Consolidated Interim Report for

the Second quarter and first 6 months of 2018

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2018

End of financial period: 30.06.2018

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee

Website address: www.eften.ee

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MANAGEMENT REPORT

Comment of the Chairman of the Board

The main events of the first half of 2018 in EfTEN Real Estate Fund III AS were the acquisition of the Evolution office building in Vilnius, the completion of the DSV Riga Logistics Center and the acquisition of a property at Tähesaju Business campus in Tallinn for the construction of a new garden center for Hortes. At the time of the publication of the interim report, a building permit has been issued to the Fund for the construction of the garden center and negotiations are under negotiation for signing of a construction contract and a lease contract. The Fund plans to start construction in August 2018. The Selver development project in Laagri is also completed after the completion of the asphalting works in May this year.

In addition, in the 1st quarter of 2018 the temporary vacancies filled in the Ulonu office building in Vilnius. Regarding to usual economic activity, the second quarter and the first half-year of 2018 met the expectations of management.

During the first half of the year 2018, EfTEN Real Estate Fund III AS earned free cash-flow for the potential dividend payout of 1,200 thousand euros, which is 37 euros per share. The Fund's dividend policy foresees a dividend payment of 80% from the Fund's annual cash flow. If necessary, it will be coordinated with the creditors of the Fund. The distribution of the Fund's profit will be decided by the general meeting of the Fund and the dividend payment from the profit of 2018 will be made after the general shareholders' meeting on spring 2019.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for the first half of 2018 was EUR 4.105 million (the first half of 2017: EUR 3.537 million), which increased by 16% in a year. In the first half of 2018, the Group's profit before revaluation of investment properties and depreciation (EBITDA), financial income/ - costs and income tax expense totalled EUR 2.719 million (the first half of 2017: EUR 2.517 million). The Group's net profit for the same period amounted to EUR 3.149 million (the first half of 2017: EUR 4.030 million). The smaller net profit is due to lower investment property revaluation profit, which in the first half of this year was EUR 962 thousand, but EUR 2.316 thousand last year.

The consolidated gross profit margin in the first half of 2018 was 98% (the first half of 2017: the same). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for only 2% (the first half of 2017: the same) of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 21.2% of the revenue in the first half of 2018. The respective indicator was 21.5% in the first half of 2017.

	The first half of	
	2018	**2017**
EUR million		
Rental revenue, other fees from investment properties	4.105	3.537
Expenses related to investment properties. incl. marketing costs	-0.309	-0.290
Interest expense and interest income	-0.517	-0.260
Net rental revenue less finance costs	**3.279**	**2.987**
Management fees	-0.308	-0.257
Other revenue and expenses	-0.252	-0.213
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	**2.719**	**2.517**

As at 30.06.2018, the Group's total assets were in the amount of EUR 106.048 million (31.12.2017: 97.291 million), including fair value of investment property, which accounted for 95% (31.12.2017: 91%) of the total assets.

	30.06.2018	**31.12.2017**
EUR million		
Investment property	101.101	88.390
Other non-current assets	0.044	0.090
Current assets. excluding cash	0.694	0.678
Net debt	-54.496	-42.773
Net asset value (NAV)	47.343	46.385
Net asset value (NAV) per share (in euros)	14.69	14.39

In the first half of the year, the net asset value of the share of EfTEN Real Estate Fund III AS increased by 2.08%, attributable to the growth in operating profit, low interest rates and effective cost management. From the 2017 profit, EUR 2,191 thousand (in spring 2017: EUR 1,503 thousand) was paid out in dividends in April 2018. Without the dividend payment, the Fund's NAV would have increased by 6.8% in the first half of 2018. Return on invested capital (ROIC) was 16.6% in the first half of 2018 (the first half of 2017: 27.6%). Access to flexible financing conditions will help to increase the Group's competitiveness. In the first hald of 2018, the Group entered into new loan contracts in the total amount of EUR 9.2 million in connection with the acquisition of new investment properties. As at the end of the first half of 2018, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.86% (31.12.2017: 1.73%) and the LTV (loan to value) ratio was 53% (31.12.2017: 52%).

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 April 2018, EfTEN Real Estate Fund III AS paid the shareholders (net) dividends in the amount of EUR 2.2 million (2017: EUR 1.5 million), which represents 6.1% (2017: 6.0%) of the share capital paid in.

During the first half of 2018, the Group earned a free cash flow of EUR 1.703 million (the first half of 2017: EUR 1.399 million). Following the deduction of Lithuanian income tax expense and the calculation of the dividend income tax expense in Estonian and Latvian companies, EfTEN Real Estate Fund III would be able to pay net dividends to the shareholders in the total amount of EUR 1.200 million (37 cents per share) from the profit earned in the first half of the year. For the entire previous year, the fund paid the shareholders a net dividend of 68 cents per share.

For the financial periood	30.06.2018	31.12.2017
ROE, % (*net profit of the period / average equity of the period) x 100*	12.8	17.1
ROA, % (*net profit of the period / average assets of the period) x 100*	5.8	7.5
ROIC, % *(net profit of the period / average invested capital of the period) x 100*[1]	16.6	21.6
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	2.1	2.0

[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

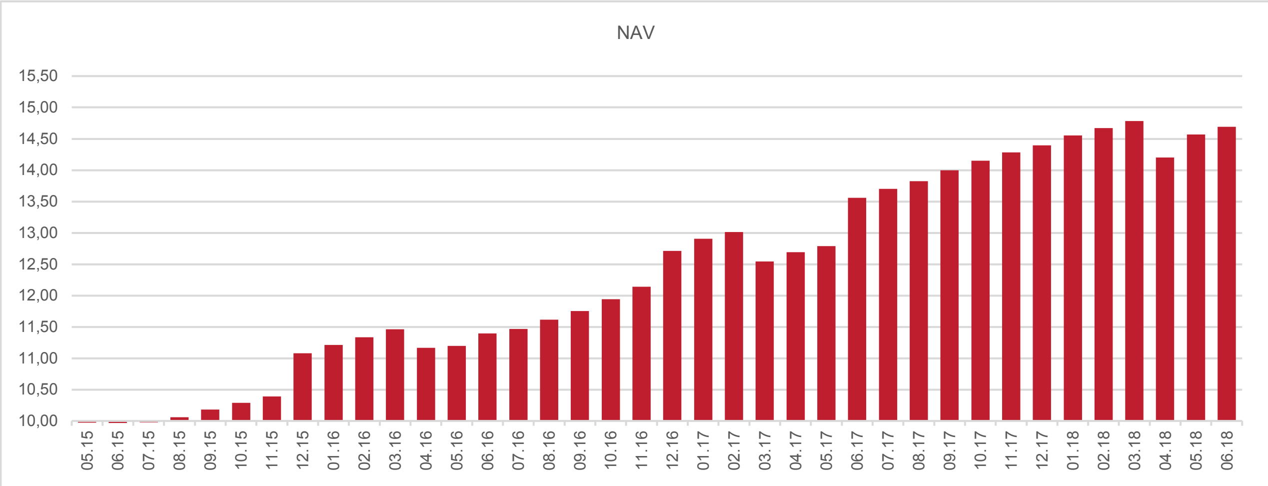
The Group invests in commercial real estate with a strong and long-term tenant base. At the end of the first hald of 2018, the Group had 10 (31.12.2017: 8) commercial investment properties with a fair value as at the balance sheet date of EUR 101.101 (31.12.2017: EUR 88.4) million and acquisition cost of EUR 93.410 (31.12.2017: EUR 81.7) million.

The real estate portfolio of the Group is divided into following sectors:

Finished investment properties, as of 30.06.2018	Group's ownership	Fair value of investment property	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	12 940	16 014	996	100	8,1	1
DSV Riia	100	8 611	5 398	697	100	8,1	1
DSV Vilnius	100	8 630	11 687	686	100	8,0	1
Total logistics		**30 181**	**33 099**	**2 379**	**100**	**8,1**	**3**
Saules Miestas shopping centre	100	31 110	19 881	2 898	98	4,5	118
Hortes gardening centre	100	3 300	3 470	259	100	13,9	1
Selver in Laagri	100	6 570	3 063	494	100	9,3	10
Total retail		**40 980**	**26 414**	**3 651**	**99**	**5,9**	**129**
Ulonu Office building	100	9 220	5 174	691	95	3,3	14
Evolution Offce building	100	10 000	6 172	773	86	1,5	36
L3 offuce building	100	9 820	6 151	761	100	1,3	40
Total office		**29 040**	**17 497**	**2 225**	**94**	**2,0**	**90**
Total investments properties (excl. Projects under development)		**100 201**	**77 010**	**8 255**	**98**	**5,5**	**222**

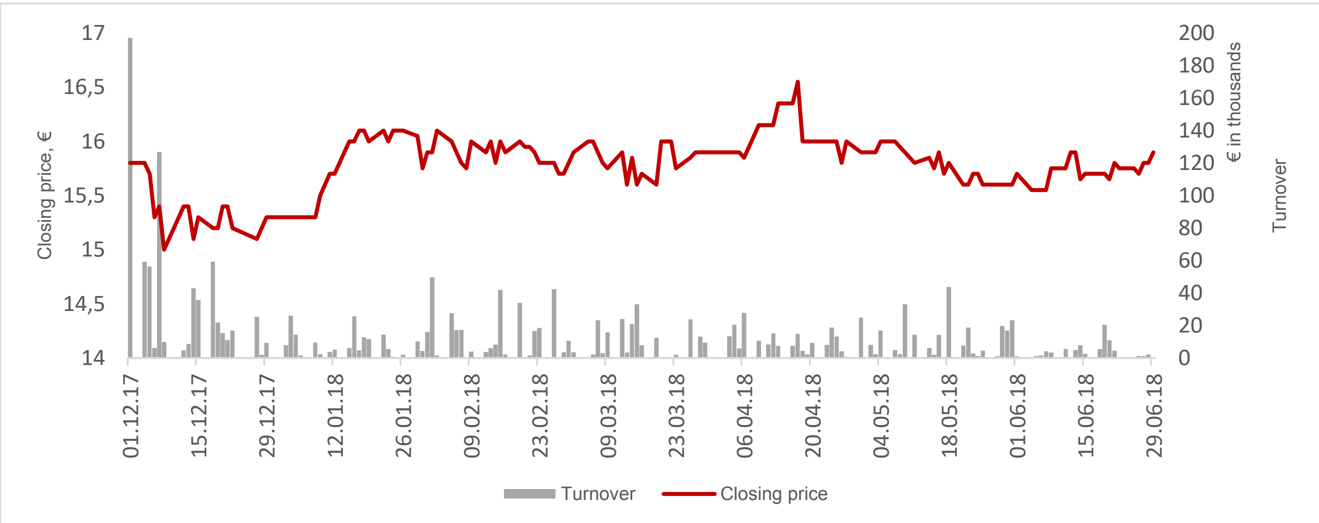
Information on shares

As at 30.06.2018, payments made to the share capital of EfTEN Real Estate Fund III AS total EUR 35.883 million (31.12.2017: the same) and the number of shares as at 30.06.2018 was 3,222,535 (31.12.2017: the same). EfTEN Real Estate Fund III AS listed its shares on NASDAQ Tallinn Stock Exchange on November 2017. The Fund has one type of registered shares with a nominal value of EUR 10 per share. Each share gives the Funds' shareholder one vote at the general meeting.



As at 30.06.2018, 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.

The dynamics of EfTEN Real Estate Fund III AS stock price and trading volume on NASDAQ TALLINN stock exchange



CONDENSED INTERIM REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2nd quarter		1st half year	
EUR thousand	Notes	2018	2017	2018	2017
Revenue	3,4	2,104	1,773	4,105	3,537
Cost of services sold	5	-37	-38	-85	-74
Gross profit		**2,067**	**1,735**	**4,020**	**3,463**
Marketing costs	6	-122	-119	-224	-216
General and administrative expenses	7	-305	-719	-567	-933
Gain / loss from revaluation of investment properties	12	962	2,316	962	2,316
Other operating income and expense		7	0	7	2
Operating profit	**3**	**2,609**	**3,213**	**4,198**	**4,632**
Interest income		0	0	3	0
Finance costs	8	-310	-139	-520	-260
Profit before income tax		**2,299**	**3,074**	**3,681**	**4,372**
Income tax expense	9	-403	-146	-532	-342
Total comprehensive income for the financial period	**3**	**1,896**	**2,928**	**3,149**	**4,030**
Earnings per share	10				
- Basic		0.59	1.10	0.98	1.59
- Diluted		0.59	1.10	0.98	1.59

The notes on pages 9-23 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2018	31.12.2017
EUR thousand			
ASSETS			
Cash and cash equivalents		4,209	8,133
Receivables and accrued income	11	599	641
Prepaid expenses		95	37
Total current assets		**4,903**	**8,811**
Long-term receivables		0	49
Investment property	3,12	101,101	88,390
Property, plant and equipment		29	37
Intangible assets		15	4
Total non-current assets		**101,145**	**88,480**
TOTAL ASSETS		**106,048**	**97,291**
LIABILITIES AND EQUITY			
Borrowings	13	2,575	2,109
Derivative instruments	15	140	58
Payables and prepayments	14	967	1,848
Total current liabilities		**3,682**	**4,015**
Borrowings	13	51,275	43,667
Other long-term liabilities	14	522	360
Deferred income tax liability	9	3,226	2,864
Total non-current liabilities		**55,023**	**46,891**
Total liabilities		**58,705**	**50,906**
Share capital	16	32,225	32,225
Share premium	16	3,658	3,658
Statutory reserve capital		622	293
Retained earnings		10,838	10,209
Total equity		**47,343**	**46,385**
TOTAL LIABILITIES AND EQUITY		**106,048**	**97,291**

The notes on pages 9-23 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		2nd quarter		1st half year	
	Notes	2018	2017	2018	2017
EUR thousand					
Net profit		**1,896**	**2,928**	**3,149**	**4,030**
Adjustments:					
Finance costs	8	312	139	520	260
Gain (loss) from revaluation of investment properties	12	-962	-2,316	-962	-2,316
Change in success fee liability	7	0	461	0	461
Depreciation, amortisation and impairment	7	4	5	9	12
Gain (loss) from the sale of property, plant and equipment		0	0	-7	0
Income tax expense	9	403	146	532	342
Total adjustments with non-cash changes		**-243**	**-1,565**	**92**	**-1,241**
Cash flow from operations before changes in working capital		**1,653**	**1,363**	**3,241**	**2,789**
Change in receivables and payables related to operating activities		-201	-440	-216	-444
Net cash generated from operating activities		**1,452**	**923**	**3,025**	**2,345**
Purchase of property, plant and equipment		-10	0	-10	0,
Purchase of investment property	12	-10,384	-4,873	-12,233	-4,877
Sale of investment property	12	7	0	7	0,
Acquisition of subsidiaries	2	0	-841	-90	-841
Net cash generated from investing activities		**-10,387**	**-5,714**	**-12,326**	**-5,718**
Loans received	13	8,956	0	9,176	0,
Scheduled loan repayments	13	-567	-559	-1,100	-1,025
Interest paid		-246	-178	-438	-356
Proceeds from issuance of shares	16	0	6,272	0	6,272
Dividends paid	15	-2,191	0	-2,191	-1,503
Income tax paid on dividends		-70	-7	-70	-9
Net cash generated from financing activities		**5,882**	**5,528**	**5,377**	**3,379**
NET CASH FLOW		**-3,053**	**737**	**-3,924**	**6**
Cash and cash equivalents at the beginning of period		**7,262**	**2,461**	**8,133**	**3,192**
Change in cash and cash equivalents		-3,053	737	-3,924	6
Cash and cash equivalents at the end of period		**4,209**	**3,198**	**4,209**	**3,198**

The notes on pages 9-23 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
Balance as at 31.12.2016	**23,853**	**1,038**	**75**	**5,355**	**30,321**
Issue of shares	5,000	1,272	0	0	**6,272**
Dividends paid	0	0	0	-1,503	**-1,503**
Transfers to statutory reserve capital	0	0	218	-218	**0**
Total transactions with owners	**5,000**	**1,272**	**218**	**-1,721**	**4,769**
Net profit for the financial period	0	0	0	4,030	**4,030**
Total comprehensive income for the period	**0**	**0**	**0**	**4,030**	**4,030**
Balance as at 30.06.2017	**28,853**	**2,310**	**293**	**7,664**	**39,122**
Balance as at 31.12.2017	**32,225**	**3,658**	**293**	**10,209**	**46,385**
Dividends paid	0	0	0	-2,191	**-2,191**
Transfers to statutory reserve capital	0	0	329	-329	**0**
Total transactions with owners	**0**	**0**	**329**	**-2,520**	**-2,191**
Net profit for the financial period	0	0	0	3,149	**3,149**
Total comprehensive income for the period	**0**	**0**	**0**	**3,149**	**3,149**
Balance as at 30.06.2018	**32,225**	**3,658**	**622**	**10,838**	**47,343**

For additional information on share capital, please see Note 16.

The notes on pages 9-23 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 *Accounting policies and valuation principles used in compiling the consolidated interim report*

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

The structure of EfTEN Real Estate Fund III AS Group as at 30.06.2018 is as follows (also see Note 2):

EfTEN Real Estate Fund III AS		SUBSIDIARIES	*Investment property:*
	100%	Saulės Miestas UAB	*Saulės Miestas Shopping Center, Šiauliai*
	100%	Verkių projektas UAB	*Ulonu office building, Vilnius*
	100%	EfTEN Laisves UAB	*L3 office building, Vilnius*
	100%	EfTEN Evolution UAB	*Evolution office building, Vilnius*
	100%	EfTEN Stasylu UAB	*DSV logistics centre, Vilnius*
	100%	EfTEN Tänassilma OÜ	*DSV logistics centre, Tallinn*
	100%	EfTEN Krustpils SIA	*DSV logistics centre, Riga*
	100%	EfTEN Laagri OÜ	*Selver grocery store, Tallinn*
	100%	EfTEN Tähesaju tee OÜ	*Tähesaju tee Hortes, Tallinn*
	100%	EfTEN Seljaku OÜ	*Hortes gardening centre, Tallinn*

The condensed consolidated interim 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 31.12.2017. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2017, 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 second quarter of the year 2018 and 6 months interim report of 2018 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

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			30.06.2018	31.12.2017	30.06.2018	31.12.2017
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	12,624	12,980	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	3,802	3,855	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,353	4,286	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	3,739	3,683	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	5,914	6,007	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,263	2,134	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	1,081	-	100	-
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,077	-	100	-
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Saue	1,636	1,445	100	100
EfTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,417	3,255	100	100

On April 19, 2018, EfTEN Real Estate Fund III founded a 100% share-holding subsidiary EfTEN Tähesaju tee OÜ for the purpose of acquiring Hortes gardening centre building in Tallinn. The company's share capital was paid at EUR 2,500. Additional capital for investment property in the amount of EUR 1,080 thousand was paid to the subsidiary's equity in May 2018.

On 30, May 2018 EfTEN Real Estate Fund III acquired a 100% ownership to the subsidiary EfTEN Evolution UAB with the aim of acquiring Evolution office building in Vilnius. The acquisition cost of the subsidiary was EUR 2,500 and the company's equity was equal to the purchase price at the time of acquisition. After the acquisition, EfTEN Real Estate Fund III paid an additional EUR 3,205 thousand euros in equity. The funds received by the subsidiary were used as own investment to the Evolution Office building.

3 Segment reporting

SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
	First half of the year		First half of the year		First half of the year		First half of the year		First half of the year	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
EUR thousand										
Revenue (Note 4), incl.	**804**	**741**	**1,140**	**1,033**	**2,161**	**1,763**	**0**	**0**	**4,105**	**3,537**
Estonia	0	0	495	487	369	22	0	0	864	509
Latvia	0	0	302	209	0	0	0	0	302	209
Lithuania	804	741	343	337	1,792	1,741	0	0	2,939	2,819
Operating income, net, incl.	**759**	**718**	**1,139**	**1,032**	**1,898**	**1,497**	**0**	**0**	**3,796**	**3,247**
Estonia	0	0	495	487	362	21	0	0	857	508
Latvia	0	0	302	209	0	0	0	0	302	209
Lithuania	759	718	342	336	1,536	1,476	0	0	2,637	2,530
Operating profit, incl.	**1,617**	**1,219**	**849**	**1,154**	**1,789**	**2,297**	**-57**	**-38**	**4,198**	**4,632**
Estonia	0	0	319	538	392	6	-57	-38	654	506
Latvia	0	0	192	209	0	0	0	0	192	209
Lithuania	1,617	1,219	338	407	1,397	2,291	0	0	3,352	3,917
EBITDA, incl.	**678**	**653**	**1,022**	**929**	**1,595**	**1,246**	**-57**	**0**	**3,238**	**2,828**
Estonia	0	0	449	442	310	6	-57	0	702	448
Latvia	0	0	265	184	0	0	0	0	265	184
Lithuania	678	653	308	303	1,285	1,240	0	0	2,271	2,196
Operating profit									**4,198**	**4,632**
Net financial expense									-517	-260
Profit before income tax expense									**3,681**	**4,372**
Income tax expense (Note 9)									-532	-342

NET PROFIT FOR THE FINANCIAL PERIOD	**3,149**	**4,030**

	Office		Logistics		Retail		Non-allocated		Total	
	2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
EUR thousand										
Revenue, incl.	**433**	**370**	**592**	**517**	**1,079**	**886**	**0**	**0**	**2,104**	**1,773**
Estonia	0	0	247	244	186	22	0	0	433	266
Latvia	0	0	174	104	0	0	0	0	174	104
Lithuania	433	370	171	169	893	864	0	0	1,497	1,403
Operating income, net, incl.	**414**	**359**	**591**	**516**	**940**	**741**	**0**	**0**	**1,945**	**1,616**
Estonia	0	0	247	244	183	13	0	0	430	257
Latvia	0	0	174	104	0	0	0	0	174	104
Lithuania	414	359	170	168	757	728	0	0	1,341	1,255
Operating profit, incl.	**1,309**	**890**	**360**	**707**	**972**	**1,640**	**-32**	**-24**	**2,609**	**3,213**
Estonia	0	0	95	318	240	13	-32	-24	303	307
Latvia	0	0	81	124	0	0	0	0	81	124
Lithuania	1,309	890	184	265	732	1,627	0	0	2,225	2,782
EBITDA, incl.	**369**	**322**	**533**	**465**	**777**	**604**	**-32**	**0**	**1,647**	**1,391**
Estonia	0	0	225	222	158	13	-32	0	351	235
Latvia	0	0	154	92	0	0	0	0	154	92
Lithuania	369	322	154	151	619	591	0	0	1,142	1,064
Operating profit									**2,609**	**3,213**
Net financial expense									-310	-139
Profit before income tax expense									**2,299**	**3,074**
Income tax expense									-403	-146
NET PROFIT FOR THE FINANCIAL PERIOD									**1,896**	**2,928**

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
As of 30 June	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
EUR thousand								
Investment property (Note 12)								
Estonia	0	0	12,940	12,790	10,770	6,617	23,710	19,407
Latvia	0	0	8,611	5,322	0	0	8,611	5,322
Lithuania	29,040	18,772	8,630	8,550	31,110	30,880	68,780	58,202
Total investment property	**29,040**	**18,772**	**30,181**	**26,662**	**41,880**	**37,497**	**101,101**	**82,931**
Other non-current assets							44	55
Net debt							-54,496	-44,628
Other short-term assets							694	762
NET ASSETS							**47,343**	**39,120**

In the first half of 2018 and 2017, no transactions were made between business segments. The Group's main income is from investment property located in the same countries where the subsidiary that made the property investment is located.

The Group's largest customers are DSV Transport AS and DSV Transport UAB that account for 13% and 9% of the Group's consolidated rental income, respectively. The revenue from the rest of tenants is less than 8% of consolidated revenue.

4 Revenue

	First half of the year	
Areas of activity	**2018**	2017
€ tuhandetes		
Rental income from office premises	782	723
Rental income from retail premises	1,832	1,427
Rental income from warehousing and logistics premises	1,137	1,032
Other sales revenue	354	355
Total revenue by areas of activity (Note 3, 12)	**4,105**	**3,537**

	First half of the year	
Revenue by geographical area	2018	2017
EUR thousand		
Estonia	863	509
Latvia	302	209
Lithuania	2,940	2,819
Total revenue by geographical area (Note 3, 12)	**4,105**	**3,537**

5 *The cost of services sold*

	First half of the year	
Cost of services sold	2018	2017
EUR thousand		
Repair and maintenance of rental premises	-59	-55
Property insurance	-2	-2
Land tax and real-estate tax	-19	-16
Wages and salaries, incl. taxes	-2	0
Other sales costs	0	-1
Impairment losses of doubtful receivables	-3	0
Total cost of service sold	**-85**	**-74**

6 *Marketing costs*

	First half of the year	
Marketing costs	2018	2017
EUR thousand		
Commission expenses on rental premises	-7	-1
Advertising, promotional events[1]	-217	-215
Total marketing costs	**-224**	**-216**

[1]The cost of advertising and promotional events is largely comprised of the cost of shopping mall events that tenants cover as an agreed marketing fee.

7 *General and administrative expenses*

	First half of the year	
General and administrative expenses	2018	2017
EUR thousand		
Management services (Note 17)	-308	-257
Office expenses	-36	-27
Wages and salaries, incl. taxes	-102	-100
Consulting expenses, regulator costs	-59	-22
Auditing expenses	-18	-17
Depository's charges	-15	-12
Change in success fee liability	0	-461
Other general and administrative expenses	-21	-25
Depreciation	-8	-12
Total general and administrative expenses	**-567**	**-933**

8 Finance costs

Finance costs	First half of the year 2018	2017
EUR thousand		
Interest expenses	-438	-366
Change in fair value of interest swaps (Note 15)	-82	106
Total finance costs	**-520**	**-260**

9 Income tax

	First half of the year 2018	2017
EUR thousand		
Income tax from dividends	-70	-35
Deferred income tax in Latvian and Lithuanian subsidiaries	-361	-253
Income tax expense from Latvian and Lithuanian profit	-101	-54
Total income tax expense	**-532**	**-342**

As at 30.06.2018, the Group has a deferred tax liability in connection with the use of tax amortization in Lithuania and Latvia in the amount of EUR 3,226 thousand (31.12.2017: EUR 2,864 thousand). Deferred tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

Earnings per share	First half of the year 2018	2017
Net profit of the period, *in EUR thousand*	**3,149**	4,030
Dividends per share, in euros	**0.68**	0.63
Weighted average number of shares over the period, in pcs	**3,222,535**	2,526,930
Earnings per share, in euros	**0.98**	1.59

11 Receivables and accrued income

Short-term receivables and accrued income

	30.06.2018	31.12.2017
EUR thousand		
Receivables from customers (Note 15)	332	480
Accrued income		
Prepaid taxes and receivables for reclaimed value-added tax	233	65
Other accrued income	34	96
Total accrued income	**267**	**161**
Total receivables	**599**	**641**

12 *Investment property*

As at 30.06.2018, the Group has made investments in the following investment properties:

Name	Location	Area (m2)	Year of Const-ruction	Date of acquisition	Acquisition cost	Market value at 30.06.2018	Share of market value of the Fund's assets
EUR thousand							
Saules Miestas shopping centre	Saules Miestas, Lithuania	19,881	2007	08.2015	28,051	31,110	29%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,630	8%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,227	12,940	12%
DSV logistics centre	Riga, Latvia	5,398	2000	07.2016	8,637	8,611	8%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,706	9,820	9%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,016	10,000	9%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,072	9,220	9%
Hortes gardening centre in Laagri	Laagri, Estonia	3,470	2006	05.2017	3,108	3,300	3%
Hortes gardening centre in Tähesaju	Tallinn, Estonia	development in progress	2018	05.2018	900	900	1%
Selver grocery store	Tallinn, Estonia	3,063	2017	05.2017	6,223	6,570	6%
Total		**77,009**			**93,410**	**101,101**	**95%**

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

In the first half of 2018 and 2017, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 01.01.2017	**0**	**73,539**	**73,539**
Acquisitions	1,609	3,108	4,717
Additions from business combinations	1,900	0	1,900
Capitalized improvements	0	459	459
Gain (loss) on changes in the fair value (Note 7)	0	2,316	2,316
Balance as at 30.06.2017	**3,509**	**79,422**	**82,931**
Balance as at 01.01.2018	**0**	**88,390**	**88,390**
Acquisitions	900	10,849	**11,749**
Gain (loss) on changes in the fair value (Note 7)	0,	962	**962**
Balance as at 30.06.2018	**900**	**100,201**	**101,101**

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

	First half of the year	
As at 30 June or the period	**2018**	2017
Rental income earned on investment property (Note 4)	3,751	3,182
Expenses directly attributable to management of investment property (Note 5)	-85	-74
Carrying amount of investment property pledged as collateral to borrowings (Note 13)	100,201	79,422

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

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 30.06.2018 and 31.12.2017 was determined using the discounted cash flow method, excl. investment property in the development stage (Hortes gardening centre in Tähesaju), where the transaction price was used at the balance sheet date (there were no significant changes in the real estate market between the transaction date and the balance sheet date). The following assumptions were used to determine fair value:

As at 30.06.2018:

Sector	Fair value	Valuation method	First year rental income	Discount rate	Capitalization rate	Average rent, €/m2
EUR thousand						
Office premises	28,918	Discounted cash flows	2,074	7.9%	7.5%-8.0%	11.3
Storage and logistics premises	30,181	Discounted cash flows	2,378	8.0%-8.6%	7.8%-8.0%	6.0
Retail premises	41,880	Discounted cash flows	3,652	7.9%-8.6%	7.5%-8.0%	11.0
Total	**100,979**					

In 2017:

Sector	Fair value	Valuation method	Rental income per annum	Discount rate	Capitalization rate	Average rent, €/m2
EUR thousand						
Office premises	18,960	Discounted cash flows	1,476	7.9%	7.5%-8%	11.2
Storage and 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
Total	**88,390**					

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

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

Fair value sensitivity analysis

The table provided below illustrates **as at 30.06.2018** the sensitivity of the fair value of investment property included in the balance sheet of the Group to the most significant assumptions:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalization rate				
	Assessment	Effect to decrease to value	Effect to increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/- 10%	*-2,350*	*2,360*	Change in the capitalization rate	-0.5%	*30,290*	*30,470*	*29,060*
					0.0%	*29,670*	*29,040*	*28,480*
					0.5%	*29,060*	*27,830*	*27,900*
Storage and logistics premises	Change in rental income +/- 10%	*-2,396*	*2,396*	Change in the capitalization rate	-0.5%	*31,426*	*31,593*	*30,181*
					0.0%	*30,786*	*30,181*	*29,580*
					0.5%	*30,181*	*28,937*	*28,993*
Retail premises	Change in rental income +/- 10%	*-3,800*	*3,810*	Change in the capitalization rate	-0.5%	*42,680*	*42,900*	*40,980*
					0.0%	*41,820*	*40,980*	*40,160*
					0.5%	*40,980*	*39,290*	*39,380*

As at 31.12.2017

Sector	Sensitivity to management estimates			Sensitivity to discount rate and capitalization rate			
	Assessment	Effect of decrease to value	Effect of increase to value		Change in discount rate		
					-0.5%	0.0%	0.5%
EUR thousand					*Õiglane väärtus*		
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*
Storage and 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*

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

13 Borrowings

As at 30.06.2018, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2018	Contract term	Interest rate as at 30.06.2018	Loan collateral	Value of collateral	Loan balance share of the fund's net asset value
Swedbank	Lithuania	16,500	16,464	14.08.20	1.70%	Mortgage – Saules Miestas shopping centre	31,110	34.8%
SEB	Lithuania	5,500	5,016	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,630	10.6%
SEB	Latvia	3,323	4,342	29.06.21	1.55%	Mortgage - DSV building in Riga	8,611	9.2%
SEB	Estonia	7,950	7,289	29.06.21	1.55%	Mortgage - DSV building in Estonia	12,940	15.4%
SEB	Lithuania	5,620	5,196	30.09.21	1.90%	Mortgage-L3 office building in Vilnius	9,820	11.0%
SEB	Lithuania	5,200	4,610	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	9,220	9.7%
SEB	Estonia	1,860	1,775	05.07.22	1.82%	Mortgage - Hortes gardening centre	3,300	3.7%
Swedbank	Estonia	3,700	3,402	26.06.22	1.40%	Mortgage – Selver grocery store	6,570	7.2%
SEB	Lithuania	5,850	5,828	30.05.23	2.00%	Mortgage - Evolution office building	10,000	12.3%
Total		**55,503**	**53,922**				**100,201**	**113.9%**

For additional information on borrowings, please see Note 15.

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 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 office building in Vilnius	9,200	10.2%
SEB	Estonia	1,860	1,821	05.07.22	1.82%	Mortgage - Hortes gardening centre	3,210	3.9%
Swedbank	Estonia	3,700	3,251	26.06.22	1.40%	Mortgage – Selver grocery store	6,580	7.8%
Kokku		**49,653**	**45,845**				**88,390**	**98.8%**

Lühiajalised laenukohustused	30.06.2018	31.12.2017
EUR thousand		
Repayments of long-term bank loans in the next period	2,599	2,129
Discounted contract fees on bank loans	-24	-20
Total short-term borrowings	**2,575**	**2,109**

Long-term borrowings	30.06.2018	31.12.2017
EUR thousand		
Total long-term borrowings (Note 18)	**53,850**	**45,776**
incl. current portion of borrowings	2,575	2,109
incl. non-current portion of borrowings, incl.	51,275	43,667
Bank loans	*51,323*	*43,716*
Discounted contract fees on bank loans	-48	*-49*

Bank loans are divided as follows according to repayment date:

Bank loan repayments by repayment terms	30.06.2018	31.12.2017
EUR thousand		
Less than 1 year	2,599	2,129
2-5 years	51,323	43,716

	First half of the year	
Cash flows of borrowings	**2018**	2017
EUR thousand		
Balance at the beginning of period	**45,776**	**42,667**
Bank loans received	9,176	0
Annuity payments on bank loans	*-1,100*	*-1,025*
Change of discounted contract fees	*-2*	*9*
Balance at the end of period	**53,850**	**41,651**

14 Payables and prepayments

Short-term payables and prepayments

	30.06.2018	31.12.2017
EUR thousand		
Trade payables from fixed asset transactions	178	503
Other trade payables	483	205
Total trade payables	**661**	**708**
Payables from securities transactions	10	100
Payables from fixed asset transactions	0	497
Total other payables	**10**	**597**
Value added tax	134	206
Corporate income tax	43	43
Social tax	4	8
Land tax and real-estate tax	25	50
Total tax liabilities	**206**	**307**
Payables to employees	32	25
Interest liabilities	5	4
Tenant security deposits	21	138
Other accrued liabilities	20	20
Total accrued expenses	**78**	**187**
Prepayments received from buyers	9	24
Other deferred income	3	25
Total prepayments	**12**	**49**
Total payables and prepayments	**967**	**1,848**

Long-term payables

	30.06.2018	31.12.2017
EUR thousand		
Tenants security deposits	522	360
Total other long-term payables	**522**	**360**

For additional information on payables and prepayments, please see Note 15.

15 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 8.

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

EUR thousand	Notes	30.06.2018	31.12.2017
Financial assets - loans and receivables			
Cash and cash equivalents		4,209	8,133
Trade receivables	11	332	480
Total financial assets		**4,541**	**8,613**
Financial liabilities measured at amortised cost			
Borrowings	13	53,850	45,776
Trade payables	14	662	708
Tenant security deposits	14	543	498
Interest payables	14	5	4
Accrued expenses	14	52	45
Total financial liabilities measured at amortised cost		**55,112**	**47,031**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		140	58
Total financial liabilities measured at fair value		**140**	**58**
Total financial liabilities		**55,252**	**47,089**

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

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

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

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

Market risk

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

Interest rate risk

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

As at 30.06.2018, 56% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 2.0% plus the 3-month and 1-month EURIBOR), and 44% of loan contracts carries fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 54% are related to an interest rate swap contract in which the 3-month EURIBOR is in turn fixed at 0.35%. In the first half of 2018, the 3-month EURIBOR fluctuated between -0.329% and -0.321%, i.e. the maximum change within the year was 0.8 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 3-5 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 in the 10 year 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 30.06.2018 was negative in the amount of EUR 140 thousand (31.12.2017: EUR 58 thousand). Additional information on finding the fair value of interest rate swaps is provided in the section "Fair value" below.

Liquidity risk

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

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

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 30.06.2018 the Group's interest-bearing liabilities accounted for 53.8% (31.12.2017: 52%) of rental income generating investment property and the average debt coverage ratio of the last 12 months was 2.1 (2017: 2.0).

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

As at 30.06.2018	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	219	658	1,766	51,279	0	**53,922**
Interest payments	76	196	512	1,340	0	**2,124**
Interest payables	5	0	0	0	0	**5**
Trade payables	662	0	0	0	0	**662**
Tenant security deposits	0	0	21	457	65	**543**
Accrued expenses	52	0	0	0	0	**52**
Total financial liabilities	**1,014**	**854**	**2,299**	**53,076**	**65**	**57,308**

As at 31.12.2017	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
EUR thousand						
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**

Report of working capital

	30.06.2018	31.12.2017
EUR thousand		
Cash and cash equivalents	4,209	8,133
Receivables and accrued income (Note 11)	599	641
Prepaid expenses	95	37
Total current assets	**4,903**	**8,811**
Short-term portion of long-term liabilities (Note 13)	-2,575	-2,109
Short-term payables and prepayments (Note 14)	-1,107	-1,906
Total current liabilities	**-3,682**	**-4,015**
Total working capital	**1,221**	**4,796**

As at 30.06.2018, the Group's working capital was EUR 1,221 thousand (31.12.2017: EUR 4,796 thousand). The Group estimates that the working capital is sufficient for the meeting the claims occurring in the Group's day to day business.

Credit risk

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

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

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

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

Accounts receivable are illustrated by the table below:

	30.06.2018	31.12.2017
EUR thousand		
Undue	211	332
Past due, incl.	**121**	**148**
up to 30 days	*91*	*134*
30-60 days	*8*	*6*
more than 60 days	*22*	*8*
Total trade receivables (Note 11)	**332**	**480**

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

	30.06.2018	31.12.2017
EUR thousand		
Cash and cash equivalents	4,209	8,133
Trade receivables	332	480
Total maximum credit risk	**4,541**	**8,613**

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

Rating	30.06.2018	31.12.2017
A1	1,810	6,205
A1	2,378	1,906
Aa2	4	3
Total	**4,192**	**8,114**

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 35% 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, EBITDA 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 annual corrected cash flows (EBITDA minus interest expenses minus loan payments). The corrected cash flow for the first half of 2018 allows for the payment of net dividends in the amount of EUR 1,200 thousand (37 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 68 cents per share.

Report of capitalization

	30.06.2018	31.12.2017
EUR thousand		
Mortgage guaranteed short-term liabilities (Note 13)	2,599	2,129
Unsecured short-term liabilities (Note 14)	1,083	1,886
Total short-term liabilities	**3,682**	**4,015**
Mortgage guaranteed long-term liabilities (Note 13)	51,323	43,716
Unsecured long-term liabilities (Note 14)	3,700	3,175
Total long-term liabilities	**55,023**	**46,891**
Share capital and share premium (Note 16)	35,883	35,883
Reserves	622	293
Retained earnings	10,838	10,209
Total shareholder's equity	**47,343**	**46,385**
Total liabilities and equity	**106,048**	**97,291**

More detailed information on mortgages established as collateral for the obligations provided in the capitalisation report is available in Note 13 of the report.

Report of net debt

EUR thousand	30.06.2018	31.12.2017
Cash	4,209	8,133
Cash equivalents	0	0
Tradeable securities	0	0
Total liquid assets	**4,209**	**8,133**
The short-term portion of long-term liabilities (Note 13)	2,599	2,129
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	**-1,610**	**-6,004**
Long-term bank loans (long-term portion) (Note 13)	51,323	43,716
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	**51,323**	**43,716**
Total net debt	**49,713**	**37,712**

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As at 30.06.2018 and 31.12.2017, 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 12). All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

For hedging the interest rate risk, the Group has entered into interest rate swaps the fair value of which is obtained by discounting the cash flows of interest rate swaps in a way incoming and outgoing cash flows are determined according to EURIBOR market expectations and they are discounted at zero rate. For recognising the fair value of interest rate swaps, the Group uses information received from credit institutions who are contract partners.

16 Share capital

As at 30.06.2018 the registered share capital of EfTEN Real Estate Fund III AS was EUR 32,225 thousand (31.12.2017: the same). As at 30.06.2018 the share capital consisted of 3,222,535 shares (31.12.2017: the same) with a nominaal value of EUR 10 (31.12.2017: the same). Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand.

List of shareholders who own more than 5% of the shares in EfTEN Real Estate Fund III AS:

	As at 30.06.2018	
Company	**Number of shares**	**Involvement, %**
Altius Energia OÜ	455,439	14.1
Järve Kaubanduskeskus OÜ	329,692	10.2
Hoiukonto OÜ	328,167	10.2

Shares owned by EfTEN Real Estate Fund III AS Management or Supervisory Board members, their close relatives or companies under their control:

	As at 30.06.2018	
Company	**Number of shares**	**Involvement, %**
Viljar Arakas, member of the Management Board	2,000	0.1
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	8,793	0.3
Tõnu Uustalu, member of the Management Board	9,184	0.3
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	1,209	0.04
Altius Energia OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	455,439	14.1
Olav Miil, member of the Supervisory Board	24,229	0.8
Siive Penu, member of the Supervisory Board	975	0.03

17 Related party transactions

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

- Management Board members and companies owned by the Management Board members of EfTEN Real Estate Fund III AS;

- Supervisory Board members and companies owned by the Supervisory Board members of EfTEN Real Estate Fund III AS;

- Employees and companies owned by the employees of EfTEN Real Estate Fund III AS;

- EfTEN Capital AS (fund management company).

The Group purchased management services from EfTEN Capital AS in the first half of 2018 in the amount of EUR 308 thousand (first half of 2017: EUR 257 thousand), (see Note 7).

EfTEN Real Estate Fund III AS did not purchase from other related parties or sell to other related parties any other goods or services in the first half of 2018 nor in the first half of 2017.

In the first half of 2018, the Group had nine employees who were remunerated including taxes in the amount of EUR 102 thousand (first half of 2017: EUR 100 thousand). In the first half of 2018 and in the first half of 2017, no compensations were calculated nor 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 management services to the Group, and expenses related to management board members' activities are included in management services.

Declaration of the Management Board to the consolidated interim report for the second quarter and six months of 2018

We hereby confirm that EfTEN Real Estate Fund III AS consolidated interim report for the second quarter and six months of 2018 provides a true and fair overview of the Group’s assets, liabilities, financial position and a description of the main risks and the development and results of the business activities of the consolidated entities as a whole.

/Digitally signed/

Viljar Arakas

Member of the Management Board

/Digitally signed/

Tõnu Uustalu

Member of the Management Board