



**EFTEN Real Estate Fund III**

# **Consolidated Interim Report – 3rd quarter and nine months ended 30 September 2019**

(translation of the Estonian original)

## **EFTEN Real Estate Fund III AS**

Commercial register number: 12864036

Beginning of financial period: 01.01.2019

End of financial period: 30.09.2019

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## MANAGEMENT REPORT

### Financial overview

The consolidated sales revenue of EFTEN Real Estate Fund III AS for third quarter of 2019 was EUR 2.364 million (third quarter of 2018: EUR 2.238 million), which increased by 5.6% in a year. The Group's net profit for the same period amounted to EUR 1.429 million (third quarter of 2018: EUR 1.399 million).

The consolidated sales revenue of EFTEN Real Estate Fund III AS for 9 months of 2019 was EUR 7.000 million (9 months of 2018: EUR 6.343 million), which increased by 10.4% in a year. The Group's profit before revaluation of investment properties, depreciation and financial income/ -costs and income tax expense (EBITDA) totaled EUR 4.459 million (9 months of 2018: EUR 4.282 million), which increased by 4.1% in a year. The Group's net profit for the same period was EUR 5.127 million (9 months of 2018: EUR 4.548 million), including profit from revaluation of investment properties in 2019 EUR 1.46 million (9 months of 2018: EUR 0.962 million).

The consolidated gross profit margin in the first nine months of 2019 was 97% (9 months of 2018: same). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for only 3% of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 22% of the revenue in the first nine months of 2019. The respective indicator was 21% in the first nine months of 2018.

	9 months	
	2019	2018
<i>EUR million</i>		
Rental revenue, other fees from investment properties	7.000	6.343
Expenses related to investment properties, incl. marketing costs	-0.532	-0.516
Interest expense and interest income	-1.031	-0.716
<b>Net rental revenue less finance costs</b>	<b>5.437</b>	<b>5.111</b>
Management fees	-0.532	-0.468
Other revenue and expenses	-0.446	-0.361
<b>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</b>	<b>4.459</b>	<b>4.282</b>

As at 30.09.2019, the Group's total assets were in the amount of EUR 130.297 million (31.12.2018: 108.503 million), including fair value of investment property, which accounted for 85% (31.12.2018: 95%) of the total assets. The volume of assets increased in year 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 nine months of the year 2019 for a total of EUR 6.865 million.

	30.09.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
<i>EUR million</i>					
Investment properties	111.112	102.787	88.390	73.539	36.506
Other non-current assets	0.134	0.138	0.090	0.058	0.080
Current assets, excluding cash	9.758	0.720	0.678	0.444	0.327
Net debt (cash minus liabilities)	-52.444	-53.150	-42.773	-43.721	-21.567
Net asset value (NAV)	68.560	50.494	46.385	30.320	15.346
Net asset value (NAV) per share, in cents	16.24	15.67	14.39	12.71	11.08

In the first nine months of the year, the net asset value of the share of EFTEN Real Estate Fund III AS increased by 3.6%. From the 2018 profit, EUR 3,061 thousand (in spring 2018: EUR 2,191 thousand) was paid out in dividends in May 2019. Without the dividend payment, the Fund's NAV would have increased by 9.7% in the first nine months of 2019. Return on invested capital (ROIC) was 16.7% in the first nine months of 2019 (30.09.2018: 16.4%).

Access to flexible financing conditions will help to increase the Group's competitiveness. In the first nine months of 2019, the Group entered into new loan contracts in the total amount of EUR 6.399 million in connection with the acquisition of new investment properties and developments. As at the end of the first nine months of 2019, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.8% (31.12.2018: same) and the LTV (loan to value) ratio was 50% (31.12.2018: 52%).

During the first nine months of 2019, the Group earned free cash flow of EUR 2.5 million (9 months of 2018: EUR 2.4 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 1.9 million (46 cents per share) from the profit earned in the first nine months of the year.

#### Potential dividend payment calculation

	9 months	
	2019	2018
<i>EUR thousand</i>		
<b>Operating profit</b>	<b>6,950</b>	<b>5,960</b>
Adjustment for revaluation gains on investment properties	-1,460	-962
<b>EBITDA</b>	<b>5,490</b>	<b>4,998</b>
Interest expense	-834	-705
Bank loan repayments	-2,061	-1,764
Income tax on profit (Lithuania)	-107	-167
<b>Free cash flow</b>	<b>2,488</b>	<b>2,362</b>
80% of the free cash flow	1,990	1,890
Potential dividend income tax expense (Estonia, Latvia)	-68	-107
<b>Potential net dividends per share (in euros)</b>	<b>1,922</b>	<b>1,783</b>
Number of shares at the end of the period	4,222,535	3,222,535
<b>Potential net dividends per share according to dividend policy (in euros)</b>	<b>0.46</b>	<b>0.55</b>

#### Key performance and liquidity ratios

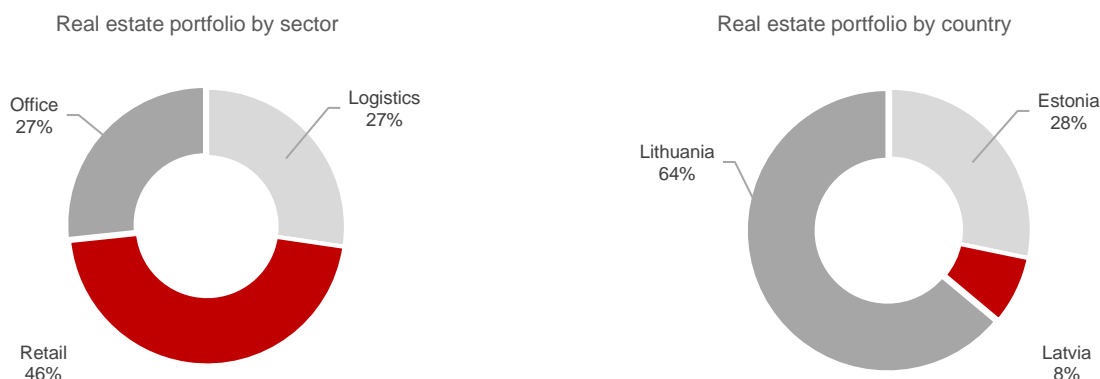
9 months or as at 30 September	2019	2018
ROE, % (net profit of the period / average equity of the period) x 100	8.6	9.6
ROA, % (net profit of the period / average assets of the period) x 100	4.3	4.5
ROIC, % (net profit of the period / average invested capital of the period) x 100 <sup>1</sup>	11.7	12.7
Sales revenue (EUR thousand)	7,000	6,343
EBITDA (EUR thousand)	5,518	5,011
EBITDA margin, %	78.8	79.0
EBIT (EUR thousand)	6,950	5,960.0
EBIT margin, %	99.3	94.0
Liquidity ratio (current assets / current liabilities)	1.0	1.3
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.9	2.0

<sup>1</sup> 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 nine months of 2019, the Group had 11 (31.12.2018: 10) commercial investment properties with a fair value as at the balance sheet date of EUR 111.112 (31.12.2018: EUR 102.787) million and acquisition cost of EUR 101.553 (31.12.2018: EUR 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 3.7 million was invested during the first 9 months of 2019. The construction of Tähesaju Hortes was completed in the beginning of October 2019.



In June 2019, an independent valuator 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.

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

Investment property, as at 30.09.2019	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	6.8	1
DSV Riga	100	8,706	12,149	716	100	6.8	1
DSV Vilnius	100	8,770	11,687	697	100	6.8	1
<b>Total logistics</b>		<b>30,356</b>	<b>39,850</b>	<b>2,425</b>	<b>100</b>	<b>6.8</b>	<b>3</b>
Saules Miestas shopping center	100	32,631	19,881	3,052	98	4.3	115
Hortes gardening center, Laagri	100	3,450	3,470	266	100	12.7	1
Selver, Laagri	100	6,630	3,063	500	98	8.2	9
Hortes gardening center, Tallinn	100	5,305	5,300		<i>development stage</i>		
ABC Motors Autokeskus, Tallinn	100	3,122	2,149	255	100	9.4	1
<b>Total retail</b>		<b>51,138</b>	<b>33,863</b>	<b>4,073</b>		<b>5.7</b>	<b>126</b>
Ulonu office building, Vilnius	100	9,220	5,174	714	100	2.4	15
Evolution office building, Vilnius	100	10,317	6,172	579	67	2.7	34
L3 office building, Vilnius	100	10,081	6,151	777	100	1.8	40
<b>Total office</b>		<b>29,618</b>	<b>17,497</b>	<b>2,070</b>	<b>94</b>	<b>2.5</b>	<b>89</b>
<b>Total real estate portfolio</b>		<b>111,112</b>	<b>91,210</b>	<b>8,568</b>	<b>98</b>	<b>5.1</b>	<b>218</b>

## Information on shares

On 17th of April 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, i.e. EUR 16 million was received by the Group for the increase of share capital.

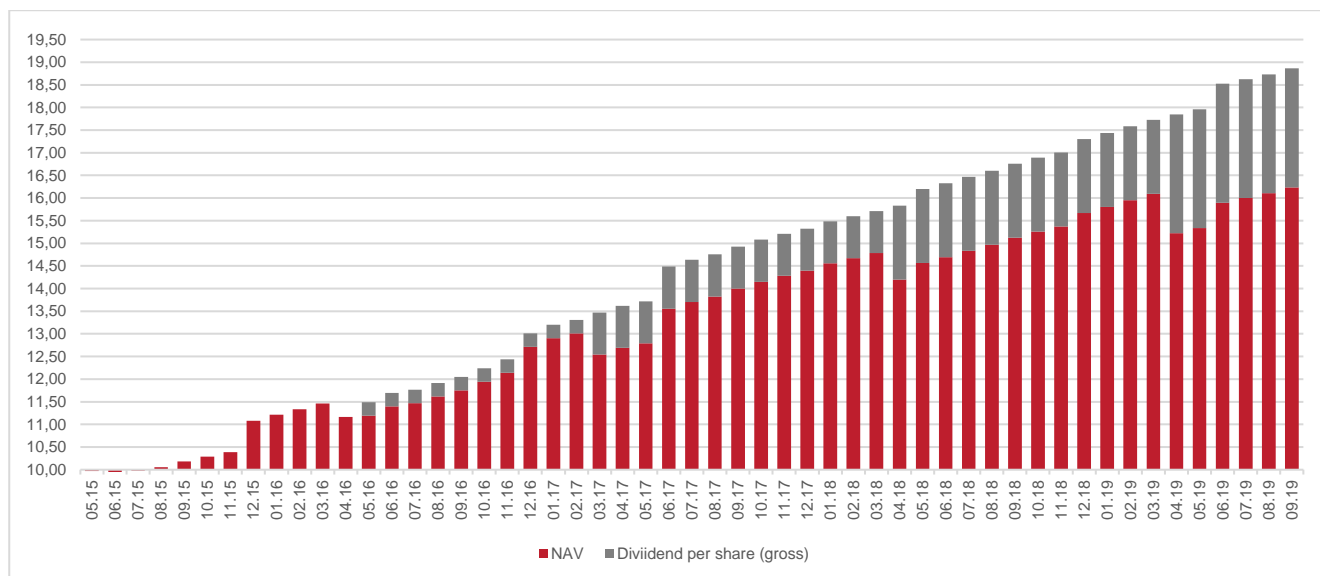
The net book value of EFTEN Real Estate Fund III share as at 30.09.2019 was 16.24 euros (31.12.2018: 15.67 euros). EFTEN Real Estate Fund III AS shares are freely traded on the Tallinn Stock Exchange. The closing price of the EFT1T share as at 30.09.2019 was 17.8 euros, rising by 9.9% over the 9 months (from 16.2 euros at 31.12.2018). During the 9 months of 2019, EFT1T shares traded at EUR 16.0 to EUR 19.1 per share, and the median closing price during the 9 months was EUR 17.5. During the 9 months, the volume of transactions with EFT1T shares totaled 1,667 thousand euros.

In addition to the aforementioned share net asset value calculated according to IFRS (EUR 16.24 as at 30.09.2019), 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 30.09.2019 was EUR 17.29 (31.12.2018: EUR 16.81).

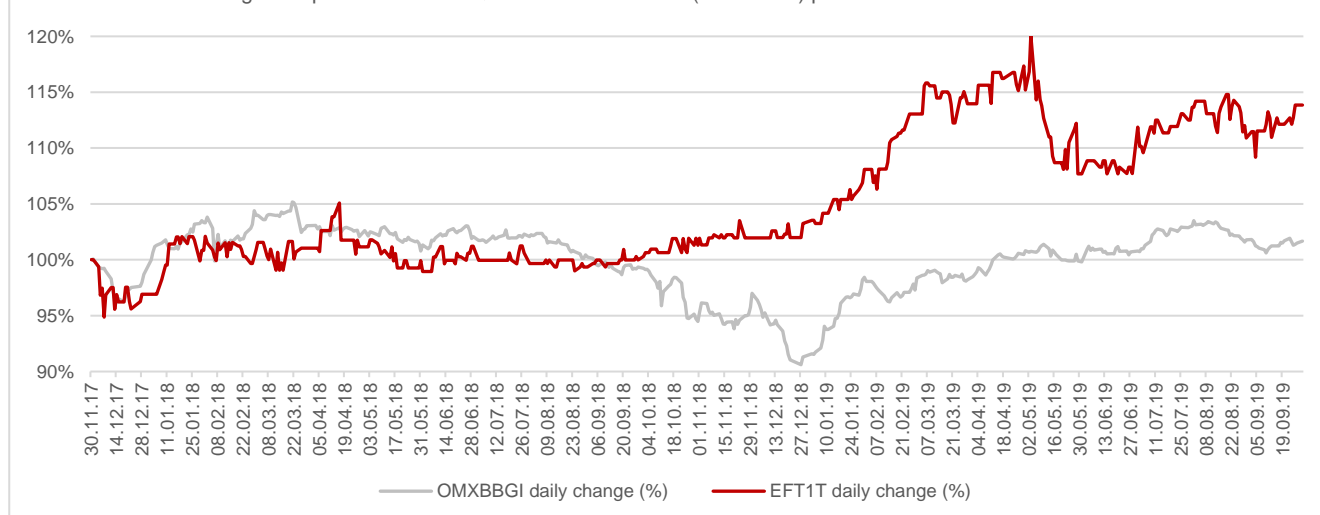
**EPRA net value and accounting result**

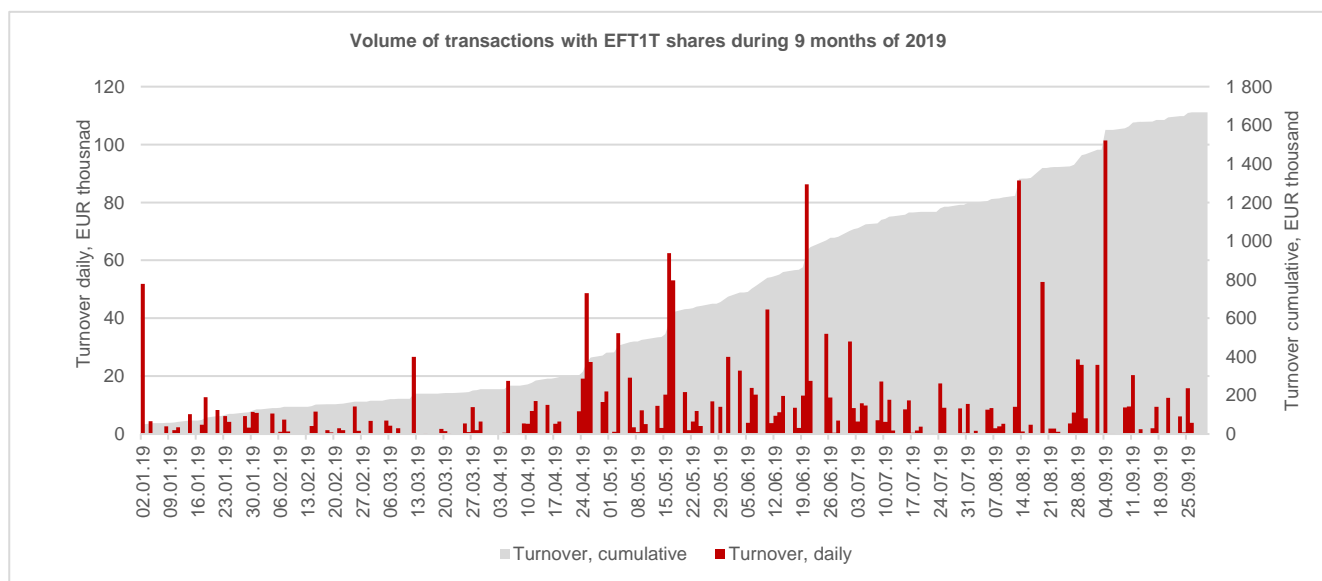
EUR thousand	30.09.2019	30.09.2018
Net asset value calculated in accordance with IFRS	68,560	48,742
Exclusion of deferred income tax on investment property	4,039	3,325
Exclusion of the fair value of financial instruments	391	72
<b>EPRA net asset value</b>	<b>72,990</b>	<b>52,139</b>
Number of shares at the balance sheet date	4,222,535	3,222,535
<b>EPRA net asset value per share, in EUR</b>	<b>17.29</b>	<b>16.18</b>
EPRA NAV growth, in EUR	0.47	0.88
Dividend paid per share, in EUR	0.95	0.68
Income tax on dividends paid per share, in EUR	0.04	0.02
<b>Period earnings per share, in EUR</b>	<b>1.47</b>	<b>1.58</b>
<b>Period earnings per share, increase</b>	<b>8.7%</b>	<b>10.3%</b>

As at 30.09.2019, payments made to the share capital of EFTEN Real Estate Fund III AS total EUR 51.883 million (31.12.2018: 35.883 EUR million) and the number of shares as at 30.09.2019 was 4,222,535 (31.12.2018: 3,222,535). EFTEN Real Estate Fund III AS listed its shares on NASDAQ Tallinn Stock Exchange in 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.

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

The Dynamics of EFTEN Real Estate Fund III AS stock price and trading volume on NASDAQ TALLINN stock exchange compared to NASDAQ Baltic Benchmark GI (OMXBBGI) period from 01.12.2017 to 30.09.2019





As at 30.09.2019, EFTEN Real Estate Fund III AS had 2,661 shareholders, of whom 21% were legal entities. Legal entities held a total of 78.8% of the Fund's share capital. Division of shares is given in the table below.

	Shareholders, pcs			Number of shares			Shareholding			Total shareholding
	Legal entities	Individuals	Total shareholders	Legal entities	Individuals	Total shares	Legal entities	Individuals		
Austria	-	1	1	-	1,255	1,255	-	0.0297%	0.0297%	
China	-	1	1	-	75	75	-	0.0018%	0.0018%	
Denmark	-	2	2	-	38	38	-	0.0009%	0.0009%	
Estonia	536	2,031	2,567	3,323,736	884,215	4,207,951	78.7%	20.9404%	99.6546%	
Finland	1	3	4	151	386	537	0.0%	0.0091%	0.0127%	
Germany	-	1	1	-	309	309	-	0.0073%	0.0073%	
Hungary	-	1	1	-	65	65	-	0.0015%	0.0015%	
Ireland	-	1	1	-	66	66	-	0.0016%	0.0016%	
Norway	-	2	2	-	161	161	-	0.0038%	0.0038%	
Latvia	3	1	4	827	1,692	2,519	0.0%	0.0401%	0.0597%	
Lithuania	4	2	6	1,491	7,201	8,692	0.0%	0.1705%	0.2058%	
Russia	-	1	1	-	473	473	-	0.0112%	0.0112%	
United Arab Emirates	-	1	1	-	43	43	-	0.0010%	0.0010%	
Oman	-	1	1	-	61	61	-	0.0014%	0.0014%	
Sweden	-	1	1	-	125	125	-	0.0030%	0.0030%	
Italy	-	2	2	-	154	154	-	0.0036%	0.0036%	
Turkey	-	1	1	-	5	5	-	0.0001%	0.0001%	
Great Britain	-	1	1	-	5	5	-	0.0001%	0.0001%	
United States of America	1	-	1	1	-	1	0.0%	-	0.0000%	
<b>Total</b>	<b>545</b>	<b>2,054</b>	<b>2,599</b>	<b>3,326,206</b>	<b>896,329</b>	<b>4,222,535</b>	<b>78.8%</b>	<b>21.2273%</b>	<b>100.0000%</b>	

As at 30.09.2019, EFTEN Real Estate Fund III AS has three shareholders with ownership interest in excess of 10%:

Company	As at 30.09.2019	
	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	3rd quarter		9 months	
		2019	2018	2019	2018
Revenue	3,4	2,364	2,238	7,000	6,343
Cost of services sold	5	-82	-99	-229	-184
<b>Gross profit</b>		<b>2,282</b>	<b>2,139</b>	<b>6,771</b>	<b>6,159</b>
Marketing costs	6	-83	-108	-303	-332
General and administrative expenses	7	-313	-269	-977	-836
Gain / loss from revaluation of investment properties	12	0	0	1,460	962
Other operating income and expense		0	0	-1	7
<b>Operating profit</b>	<b>3</b>	<b>1,886</b>	<b>1,762</b>	<b>6,950</b>	<b>5,960</b>
Interest income		5	0	5	3
Finance costs	8	-306	-199	-1,036	-719
<b>Profit before income tax</b>		<b>1,585</b>	<b>1,563</b>	<b>5,919</b>	<b>5,244</b>
Income tax expense	9	-156	-164	-792	-696
<b>Total comprehensive income for the financial period</b>	<b>3</b>	<b>1,429</b>	<b>1,399</b>	<b>5,127</b>	<b>4,548</b>
<b>Earnings per share</b>	<b>10</b>				
- Basic		0.34	0.43	1.41	1.41
- Diluted		0.34	0.43	1.41	1.41

The notes on pages 11-25 are an integral part of the financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.09.2019	31.12.2018
<i>EUR thousand</i>			
<b>ASSETS</b>			
Cash and cash equivalents	15	9,293	4,859
Short-term deposits	15	9,000	0
Receivables and accrued income	11	705	673
Prepaid expenses		53	46
<b>Total current assets</b>		<b>19,051</b>	<b>5,578</b>
Long-term receivables		0	24
Investment property	3,12	111,112	102,787
Property, plant and equipment		134	114
<b>Total non-current assets</b>		<b>111,246</b>	<b>102,925</b>
<b>TOTAL ASSETS</b>		<b>130,297</b>	<b>108,503</b>
<b>LIABILITIES AND EQUITY</b>			
Borrowings	13	17,245	8,105
Derivative instruments	15	391	189
Payables and prepayments	14	936	1,019
<b>Total current liabilities</b>		<b>18,572</b>	<b>9,313</b>
Borrowings	13	38,449	44,743
Other long-term liabilities	14	677	457
Deferred income tax liability	9	4,039	3,496
<b>Total non-current liabilities</b>		<b>43,165</b>	<b>48,696</b>
<b>Total liabilities</b>		<b>61,737</b>	<b>58,009</b>
Share capital	16	42,225	32,225
Share premium	16	9,658	3,658
Statutory reserve capital		936	621
Retained earnings	17	15,741	13,990
<b>Total equity</b>		<b>68,560</b>	<b>50,494</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>130,297</b>	<b>108,503</b>

The notes on pages 11-25 are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	3rd quarter		9 months	
		2019	2018	2019	2018
<i>EUR thousand</i>					
<b>Net profit</b>		<b>1,429</b>	<b>1,399</b>	<b>5,127</b>	<b>4,548</b>
<i>Adjustments:</i>					
Finance costs	8	301	196	1,031	716
Gain (loss) from revaluation of investment properties	12	0	0	-1,460	-962
Change in success fee liability		0	1	0	0
Depreciation, amortization and impairment	7	10	4	29	13
Gain (loss) from the sale of property, plant and equipment		0	0	0	-7
Income tax expense	9	156	164	792	696
<b>Total adjustments with non-cash changes</b>		<b>462</b>	<b>365</b>	<b>392</b>	<b>456</b>
<b>Cash flow from operations before changes in working capital</b>		<b>1,891</b>	<b>1,764</b>	<b>5,519</b>	<b>5,004</b>
Change in receivables and payables related to operating activities		-42	-96	-56	-312
<b>Net cash generated from operating activities</b>		<b>1,849</b>	<b>1,668</b>	<b>5,463</b>	<b>4,692</b>
Purchase of property, plant and equipment		-9	8	-37	-2
Purchase of investment property	12	-1,619	-76	-6,809	-12,309
Sale of investment property	12	0	0	0	7
Short-term deposits	15	0	0	-9,000	0
Acquisition of subsidiaries	2	0	-10	0	-100
<b>Net cash generated from investing activities</b>		<b>-1,628</b>	<b>-78</b>	<b>-15,846</b>	<b>-12,404</b>
Loans received	13	1,483	316	6,399	9,492
Scheduled loan repayments	13	-724	-664	-3,561	-1,764
Interest paid		-284	-260	-821	-698
Proceeds from issuance of shares	16	0	0	16,000	0
Dividends paid	15	0	0	-3,061	-2,191
Income tax paid on dividends		0	0	-139	-70
<b>Net cash generated from financing activities</b>		<b>475</b>	<b>-608</b>	<b>14,817</b>	<b>4,769</b>
<b>NET CASH FLOW</b>		<b>696</b>	<b>982</b>	<b>4,434</b>	<b>-2,943</b>
<b>Cash and cash equivalents at the beginning of period</b>	15	<b>8,597</b>	<b>4,208</b>	<b>4,859</b>	<b>8,133</b>
Change in cash and cash equivalents		696	982	4,434	-2,943
<b>Cash and cash equivalents at the end of period</b>	15	<b>9,293</b>	<b>5,190</b>	<b>9,293</b>	<b>5,190</b>

The notes on pages 11-25 are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>EUR thousand</i>	Share capital	Share premium	Statutory reserve capital	Retained earnings	<b>Total</b>
<b>Balance as at 31.12.2017</b>	<b>32,225</b>	<b>3,658</b>	<b>293</b>	<b>10,209</b>	<b>46,385</b>
Issue of shares			0	0	0
Dividends paid	0	0	0	-2,191	-2,191
Transfers to statutory reserve capital	0	0	329	-329	0
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>329</b>	<b>-2,520</b>	<b>-2,191</b>
Net profit for the financial period	0	0	0	4,548	4,548
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,548</b>	<b>4,548</b>
<b>Balance as at 30.09.2018</b>	<b>32,225</b>	<b>3,658</b>	<b>622</b>	<b>12,237</b>	<b>48,742</b>
<b>Balance as at 31.12.2018</b>	<b>32,225</b>	<b>3,658</b>	<b>621</b>	<b>13,990</b>	<b>50,494</b>
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
<b>Total transactions with owners</b>	<b>10,000</b>	<b>6,000</b>	<b>315</b>	<b>-3,376</b>	<b>12,939</b>
Net profit for the financial period	0	0	0	5,127	5,127
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,127</b>	<b>5,127</b>
<b>Balance as at 30.09.2019</b>	<b>42,225</b>	<b>9,658</b>	<b>936</b>	<b>15,741</b>	<b>68,560</b>

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

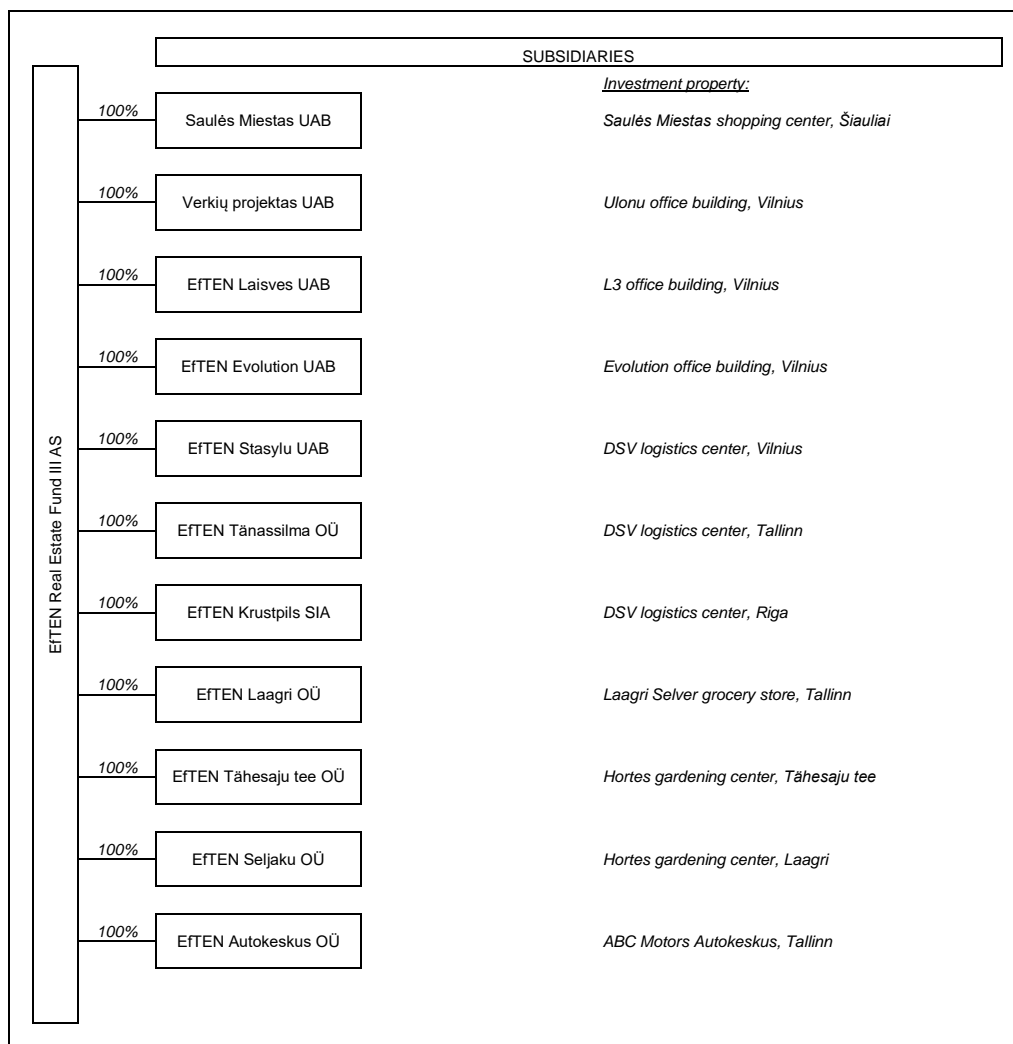
The notes on pages 11-25 are an integral part of the financial statements.

## 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 30.09.2019 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 interim financial statements for the third quarter and 9 months 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	
			30.09.2019	31.12.2018
<b>Parent company</b>				
EFTEN Real Estate Fund III AS	Estonia			
<b>Subsidiaries</b>				
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	14,855	13,855
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	4,050	3,961
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,873	4,755
EFTEN Stasyļu UAB	Lihtuania	DSV logistics center, Vilnius	4,100	4,046
EFTEN Tānassilma OÜ	Estonia	DSV logistics center, Tallinn	6,594	6,215
EFTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,642	2,511
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	2,052	1,759
EFTEN Evolution OÜ	Lithuania	Evolution office building, Vilnius	4,488	4,168
EFTEN Seljaku OÜ	Estonia	Hortes gardening center, Saue	1,913	1,864
EFTEN Autokeskus OÜ	Estonia	ABC Motors Autokeskus, Tallinn	1,432	5
EFTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,541	3,670

During the 9 months of 2019, the Group did not acquire any new subsidiaries.

## 3 Segment reporting

### SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
	9 months		9 months		9 months		9 months		9 months	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>										
<b>Revenue (Note 5), incl.</b>	<b>1,652</b>	<b>1,347</b>	<b>1,806</b>	<b>1,736</b>	<b>3,542</b>	<b>3,260</b>	<b>0</b>	<b>0</b>	<b>7,000</b>	<b>6,343</b>
Estonia	0	0	754	742	712	554	0	0	1,466	1,296
Latvia	0	0	533	477	0	0	0	0	533	477
Lithuania	1,652	1,347	519	517	2,830	2,706	0	0	5,001	4,570
<b>Operating income, net, incl.</b>	<b>1,504</b>	<b>1,246</b>	<b>1,806</b>	<b>1,731</b>	<b>3,158</b>	<b>2,850</b>	<b>0</b>	<b>0</b>	<b>6,468</b>	<b>5,827</b>
Estonia	0	0	754	742	694	545	0	0	1,448	1,287
Latvia	0	0	533	477	0	0	0	0	533	477
Lithuania	1,504	1,246	519	512	2,464	2,305	0	0	4,487	4,063
<b>Operating profit, incl.</b>	<b>1,607</b>	<b>2,055</b>	<b>1,733</b>	<b>1,384</b>	<b>3,734</b>	<b>2,599</b>	<b>-124</b>	<b>-78</b>	<b>6,950</b>	<b>5,960</b>
Estonia	0	0	715	544	669	545	-124	-78	1,260	1,011
Latvia	0	0	507	347	0	0	0	0	507	347
Lithuania	1,607	2,055	511	493	3,065	2,054	0	0	5,183	4,602
<b>EBITDA, incl.</b>	<b>1,331</b>	<b>1,116</b>	<b>1,628</b>	<b>1,556</b>	<b>2,682</b>	<b>2,413</b>	<b>-124</b>	<b>-78</b>	<b>5,517</b>	<b>5,007</b>
Estonia	0	0	685	674	565	463	-124	-78	1,126	1,059
Latvia	0	0	472	419	0	0	0	0	472	419
Lithuania	1,331	1,116	471	463	2,117	1,950	0	0	3,919	3,529
<b>Operating profit</b>									<b>6,950</b>	<b>5,960</b>
Net financial expense									-1,031	-716
<b>Profit before income tax expense</b>									<b>5,919</b>	<b>5,244</b>
Income tax expense (Note 9)									-792	-696
<b>NET PROFIT FOR THE FINANCIAL PERIOD</b>									<b>5,127</b>	<b>4,548</b>

	Office		Logistics		Retail		Non-allocated		Total	
	III quarter		III quarter		III quarter		III quarter		III quarter	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>										
<b>Revenue (Note 5), incl.</b>	<b>525</b>	<b>543</b>	<b>602</b>	<b>596</b>	<b>1,237</b>	<b>1,099</b>	<b>0</b>	<b>0</b>	<b>2,364</b>	<b>2,238</b>
Estonia	0	0	251	247	246	185	0	0	497	432
Latvia	0	0	177	175	0	0	0	0	177	175
Lithuania	525	543	174	174	991	914	0	0	1,690	1,631
<b>Operating income, net, incl.</b>	<b>475</b>	<b>487</b>	<b>601</b>	<b>592</b>	<b>1,123</b>	<b>952</b>	<b>0</b>	<b>0</b>	<b>2,199</b>	<b>2,031</b>
Estonia	0	0	251	247	237	183	0	0	488	430
Latvia	0	0	177	175	0	0	0	0	177	175
Lithuania	475	487	173	170	886	769	0	0	1,534	1,426
<b>Operating profit, incl.</b>	<b>415</b>	<b>438</b>	<b>542</b>	<b>535</b>	<b>949</b>	<b>810</b>	<b>-20</b>	<b>-21</b>	<b>1,886</b>	<b>1,762</b>
Estonia	0	0	229	225	194	153	-20	-21	403	357
Latvia	0	0	157	155	0	0	0	0	157	155
Lithuania	415	438	156	155	755	657	0	0	1,326	1,250
<b>EBITDA, incl.</b>	<b>416</b>	<b>438</b>	<b>543</b>	<b>534</b>	<b>956</b>	<b>818</b>	<b>-20</b>	<b>-21</b>	<b>1,895</b>	<b>1,769</b>
Estonia	0	0	229	225	194	153	-20	-21	403	357
Latvia	0	0	158	154	0	0	0	0	158	154
Lithuania	416	438	156	155	762	665	0	0	1,334	1,258
<b>Operating profit</b>									<b>1,886</b>	<b>1,762</b>
Net financial expense									-301	-199
<b>Profit before income tax expense</b>									<b>1,585</b>	<b>1,563</b>
Income tax expense (Note 9)									-156	-164
<b>NET PROFIT FOR THE FINANCIAL PERIOD</b>									<b>1,429</b>	<b>1,399</b>

**SEGMENT ASSETS**

As at 30 September	Office		Logistics		Retail		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR thousand</i>								
<b>Investment property (Note 12)</b>								
Estonia	0	0	12,880	12,940	18,507	10,770	31,387	23,710
Latvia	0	0	8,706	8,632	0	0	8,706	8,632
Lithuania	29,618	29,040	8,770	8,630	32,631	31,296	71,019	68,966
<b>Total investment property</b>	<b>29,618</b>	<b>29,040</b>	<b>30,356</b>	<b>30,202</b>	<b>51,138</b>	<b>42,066</b>	<b>111,112</b>	<b>101,308</b>
Other non-current assets							134	26
Net debt (liabilities minus cash)							-52,444	-53,068
Other short-term assets							9,758	476
<b>NET ASSETS</b>							<b>68,560</b>	<b>48,742</b>

In the accounting 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 owns the investment property.

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	9 months	
	2019	2018
<i>EUR thousand</i>		
Rental income from office premises	1,642	1,314
Rental income from retail premises	3,004	2,762
Rental income from warehousing and logistics premises	1,806	1,729
Other sales revenue	548	538
<b>Total revenue by areas of activity (Note 3, 12)</b>	<b>7,000</b>	<b>6,343</b>

Revenue by geographical area	9 months	
	2019	2018
<i>EUR thousand</i>		
Estonia	1,466	1,296
Latvia	533	477
Lithuania	5,001	4,570
<b>Total revenue by geographical area (Note 3)</b>	<b>7,000</b>	<b>6,343</b>

## 5 Cost of services sold

	9 months	
	2019	2018
<i>EUR thousand</i>		
Repair and maintenance of rental premises	-179	-74
Property insurance	-2	-13
Land tax and real-estate tax	-10	-66
Wages and salaries, incl. taxes	-16	-7
Other sales costs	-22	-20
Impairment losses of doubtful receivables	0	-4
<b>Total cost of services sold</b>	<b>-229</b>	<b>-184</b>

## 6 Marketing costs

	9 months	
	2019	2018
<i>EUR thousand</i>		
Commission expenses on	-7	-7
Advertising, promotional events <sup>1</sup>	-296	-325
<b>Total marketing costs</b>	<b>-303</b>	<b>-332</b>

<sup>1</sup>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

	9 months	
	2019	2018
<i>EUR thousand</i>		
Management services (Note 18)	-532	-468
Office expenses	-27	-31
Wages and salaries, incl. taxes	-176	-167
Depository's charges, expenses related to shares	-107	-52
Consulting expenses, regulator costs, accounting service	-64	-42
Audit expenses	-13	-20
Other general and administrative expenses	-30	-43
Depreciation expense	-28	-13
<b>Total general and administrative expenses</b>	<b>-977</b>	<b>-836</b>

**8 Finance costs**

	9 months	
	2019	2018
<i>EUR thousand</i>		
Interest expenses, incl.	-834	-705
Interest expense from loans	-762	-654
Interest expense from derivatives (-)/ cost reductions (+)	-72	-51
Change in fair value of interest swaps (Note 15)	-202	-14
<b>Total finance costs</b>	<b>-1,036</b>	<b>-719</b>

**9 Income tax**

	9 months	
	2019	2018
<i>EUR thousand</i>		
Income tax from dividends	-142	-70
Deferred income tax in Lithuanian subsidiaries	-543	-459
Income tax expense from Lithuanian profit	-107	-167
<b>Total income tax expense</b>	<b>-792</b>	<b>-696</b>

As at 30.09.2019, the Group has a deferred tax liability in connection with the use of tax amortization in Lithuania in the amount of EUR 4,039 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**

	III quarter		9 months	
	2019	2018	2019	2018
<b>Earnings per share</b>				
Net profit of the period, <i>in EUR thousand</i>	<b>1,428</b>	1,400	<b>5,126</b>	4,549
Dividends per share, in euros	<b>0.95</b>	0.68	<b>0.95</b>	0.68
Weighted average number of shares over the period, in pcs	<b>4,222,535</b>	3,222,535	<b>3,634,300</b>	3,222,535
Earnings per share, in euros	<b>0.34</b>	0.43	<b>1.41</b>	1.41

**11 Receivables and accrued income**

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Receivables from customers	318	490
Prepaid taxes and receivables for reclaimed value-added tax	112	115
Other prepaid taxes	267	0
Other accrued income	8	68
<b>Total receivables and accrued income</b>	<b>705</b>	<b>673</b>



## 12 Investment property

As at 30.09.2019, the Group has made investments in the following investment properties:

Name	Location	Net leasable area (m <sup>2</sup> )	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.09.2019	Share of market value of the Fund's assets
<i>EUR thousand</i>							
Saules Miestas shopping center	Saules Miestas, Lithuania	19,881	2007	08.2015	28,339	32,631	25%
DSV logistics center	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,770	7%
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,880	10%
DSV logistics center	Riga, Latvia	5,398	2000	07.2016	8,799	8,706	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	9,128	10,317	8%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,124	9,220	7%
Hortes gardening center in Laagri	Laagri, Estonia	3,470	2006	05.2017	3,108	3,450	3%
Hortes gardening center in Tähesaju	Tallinn, Estonia	5,300	2018-2019	05.2018	5,305	5,305	4%
ABC Motors Autokeskus	Tallinn, Estonia	2,149	2 002	01.2019	3,122	3,122	2%
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,223	6,630	5%
<b>Total</b>		<b>84,458</b>			<b>101,553</b>	<b>111,112</b>	<b>85%</b>

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

In the first nine months 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
<b>Balance as at 01.01.2018</b>	<b>0</b>	<b>88,390</b>	<b>88,390</b>
Acquisitions	900	11,056	11,956
Gain (loss) on changes in the fair value (Note 8)	0	962	962
<b>Balance as at 30.09.2019</b>	<b>900</b>	<b>100,408</b>	<b>101,308</b>
<b>Balance as at 01.01.2019</b>	<b>1,636</b>	<b>101,151</b>	<b>102,787</b>
Acquisitions	3,669	3,196	6,865
Gain (loss) on changes in the fair value (Note 8)	0	1,460	1,460
<b>Balance as at 30.09.2019</b>	<b>5,305</b>	<b>105,807</b>	<b>111,112</b>

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

	9 months	
As at 30 September or the period	2019	2018
Rental income earned on investment property (Note 4)	6,452	5,805
Expenses directly attributable to management of investment property (Note 5)	-229	-85
Unpaid amounts from acquisition of investment properties (Note 14)	325	0
Carrying amount of investment property pledged as collateral to borrowings	111,112	100,408

### 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 30.09.2019 and 31.12.2018 was determined using the discounted cash flow method, excl. investment property in the development stage (Hortes gardening center 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 30.09.2019:**

Sector	Fair value	Valuation method	First year rental income	Discount rate	Capitalization rate	Average rent, €/m <sup>2</sup>
<i>EUR thousand</i>						
Office premises	29,618	Discounted cash flows	2,070	8.25%	7.5%-8.0%	11.6
Storage and logistics premises	30,356	Discounted cash flows	2,424	8.25%	7.8%-8.0%	6.1
Retail premises	45,833	Discounted cash flows	4,703	8.25%-8.6%	7.5%-8.0%	11.5
<b>Total</b>	<b>105,807</b>					

**As at 31.12.2018:**

Sector	Fair value	Valuation method	First year rental income	Discount rate	Capitalization rate	Average rent, €/m <sup>2</sup>
<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
<b>Total</b>	<b>101,150</b>		<b>8,260</b>			

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

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 30.09.2019, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.09.2019	Contract term	Interest rate as at 30.09.2019	Loan collateral	Value of collateral	Loan balance share of the fund's net asset value
Swedbank	Lithuania	16,500	15,364	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	32,631	22.4%
SEB	Lithuania	5,500	4,711	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,770	6.9%
SEB	Latvia	3,323	4,550	29.06.21	1.55%	Mortgage - DSV building in Riga	8,706	6.6%
SEB	Estonia	7,950	6,847	29.06.21	1.55%	Mortgage - DSV building in Estonia	12,880	10.0%
SEB	Lithuania	5,620	4,893	30.09.21	1.90%	Mortgage-L3 office building in Vilnius	10,081	7.1%
SEB	Lithuania	5,200	4,306	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	9,220	6.3%
SEB	Estonia	1,860	1,659	05.07.22	1.82%	Mortgage - Hortes gardening center	3,450	2.4%
Swedbank	Estonia	3,700	3,229	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,630	4.7%
SEB	Lithuania	5,850	5,503	30.05.23	2.00%	Mortgage - Evolution office building in Tallinn	10,317	8.0%
LHV	Estonia	1,800	1,764	25.02.24	2.95%	Mortgage - ABC Motors Autokeskus building in Tallinn	3,122	3.8%
Swedbank	Estonia	3,290	2,921	11.01.24	1.95%	Mortgage - Hortes gardening center in Tallinn	5,305	6.3%
<b>Total</b>		<b>60,593</b>	<b>55,747</b>				<b>111,112</b>	<b>42.8%</b>

For additional information on borrowings, please see Note 15.

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 center	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	10,000	11.3%
SEB	Estonia	1,860	1,728	05.07.22	1.82%	Mortgage – Horter gardening center	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%
<b>Total</b>		<b>55,503</b>	<b>52,908</b>				<b>101,150</b>	<b>48.8%</b>

Short-term borrowings	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Presenting non-current portion of long-term bank loans as current portion	0	5,437
Repayments of long-term bank loans in the next period	17,271	2,698
Discounted contract fees on bank loans	-26	-30
<b>Total short-term borrowings</b>	<b>17,245</b>	<b>8,105</b>

<sup>1</sup>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.

Bank loans are divided as follows according to repayment date:

Long-term borrowings	30.09.2019	31.12.2018
<i>EUR thousand</i>		
<b>Total long-term borrowings (Note 15)</b>	<b>55,694</b>	<b>52,848</b>
incl. current portion of borrowings	17,245	8,105
incl. non-current portion of borrowings, incl.	38,449	44,743
<i>Bank loans</i>	<i>38,474</i>	<i>44,773</i>
<i>Discounted contract fees on bank loans</i>	<i>-25</i>	<i>-30</i>

Cash flows of borrowings	9 months	
	2019	2018
<i>EUR thousand</i>		
<b>Balance at the beginning of period</b>	<b>52,848</b>	<b>45,776</b>
Bank loans received through business combinations and acquisitions	0	9,492
Bank loans received	6,399	0
Annuity payments on bank loans	-3,561	-1,764
Change in discounted contract fees	8	4
<b>Balance at the end of period</b>	<b>55,694</b>	<b>53,508</b>

## 14 Payables and prepayments

### Short-term payables and prepayments

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Trade payables from fixed asset transactions	325	0
Other trade payables	184	242
<b>Total trade payables</b>	<b>509</b>	<b>242</b>
Payables from non-current assets transactions	0	178
Other payables	2	0
<b>Total other payables</b>	<b>2</b>	<b>178</b>
Value added tax	158	189
Corporate income tax	110	14
Social tax	3	9
Land tax and real-estate tax	86	125
Other tax liabilities	0	1
<b>Total tax liabilities</b>	<b>357</b>	<b>338</b>
Payables to employees	19	20
Interest liabilities	12	7
Tenant security deposits	123	120
Other accrued liabilities	16	114
<b>Total accrued expenses</b>	<b>170</b>	<b>261</b>
Prepayments received from buyers	21	0
<b>Total prepayments</b>	<b>21</b>	<b>0</b>
<b>Total payables and prepayments</b>	<b>1,059</b>	<b>1,019</b>

### Long-term payables

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Tenants security deposits	549	457
Other long-term payables	5	0
<b>Total other long-term payables</b>	<b>554</b>	<b>457</b>

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	30.09.2019	31.12.2018
<b>Financial assets - loans and receivables</b>			
Cash and cash equivalents		9,293	4,859
Short-term deposits		9,000	0
Trade receivables	11	318	490
<b>Total financial assets</b>		<b>18,611</b>	<b>5,349</b>
<b>Financial liabilities measured at amortized cost</b>			
Borrowings	13	55,694	52,848
Trade payables	14	509	242
Tenant security deposits	14	672	577
Interest payables	14	12	7
Accrued expenses	14	35	134
Success fee liability		0	46
<b>Total financial liabilities measured at amortized cost</b>		<b>56,922</b>	<b>53,854</b>
<b>Financial liabilities measured at fair value</b>			
Derivative instruments (interest rate swaps)		391	189
<b>Total financial liabilities measured at fair value</b>		<b>391</b>	<b>189</b>
<b>Total financial liabilities</b>		<b>57,313</b>	<b>54,043</b>

The Group has three short-term deposits in total amount EUR 9,000 thousand as at 30.09.2019, including one deposit in amount of EUR 2,000 thousand with interest rate of 1% per year and with repayment date of 29.06.2020, second deposit in amount of EUR 4,000 thousand and with repayment date of 27.06.2020 and interest rate of 0.15% per year and third deposit in amount of EUR 3,000 thousand and with repayment date of 25.12.2019 and interest rate of 0.01% per year. All deposits can be ended prematurely.

The fair value of such financial assets and financial liabilities that are measured at amortized 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 30.09.2019, 59% 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 41% of loan contracts carries fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 46% are related to an interest rate swap contract in which the 3-month EURIBOR is in turn fixed at 0.35%. In the first 9 months of 2019, the 3-month EURIBOR fluctuated between –

0.448% and -0.306%, i.e. the maximum change within the year was 0.142 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). 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.

The Group recognizes interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 30.09.2019 was negative in the amount of EUR 391 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 30.09.2019 the Group's interest-bearing liabilities accounted for 50.2% (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 (30.09.2018: 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 summarizes the information on the maturities of the Group's financial liabilities (undiscounted cash flows):

<b>As at 30.09.2019</b>	Less than 1 month	Between 2 and 4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	<b>Total</b>
<i>EUR thousand</i>						
Interest-bearing liabilities (Note 13)	233	700	16,433	38,379	0	<b>55,745</b>
Interest payments	84	249	628	1,030	0	<b>1,991</b>
Interest payables (Note 14)	12	0	0	0	0	<b>12</b>
Trade payables (Note 14)	509	0	0	0	0	<b>509</b>
Tenant security deposits (Note 14)	7	68	48	394	155	<b>672</b>
Accrued expenses (Note 14)	35	0	0	0	0	<b>35</b>
<b>Total financial liabilities</b>	<b>880</b>	<b>1,017</b>	<b>17,109</b>	<b>39,803</b>	<b>155</b>	<b>58,964</b>

As at 31.12.2018	Less than 1 month	Between 2 and 4 months	Between 4 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	<b>52,908</b>
Interest payments	77	230	598	1,314	0	<b>2,219</b>
Interest payables	7	0	0	0	0	<b>7</b>
Trade payables	242	0	0	0	0	<b>242</b>
Tenant security deposits	8	31	94	338	107	<b>577</b>
Accrued expenses	134	0	0	0	0	<b>134</b>
<b>Total financial liabilities</b>	<b>692</b>	<b>934</b>	<b>2,496</b>	<b>51,859</b>	<b>107</b>	<b>56,087</b>

### Report of working capital

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Cash and cash equivalents	9,293	4,859
Short-term deposits	9,000	0
Receivables and accrued income (Note 11)	705	673
Prepaid expenses	53	46
<b>Total current assets</b>	<b>19,051</b>	<b>5,578</b>
Short-term portion of long-term liabilities (Note 13)	-17,245	-8,105
Short-term payables and prepayments (Note 14)	-1,450	-1,208
<b>Total current liabilities</b>	<b>-18,695</b>	<b>-9,313</b>
<b>Total working capital</b>	<b>356</b>	<b>-3,735</b>

As at 30.09.2019 the Group's working capital is EUR 356 thousand. In the current portion of long-term liabilities is reflected Lithuania's subsidiary's that owns Saules Miestas shopping center, Swedbank loan balance, which is terminating on 14.08.2020. The cash flow of Saules Miestas is stable and LTV of loan as at 30.09.2019 is 47%, which is why the Group's management sees no obstacles in prolonging the loan agreement. Management estimates that the working capital is sufficient to fulfill liabilities that occur during everyday business activities of the Group.

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 recognized 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 minimizing such risk lies in the daily monitoring and guiding of clients' payment behavior, 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:

	30.09.2019	31.12.2018
Undue	236	386
<b>Past due, incl.</b>	<b>82</b>	<b>104</b>
<i>up to 30 days</i>	68	91
<i>30-60 days</i>	11	13
<i>more than 60 days</i>	3	0
Doubtful accounts	0	0
<b>Total trade receivables</b>	<b>318</b>	<b>490</b>

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

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Cash and cash equivalents	9,293	4,859
Short-term deposits	9,000	0
Trade receivables	318	490
<b>Total maximum credit risk</b>	<b>18,611</b>	<b>5,349</b>

## 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 9 months of 2019 is EUR 2,488 thousand, that allows, after deduction of liquidity reserve and income tax expense, for the payment of net dividends in the amount of EUR 1,922 thousand (46 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

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Mortgage guaranteed short-term liabilities (Note 13)	17,271	8,135
Unsecured short-term liabilities (Note 14)	1,424	1,178
<b>Total short-term liabilities</b>	<b>18,695</b>	<b>9,313</b>
Mortgage guaranteed long-term liabilities (Note 13)	38,474	44,773
Unsecured long-term liabilities (Note 14)	4,568	3,923
<b>Total long-term liabilities</b>	<b>43,042</b>	<b>48,696</b>
Share capital and share premium (Note 16)	51,883	35,883
Reserves	936	621
Retained earnings (Note 17)	15,741	13,990
<b>Total shareholder's equity</b>	<b>68,560</b>	<b>50,494</b>
<b>Total liabilities and equity</b>	<b>130,297</b>	<b>108,503</b>

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



**Report of net debt**

<i>EUR thousand</i>	<b>30.09.2019</b>	31.12.2018
Cash	9,293	4,859
Cash equivalents	0	0
Tradable securities and short-term deposits	9,000	0
<b>Total liquid assets</b>	<b>18,293</b>	<b>4,859</b>
The short-term portion of long-term liabilities (Note 13)	17,271	8,135
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
<b>Net short-term debt</b>	<b>-1,022</b>	<b>3,276</b>
Long-term bank loans (long-term portion) (Note 13)	38,474	44,773
Issued debt securities	0	0
Other long-term loans	0	0
<b>Total long-term debt</b>	<b>38,474</b>	<b>44,773</b>
<b>Total net debt</b>	<b>37,452</b>	<b>48,049</b>

**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 30.09.2019 nor 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 recognizing the fair value of interest rate swaps, the Group uses information received from credit institutions who are contract partners.

**16 Share capital**

On 17th of April 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, i.e. 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:**

<b>Company</b>	<b>As at 30.09.2019</b>	
	<b>Number of shares</b>	<b>Ownership, %</b>
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 30.09.2019	
	Number of shares	Ownership, %
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**

	30.09.2019	31.12.2018
<i>EUR thousand</i>		
Retained earnings of the company	15,741	13,990
Potential income tax liability	3,148	2,798
Possible dividends	12,593	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 30.09.2019 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 (the fund management company).

The Group purchased management services from EFTEN Capital AS in the first nine months of 2019 in the amount of EUR 532 thousand (9 months of 2018: EUR 468 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 nine months of 2019 nor in the first nine months of 2018.

As of 30.09.2019, the Group had 12 employees who were remunerated including taxes in the amount of EUR 192 thousand (first nine months of 2018: EUR 174 thousand). In the first nine months of 2019 and in the first nine months of 2018, 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 third quarter and nine months of 2019***

We hereby confirm that EFTEN Real Estate Fund III AS consolidated interim report for the third quarter and nine 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/

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Viljar Arakas

Member of the Management Board

/digitally signed/

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Tõnu Uustalu

Member of the Management Board