash flows	3,636	7.9%-8.6%	7.5%-8%	11.1
	88,390					

In 2016:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent €/m ²
<i>EUR thousand</i>						
Office premises	18,060	Discounted cash flows	1,399	7.9%-8.6%	7.5%-8%	10.9
Logistics 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					

Independent expert's estimates for determining the fair value of investment property are 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 property, 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 conditions and risks associated with the property.

Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property included in the Group's balance sheet as at 31.12.2017 to the most significant assumptions:

Sector	Sensitivity to management estimate			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%		
				<i>Fair value</i>				
Office premises	Change in rental income +/-10%	-1,550	1,540	Change in the capitalization rate	-0.5%	20,300	19,890	19,480
					0.0%	19,350	18,960	18,570
					0.5%	18,510	18,140	17,770
Logistics premises	Change in rental income +/-10%	-2,370	2,370	Change in the capitalization rate	-0.5%	30,664	30,031	29,413
					0.0%	29,254	28,650	28,061
					0.5%	28,001	27,436	26,864
Retail premises	Change in rental income +/-10%	-3,770	3,770	Change in the capitalization rate	-0.5%	43,570	42,680	41,840
					0.0%	41,610	40,780	39,960
					0.5%	39,890	39,110	38,330

As at 31.12.2016

Sector	Sensitivity to management estimates			Sensitivity to discount rate and capitalization rate				
	Assessment	Effect of decrease to value	Effect of increase to value	Change in the capitalization rate	Change in discount rate			
					-0.5%	0.0%	0.5%	
<i>EUR thousand</i>				<i>Fair value</i>				
Office premises	Change in rental income +/- 10%	-1,470	1,590	-0.5%	19,330	18,940	18,570	
				0.0%	18,440	18,060	17,710	
				0.5%	17,650	17,300	16,950	
Logistics premises	Change in rental income +/- 10%	-2,304	2,463	-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	-0.5%	31,200	30,580	29,980	
				0.0%	29,930	29,340	28,760	
				0.5%	28,800	28,320	27,680	

Level three inputs are used to determine the fair value of all of the investment properties of the Group (Note 18).

15 Borrowings

As at 31.12.2017, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2017	Contract term	Interest rate as at 31.12.2017	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	15,006	14.08.20	1.70%	Mortgage – Saules Miestas, shopping centre	30,990	32.4%
SEB	Lithuania	5,500	5,137	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,600	11.1%
SEB	Latvia	3,323	3,121	29.06.21	1.55%	Mortgage - DSV building in Riga	6,980	6.7%
SEB	Estonia	7,950	7,463	29.06.21	1.55%	Mortgage - DSV building in Estonia	13,070	16.1%
SEB	Lithuania	5,620	5,316	30.09.21	1.90%	Mortgage-L3 office building in Vilnius	9,760	11.5%
SEB	Lithuania	5,200	4,730	21.12.20	1.75%	Mortgage - Ulonu bürooohone Vilniuses	9,200	10.2%
SEB	Estonia	1,860	1,821	05.07.22	1.82%	Mortgage - Hortes gardening store	3,210	3.9%
Swedbank	Estonia	3,700	3,251	26.06.22	1.40%	Mortgage – Selver grocery store	6,580	7.0%
Total		49,653	45,845				88,390	98.8%

For additional information on borrowings, please see Note 18.

As at 31.12.2016, the Group had 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's 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%

Short-term borrowings	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Repayments of long-term bank loans in the next period	2,129	1,965
Discounted contract fees on bank loans	-20	-17
Total short-term borrowings	2,109	1,948

Long-term borrowings	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Total long-term borrowings (Note 18)	45,776	42,667
incl. current portion of borrowings	2,109	1,948
incl. non-current portion of borrowings, incl	43,667	40,719
<i>Bank loans</i>	43,716	40,773
<i>Discounted contract fees on bank loans</i>	-49	-54

Bank loans are divided as follows according to repayment date:

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Less than 1 year	2,129	1,965
2-5 years	43,716	40,773

Cash flows of borrowings	2017	2016
<i>EUR thousand</i>		
Balance at the beginning of period	42,667	20,730
Bank loans received from business combinations and aquisition of subsidiaries		0
Bank loans received	5,111	23,225
Bank loans returned on refinancing		0
Annuity payments on bank loans	-2,003	-1,248
Capitalized contract fees	-17	-51
Change of discounted contract fees	18	11
Balance at the end of period	45,776	42,667

16 Payables and prepayments

Short-term payables and prepayments

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Trade payables from fixed asset transactions	503	0
Other trade payables	205	177
Total trade payables	708	177
Payables from securities transactions	100	0
Payables from fixed asset transactions	497	0
Total other payables	597	0
Value added tax	206	117
Corporate income tax	43	75
Social tax	8	13
Land tax and real-estate tax	50	54
Total tax liabilities	307	264
Payables to employees	25	23
Interest liabilities	4	0
Tenant security deposits	138	137
Other accrued liabilities	20	11
Total accrued expenses	187	172
Prepayments received from buyers	24	6
Other deferred income	25	0
Total prepayments	49	6
Total payables and prepayments	1,848	619

Long-term payables

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Tenants security deposits	360	383
Total other long-term payables	360	383

17 Success fee liability

As at 31.12.2016, the Group has accounted for a success fee liability in the amount of EUR 760 thousand. In June 2017, in connection with the increase in the value of investment properties, EUR 461 thousand was added to the accumulated success fee liability. The Group paid the accumulated success fee liability to the management company after the listing of shares of EFTEN Real Estate Fund III AS in November 2017. The management company was obligated to subscribe to the shares of EFTEN Real Estate Fund III AS in the same amount as the success fee received.

Previously, the basis for accounting for success fees on an accrual basis were the fair value estimates of investment property. Starting from the listing on the stock exchange, the success fee is calculated based on the growth of the adjusted closing prices on the last trading day of the last two years. Expenses from the change in success fees are included in the Group's general and administrative expenses (see Note 8). As at 31.12.2017, the Group had no success fee liability.

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. For additional information on the Group's finance costs, please see Note 9.

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

	Lisad	31.12.2017	31.12.2016
<i>EUR thousand</i>			
Financial assets - loans and receivables			
Cash and cash equivalents	12	8,133	1,984
Trade receivables	13	480	254
Total financial assets		8,613	2,238
Financial liabilities measured at amortised cost			
Borrowings	15	45,776	42,667
Trade payables	16	708	177
Tenant security deposits	16	498	520
Interest payables	16	4	0
Accrued expenses	16	45	34
	17	0	760
Total financial liabilities measured at amortised cost		47,031	44,159
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		58	137
Total financial liabilities measured at fair value		58	137
Total financial liabilities		47,089	44,296

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 investment decisions, 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 are 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 31.12.2017, 50% of the Group's loan contracts were based on floating interest rate (margin ranges from 1.40% to 1.7% plus the 3-month and 1-month EURIBOR), and 50% of loan contracts carried fixed interest rates ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 65% are related to an interest rate swap contract in which the 3-month EURIBOR is in turn fixed at 0.35%. In 2017, the 3-month EURIBOR fluctuated between -0.332% and -0.318% (2016: -0.319% and -0.0132%), i.e. the maximum change within the year was 1.4 basis points (2016: 18.7 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 3-6 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 within 10-years perspective;
- (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 31.12.2017 was negative in the amount of EUR 58 thousand (31.12.2016: EUR 137). 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 65% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 31.12.2017, the Group's interest-bearing liabilities accounted for 52% (31.12.2016: 58%) of investment property that is generating rental income and the debt coverage ratio was 2.0 (2016:2.1).

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

As at 31.12.2017	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	165	484	1,298	43,898	0	45,845
Interest payments	66	195	510	1,651	0	2,422
Interest payables	4	0	0	0	0	4
Trade payables	205	0	0	0	0	205
Tenant security deposits	12	36	91	294	65	498
Accrued expenses	49	0	0	0	0	49
Total financial liabilities	501	715	1,899	45,843	65	49,023

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
<i>EUR thousand</i>						
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
Success fee liabilities	0	0	0	0	760	34
Total financial liabilities	430	751	1,825	43,079	854	46,939

Report of working capital

	31.12.2017	31.12.2016
Cash and cash equivalents (Note 12)	8,133	3,192
Receivables and accrued income (Note 13)	641	411
Prepaid expenses	37	33
Total current assets	8,811	3,636
Short-term portion of long-term liabilities (Note 15)	-2,109	-1,948
Short-term payables and prepayments (Note 16)	-1,906	-756
Total current liabilities	-4,015	-2,704
Total working capital	4,796	932

At at 31.12.2017, the Group's working capital was EUR 4,796 thousand (31.12.2016: EUR 932 thousand). The Group estimates that the working capital is sufficient for 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 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 in the table below:

	31.12.2017	31.12.2016
Undue	332	287
Past due, incl.	148	42
<i>up to 30 days</i>	134	42
<i>30-60 days</i>	6	0
<i>more than 60 days</i>	8	0
Allowance of doubtful reserve	0	0
Total trade receivables	480	329

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

	31.12.2017	31.12.2016
<i>€ thousand</i>		
Cash and cash equivalents	8,133	3,192
Trade receivables	480	329
Total maximum credit risk	8,613	3,521

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	31.12.2017	31.12.2016
A1	6,205	1,536
A1	1,906	1,633
Aa2	3	11
Total	8,114	3,180

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 80% of the value of invested equity. EFTEN Real Estate Fund III AS distributed EUR 411 thousand as dividends from the profit of its first operating period (May to December 2015), which is 3% of the Fund's paid-in share capital. From the profit of year 2016, EFTEN Real Estate Fund III AS distributed EUR 1,503 thousand as dividends, which is 6% of the Fund's paid-in share capital. The revised cash flow for 2017 allows for the payment of net dividends in the amount of EUR 2,190 thousand (6.1% of the Fund's paid-in share capital).

Report of capitalization

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
Mortgage guaranteed short-term liabilities (Note 15)	2,129	1,965
Unsecured short-term liabilities (Note 16)	1,886	739
Total short-term liabilities	4,015	2,705
Mortgage guaranteed long-term liabilities (Note 15)	43,716	40,773
Unsecured long-term liabilities (Note 16)	3,175	3,437
Total long-term liabilities	46,891	44,210
Share capital and share premium (Note 19)	35,883	24,890
Reserves	293	75
Retained earnings (Note 20)	10,209	5,355
Total shareholder's equity	46,385	30,320
Total liabilities and equity	97,291	77,234

A more detailed information on mortgages established as collateral for the obligations provided in the capitalization report is available in Note 15 of the report.

Report of net debt

	31.12.2017	31.12.2016
<i>€ thousand</i>		
Cash (Note 12)	8,133	3,192
Cash equivalents	0	0
Tradable securities	0	0
Total liquid assets	8,133	3,192
The short-term portion of long-term liabilities (Note 15)	2,129	1,965
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	-6,004	-1,228
Long-term bank loans (long-term portion) (Note 15)	43,716	40,773
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	43,716	40,773
Total net debt	37,712	39,545

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 31.12.2017 and 31.12.2016, the Group had no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy (see Note 14). 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 the contract partners.

19 Share capital

As at 31.12.2017 the registered share capital of EFTEN Real Estate Fund III AS was EUR 32,225 thousand (31.12.2016: EUR 23,853 thousand). As at 31.12.2017, the share capital consisted of 3,222,535 shares (31.12.2016: 2,385,263 shares) with a nominal value of EUR 10 (31.12.2016: same). Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand.

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

In November 2017, EFTEN Real Estate Fund III listed its shares on NASDAQ Tallinn Stock Exchange. During the listing process, 337,272 new shares were issued, and a total of EUR 4,721 thousand was paid to increase the share capital (including EUR 1,349 thousand in share premium).

In 2016, EFTEN Real Estate Fund III AS issued 1,000,000 new shares with a nominal value of EUR 10. Contributions in increasing the share capital 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 2017, EFTEN Real Estate Fund III AS transferred 5% of its 2016 comprehensive income, i.e. EUR 218 thousand (2016: EUR 75 thousand) to the statutory reserve capital.

The report on changes in non-consolidated equity of the parent company is provided in Note 25.

20 Contingent liabilities

Contingent income tax liability

	31.12.2017	31.12.2016
<i>EUR thousand</i>		
The company's retained earnings	10,209	5,355
Potential income tax liability	2,042	1,071
The amount that can be paid out as dividends	8,167	4,284

The calculation of the maximum potential income tax liability is based on the assumption that the net dividends distributed and the arising income tax expense in total cannot exceed the profit eligible for distribution at 31.12.2017 and 31.12.2016.

Potential liabilities arising from the tax audit

Estonia

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

Latvia and Lithuania

The management estimates that there are no 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 2017 in the amount of EUR 549 thousand (2016: EUR 344 thousand) (see Note 8). In compliance with the management agreement, EFTEN Real Estate Fund III AS paid EFTEN Capital AS an accumulated success fee in the amount of EUR 1,222 thousand in 2017, for which EFTEN Capital AS was obliged to acquire EFTEN Real Estate Fund III shares.

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 2017 or 2016.

In 2017 and 2016, the Group had nine employees who were remunerated in the amount of EUR 236 thousand (2016: EUR 240 thousand), including taxes. In addition, the Group's subsidiaries in Latvia and Lithuania paid EUR 5 thousand of labor tax in 2017 (2016: EUR 2 thousand). In 2017 and 2016, 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.

Signatures of the members of the Management Board to the consolidated interim report for the 4th quarter and 12 months of 2017

We hereby confirm the correctness of data presented in the consolidated interim report for the 4th quarter and 12 months of 2017 of EFTEN Real Estate Fund III AS.

/digitally signed/

Viljar Arakas

Management Board Member

/digitally signed/

Tõnu Uustalu

Management Board Member