



EFTEN Real Estate Fund III

Consolidated Interim Report – 4th quarter and 12 months ended 31 December 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: 31.12.2019

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Table of contents

MANAGEMENT REPORT	2
CONDENSED INTERIM REPORT.....	8
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	9
CONSOLIDATED STATEMENT OF CASH FLOWS.....	10
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	11
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	12
1 <i>Accounting policies and valuation principles used in compiling the consolidated interim report</i>	12
2 <i>Subsidiaries</i>	13
3 <i>Segment reporting</i>	13
4 <i>Revenue.....</i>	15
5 <i>Cost of services sold.....</i>	15
6 <i>Marketing costs.....</i>	15
7 <i>General and administrative expenses</i>	16
8 <i>Finance costs.....</i>	16
9 <i>Income tax.....</i>	16
10 <i>Earnings per share</i>	17
11 <i>Receivables and accrued income.....</i>	17
12 <i>Investment property.....</i>	17
13 <i>Borrowings.....</i>	20
14 <i>Payables and prepayments.....</i>	21
15 <i>Financial instruments, management of financial risks.....</i>	22
16 <i>Share capital.....</i>	27
17 <i>Contingent liabilities.....</i>	27
18 <i>Related party transactions.....</i>	27
19 <i>Events after the balance sheet date.....</i>	28
<i>Declaration of the Management Board to the consolidated interim report for the 4th quarter and 12 months of 2019.....</i>	29

MANAGEMENT REPORT

Comment of the fund manager

The most important economic events of EFTEN Real Estate Fund III AS in 2019 were the ABC Motors dealership purchase-leaseback transaction, successful issue of shares in volume of EUR 16 million and opening of Hortes Tähesaju Gardening Center in the fourth quarter. After the balance sheet date, we announced that in the first quarter of 2020 EFTEN Real Estate Fund III will acquire Latvian national airline, airBaltic's headquarters in Riga Airport and a production and warehouse facility in the Kekava near Riga, thereby investing a significant amount of its equity raised in 2019 into cash-generating real estate. In addition, the fund's management proposes to the 2020 general meeting of shareholders to approve the merger with EFTEN Kinnisvarafond AS, which will result in a real estate fund of approximately EUR 350 million.

The Group's cash balance allows dividends to be paid from the 2019 profit to investors in a total amount of EUR 3,465 million (82 cents per share), which is 35% more than determined by the dividend policy of EFTEN Real Estate Fund III. The detailed methodology for dividend calculation is given below in the financial overview. The dividend pay-out from the year 2019 profit will proceed after the general shareholders' meeting in spring 2020.

Financial overview

The consolidated sales revenue of EFTEN Real Estate Fund III AS for 12 months of 2019 was EUR 9,512 million (12 months of 2018: EUR 8,672 million), which increased by 10% in a year. The Group's profit before revaluation of investment properties, cost of performance fee, depreciation and financial income/-costs and income tax expense in 2019 totalled EUR 7,571 million (2018: 6,822 million euros), which increased by 11% in a year. The Group's net profit for the same period amounted to EUR 7,737 million (12 months of 2018: EUR 6,299 million). The higher net profit in 2019 is due to additional property profit and higher investment property revaluation profit, which in the current year was EUR 3,101 million, but EUR 1,562 million last year.

The consolidated gross profit margin in the 12 months of 2019 was 97% (12 months of 2018: 96%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 3% (12 months of 2018: 4%) 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 2019. The respective indicator was 22.3% in the 12 months of 2018.

	4th quarter		12 months	
	2019	2018	2019	2018
<i>EUR million</i>				
Rental revenue, other fees from investment properties	2,512	2,329	9,512	8,672
Expenses related to investment properties, incl. marketing costs	-0,226	-0,238	-0,758	-0,754
Interest expense and interest income	-0,161	-0,380	-1,183	-1,096
Net rental revenue less finance costs	2,125	1,711	7,571	6,822
Management fees	-0,170	-0,165	-0,702	-0,632
Other revenue and expenses	-0,183	-0,182	-0,629	-0,508
Profit before change in the value of investment property, change in the success fee liability, fair value change of the interest rate swap and income tax expense	1,772	1,364	6,240	5,682

As at 31.12.2019, the Group's total assets were in the amount of EUR 132,829 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.

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
<i>EUR million</i>					
Investment properties	113,011	102,787	88,390	73,539	36,506
Other non-current assets	0,114	0,138	0,090	0,058	0,080
Current assets, excluding cash	6,717	0,719	0,678	0,444	0,327
Net debt	-36,431	-48,049	-37,712	-39,545	-18,777
Net asset value (NAV)	71,171	50,494	46,385	30,320	15,345
EPRA net asset value (EPRA NAV)	75,716	54,179	49,307	32,804	17,109
Net asset value (NAV) per share (in euros)	16,85	15,67	14,39	12,71	11,08
EPRA puhasväärtus (EPRA NAV) aktsia kohta, eurodes	17,93	16,81	15,30	13,75	12,35

During 2019, the net asset value of the share of EFTEN Real Estate Fund III AS increased by 7.6%. From the 2018 profit, EUR 3,061 million (in spring 2018: EUR 2,191 million) was paid out in dividends in May 2019. Without the dividend payment, the Fund's NAV would have increased by 12% in 2019. Return on invested capital (ROIC) was 17.1% in the 2019 financial year (12 months of 2018: 17.6%).

Access to flexible financing conditions will help to increase the Group's competitiveness. In 2019, the Group entered into new loan contracts in the total amount of EUR 6,768 million in connection with the acquisition of new investment properties. As at the end December, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.8% (31.12.2018: the same) and the LTV (Loan to Value) ratio was 52% (31.12.2018: the same).

During 2019, the Group earned a free cash flow of EUR 3,381 million (12 months of 2018: EUR 3,197 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 2,545 million (60 cents per share) from the profit earned in this year. However, the Group's cash balance at the end of 2018 allows to pay more dividends than the dividend policy establishes, which is why the Management Board of the Fund proposes to the Council in the spring of 2019 to pay a dividend of EUR 3,465 million (82 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 95 cents per share.

Potential dividend payment calculation

	12 months	
	2019	2018
<i>EUR thousand</i>		
Operating profit	10,045	8,258
Adjustment for revaluation gains on investment property		
Adjustment for depreciation of fixed assets	-3,101	-1,562
Adjustment for profit on sale of investment property	40	21
Adjustment for non-monetary change in performance fee	0	-7
	479	46
EBITDA	7,463	6,756
Interest expense	-1,115	-965
Bank loan repayments		
Income tax expense on profit (Lithuania)	-2,759	-2,431
	-208	-163
Free cash flow	3,381	3,197
80% of the free cash flow		
Potential dividend income tax expense	2,705	2,558
	-160	-139
Potential net dividend according to dividend policy	2,545	2,419
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)	0.60	0.75
Potential Additional Cash Flow ¹	1,021	642
Dividend income tax on additional cash flows	-101	0
Potential net dividend with additional cash flow	3,465	3,061
Potential net dividend per share, in EUR	0.82	0.95

¹ The potential additional cash flow at the end of the reporting period includes funds accumulated in the accounts of the Fund and the subsidiaries of the Fund, which are not intended to be invested or used in daily business operations to ensure liquidity.

Key performance and liquidity ratios

12 months	31.12.2019	31.12.2018
ROE, % (<i>net profit of the period / average equity of the period</i>) x 100	12.7	13.0
ROA, % (<i>net profit of the period / average assets of the period</i>) x 100	6.4	6.1
ROIC, % (<i>net profit of the period / average invested capital of the period</i>) ¹ * 100	17.6	17.6
EBITDA (EUR thousand)	7,463	6,756
EBITDA margin, %	78.5	77.9
EBIT (EUR thousand)	10,045	8,258
EBIT margin, %	105.6	95.2
Liquidity ratio (current assets / current liabilities) ²	0,9	0,6
DSCR (EBITDA/(<i>interest expenses + scheduled loan payments</i>))	1,8	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.

² As at 31.12.2019, the Group's liquidity ratio is 0.9, i.e. the Group has less assets than needed for covering the liabilities. The level of this indicator is due to two ending loan agreements in 2020 with Saules Miestas UAB and Verkiu projektas UAB (Ulonu office building) in total amount of EUR 19,385 thousand. The maturity of the loan agreements is in the second half of 2020 and the agreements will be refinanced as the maturity approaches. The debt-to-equity ratio for both loans is less than 50% and investment property has a strong cash flow, which is why the management of the Group sees no obstacles to extending the loan agreements and the working capital of the Group is sufficient to cover the current liabilities.

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end 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 113.011 million (31.12.2018: EUR 102.787 million) and acquisition cost of EUR 101.746 million (31.12.2018: EUR 94.627 million).

Real estate portfolio by sector



Real estate portfolio by country



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

Investment property, as at 31.12.2019	Group's ownership			Fair value of investment property	Rental revenue per annum (EUR Thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100			12,880	1,015	100	6.6	1
DSV Riga	100			8,710	720	100	6.6	1
DSV Vilnius	100			8,800	701	100	6.5	1
Total Logistics				30,390	2,436	100	6.6	3
Saules Miestas Shopping center	100			33,390	3,122	98	4.4	116
Hortes gardening Center, Laagri	100			3,520	269	100	12.4	1
Selver in Laagri	100			6,630	502	98	14.8	2
Hortes gardening Center, Tallinn	100			6,180	383	100	7.9	10
ABC Motors car center, Tallinn	100			3,190	258	100	9.1	1
Total retail				52,910	4,534	99	6.5	130
Ulonu office building	100			9,180	673	100	2.6	14
L3 office building	100			10,181	750	100	2.2	32
Evolution office building	100			10,350	683	70	2.8	42
Total office				29,711	2,106	90	2.5	88
Total real estate portfolio				113,011	9,076	98	5.6	221

On the 6th of February 2019, the Group's subsidiary EFTEN Autokeskus OÜ acquired the properties of ABC Motor's sales and service center on Paldiski highway. The acquisition cost of the properties was EUR 3,018 million and a loan agreement was entered into in the amount of EUR 1.8 million for the acquisition. The maturity of the loan is 25.02.2024 and the interest rate is 2.95% + 6 month Euribor. A 0% floor is set for the Euribor rate. The expected annual rental income from the investment property is EUR 258 thousand.

In november of 2019 the subsidiary of the Group, EFTEN Tāhesaju tee OÜ, completed the construction of Tāhesaju Hortses in Tallinn. Tāhesaju Hortes was opened to visitors in early November. The acquisition cost of the horticultural center totaled EUR 5,458 million and the fair value of the investment property as at 31.12.2019 was EUR 6,180 thousand. For the construction of Tāhesaju Hortes, the Group subsidiary took a bank loan in amount of of EUR 3.29 million at an interest rate of 1.95% + 1 month EURIBOR. The maturity of the loan is 11.01.2024.

On January 13, 2020, a subsidiary of the Group signed debt-purchase agreements for the acquisition of two commercial buildings in Latvia to acquire the airBaltic headquarters office building at Riga Airport and a production and warehouse facility in Ķekava, Riga. AirBaltic's main building was completely renovated in 2016 and the current lease agreement expires in 2026. The major tenants of the production and warehouse building in Ķekava are Fristads Kansas Production SIA and Forans SIA. The acquisition of the two buildings totals to EUR 15.8 million, of which EUR 7.2 million is financed by Swedbank and Luminor.

Information on shares

The General Meeting of EFTEN Real Estate Fund III AS decided on 17.04.2019 to increase the share capital by issuing up to 1 million new ordinary shares based on the resolution of the shareholders' meeting. The new shares were issued in a total value of EUR 16 per share, ie the Group received a total of EUR 16 million in share capital increase. The proceeds from the share issue were used by the Group for the acquisition of the ABC Autokeskus' building in 2019 and the completion of the development of Tähesaju Hortes for a total amount of EUR 1.7 million.

The net asset value of the share of EFTEN Real Estate Fund III AS as at 31.12.2019 was EUR 16.85 (31.12.2018: EUR 15.67). The shares of EFTEN Real Estate Fund III AS are freely tradable on the Tallinn Stock Exchange from 1 December 2017. The year of 2019 was successful for EFTEN Real Estate Fund III AS on the stock exchange, maintaining a stable price increase during the year despite the overall market decline – the closing price of EFT1T share as at 31.12.2019 was EUR 17.9, rising 10.5% in a year (from a price level of EUR 16.2 as at 31.12.2018). During 2019, EFT1T shares were traded at price levels from EUR 16.0 to 19.1 per share and the average closing price was EUR 17.5 during the year.

In addition to the aforementioned share net asset value calculated according to IFRS, 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. Therefore, to get the net asset value according to the EPRA, the fair value of the deferred tax expense on investment property and the fair value of financial instruments (interest swap) is eliminated from the net asset value calculated according to IFRS.

EUR thousand	31.12.2019	31.12.2018
Net asset value calculated in accordance with IFRS	71,171	50,494
Exclusion of deferred income tax on investment property	4,274	3,496
Exclusion of the fair value of financial instruments	271	189
EPRA net asset value	75,716	54,179
Number of shares at the balance sheet date	4,222,534	3,222,535
EPRA net asset value per share, EUR	17.93	16.81
EPRA NAV growth, in EUR	1.12	1.51
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	2.11	2.21
Period earnings per share, increase compared to the balance sheet date value of the previous period	12.5%	14.5%

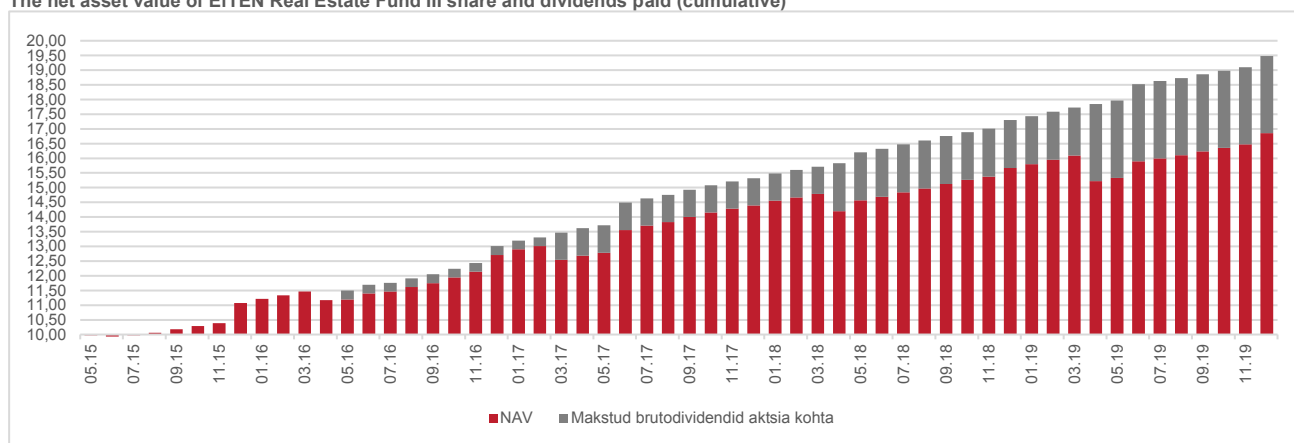
Share statistics	2019	2018	2017
Opening price	16.2	15.3	14.0
Closing price	17.9	16.2	15.3
Share price, lowest	16.0	15.3	14.9
Share price, highest	19.1	16.55	17.3
Shares traded, in thousands	127.0	188.8	45.7
Turnover, million EUR	2.21	2.98	0.71
Market capitalization, EUR millions	75.58	52.21	49.3
Earnings per share, EUR	2.05	1.96	2.39
Dividend per share, EUR	0.82 ²	0.95	0.68
Dividend / net profit	45%	49%	33%
P/B (closing price of share / equity per share ¹)	1.0	1.0	0.9
P/B EPRA (share's closing price / EPRA equity per share ¹)	0.9	1.0	0.9

¹ Equity per share and EPRA equity per share are calculated by dividing the equity and EPRA equity by the average number of shares outstanding during the year (3,782,975).

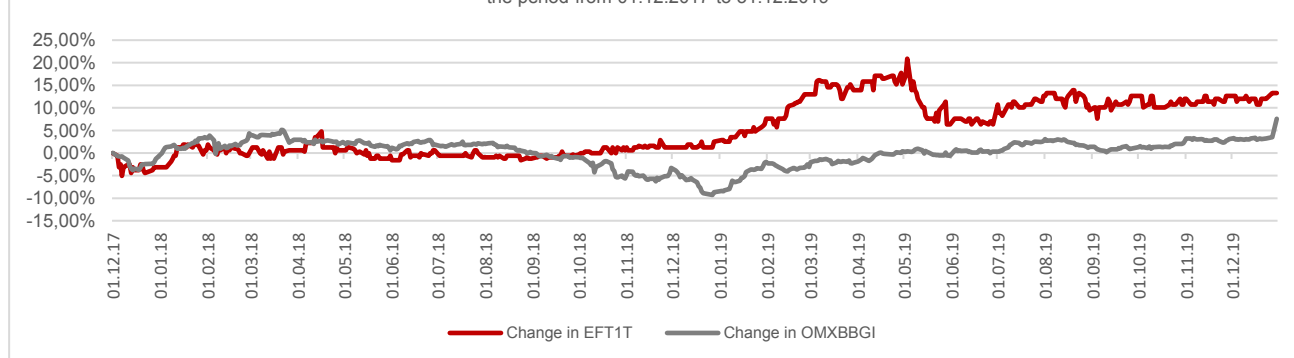
² The 2019 per share dividend payable in the spring of 2020 is shown at the expected rate. The distribution of dividends is decided by the general meeting of the fund.

As at 31.12.2019, the contributions made to the share capital of EFTEN Real Estate Fund III AS totalled EUR 51.883 million (31.12.2018: 35.883). The number of shares as at 31.12.2019 was 4,222,535 (31.12.2018: 3,222,535). EFTEN Real Estate Fund III AS listed its shares on the NASDAQ Tallinn Stock Exchange in November 2017. The Fund has one class of registered shares with a nominal value of EUR 10 per share. Each share grants one vote to the Fund's shareholder.

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



EFTEN Real Estate Fund III AS share (EFT1T) price dynamics compared to NASDAQ Baltic Benchmark GI (OMXBBGI) for the period from 01.12.2017 to 31.12.2019



As at 31.12.2019, EFTEN Real Estate Fund III AS had 2,580 shareholders, 20% of whom were legal entities. A total of 79% of the total share capital of the fund was held by legal entities. The distribution of shares is shown in the table below.

	Shareholders, pcs		Number of shares			Total shares	Ownership		Total ownership
	Legal entities	Private individuals	Toal shareholders	Legal entities	Private individuals		Legal entities	Private individuals	
Austria	-	1	1	-	1,255	1,255	-	0,0297%	0,0%
China	-	1	1	-	75	75	-	0,0018%	0,0%
Denmark	-	2	2	-	38	38	-	0,0009%	0,0%
Estonia	520	2,031	2,551	3,317,735	888,418	4,206,153	78.6%	21,0399%	99,6%
Finland	1	3	4	370	386	756	0.0%	0,0091%	0,0%
Germany	-	1	1	-	309	309	-	0,0073%	0,0%
Ungari	-	1	1	-	65	65	-	0,0015%	0,0%
Ireland	-	1	1	-	66	66	-	0,0016%	0,0%
Norway	-	2	2	-	161	161	-	0,0038%	0,0%
Latvia	2	1	3	2,029	1,692	3,721	0.0%	0,0401%	0,1%
Lithuania	4	2	6	1,870	7,201	9,071	0.0%	0,1705%	0,2%
Russia	-	1	1	-	473	473	-	0,0112%	0,0%
Saudi Arabia	-	1	1	-	43	43	-	0,0010%	0,0%
Omaan	-	1	1	-	68	68	-	0,0016%	0,0%
Sweden	-	1	1	-	125	125	-	0,0030%	0,0%
Italy	-	1	1	-	150	150	-	0,0036%	0,0%
United Kingdom	-	1	1	-	5	5	-	0,0001%	0,0%
United states of America	1	-	1	1	-	1	0,0%	-	0,0%
Total	528	2,052	2,580	3,322,005	900,530	4,222,535	78,67%	21,33%	100,00%

As at 31.12.2019, EFTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

Company	As at 31.12.2019	
	Number of shares	Ownership, %
Altius Capital 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

	Notes	4th quarter		12 months	
		2019	2018	2019	2018
<i>EUR thousands</i>					
Revenue	3,4	2,512	2,329	9,512	8,672
Cost of services sold	5	-100	-135	-329	-319
Gross profit		2,412	2,194	9,183	8,353
Marketing costs	6	-126	-103	-429	-435
General and administrative expenses	7	-870	-389	-1,847	-1,225
Gain / loss from revaluation of investment properties	12	1,641	600	3,101	1,562
Other operating income and expense		38	-4	37	3
Operating profit	3	3,095	2,298	10,045	8,258
Interest income		0	0	14	0
Finance costs	8	-161	-380	-1,197	-1,096
Profit before income tax		2,934	1,918	8,862	7,162
Income tax expense	9	-333	-167	-1,125	-863
Total comprehensive income for the financial period	3	2,601	1,751	7,737	6,299
Earnings per share	10				
- Basic		0.62	0.54	2.05	1.96
- Diluted		0.62	0.54	2.05	1.96

The notes on pages 12-28 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019	31.12.2018
<i>EUR, thousands</i>			
ASSETS			
Cash and cash equivalents	15	12,986	4,859
Short - term deposits	15	6,000	0
Receivables and accrued income	11	667	673
Prepaid expenses		51	46
Total current assets		19,704	5,578
Long-term receivables		0	24
Investment property	3,12	113,011	102,787
Property, plant and equipment		114	114
Total non-current assets		113,125	102,925
TOTAL ASSETS		132,829	108,503
LIABILITIES AND EQUITY			
Borrowings	13	21,147	8,105
Derivative instruments	15	271	189
Payables and prepayments	14	1,132	1,019
Total current liabilities		22,550	9,313
Borrowings	13	34,225	44,743
Other long-term liabilities	14	609	457
Deferred income tax liability	9	4,274	3,496
Total non-current liabilities		39,108	48,696
Total liabilities		61,658	58,009
Share capital	16	42,225	32,225
Share premium	16	9,658	3,658
Statutory reserve capital		936	621
Retained earnings	17	18,352	13,990
Total equity		71,171	50,494
TOTAL LIABILITIES AND EQUITY		132,829	108,503

The notes on pages 12-28 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	4th quarter		12 months	
		2019	2018	2019	2018
<i>EUR, thousands</i>					
Net profit		2,601	1,751	7,737	6,299
<i>Adjustments:</i>					
Finance costs	8	151	380	1,183	1,096
Gain / loss from revaluation of investment properties	12	-1,641	-600	-3,101	-1,562
Profit / loss from the sale of investment property		-29	-20	0	-7
Depreciation, amortisation and impairment		41	28	41	21
Income tax expense	9	333	167	1,125	863
Total adjustments with non-cash changes		-1,145	-45	-753	411
Cash flow from operations before changes in working capital		1,456	1,706	6,984	6,710
Change in receivables and payables related to operating activities		366	197	301	-115
Net cash flow generated from operating activities		1,822	1,903	7,285	6,595
Purchase of property, plant and equipment		-4	-94	-41	-96
Purchase of investment property	12	-520	-1,217	-7,329	-13,526
Sale of investment property		0	0	0	7
Change in short-term deposits		3,000	0	-6,000	0
Acquisition of subsidiaries	2	0	0	0	-100
Net cash flow generated from investing activities		2,476	-1,311	-13,370	-13,715
Loans received	14	369	0	6,768	9,492
Scheduled loan repayments	14	-698	-667	-4,259	-2,431
Interest paid		-275	-256	-1,096	-954
Proceeds from issuance of shares		0	0	16,000	0
Dividends paid	15	0	0	-3,061	-2,191
Income tax paid on dividends		-1	0	-140	-70
Net cash flow generated from financing activities		-605	-923	14,212	3,846
NET CASH FLOW		3,693	-331	8,127	-3,274
Cash and cash equivalents at the beginning of period		9,293	5,190	4,859	8,133
Change in cash and cash equivalents		3,693	-331	8,127	-3,274
Cash and cash equivalents at the end of period	15	12,986	4,859	12,986	4,859

The notes on pages 12-28 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
<i>EUR, thousands</i>					
Balance 31.12.2017	32,225	3,658	293	10,209	46,385
Issues of shares	0	0	0	-2,191	-2,191
Transfers to statutory reserve capital	0	0	328	-328	0
Total transactions with owners	0	0	328	-2,519	-2,191
Net profit for the financial period	0	0	0	6,299	6,299
Total comprehensive income for the period	0	0	0	6,299	6,299
Balance as at 31.12.2018	32,225	3,658	621	13,990	50,494
Share issue	10,000	6,000	315	-315	16,000
Dividends paid	0	0	0	-3,061	-3,061
Total transactions with owners	10,000	6,000	315	-3,376	12,939
Net profit of the financial period	0	0	0	7,737	7,737
Total comprehensive income for the period	0	0	0	7,737	7,737
Balance as at 31.12.2019	42,225	9,658	936	18,352	71,171

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

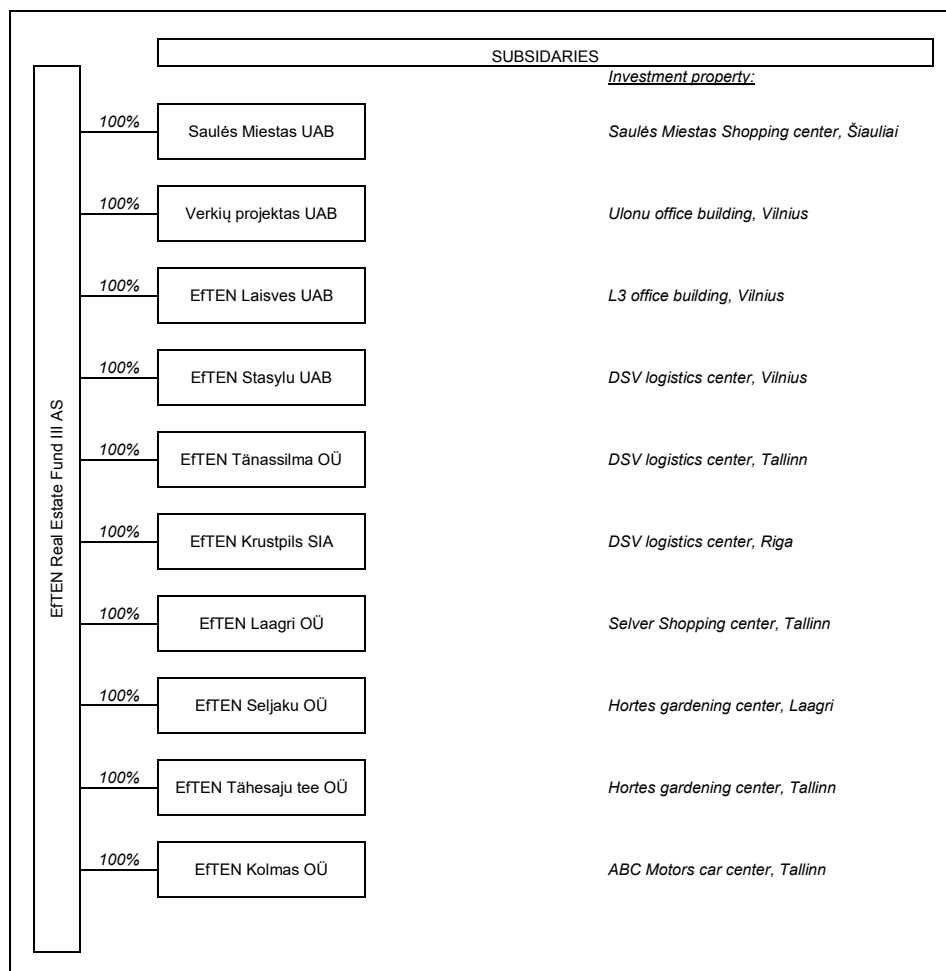
The notes on pages 12-28 are an integral part of the financial statements

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 31.12.2019 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 4th quarter and 12 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		Group's ownership interest, %	
			31.12.2019	31.12.2018	31.12.2019	31.12.2018
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping Center, Saules Miestas	16,140	13,855	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	4,142	3,961	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	5,087	4,755	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics center, Vilnius	4,213	4,046	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics center, Tallinn	6,795	6,215	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics center, Riia	2,768	2,511	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	2,034	1,864	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	2,779	1,759	100	100
EFTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,511	4,168	100	100
EFTEN Laagri OÜ	Estonia	Selver Shopping center, Laagri	3,613	3,670	100	100
EFTEN Autokeskus OÜ	Estonia	ABC Motors car center, Tallinn	1,544	5	100	100

3 Segment reporting

SEGMENT RESULTS

12 months	Office		Logistics		Retail		Non-allocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR, thousands</i>										
Revenue (Note 4), incl.	2,177	1,894	2,408	2,323	4,927	4,455	0	0	9,512	8,672
Estonia	0	0	1,005	989	997	738	0	0	2,002	1,727
Latvia	0	0	711	652	0	0	0	0	711	652
Lithuania	2,177	1,894	692	682	3,930	3,717	0	0	6,799	6,293
Operating income, net, incl.	1,945	1,708	2,408	2,320	4,401	3,890	0	0	8,754	7,918
Estonia	0	0	1,005	989	970	726	0	0	1,975	1,715
Latvia	0	0	711	650	0	0	0	0	711	650
Lithuania	1,945	1,708	692	681	3,431	3,164	0	0	6,068	5,553
Operating profit, incl.	2,078	2,518	2,273	1,929	6,316	3,958	-622	-147	10,045	8,258
Estonia	0	0	944	679	1,751	901	-622	-147	2,073	1,433
Latvia	0	0	666	506	0	0	0	0	666	506
Lithuania	2,078	2,518	663	744	4,565	3,057	0	0	7,306	6,319
EBITDA, incl.	1,735	1,484	2,167	2,083	2,909	3,291	-622	-147	6,189	6,711
Estonia	0	0	914	899	0	610	-622	-147	292	1,362
Latvia	0	0	627	570	0	0	0	0	627	570
Lithuania	1,735	1,484	626	614	2,909	2,681	0	0	5,270	4,779
Operating profit									10,045	8,258
Net financial expense									-1,183	-1,096
Profit before income tax expense									8,862	7,162
Income tax expense (Note 9)									-1,125	-863
NET PROFIT FOR THE FINANCIAL PERIOD									7,737	6,299

4th quarter	Office		Logistics		Retail		Non-Allocates		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR, thousands</i>										
Revenue, incl. (note 4)	525	547	602	587	1,385	1,195	0	0	2,512	2,329
Estonia	0	0	251	247	285	184	0	0	536	431
Latvia	0	0	178	175	0	0	0	0	178	175
Lithuania	525	547	173	165	1,100	1,011	0	0	1,798	1,723
Operating income, net, incl.	441	462	602	589	1,243	1,040	0	0	2,286	2,091
Estonia	0	0	251	247	276	181	0	0	527	428
Latvia	0	0	178	173	0	0	0	0	178	173
Lithuania	441	462	173	169	967	859	0	0	1,581	1,490
Operating profit, incl.	471	463	540	545	2,582	1,359	-498	-69	3,095	2,298
Estonia	0	0	229	135	1,082	356	-498	-69	813	422
Latvia	0	0	159	159	0	0	0	0	159	159
Lithuania	471	463	152	251	1,500	1,003	0	0	2,123	1,717
EBITDA, incl.	404	368	539	527	227	878	-498	-69	672	1,704
Estonia	0	0	229	225	-565	147	-498	-69	-834	303
Latvia	0	0	155	151	0	0	0	0	155	151
Lithuania	404	368	155	151	792	731	0	0	1,351	1,250
Operating profit									3,095	2,298
Net financial expense									-161	-380
Profit before income tax expense									2,934	1,918
Income tax expense (Note 9)									-333	-167
NET PROFIT FOR THE 4TH QUARTER									2,601	1,751

SEGMENT ASSETS

As at the end of the year	Office		Logistics		Retail		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<i>EUR, thousands</i>								
Investment property (Note 12)								
Estonia	0	0	12,880	12,850	19,520	11,716	32,400	24,566
Latvia	0	0	8,710	8,660	0	0	8,710	8,660
Lithuania	29,711	29,191	8,800	8,730	33,390	31,640	71,901	69,561
Total investment property	29,711	29,191	30,390	30,240	52,910	43,356	113,011	102,787
Other non-current assets							113	138
Net debt							-48,672	-53,150
Other short-term assets							6,719	719
NET ASSETS							71,171	50,494

In 2019 and 2018, 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 11.7%, 8.3% ja 8.0% of the Group's consolidated rental income, respectively. The revenue from the rest of the tenants is less than 8% of consolidated revenue.

4 Revenue

Areas of activity	2019	2018
<i>EUR thousand</i>		
Rental income from office premises	2,163	1,851
Rental income from retail premises	4,211	3,785
Rental income from warehousing and logistics premises	2,408	2,322
Other sales revenue	730	714
Total revenue by areas of activity (Note 3, 12)	9,512	8,672

Revenue by geographical area	2019	2018
<i>EUR thousand</i>		
Estonia	2,002	1,727
Latvia	711	652
Lithuania	6,799	6,293
Total revenue by geographical area (Note 3, 12)	9,512	8,672

5 Cost of services sold

Cost of services sold	2019	2018
<i>EUR thousand</i>		
Repair and maintenance of rental premises	-9	-100
Property insurance	-15	-14
Land tax and real-estate tax	-78	-74
Wages and salaries, incl. taxes	-21	-12
VAT proportional costs	-37	-47
Other sales costs	-168	-68
Impairment losses of doubtful receivables	-1	-4
Total cost of service sold (Note 12)	-329	-319

6 Marketing costs

Marketing costs	2019	2018
<i>EUR thousand</i>		
Commission expenses on rental premises	-8	-8
Advertising, promotional events ¹	-421	-427
Total marketing costs	-429	-435

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

7 General and administrative expenses

	2019	2018
<i>EUR thousand</i>		
Management services (Note 18)	-702	-632
Office expenses	-66	-38
Wages and salaries, incl. taxes	-257	-229
Consulting expenses	-102	-96
Regulator costs	-37	-36
Change in success fee liability (Note 18)	-118	-73
Other general and administrative expenses	-479	-46
Depreciation	-46	-54
Total general and administrative expenses	-40	-21
<i>EUR thousand</i>	-1,847	-1,225

8 Finance costs

	2019	2018
<i>EUR thousand</i>		
Interest expenses, incl.	-1,115	-965
<i>interest expense from loans</i>	-1,016	-889
<i>Interest expense from derivatives (-)/ cost reductions (+)</i>	-99	-76
Change in fair value of interest swaps (Note 15)	-82	-131
Total finance costs	-1,197	-1,096

9 Income tax

	2019	2018
<i>EUR thousand</i>		
Income tax from dividends	-139	-70
Deferred income tax in Lithuanian subsidiaries	-778	-630
Income tax expense from Lithuanian profit	-208	-163
Total income tax expense	-1,125	-863

As at 31.12.2019, the Group has a deferred tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 4,274 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	IV kvartal		12 kuud	
	2019	2018	2019	2018
Net profit for the period, in EUR thousand	2,601	1,751	7,737	6,299
Dividends per share, in EUR	0	0	0.95	0.68
Weighted average number of shares over the period, in pcs	4,222,535	3,222,535	3,782,975	3,222,535
Earnings per share, in EUR	0.62	0.54	2.05	1.96

11 Receivables and accrued income

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Receivables from costumers	569	490
Total receivables from customers	569	490
Prepaid taxes and receivables for reclaimed value-added tax	76	115
Other accrued income	22	68
Total accrued income	98	183
Total receivables	667	673

12 Investment property

As at 31.12.2019, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m2)	Year of construction	Date of acquisition	Aquisition cost	Market value as at 31.12.2019	Increase in value	Share of market value of the Fund's assets
<i>EUR, thousands</i>								
Saules Miestas Shopping center	Saules Miestas, Lithuania	19,881	2007	08.2015	28,368	33,390	18%	25%
DSV logistics Center	Vilnius, Lithuania	11,687	2005	06.2016	8,502	8,800	4%	7%
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,880	5%	10%
DSV logistics center	Riia, Latvia	12,149	2000	07.2016	8,800	8,710	-1%	7%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,708	10,181	17%	8%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,124	9,180	13%	7%
Hortes gardening Center in Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,520	13%	3%
Hortes gardening Center in Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,180	13%	5%
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,231	6,630	6%	5%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,204	10,350	12%	8%
ABC Motors Car center	Tallinn, Estonia	2,149	2002	02.2019	3,018	3,190	6%	2%
Total		91,209			101,748	113,011	11%	85%

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

In 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 31.12.2017	0	88,390	88,390
Additions and acquisitions	1,636	10,774	12,410
Capitalized improvements	0	425	425
Gain/loss on changes in the fair value	0	1,562	1,562
Balance as at 31.12.2018	1,636	101,151	102,787
Additions and acquisitions	3,822	3,018	6,840
Capitalized improvements	0	283	283
Reclassifications	-5,458	5,458	0
Gain/loss on changes in the fair value	0	3,101	3,101
Balance as at 31.12.2019	0	113,011	113,011

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

As at 31 December or the period	2019	2018
Rental income earned on investment property (Note 4)	8,782	7,958
Expenses directly attributable to management of investment property (Note 5)	-329	-319
Amounts outstanding on the acquisition of investment property (Note 14)	0	178
Prepayments for investment property (Note 14)	0	17
Carrying amount of investment property pledged as collateral to borrowings	113,011	101,151

The lease agreements concluded between EFTEN Real Estate Fund III AS and the tenants correspond to the terms and conditions of uninterrupted operating leases. The revenue from these leases is divided as follows:

Payments from non-cancellable operating leases	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
up to 1 year	7,375	6,872
2-5 years	20,583	18,279
over 5 years	15,032	13,489
Total:	42,990	38,640

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 31.12.2019 and 31.12.2018 was determined using the discounted cash flow method, excl. investment property in the development stage (Hortens gardening center in Tähesaju), where the investment property was recorded at cost (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 31.12.2019:

Sector	Fair value	Valuation method	Yearly rental income	Discount rate	Capitalization rate	Average rent, €/m ²
<i>EUR, thousands</i>						
Office premises	29,711	Discounted cash flows	2,106	7.9%	7.5%-8.0%	11.7
Storage and logistics premises	30,390	Discounted cash flows	2,436	8.0%-8.6%	7.8%-8.0%	6.1
Retails premises	52,910	Discounted cash flows	4,535	8.25%-8.5%	7.5%-8.0%	11.7
Total	113,011		9,077			

In 2018:

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

Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property recognised in the Group's balance sheet as at 31.12.2019 to the most significant assumptions:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	The effect of the decrease on value	The effect of the increase on value	Change in discount rate				
				-0.5%	0.0%	0.5%	Fair value	
<i>EUR, thousands</i>								
Office premises	Change in rental income +/- 10%	-2,420	2,410	Change in capitalisation rate	-0.5%	31,840	31,190	30,550
					0.0%	30,330	29,711	29,110
					0.5%	29,000	28,410	27,840
Logistics premises	Change in rental income +/- 10%	-2,420	2,430	Change in capitalisation rate	-0.5%	32,464	31,807	31,174
					0.0%	31,007	30,390	29,797
					0.5%	29,740	29,151	28,566
Retail premises	Change in rental income +/- 10%	-4,650	4,630	Change in capitalisation rate	-0.5%	56,510	55,380	54,280
					0.0%	53,970	52,910	51,850
					0.5%	51,730	50,720	49,710

As at 31.12.2018:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	The effect of the decrease on value	The effect of the increase on value	Change in discount rate				
				-0.5%	0.0%	0.5%	Fair value	
<i>EUR, thousands</i>								
Office premises	Change in rental income +/- 10%	-2,350	2,350	Change in capitalisation 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
Logistics premises	Change in rental income +/- 10%	-2,413	2,414	Change in capitalisation 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 capitalisation 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 31.12.2019 the Group has the following borrowings

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2019	Contract term	Interest rate as at 31.12.2019	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	15,141	14.08.20	1.70%	Mortgage - Saules Miestas Shopping center	33,390	21.3%
SEB	Lithuania	5,500	4,649	29.06.21	1.55%	Mortgage - DSV building in Vilnius	8,800	6.5%
SEB	Latvia	3,323	4,491	29.06.21	1.55%	Mortgage - DSV building in Riga	12,880	6.3%
SEB	Estonia	7,950	6,757	29.06.21	1.55%	Mortgage - DSV building in Estonia	8,710	9.5%
SEB	Lithuania	5,620	4,832	30.09.21	1.90%	Mortgage - L3 office building in Vilnius	10,181	6.8%
SEB	Lithuania	5,200	4,244	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	9,180	6.0%
SEB	Lithuania	5,850	5,437	30.05.23	2.00%	Mortgage - Evolution office building in Vilnius	10,350	7.6%
Swedbank	Estonia	3,290	3,290	11.01.24	1.95%	Mortgage - Hortes Gardening Center in Tähesaju	6,180	4.6%
SEB	Estonia	1,860	1,635	05.07.22	1.82%	Mortgage - Hortes gardening center	3,520	2.3%
Swedbank	Estonia	3,700	3,194	26.06.22	1.40%	Mortgage - Laagri Selver	6,630	4.5%
	Estonia	1,800	1,747	25.02.24	2.95%	Mortgage - Laagri Selver	3,190	2.5%
Total		60,593	55,417				113,011	41,7%

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's 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 Vilniuses	9,970	10.1%
SEB	Lithuania	5,200	4,490	21.12.20	1.75%	Mortgage - Ulonu büroohoone 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 center	3,430	3.4%
Swedbank	Estonia	3,700	3,333	26.06.22	1.40%	Mortgage - Laagri Selver	6,650	6.6%
Total		55,503	52,908				101,150	48.8%

Short-term borrowings	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Short term recognition of the long-term portion of long-term bank loans ¹	0	5,437
Repayments of long-term bank loans in the next period ¹	21,171	2,698
Discounted contract fees on bank loans	-24	-30
Total short-term borrowings	21,147	8,105

¹ As at 31.12.2019, the Group has loans maturing in 2020 in the total amount of EUR 19,385 euros. The maturity of the loan agreements is in the second half of 2020, and the agreements will be refinanced as they mature. The debt-to-equity ratio of both loans is less than 50% and investment property has a strong cash flow, which is why the management of the Group sees no impediment to extending the loan agreements.

As at 31.12.2018, the subsidiary of the Group, EFTEN Evolution UAB, recognized a short-term bank loan of EUR 5,437 thousand due to the temporary non-compliance of the loan servicing coverage ratio (DSCR) stipulated in the loan agreement. The covenant is below the required rate due to the expenses related to Evolution office building lease expiration in April 2019 and temporary vacancy. In January 2019, the lender issued a written confirmation to EFTEN Evolution UAB to extend the loan agreement until the agreed maturity date, ie until 30.05.2023, therefore, as of 31.12.2019, the loan is recognized as non-current in the Group's balance sheet.

Long-term borrowings	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Total long-term borrowings (Note 15)	55,372	47,411
incl. current portion of borrowings	21,147	2,668
incl. non-current portion of borrowings, incl.	34,225	44,743
<i>Bank loans</i>	34,246	44,773
<i>Discounted contract fees on bank loans</i>	-21	-30

Bank loans are divided as follows according to repayment date:

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Less than 1 year	21,171	8,135
2-5 years	34,246	44,773

Cash flows of borrowings	2019	2018
<i>EUR, thousands</i>		
Balance at the beginning of period	52,848	45,776
Bank loans received	6,768	9,492
Annuity payments on bank loans	-4,259	-2,431
Capitalised contract fees	0	-13
Change of discounted contract fees	15	24
Balance at the end of period	55,372	52,848

14 Payables and prepayments

Short-term payables and prepayments

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Other trade payables	642	242
Total trade payables	642	242
Payables from fixed asset transactions	0	178
Other payables	2	0
Total other payables	2	178
Value added tax	205	189
Corporate income tax	0	14
Social tax	7	9
Land tax and real-estate tax	31	125
Other Tax liabilities	0	1
Total tax liabilities	243	338
Payables to employees	54	20
Interest liabilities	9	7
Tenant security deposits	111	120
Other accrued liabilities	57	114
Total accrued expenses	231	261
Prepayments received from buyers	14	0
Total prepayments	14	0
Total payables and prepayments	1,132	1,019

Long-term payables

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Tenants security deposits	605	457
Other long-term debts	4	0
Total other long-term payables	609	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

	Notes	31.12.2019	31.12.2018
<i>EUR, thousands</i>			
Financial assets – loans and receivables			
Cash and cash equivalents		12,986	4,859
Short - term deposits		6,000	0
Trade receivables	11	569	490
Total financial assets		19,555	5,349
Financial liabilities measured at amortised cost:			
Borrowings	13	55,372	52,848
Trade payables	14	642	242
Tenant security deposits	14	716	577
Interest payables	14	9	7
Accrued expenses	14	111	134
Total financial liabilities measured at amortised cost		56,850	53,808
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		271	189
Total financial liabilities measured at fair value		271	189
Total financial liabilities		57,121	53,997

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

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

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

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

Market risk

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

Interest rate risk

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

As at 31.12.2019, 60% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 2.950 plus the 1 month-, 3-month and 6-month EURIBOR), and 40% of loan contracts carry 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 where the 3-month EURIBOR is in turn fixed at 0.35%. In 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 3-5 years.

As a result of the long-term nature of the Group's real estate investments and the long-term borrowings associated with the investments, the management of EFTEN Real Estate Fund III AS decided in 2016 to mitigate the risk of an increase in the long-term floating interest rate applicable to the loan portfolio and hedge part of the loan portfolio by fixing the applicable floating interest rate (3-month). 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 recognises interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 31.12.2019 was negative in the amount of EUR 271 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 31.12.2019, the Group's interest-bearing liabilities accounted for 49% (31.12.2018: 52%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 1.8 (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 summarises the information on the maturities of the Group's financial liabilities (undiscounted cash flows):

As at 31.12.2019	Under 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>EUR, thousands</i>						
Interest-bearing liabilities	232	729	20,211	34,245	0	55,417
Interest payments	88	261	579	879	0	1,807
Interest payables	9	0	0	0	0	9
Trade payables	642	0	0	0	0	642
Tenant security deposits	20	18	74	416	189	716
Accrued expenses	111	0	0	0	0	111
Total financial liabilities	1,102	1,008	20,864	35,540	189	58,702

As at 31.12.2018	Under 1 month	2-4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>EUR, thousands</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

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Cash and cash equivalents	12,986	4,859
Receivables and accrued income (Note 11)	667	673
Prepaid expenses	51	46
Total current assets	13,704	5,578
Short-term portion of long-term liabilities (Note 13)	-21,147	-8,105
Short-term payables and prepayments (Note 14)	-1,403	-1,208
Total current liabilities	-22,550	-9,313
Total working capital	-8,846	-3,735

As at 31.12.2019, the Group's working capital is negative in the amount of EUR 8,846 thousand (31.12.2018: EUR 3,735 thousand). The working capital is negative due to the fact that by the end of 2020, the Group's two subsidiaries Saules Town UAB and Verkiu Projekt UAB (Ulonu office building) with loan agreements maturing in the total amount of EUR 19,385 thousand. The maturity of the loan agreements is in the second half of 2020, and the agreements will be refinanced as they mature. The debt-to-equity ratio of both loans is less than 50% and investment property has a strong cash flow, which is why the management of the Group estimates that there are no obstacles to extending the loan agreements and the working capital of the Group is sufficient to cover current liabilities.

As at 31.12.2018, working capital was negative due to the recognition of the non-current portion of the long-term bank loan of the Group's subsidiary EFTEN Evolution UAB in the amount of EUR 5,437 thousand due to non-compliance of the loan service coverage ratio (DSCR) provisionally. The covenant is below the required rate due to the expenses related to Evolution office building lease expiration in April 2019 and temporary vacancy. In January 2019, the lender issued a written confirmation to EFTEN Evolution UAB to extend the loan agreement until the agreed maturity date, ie until 30.05.2023, therefore, as of 31.12.2019, the loan is recognized as non-current in the Group's balance sheet.

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:

<i>EUR, thousands</i>	31.12.2019	31.12.2018
Undue	398	386
Past due, incl.	171	104
<i>up to 30 days</i>	160	91
<i>30-60 days</i>	9	13
<i>more than 60 days</i>	2	0
Allowance for doubtful accounts	0	0
Total trade receivables	569	490

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

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Cash and cash equivalents	12,986	4,859
Short-term deposits	6,000	0
Trade receivables	569	490
Total maximum Credit risk	19,555	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.

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). In May 2019, EFTEN Real Estate Fund III AS paid (net) dividends to shareholders in the amount of EUR 3,061 million (2018: EUR 2,191 million). During 2019, the Group has earned a free cash flow of EUR 3,381 million (12 months of 2018: EUR 3,151 million). After deduction of Lithuanian corporate income tax and calculation of the calculated dividend income tax in Estonian and Latvian companies, according to the established dividend policy, EFTEN Real Estate Fund III would be able to pay net dividends to the shareholders of this year's profit of EUR 2,545 million (60 cents per share). However, the Group's cash balance at the end of 2019 allows to pay more dividends than the dividend policy permits, which is why the Management Board of the Fund proposes to the Council in spring 2020 to pay a dividend of EUR 3,465 million (82 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 95 cents per share.

Report of capitalisation

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Mortgage guaranteed short-term liabilities (Note 13)	21,171	8,135
Unsecured short-term liabilities (Note 14)	1,379	1,178
Total short-term liabilities	22,550	9,313
Mortgage guaranteed long-term liabilities (Note 13)	34,246	44,773
Unsecured long-term liabilities (Note 14)	4,862	3,923
Total long-term liabilities	39,108	48,696
Share capital and share premium (Note 16)	51,883	35,883
Reserves	936	621
Retained earnings (Note 17)	18,352	13,990
Total shareholder's equity	71,171	50,494
Total liabilities and equity	132,829	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

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Cash (Note 12)	12,986	4,859
Tradable securities	6,000	0
Total liquid assets	18,986	4,859
The short-term portion of long-term liabilities (Note 13)	21,171	8,135
Net short-term debt	2,185	3,276
Long-term bank loans (long-term portion) (Note 13)	34,246	44,773
Total long-term debt	34,246	44,773
Total net debt	36,431	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 31.12.2019 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 recognising the fair value of interest rate swaps, the Group uses information received from credit institutions who are contract partners.

16 Share capital

As at 31.12.2019, the registered share capital of EFTEN Real Estate Fund III AS was EUR 42,225 thousand (31.12.2018: EUR 32,225). As at 31.12.2018, the share capital consisted of 4,222,535 shares (31.12.2018: 3,222,535) with a nominal value of EUR 10 (31.12.2018: the same). Without amending the articles of association, the company may increase its share capital to EUR 115,411 thousand. As at 31.12.2019, the share capital has been paid in the amount of EUR 51,883 thousand (31.12.2018: EUR 35,883 thousand).

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

Company	As at 31.12.2019	
	Number of shares	Ownership, %
Altius Capital 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 31.12.2019	
	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 tax liability

	31.12.2019	31.12.2018
<i>EUR, thousands</i>		
Retained earnings	18,352	13,990
Potential income tax liability	3,670	2,798
Dividends can be paid out	14,682	11,192

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 31.12.2019 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 2019 in the amount of EUR 702 thousand (2018: EUR 632 thousand), (see Note 7). In addition to the periodic management service, the Group calculated a performance fee of EUR 479 thousand in 2019 (2018: EUR 46 thousand).

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 2019 nor in 2018.

As at 31.12.2019, the Group had 12 employees who were remunerated including taxes in the amount of EUR 278 thousand (2018: EUR 229 thousand). In 2019 and in 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.

19 Events after the balance sheet date

Merger with EFTEN Kinnisvarafond AS

After the balance sheet date, on January 14, 2020, EFTEN Real Estate Fund III AS (the Acquiring Fund) and EFTEN Kinnisvarafond AS (the Acquisition Fund) entered into a merger agreement. The balance sheet date of the merger is April 1, 2020, ie from that date the assets, liabilities, equity, income and expenses of EFTEN Kinnisvarafond AS are recognized in the financial statements of EFTEN Real Estate Fund III AS. The prerequisite for the merger is, inter alia, the approval of the general meetings of the shareholders of both funds.

The boards of the merging funds estimate that the broader market sentiment is positive for real estate investments. The merger will create a fund with assets of more than EUR 340 million, comprising a total of 29 commercial buildings across the Baltic. The merger will increase the diversification of assets and reduce the portion of individual investment and the related risks for both the merging funds and their investors (shareholders). The investment strategy and risk profile of EFTEN Real Estate Fund III AS will not be changed during the merger.

For the purpose of the merger, a share issue of EFTEN Real Estate Fund III AS to the shareholders of EFTEN Kinnisvarafond AS will take place, the volume of which will be calculated based on the EPRA net asset value of EFTEN Kinnisvarafond AS as of 31.03.2020. The shares will be paid by the shareholders of EFTEN Kinnisvarafond as non-monetary contributions in accordance with the share replacement ratio. The share replacement ratio is calculated by dividing the EPRA net asset value per share of EFTEN Kinnisvarafond AS by the EPRA net asset value of EFTEN Real Estate Fund III AS.

Acquisition of two commercial buildings in Latvia

On January 13, 2020, a subsidiary of the Group signed debt-purchase agreements for the acquisition of two commercial buildings in Latvia to acquire the airBaltic headquarters office building at Riga Airport and a production and warehouse facility in Ķekava, near Riga. AirBaltic's main building was completely renovated in 2016 and the current lease agreement expires in 2026. The major tenants of the production and warehouse building in Ķekava are Fristads Kansas Production SIA and Forans SIA. The acquisition of the two buildings totals to EUR 15.8 million, of which EUR 7.2 million is financed by Swedbank and Luminor.

Declaration of the Management Board to the consolidated interim report for the 4th quarter and 12 months of 2019

We hereby confirm that EFTEN Real Estate Fund III AS consolidated interim report for the 4th quarter and 12 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