



EFTEN Real Estate Fund III

Consolidated interim report for the second quarter and six months of 2019

EFTEN Real Estate Fund III AS

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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 Fund manager

The most important economic event of EFTEN Real Estate Fund III AS in the second quarter of 2019 was a successful additional share issue, in which the fund sold 1 million new shares at a price of EUR 16 per share. The issue was oversubscribed three times. A total of 2,094 subscription orders were issued with a total value of EUR 49 million. Existing fund shareholders exercised the distribution preference right to subscribe for 818,000 shares. The new capital will be used to continue the investment activities of the fund. The economic indicators of the assets of the Fund's portfolio were in line with management expectations. The fund has at the moment one development project in progress, Hortes Gardening Center, in the Tähesaju commercial centre in Tallinn. The new Hortes store will open in the fourth quarter of this year.

Financial overview

EFTEN Real Estate Fund III AS consolidated revenue for Q2 2019 was EUR 2.321 million (Q2 2018: EUR 2.104 million), showing an increase of 10.3% over the year. The Group's net profit for the same period was EUR 2.329 million (Q2 2018: EUR 1.896 million). The higher net profit in 2019 is due to higher investment property revaluation gains, which totaled EUR 1.460 million in the first half of this year compared to EUR 0.962 million in the second quarter of last year.

EFTEN Real Estate Fund III AS consolidated revenue for the first half of 2019 was EUR 4.636 million (first half of 2018: EUR 4.105 million), an increase of 12.9% over the year. The Group's profit before revaluation of investment property, depreciation charge and finance income/-expense and income tax expense for the first half of 2019 totaled EUR 3.624 million (first half of 2018: EUR 3.262 million), an increase of 11.1% over the year. The Group's net profit for the same period was EUR 3.698 million (first half of 2018: EUR 3.149 million).

Consolidated gross profit margin for the first half of 2019 was 97% (first half of 2018: 98%), thus expenses directly related to property management (including land tax, insurance, maintenance and improvement costs) accounted for 3% (first half of 2018: 2%). In the first half of 2019, the Group's expenses related to property, distribution costs, general expenses and other income and expenses accounted for 22% of the sales revenue. During the first half of 2018, the same figure remained at 21%.

	The first half of	
	2019	2018
<i>EUR million</i>		
Rental revenue, other fees from investment properties	4.636	4.105
Expenses related to investment properties. incl. marketing costs	-0.367	-0.309
Interest expense and interest income	-0.730	-0.517
Net rental revenue less finance costs	3.539	3.279
Management fees	-0.349	-0.308
Other revenue and expenses	-0.308	-0.252
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	2.882	2.719

As at 30.06.2019, the Group's total assets amounted to EUR 128.217 million (31 December 2018: 108.504 million), including the fair value of investment properties which accounted for 86% (31.12.2018: 95%) of the total assets. The volume of assets increased in the first half of 2019 mainly due to the share issue, which raised additional funds for the Group in the amount of EUR 16 million and real estate investments in the first half of the year for a total of EUR 5.5 million.

	30.06.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
<i>EUR million</i>					
Investment property	109.730	102.787	88.390	73.539	36.506
Other non-current assets	0.176	0.138	0.090	0.058	0.080
Current assets, excluding cash	9.714	0.720	0.678	0.444	0.327
Net debt (cash minus liabilities)	-52.489	-53.150	-42.773	-43.721	-21.567
Net asset value (NAV)	67.131	50.494	46.385	30.320	15.346
Net asset value (NAV) per share (in euros)	15.90	15.67	14.39	12.71	11.08

The net asset value of EFTEN Real Estate Fund III AS increased by 1.5% during the first half of 2019. In May 2019, the Fund paid dividends out of 2018 profit in the total amount of 3,061 thousand euros (spring 2018: 2,191 thousand euros). Without the payment of dividends, the NAV of the Fund would have increased 7.5% during the first half of 2019. The ROIC was 18.4% as at June 30, 2019 (June 30, 2018: 16.6%).

Access to flexible financing conditions will help increase the Group's competitiveness. In the first half of 2019, the Group received bank loans related to the acquisition and development of new real estate investments totaling EUR 4.9 million. The average interest rate of the Group's loan contracts (incl. interest rate swap agreements) is 1.8% (31.12.2018: same) and LTV (Loan to Value) 53% (31.12.2018: 52%).

During the first half of 2019, the Group generated EUR 1.7 million free cash flow (6 months 2018: EUR 1.6 million). After deducting the Lithuanian corporate income tax expense and calculating the dividend income tax expense for Estonian and Latvian companies, EFTEN Real Estate Fund III could pay a net dividend of EUR 1.2 million (30 cents per share) to shareholders based on the dividend policy.

Calculation of potential dividend payment

	6 months	
	2019	2018
<i>EUR thousand</i>		
Operating profit	5,064	4,198
Adjustment for depreciation of fixed assets	-1,460	-962
EBITDA	3,604	3,236
Interest expense	-554	-438
Bank loan repayments	-1,337	-1,100
Income tax expense on profit (Lithuania)	-56	-101
Free cash flow	1,657	1,597
80% of the free cash flow	1,326	1,278
Potential dividend income tax expense (Estonia, Latvia)	-78	-75
Potential net dividend according to dividend policy	1,248	1,203
Number of shares at the end of the period	4,222,535	3,222,535
Potential net dividends according to dividend policy per share (in EUR)	0.30	0.37

Key performance and liquidity ratios

For 6 months or as at 30 June	2019	2018
ROE, % (<i>net profit of the period / average equity of the period</i>) x 100	6.3	6.7
ROA, % (<i>net profit of the period / average assets of the period</i>) x 100	3.1	3.1
ROIC, % (<i>net profit of the period / average invested capital of the period</i> ¹) x 100 ¹	8.4	8.8
Revenue (EUR thousand)	4,636	4,105
EBITDA (EUR thousand)	3,622	3,244
EBITDA margin, %	78.1	79.0
EBIT (EUR thousand)	5,064	4,198
EBIT margin, %	109.2	102.3
Liquidity ratio (current assets / current liabilities)	4.1	1.3
DSCR (EBITDA/(<i>interest expenses + scheduled loan payments</i>))	1.9	2.0

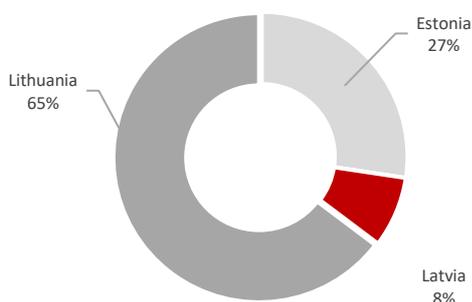
¹ The average invested capital of the period is the paid-in share capital of EFTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

Real estate portfolio

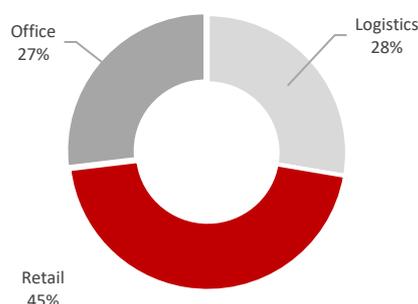
The Group invests in commercial real estate with a strong and long-term tenant base. As at the end of June 2019, the Group had 11 (31.12.2018: 10) commercial investment properties with a fair value as at the balance sheet date of EUR 109.730 million (31.12.2018: 102.787 million) and an acquisition cost of EUR 100.110 million (31.12.2018: 94.627 million).

In January 2019, the Group acquired ABC Motors Autokeskus property in Tallinn for EUR 3 million. In addition, the Group continued the construction of Tähesaju tee Hortes, where EUR 2.4 million was invested during the first half of 2019. The completion of Tähesaju Hortes is scheduled for October 2019.

Real estate portfolio by country



Real estate portfolio by sector



In June 2019, an independent valuer of the Group's investment properties conducted a periodic valuation process. The value of investment property increased by EUR 1.46 million (1.3%) as a result of revaluations and was mainly related to the improved cash flow forecast.

Main figures of the Group's real estate portfolio:

Investment properties, as at 30.06.2019	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	12,880	16,014	1,012	100	7.1	1
DSV Riga	100	8,703	12,149	716	100	7.1	1
DSV Vilnius	100	8,770	11,687	697	100	7.0	1
Total logistics		30,353	39,850	2,425	100	7.1	3
Saules Miestas shopping centre	100	32,630	19,881	3,052	98	4.6	116
Hortes gardening centre, Laagri	100	3,450	3,470	266	100	12.9	1
Selver in Laagri	100	6,630	3,063	500	98	8.5	9
Hortes gardening centre, Tallinn	100	4,046					
ABC Motors Autokeskus sales and service centre, Tallinn	100	3,120	2,149	255	100	9.6	1
Total retail		49,876	28,563	4,073		5.9	127
Ulonu office building, Vilnius	100	9,220	5,174	714	100	2.5	15
Evolution office building, Vilnius	100	10,200	6,172	579	67	2.5	34
L3 office building, Vilnius	100	10,081	6,151	777	100	2.0	40
Total office		29,501	17,497	2,070	94	2.3	89
Total real estate portfolio		109,730	85,910	8,568	98	5.5	219

Information on shares

On April 17, 2019, EFTEN Real Estate Fund III AS decided to increase the share capital by issuing up to 1,000,000 new ordinary shares based on the decision of the general meeting of shareholders. The new shares were issued at a total value of EUR 16 per share, ie EUR 16 million was received by the Group for the increase of share capital.

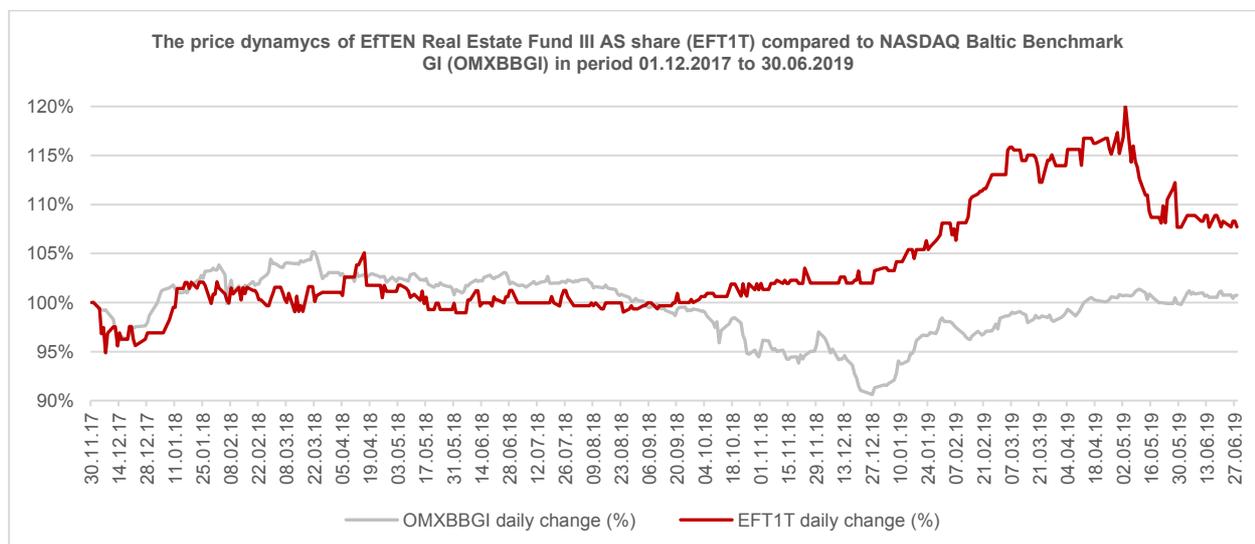
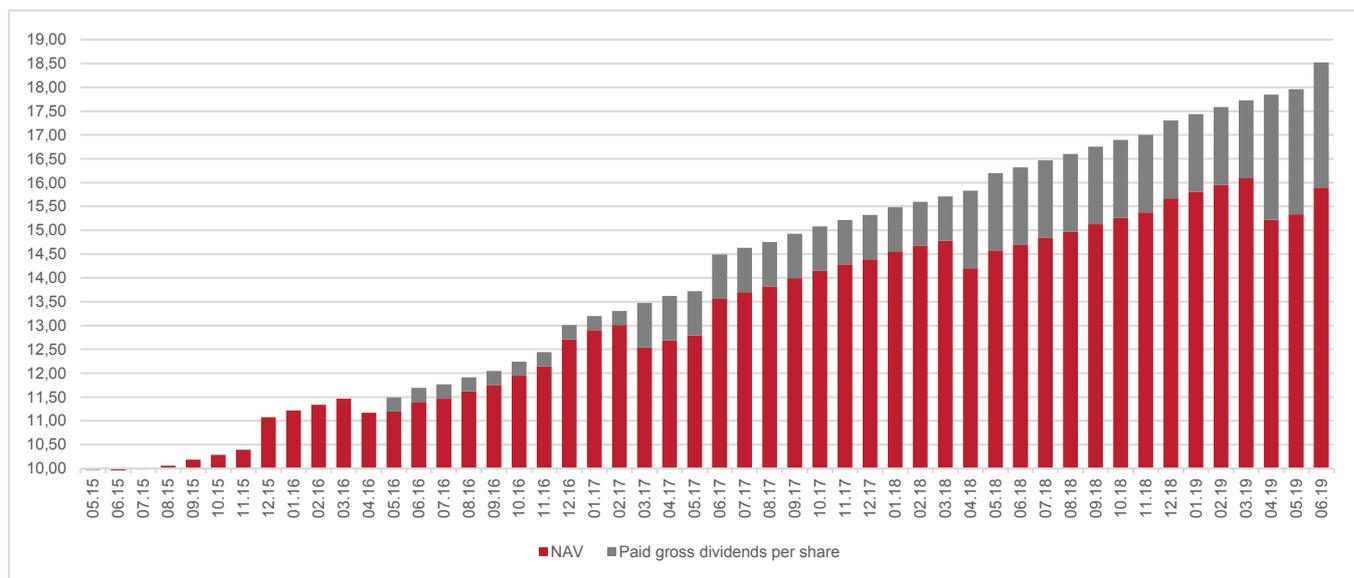
The net book value of EFTEN Real Estate Fund III share as at 30.06.2019 was 15.90 euros (31.12.2018: 15.67 euros). EFTEN Real Estate Fund III AS shares are freely traded on the Tallinn Stock Exchange. The closing price of the EFT1T share as at 30.06.2019 was 17.1 euros, rising by 5.6% over the half-year (from 16.2 euros at 31.12.2018). During the first half of 2019, EFT1T shares traded at EUR 16.0 to EUR 19.1 per share, and the median closing price during the half year was EUR 17.4. During the first half of the year, the volume of transactions with EFT1T shares totaled 1,022 thousand euros.

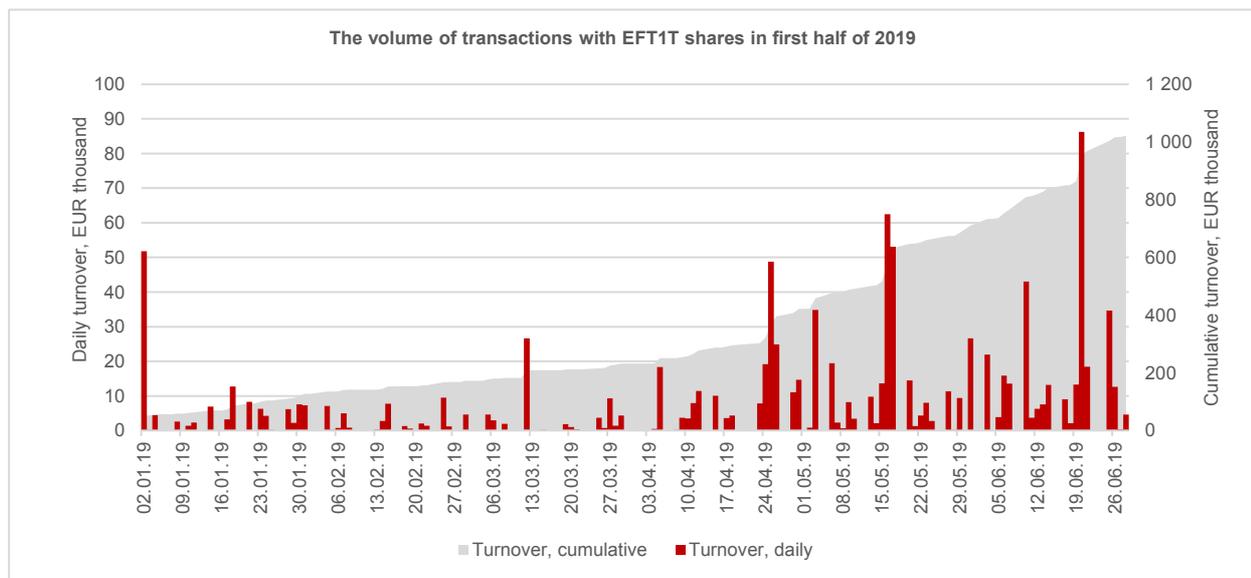
In addition to the aforementioned share net asset value calculated according to IFRS (EUR 15.90 as at 30.06.2019), EFTEN Real Estate Fund III AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most relevant net asset value. The EPRA recommended guide assumes a long-term economic strategy for real estate companies, so temporary differences in the situation where asset sales are unlikely to occur in the near future obscure the transparency of the fair value of the fund's net assets. EFTEN Real Estate Fund III AS EPRA NAV as at 30.06.2019 was EUR 16.92 (31.12.2018: EUR 16.81).

EUR thousand	30.06.2019	30.06.2018
Net asset value calculated in accordance with IFRS	67,131	47,343
Exclusion of deferred income tax on investment property	3,939	3,226
Exclusion of the fair value of financial instruments	365	140
EPRA net asset value	71,435	50,709
Number of shares at the balance sheet date	4,222,535	3,222,535
EPRA net asset value per share, in EUR	16.92	15.74
EPRA NAV growth, in EUR	0.11	0.44
Dividend paid per share, in EUR	0.95	0.68
Income tax on dividends paid per share, in EUR	0.04	0.02
Period earnings per share, in EUR	1.10	1.14
Period earnings per share, increase	6.5%	7.4%

As at 30.06.2019, the contributions made to the share capital of EFTEN Real Estate Fund III AS totalled EUR 51.883 million (31 December 2018: 35.883 million). The number of shares as at 30.06.2019 was 4,222,535 (31 December 2018: 3,222,535). EFTEN Real Estate Fund III AS was listed on the NASDAQ Tallinn Stock Exchange in November 2017. The Fund has one class of registered shares with a par value of EUR 10 each. Each share grants one vote to the fund shareholder.

The net asset value of EFTEN Real Estate Fund III share and dividends paid (cumulative)





As at 30.06.2019, EFTEN Real Estate Fund III AS had 2,661 shareholders, 21% of whom were legal entities. Legal entities held a total of 78.4% of the Fund's share capital. The breakdown of shares is shown in the table below.

	Shareholder, pcs		Total shareholders	Number of shares		Total shares	Shareholding		Total shareholding
	Legal entities	Individuals		Legal entities	Individuals		Legal entities	Individuals	
Austria	-	1	1	-	1,255	1,255	-	0.0%	0.0%
China	-	1	1	-	75	75	-	0.0%	0.0%
Denmark	-	2	2	-	38	38	-	0.0%	0.0%
Estonia	558	2,074	2,632	3,309,228	889,752	4,198,980	78.4%	21.1%	99.4%
Finland	-	3	3	-	386	386	-	0.0%	0.0%
Georgia	-	1	1	-	309	309	-	0.0%	0.0%
Hungary	-	1	1	-	65	65	-	0.0%	0.0%
Ireland	-	1	1	-	66	66	-	0.0%	0.0%
Norway	-	2	2	-	161	161	-	0.0%	0.0%
Latvia	3	2	5	682	11,248	11,930	0.0%	0.3%	0.3%
Lithuania	4	2	6	1,371	7,201	8,572	0.0%	0.2%	0.2%
Russia	-	1	1	-	473	473	-	0.0%	0.0%
Saudi Arabia	-	1	1	-	43	43	-	0.0%	0.0%
Oman	-	1	1	-	51	51	-	0.0%	0.0%
Sweden	-	1	1	-	125	125	-	0.0%	0.0%
Great Britain	-	1	1	-	5	5	-	0.0%	0.0%
United States of America	1	-	1	1	-	1	0.0%	-	0.0%
Kokku	566	2,095	2,661	3,311,282	911,253	4,222,535	78.4%	21.6%	100.0%

As of 30.06.2019, EFTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

Company	As at 31.12.2018	
	Number of shares	Ownership, %
Altius Energia OÜ	598,013	14.16
Järve Kaubanduskeskus OÜ	431,992	10.23
Hoiukonto OÜ	430,211	10.19

CONDENSED INTERIM REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Notes	2nd quarter		1st half year	
		2019	2018	2019	2018
Revenue	3,4	2,321	2,104	4,636	4,105
Cost of services sold	5	-71	-37	-147	-85
Gross profit		2,250	2,067	4,489	4,020
Marketing costs	6	-134	-122	-220	-224
General and administrative expenses	7	-376	-305	-664	-567
Gain / loss from revaluation of investment properties	12	1,460	962	1,460	962
Other operating income and expense		0	7	-1	7
Operating profit	3	3,200	2,609	5,064	4,198
Interest income		0	0	0	3
Finance costs	8	-392	-310	-730	-520
Profit before income tax		2,808	2,299	4,334	3,681
Income tax expense	9	-479	-403	-636	-532
Total comprehensive income for the financial period	3	2,329	1,896	3,698	3,149
Earnings per share	10				
- Basic		0.68	0.59	1.11	0.98
- Diluted		0.68	0.59	1.11	0.98

The notes on pages 12-27 are an integral part of the interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2019	31.12.2018
<i>EUR thousand</i>			
ASSETS			
Cash and cash equivalents	15	8,597	4,859
Short-term deposits	15	9,000	0
Receivables and accrued income	11	669	673
Prepaid expenses		45	46
Total current assets		18,311	5,578
Long-term receivables		53	24
Investment property	3,12	109,730	102,787
Property, plant and equipment		123	114
Total non-current assets		109,906	102,925
TOTAL ASSETS		128,217	108,503
LIABILITIES AND EQUITY			
Borrowings	13	2,807	8,105
Derivative instruments	15	365	189
Payables and prepayments	14	1,301	1,019
Total current liabilities		4,473	9,313
Borrowings	13	52,121	44,743
Other long-term liabilities	14	553	457
Deferred income tax liability	9	3,939	3,496
Total non-current liabilities		56,613	48,696
Total liabilities		61,086	58,009
Share capital	16	42,225	32,225
Share premium	16	9,658	3,658
Statutory reserve capital		936	621
Retained earnings	17	14,312	13,990
Total equity		67,131	50,494
TOTAL LIABILITIES AND EQUITY		128,217	108,503

The notes on pages 12-27 are an integral part of the interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2nd quarter		1st half year	
		2019	2018	2019	2018
<i>EUR thousand</i>					
Net profit		2,329	1,896	3,698	3,149
<i>Adjustments:</i>					
Finance costs	8	392	312	730	520
Gain (loss) from revaluation of investment properties	12	-1,460	-962	-1,460	-962
Depreciation, amortisation and impairment	7	10	4	19	9
Gain (loss) from the sale of property, plant and equipment		0	0	0	-7
Income tax expense	9	479	403	636	532
Total adjustments with non-cash changes		-579	-243	-75	92
Cash flow from operations before changes in working capital		1,750	1,653	3,623	3,241
Change in receivables and payables related to operating activities		-57	-201	-9	-216
Net cash generated from operating activities		1,693	1,452	3,614	3,025
Purchase of property, plant and equipment		-27	-10	-28	-10
Purchase of investment property	12	-1,732	-10,384	-5,190	-12,233
Sale of investment property	12	0	7	0	7
Short-term deposits	15	-9,000	0	-9,000	0
Acquisition of subsidiaries	2	0	0	0	-90
Net cash generated from investing activities		-10,759	-10,387	-14,218	-12,326
Loans received	13	2,938	8,956	4,916	9,176
Scheduled loan repayments	13	-2,160	-567	-2,837	-1,100
Interest paid		-274	-246	-537	-438
Proceeds from issuance of shares	16	16,000	0	16,000	0
Dividends paid	15	-3,061	-2,191	-3,061	-2,191
Income tax paid on dividends		-139	-70	-139	-70
Net cash generated from financing activities		13,304	5,882	14,342	5,377
NET CASH FLOW		4,238	-3,053	3,738	-3,924
Cash and cash equivalents at the beginning of period	15	4,359	7,262	4,859	8,133
Change in cash and cash equivalents		4,238	-3,053	3,738	-3,924
Cash and cash equivalents at the end of period	15	8,597	4,209	8,597	4,209

The notes on pages 12-27 are an integral part of the interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>EUR thousand</i>	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
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
Balance as at 31.12.2018	32,225	3,658	621	13,990	50,494
Issue of shares	10,000	6,000	0	0	16,000
Dividends paid	0	0	0	-3,061	-3,061
Transfers to statutory reserve capital	0	0	315	-315	0
Total transactions with owners	10,000	6,000	315	-3,376	12,939
Net profit for the financial period	0	0	0	3,698	3,698
Total comprehensive income for the period	0	0	0	3,698	3,698
Balance as at 30.06.2019	42,225	9,658	936	14,312	67,131

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

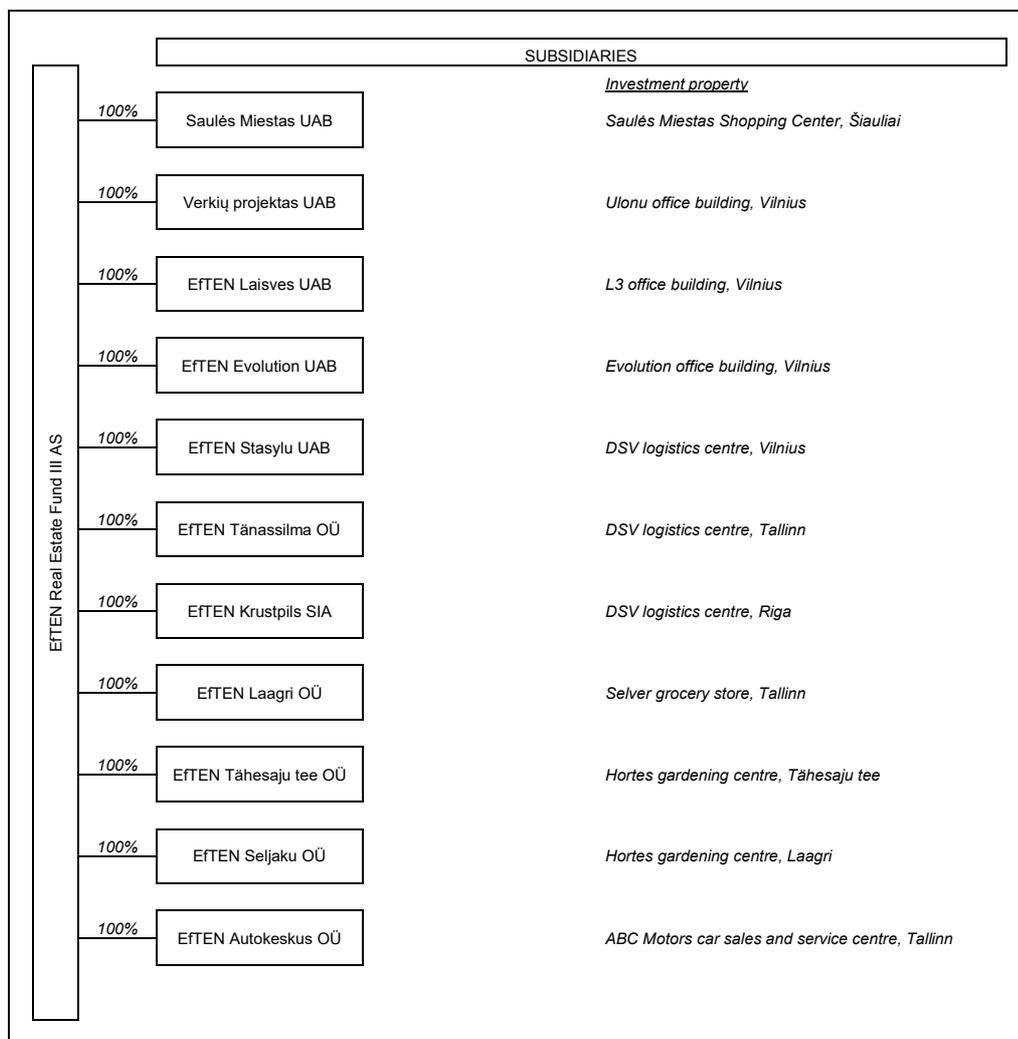
The notes on pages 12-27 are an integral part of the interim financial statements.

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 30.06.2019 is as follows (also see Note 2):



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 31.12.2018. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2018, 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 2019 and 6 months interim report of 2019 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, %	
			30.06.2019	31.12.2018	30.06.2019	31.12.2018
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	14,319	13,855	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	3,929	3,961	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,737	4,755	100	100
EFTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	3,984	4,046	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	6,393	6,215	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,517	2,511	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	2,078	1,759	100	100
EFTEN Evolution OÜ	Lithuania	Evolution office building, Vilnius	4,446	4,168	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Saue	1,862	1,864	100	100
EFTEN Autokeskus OÜ	Estonia	ABC Motors car sales and service, Tallinn	1,391	5	100	100
EFTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,460	3,670	100	100

In the first half of 2019, the Group did not acquire any new subsidiaries.

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>										
Revenue (Note 5), incl.	1,127	804	1,204	1,140	2,305	2,161	0	0	4,636	4,105
Estonia	0	0	503	495	466	369	0	0	969	864
Latvia	0	0	356	302	0	0	0	0	356	302
Lithuania	1,127	804	345	343	1,839	1,792	0	0	3,311	2,939
Operating income, net, incl.	1,029	759	1,205	1,139	2,035	1,898	0	0	4,269	3,796
Estonia	0	0	503	495	457	362	0	0	960	857
Latvia	0	0	356	302	0	0	0	0	356	302
Lithuania	1,029	759	346	342	1,578	1,536	0	0	2,953	2,637
Operating profit, incl.	1,192	1,617	1,191	849	2,785	1,789	-104	-57	5,064	4,198
Estonia	0	0	486	319	475	392	-104	-57	857	654
Latvia	0	0	350	192	0	0	0	0	350	192
Lithuania	1,192	1,617	355	338	2,310	1,397	0	0	3,857	3,352
EBITDA, incl.	915	678	1,085	1,022	1,726	1,595	-104	-57	3,622	3,238
Estonia	0	0	456	449	371	310	-104	-57	723	702
Latvia	0	0	314	265	0	0	0	0	314	265
Lithuania	915	678	315	308	1,355	1,285	0	0	2,585	2,271
Operating profit									5,064	4,198
Net financial expense									-730	-517
Profit before income tax expense									4,334	3,681
Income tax expense (Note 9)									-636	-532
NET PROFIT FOR THE FINANCIAL PERIOD									3,698	3,149

	Office		Logistics		Retail		Non-allocated		Total	
	2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>										
Revenue (Note 5), incl.	542	433	602	592	1,177	1,079	0	0	2,321	2,104
Estonia	0	0	252	247	245	186	0	0	497	433
Latvia	0	0	178	174	0	0	0	0	178	174
Lithuania	542	433	172	171	932	893	0	0	1,646	1,497
Operating income, net, incl.	493	414	603	591	1,020	940	0	0	2,116	1,945
Estonia	0	0	252	247	240	183	0	0	492	430
Latvia	0	0	178	174	0	0	0	0	178	174
Lithuania	493	414	173	170	780	757	0	0	1,446	1,341
Operating profit, incl.	714	1,309	649	360	1,916	972	-79	-32	3,200	2,609
Estonia	0	0	259	95	300	240	-79	-32	480	303
Latvia	0	0	192	81	0	0	0	0	192	81
Lithuania	714	1,309	198	184	1,616	732	0	0	2,528	2,225
EBITDA, incl.	437	369	543	533	848	777	-79	-32	1,749	1,647
Estonia	0	0	229	225	196	158	-79	-32	346	351
Latvia	0	0	156	154	0	0	0	0	156	154
Lithuania	437	369	158	154	652	619	0	0	1,247	1,142
Operating profit									3,200	2,609
Net financial expense									-392	-310
Profit before income tax expense									2,808	2,299
Income tax expense (Note 9)									-479	-403
NET PROFIT FOR THE FINANCIAL PERIOD									2,329	1,896

SEGMENT ASSETS

As at 30 June	Office		Logistics		Retail		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>								
Investment property (Note 12)								
Estonia	0	0	12,880	12,940	17,246	10,770	30,126	23,710
Latvia	0	0	8,703	8,611	0	0	8,703	8,611
Lithuania	29,501	29,040	8,770	8,630	32,630	31,110	70,901	68,780
Total investment property	29,501	29,040	30,353	30,181	49,876	41,880	109,730	101,101
Other non-current assets							176	44
Net debt (liabilities minus cash)							-52,489	-54,496
Other short-term assets							9,714	694
NET ASSETS							67,131	47,343

In the reporting period 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, DSV SIA and DSV Transport UAB that account for 11.8%, 8.3% and 8.1% of the Group's consolidated rental income, respectively.

4 Revenue

Areas of activity	First half of the year	
	2019	2018
<i>€ thousand</i>		
Rental income from office premises	1,105	782
Rental income from retail premises	1,953	1,832
Rental income from warehousing and logistics premises	1,204	1,137
Other sales revenue	374	354
Total revenue by areas of activity (Note 3)	4,636	4,105

Revenue by geographical area	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Estonia	969	863
Latvia	356	302
Lithuania	3,311	2,940
Total revenue by geographical area (Note 3)	4,636	4,105

5 The cost of services sold

	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Repair and maintenance of rental premises	-59	-59
Property insurance	-7	-2
Land tax and real-estate tax	-49	-19
Wages and salaries, incl. taxes	-11	-2
Other sales costs	-21	0
Impairment losses of doubtful receivables	0	-3
Total cost of service sold	-147	-85

6 Marketing costs

	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Commission expenses on rental premises	-5	-7
Advertising, promotional events ¹	-215	-217
Total marketing costs	-220	-224

¹The 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	
	2019	2018
<i>EUR thousand</i>		
Management services (Note 18)	-349	-308
Office expenses	-16	-36
Wages and salaries, incl. taxes	-106	-102
Depository expenses, expenses related to shares	-84	-36
Consulting expenses	-9	-20
Accounting expenses	-22	-7
Auditing expenses	-13	-18
Depository's charges	-18	-15
Success fee	-7	0
Other general and administrative expenses	-22	-17
Depreciation	-18	-8
Total general and administrative expenses	-664	-567

8 Finance costs

	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Interest expenses, incl		
Interest expenses from loans	-554	-438
Interest expense on derivatives (-) / cost reduction (+)	-507	-412
Change in fair value of interest swaps (Note 15)	-47	-26
	-176	-82
Total finance costs	-730	-520

9 Income tax

	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Income tax from dividends	-140	-70
Deferred income tax in Lithuanian subsidiaries	-331	-361
Income tax expense from profit of Lithuanian subsidiaries	-165	-101
Total income tax expense	-636	-532

As at 30.06.2019, the Group has a deferred tax liability in connection with the use of tax amortization in Lithuanian subsidiaries in the amount of EUR 3,939 thousand (31.12.2018: EUR 3,496 thousand). Deferred tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

Earnings per share	2nd quarter		1st half year	
	2019	2018	2019	2018
Net profit of the period, in EUR thousand	2,329	1,896	3,699	3,149
Dividends per share, in euros	0.95	0.68	0.95	0.68
Weighted average number of shares over the period, in pcs	3,444,757	3,222,535	3,333,646	3,222,535
Earnings per share, in euros	0.68	0.59	1.11	0.98

11 Receivables and accrued income

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Receivables from customers (Note 15)	319	490
Prepaid taxes and receivables for reclaimed value-added tax	152	115
Other prepaid taxes	179	0
Other accrued income	19	68
Total receivables and accrued income	669	673

12 Investment property

As at 30.06.2019, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.06.2019	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	28,331	32,630	25%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,770	7%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,880	10%
DSV logistics centre	Riga, Latvia	5,398	2000	07.2016	8,796	8,703	7%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,707	10,081	8%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,061	10,200	8%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,124	9,220	7%
Hortes gardening centre in Laagri	Laagri, Estonia	3,470	2006	05.2017	3,108	3,450	3%
Hortes gardening centre in Tähesaju	Tallinn, Estonia	development in progress	2018	05.2018	4,046	4,046	3%
ABC Motors car sales and service centre	Tallinn, Estonia	2,149	2002	01.2019	3,016	3,120	2%
Selver grocery store	Tallinn, Estonia	3,063	2017	05.2017	6,223	6,630	5%
Total		79,158			100,110	109,730	86%

For more information on investment property, please see Note 3 "Segment reporting".

In the first half of 2019 and 2018, 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 01.01.2018	0	88,390	88,390
Acquisitions	900	10,849	11,749
Gain (loss) on changes in the fair value	0	962	962
Balance as at 30.06.2018	900	100,201	101,101
Balance as at 01.01.2019	1,636	101,151	102,787
Acquisitions	2,410	3,073	5,483
Gain (loss) on changes in the fair value	0	1,460	1,460
Balance as at 30.06.2019	4,046	105,684	109,730

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

As at 30 June or for the first half of the year	First half of the year	
	2019	2018
Rental income earned on investment property (Note 5)	4,262	3,751
Expenses directly attributable to management of investment property (Note 6)	-147	-85
Unpaid amounts from the acquisition of investment properties (Note 14)	607	314
Carrying amount of investment property pledged as collateral to borrowings	109,730	100,201

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 30.06.2019 and 31.12.2018 was determined using the discounted cash flow method, excl. investment property in the development stage (Hortens gardening centre in Tähesaju), where the acquisition cost was used. The following assumptions were used to determine fair value:

As at 30.06.2019:

Sector	Fair value	Valuation method	First year rental income	Discount rate	Capitalization rate	Average rent, €/m ²
<i>EUR thousand</i>						
Office premises	29,501	Discounted cash flows	2,070	8.25%	7.5%-8.0%	11.6
Storage and logistics premises	30,353	Discounted cash flows	2,424	8.25%	7.8%-8.0%	6.1
Retail premises	45,830	Discounted cash flows	4,703	8.25%-8.6%	7.5%-8.0%	11.5
Total	105,684					

As at 31.12.2018:

Sector	Fair value	Valuation method	First year rental income	Discount rate	Capitalization rate	Average rent, €/m ²
<i>EUR thousand</i>						
Office premises	29,190	Discounted cash flows	2,110	7.9%	7.5%-8.0%	11.4
Storage and logistics premises	30,240	Discounted cash flows	2,408	8.0%-8.6%	7.8%-8.0%	6.1
Retail premises	41,720	Discounted cash flows	3,742	8.25%-8.6%	7.5%-8.0%	11.4
Total	101,150		8,260			

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 30.06.2019** 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%		
<i>EUR thousand</i>								
					<i>Fair value</i>			
Office premises	Change in rental income +/- 10%	-2,460	2,350	Change in the capitalization rate	-0.5%	31,150	30,930	29,950
					0.0%	30,110	29,501	28,890
					0.5%	28,400	28,180	27,270
Storage and logistics premises	Change in rental income +/- 10%	-2,417	2,427	Change in the capitalization rate	-0.5%	32,663	31,770	31,359
					0.0%	30,961	30,353	29,750
					0.5%	29,899	29,105	28,730
Retail premises	Change in rental income +/- 10%	-4,140	4,130	Change in the capitalization rate	-0.5%	49,040	47,980	47,240
					0.0%	46,760	45,830	44,910
					0.5%	44,900	43,940	43,270

As at 31.12.2018

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%		
<i>EUR thousand</i>								
					<i>Fair value</i>			
Office premises	Change in rental income +/- 10%	-2,350	2,350	Change in the capitalization rate	-0.5%	30,420	30,610	29,200
					0.0%	29,800	29,190	28,610
					0.5%	29,200	27,970	28,040
Storage and logistics premises	Change in rental income +/- 10%	-2,413	2,414	Change in the capitalization rate	-0.5%	31,478	31,655	30,240
					0.0%	30,857	30,240	29,638
					0.5%	30,240	28,994	29,061
Retail premises	Change in rental income +/- 10%	-3,830	3,840	Change in the capitalization rate	-0.5%	43,450	43,680	41,720
					0.0%	42,580	41,720	40,900
					0.5%	41,720	40,010	40,100

Level three inputs are used to determine the fair value of all of the investment properties of the Group (Note 15).

13 Borrowings

As at 30.06.2019, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2019	Contract term	Interest rate as at 30.06.2019	Loan collateral	Value of collateral	Loan balance share of the fund's net asset value
Swedbank	Lithuania	16,500	15,586	14.08.20	1.70%	Mortgage – Saules Miestas shopping centre	32,630	23.2%
SEB	Lithuania	5,500	4,773	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,770	7.1%
SEB	Latvia	3,323	4,609	29.06.21	1.55%	Mortgage – DSV building in Riga	8,703	6.9%
SEB	Estonia	7,950	6,965	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,880	10.4%
SEB	Lithuania	5,620	4,954	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	10,081	7.4%
SEB	Lithuania	5,200	4,368	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,220	6.5%
SEB	Estonia	1,860	1,682	05.07.22	1.82%	Mortgage – Hortes gardening centre	3,450	2.5%
Swedbank	Estonia	3,700	3,263	26.06.22	1.40%	Mortgage – Selver grocery store	6,630	4.9%
SEB	Lithuania	5,850	5,569	30.05.23	2.00%	Mortgage – Evolution office building	10,200	8.3%
LHV	Estonia	1,800	1,780	25.02.24	2.95%	Mortgage – ABC Motors cars sales and service centre in Tallinn	3,120	3.8%
Swedbank	Estonia	3,290	1,438	11.01.24	1.95%	Mortgage – Hortes gardening centre building in Tallinn	4,046	3.1%
Total		60,593	54,987				109,730	42.9%

Additional information regarding borrowings is disclosed in Note 15 of the interim report.

As at 31.12.2018 the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2018	Contract term	Interest rate as at 31.12.2018	Loan collateral	Value of collateral	Loan balance share of the fund's net asset value
Swedbank	Lithuania	16,500	16,027	14.08.20	1.70%	Mortgage – Saules Miestas shopping centre	31,640	31.7%
SEB	Lithuania	5,500	4,895	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,730	9.7%
SEB	Latvia	3,323	4,547	29.06.21	1.55%	Mortgage – DSV building in Riga	8,660	9.0%
SEB	Estonia	7,950	7,113	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,850	14.1%
SEB	Lithuania	5,620	5,076	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	9,970	10.1%
SEB	Lithuania	5,200	4,490	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,220	8.9%
SEB	Lithuania	5,850	5,699	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,000	11.3%
SEB	Estonia	1,860	1,728	05.07.22	1.82%	Mortgage – Hortes gardening centre	3,430	3.4%
Swedbank	Estonia	3,700	3,333	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,650	6.6%
Total		55,503	52,908				101,150	48.8%

Short-term borrowings	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Recognition of long-term portion of long-term bank loans as short-term ¹	0	5,437
Repayments of long-term bank loans in the next period	2,825	2,698
Discounted contract fees on bank loans	-18	-30
Total short-term borrowings	2,807	8,105

¹ Additional information on the recognition of the non-current portion of non-current bank loans as at 31.12.2018 is presented in the liquidity section in Note 15.

Long-term borrowings	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Total long-term borrowings (Note 18)	54,928	52,848
incl. current portion of borrowings	2,807	8,105
incl. non-current portion of borrowings, incl.	52,121	44,743
<i>Bank loans</i>	<i>52,161</i>	<i>44,773</i>
<i>Discounted contract fees on bank loans</i>	<i>-40</i>	<i>-30</i>

Bank loans are divided as follows according to repayment date:

Bank loan repayments by repayment terms	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Less than 1 year	2,825	8,135
2-5 years	52,161	44,773

Cash flows of borrowings	First half of the year	
	2019	2018
<i>EUR thousand</i>		
Balance at the beginning of period	52,848	45,776
Bank loans received through business combinations and acquisitions	0	9,176
Bank loans received	4,916	0
Refunded bank loans through refinancing	-1,500	0
Annuity payments on bank loans	-1,337	-1,100
Change of discounted contract fees	1	-2
Balance at the end of period	54,928	53,850

14 Payables and prepayments

Short-term payables and prepayments

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Trade payables from fixed asset transactions	606	0
Other trade payables	212	242
Total trade payables	818	242
Payables from fixed asset transactions	0	178
Other payables	2	0
Total other payables	2	178
Value added tax	156	189
Corporate income tax	52	14
Social security tax	3	9
Land tax and real-estate tax	62	125
Other taxes payable	0	1
Total tax liabilities	273	338
Payables to employees	18	20
Interest liabilities	22	7
Tenant security deposits	115	120
Other accrued liabilities	32	114
Total accrued expenses	187	261
Prepayments received from buyers	20	0
Other deferred income	1	0
Total prepayments	21	0
Total payables and prepayments	1,301	1,019

Long-term payables

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Tenants security deposits	548	457
Other long-term payables	5	0
Total other long-term payables	553	457

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	30.06.2019	31.12.2018
Financial assets - loans and receivables			
Cash and cash equivalents		8,597	4,859
Short-term deposits ¹		9,000	0
Trade receivables	11	319	490
Total financial assets		17,916	5,349
Financial liabilities measured at amortised cost			
Borrowings	13	54,928	52,848
Trade payables	14	818	242
Tenant security deposits	14	663	577
Interest payables	14	22	7
Accrued expenses	14	50	134
Success fee liability		0	46
Total financial liabilities measured at amortised cost		56,481	53,854
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		365	189
Total financial liabilities measured at fair value		365	189
Total financial liabilities		56,846	54,043

¹ As at 30.06.2019, the Group has three short-term deposits in the total amount of EUR 9,000 thousand, including one deposit of EUR 2,000 thousand with interest rate of 1% per annum and maturity 29.06.2020; second deposit of EUR 4,000 thousand with maturity 27.06.2020 and interest rate of 0.15% per annum; and third deposit in the amount of EUR 3,000 thousand with maturity 25.12.2019 and interest rate of 0.01% per annum. All deposits can be terminated prematurely.

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 30.06.2019, 58% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 2.95% plus the 1-month to 6-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, 49% 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 2019, the 3-month EURIBOR fluctuated between -0.31% and -0.346%, i.e. the maximum change within the year was 0.036 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 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 started 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 30.06.2019 was negative in the amount of EUR 365 thousand (31.12.2018: EUR 189 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;
- 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 30.06.2019 the Group's interest-bearing liabilities accounted for 52.0% (31.12.2018: 51.4%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 1.9 (first half of 2018: 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 30.06.2019	Less than 1 month	Between 2 and 4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>EUR thousand</i>						
Interest-bearing liabilities	261	698	1,929	52,098	0	54,986
Interest payments	82	254	663	1,291	0	2,290
Interest payables	22	0	0	0	0	22
Trade payables	818	0	0	0	0	818
Tenant security deposits	0	40	75	378	170	663
Accrued expenses	28	0	0	0	0	28
Total financial liabilities	1,211	992	2,667	53,767	170	58,807

As at 31.12.2018	Less than 1 month	Between 2 and 4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>EUR thousand</i>						
Interest-bearing liabilities	224	673	1,804	50,207	0	52,908
Interest payments	77	230	598	1,314	0	2,219
Interest payables	7	0	0	0	0	7
Trade payables	242	0	0	0	0	242
Tenant security deposits	8	31	94	338	107	577
Accrued expenses	134	0	0	0	0	134
Total financial liabilities	692	934	2,496	51,859	107	56,087

Report of working capital

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Cash and cash equivalents	8,597	4,859
Short-term deposits	9,000	0
Receivables and accrued income (Note 11)	669	673
Prepaid expenses	45	46
Total current assets	18,311	5,578
Short-term portion of long-term liabilities (Note 13)	-2,807	-8,105
Short-term payables and prepayments (Note 14)	-1,666	-1,208
Total current liabilities	-4,473	-9,313
Total working capital	13,838	-3,735

The working capital of the Group as at 30.06.2019 in the amount of EUR 13,838 thousand. The Group estimates that the working capital is sufficient for the meeting the claims occurring in the Group's day to day business. As at 31.12.2018, the Group's working capital was negative in the amount of EUR 3,735 thousand due to the short-term recognition of the long-term bank loan portion of the Group's subsidiary EFTEN Evolution UAB in the amount of EUR 5,437 thousand. Long-term bank loan was recognised as short term due to the non-compliance of the loan service coverage ratio (DSCR) provisionally stipulated in the loan agreement with the terms of the loan agreement. The covenant was below the required rate in relation to the costs associated with the rental agreement ending in April 2019 in the Evolution Office building and the temporary vacancy. After the balance sheet date in January 2019, the lender has issued a written confirmation to EFTEN Evolution UAB to continue the loan agreement until the agreed deadline, i.e. until 30.05.2023.

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:

	30.06.2019	31.12.2018
Undue	229	386
Past due, incl.	90	104
<i>up to 30 days</i>	78	91
<i>30-60 days</i>	9	13
<i>more than 60 days</i>	3	0
Total trade receivables (Note 11)	319	490

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

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Cash and cash equivalents	8,597	4,859
Short-term deposits	9,000	0
Trade receivables	319	490
Total maximum credit risk	17,916	5,349

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 (incl interest expenses).

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 2019 is in the amount of EUR 1,657 thousand that allows, after deduction of liquidity reserve and income tax expense, for the payment to shareholders of net dividends in the amount of EUR 1,248 thousand (30 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of EUR 3,061 thousand (95 cents per share).

Report of capitalization

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Mortgage guaranteed short-term liabilities (Note 13)	2,825	8,135
Unsecured short-term liabilities (Note 14)	1,648	1,178
Total short-term liabilities	4,473	9,313
Mortgage guaranteed long-term liabilities (Note 13)	52,161	44,773
Unsecured long-term liabilities (Note 14)	4,452	3,923
Total long-term liabilities	56,613	48,696
Share capital and share premium (Note 16)	51,883	35,883
Reserves	936	621
Retained earnings (Note 17)	14,312	13,990
Total shareholder's equity	67,131	50,494
Total liabilities and equity	128,217	108,503

More detailed information on mortgages established as collateral for the obligations provided in the capitalisation report is available in Note 12 of the report.

Report of net debt

<i>EUR thousand</i>	30.06.2019	31.12.2018
Cash (Note 12)	8,597	4,859
Cash equivalents	0	0
Tradeable securities and short-term deposits	9,000	0
Total liquid assets	17,597	4,859
The short-term portion of long-term liabilities (Note 14)	2,825	8,135
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	-14,772	3,276
Long-term bank loans (long-term portion) (Note 14)	52,161	44,773
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	52,161	44,773
Total net debt	37,389	48,049

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 30.06.2019 and 31.12.2018, 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

On April 17, 2019, EFTEN Real Estate Fund III AS decided to increase the share capital by issuing 1,000,000 new ordinary shares based on the decision of the general meeting of shareholders. The increase of the share capital of EFTEN Real Estate Fund III AS was entered in the Commercial Register on 14.06.2019. The new shares were issued with a total value of EUR 16 per share, ie the Company received EUR 16 million from the increase of the share capital, of which EUR 10 million was the share capital contribution and EUR 6 million the share premium.

The new registered share capital of the Fund is EUR 42,225,350 divided into 4,222,535 shares with a nominal value of EUR 10 each. Without amending the Articles of Association, the company has the right to increase the share capital to EUR 115,411 thousand.

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

Company	As at 31.12.2018	
	Number of shares	Shareholding, %
Altius Energia OÜ	598,013	14.16
Järve Kaubanduskeskus OÜ	431,992	10.23
Hoiukonto OÜ	430,211	10.19

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

Company	As at 30.06.2019	
	Number of shares	Shareholding, %
Viljar Arakas, member of the Management Board	2,000	0.05%
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	11,293	0.27%
Tõnu Uustalu, member of the Management Board	12,031	0.28%
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	2,046	0.05%
Altius Energia OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	598,013	14.16%
Olav Miil, member of the Supervisory Board	32,312	0.77%
Siive Penu, member of the Supervisory Board	1,282	0.03%

17 Contingent liabilities**Contingent income tax liability**

	30.06.2019	31.12.2018
<i>EUR thousand</i>		
Retained earnings of the company	14,312	13,990
Potential income tax liability	2,862	2,798
Possible dividends	11,450	11,192

The maximum possible income tax liability is calculated on the assumption that the total net dividends to be distributed and the corporate income tax expense on the payment of such dividends cannot exceed the distributable profit as at 30.06.2019 and 31.12.2018.

18 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 2019 in the amount of EUR 349 thousand (first half of 2018: EUR 308 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 2019 nor in the first half of 2018.

As at 30.06.2019, the Group had 12 employees who were remunerated including taxes in the amount of EUR 106 thousand (first half of 2018: EUR 102 thousand). In 2018 and 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 II QUARTER AND 6-MONTHS OF 2019

We hereby confirm that EFTEN Real Estate Fund III AS consolidated interim report for the second quarter and six months of 2019 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