EfTEN Real Estate Fund III

Consolidated Annual Report 2019

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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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 of the year. 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 in 2019 was EUR 9.512 million (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 miljonit eurot), 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). 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.

	2019	2018
EUR million		
Rental revenue, other fees from investment properties	9.512	8.672
Expenses related to investment properties, incl. marketing costs	-0.758	-0.754
Interest expense and interest income	-1.183	-1.096
Net rental revenue less finance costs	**7.571**	**6.822**
Management fees	-0.702	-0.632
Other revenue and expenses	-0.629	-0.508
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	**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
EUR million					
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	-53.150	-42.773	-43.721	-21.567
Net asset value (NAV)	71.171	50.494	46.385	30.320	15.345
Net value of EPRA (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 net value (EPRA NAV) per share, in euro	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 2019 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 2020 to pay a dividend of EUR 3.465 million (82 cents per share).

Potential dividend payment calculation

	12 months	
	2019	**2018**
EUR thousand	-	
Operating profit	**10,045**	**8,258**
Adjustment for revaluation gains on investment property	-3,101	-1, 562
Adjustment for depreciation of fixed assets	40	21
Adjustment for profit on sale of investment property	0	-7
Adjustment for non-monetary change in performance fee	479	46
EBITDA	**7,463**	**6, 756**
Interest expense	-1,115	-965
Bank loan repayments	-2,759	-2,431
Income tax expense on profit (Lithuania)	-208	-163
Free cash flow	**3,381**	**3, 197**
80% of the free cash flow	2,705	2,558
Potential dividend income tax expense	-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, % (*net profit of the period / average equity of the period) x 100*	12.7	13.0
ROA, % (*net profit of the period / average assets of the period) x 100*	6.4	6.1
ROIC, % *(net profit of the period / average invested capital of the period[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)	0.9	0.6
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	1.8	2.0

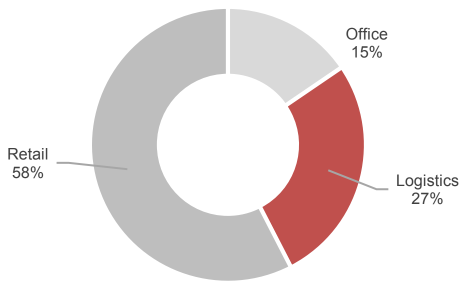
1 The average invested capital of the period is the paid-in share capital of EfTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

[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.

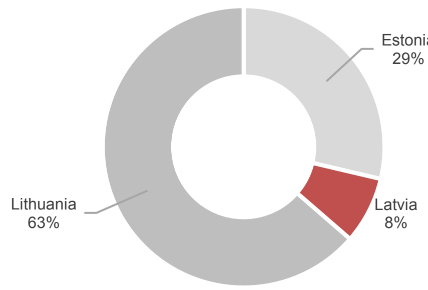
Real estate portfolio

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



Key indicators of the Group's real estate portfolio:

Investment property, as at 31.12.2019	Group's ownership				Fair value of investment property	Rental revenue per annum (EUR thousand)	Occupancy, %	Average lenght 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 Tähesaju tee OÜ, completed the construction of Tähesaju Hortses in Tallinn. Tähesaju 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 Tähesaju 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 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 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%**

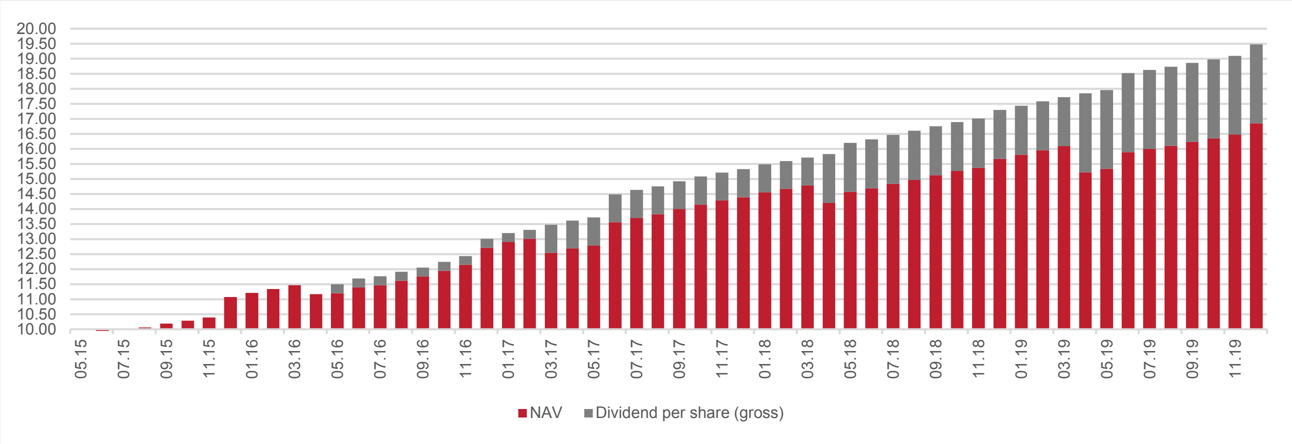
Share statistics	**2019**	**2018**	**2017**
Opening price	16.2	15.3	14.0
Closing price	17.9	16.2	15.3
Share price, lowest	16.0	15.3	14.9
Share price, highest	19.1	16.55	17.3
Shares traded, in thousands	127.0	188.8	45.7
Turnover, EUR millions	2.21	2.98	0,71
Market capitalization, EUR millions	75.58	52.21	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

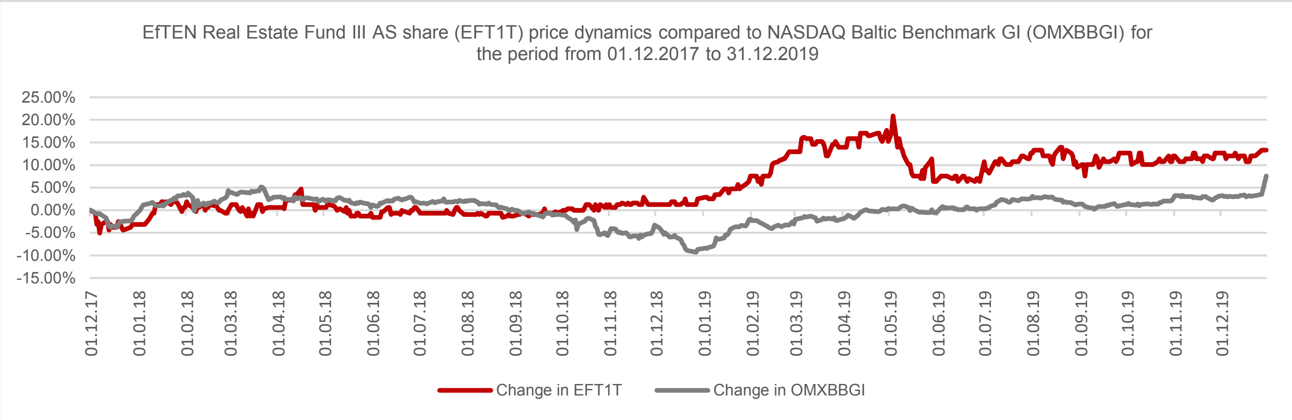
[1] Equity per share and EPRA equity per share are calculated by dividing the equity and EPRA equity by the average number of shares outstanding during the year (3,782,975).

[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 AS share and dividends paid (cumulative)





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			Ownership		
	Legal entities	Private individuals	Toal shareholders	Legal entities	Private individuals	Total shares	Legal entities	Private individuals	Total ownership
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%	**00%**
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	Number of shares	Ownership, %
Altius Capital OÜ	598,013	14.16%
Järve Kaubanduskesus OÜ	431,992	10.23%
Hoiukonto OÜ	430,211	10.19%

CORPORATE GOVERNANCE REPORT

Corporate Governance Recommendations report

This report has been prepared in accordance with the principles of the Accounting Act and the Corporate Governance Code and provides an overview of the compliance of the management of EfTEN Real Estate Fund III AS with the Corporate Governance Code as at 31.12.2019.

Unless otherwise stated in this report, EfTEN Real Estate Fund III AS shall comply with good corporate governance practices (in particular, as required by law in the management of an investment company registered as a public limited company).

General meeting

Shareholders' rights

EfTEN Real Estate Fund III AS is an investment company incorporated as a public limited company with a nominal value of EUR 10 each. Each share grants one vote to the shareholder at the general meeting. The share entitles the shareholder to participate in the general meeting of shareholders and to distribute profits and assets remaining upon termination of the fund, as well as other rights provided by law and the articles of association. There are no specifications that would give shareholders different voting or other rights.

The General Meeting is the highest governing body of EfTEN Real Estate Fund III AS. The General Meeting has the authority to amend the Fund's articles of association, increase and decrease the share capital to the extent not authorized by the Supervisory board, decide to conclude, amend and terminate the management agreement concluded with the Fund Management Company, amend the policy for making payments to shareholders at the expense of the Fund, amend the Fund's investment policy, insofar as it is not in the competence of the Supervisory Board according to the articles of association, elect members of the Supervisory Board, renew and revoke their powers and determine their remuneration policy and amount, determine the necessity of special control, approce the annual report and decide on the distribution of profits, decide on the liquidation or merger of the Fund, decide on a transaction with a Supervisory Board member, determine the terms of the transaction, decide on legal disputes and appoint a representative of the Fund in this transaction or dispute, as well as decide on other issues in the competence of the General Meeting.

Significant Shareholders

None of the shareholders of EfTEN Real Estate Fund III AS controls the fund. As far as EfTEN Real Estate Fund III AS is aware, there are no shareholder agreements or other arrangements between the shareholders that could subsequently result in control of the Fund.

As at 31.12.2019, EfTEN Real Estate Fund III AS had three significant shareholders: 1) Altius Capital OÜ - 14.16%, of which 45.24% is held by the holding company owned by Arti Arakas and 45.24% is held by the holding company owned by Frank Õim ; 2) Järve Kaubanduskeskus OÜ - 10.23%, which is 100% owned by Vello Kunman through his holding company and 3) Hoiukonto OÜ - 10.19%, of which 69.5% is held by the holding company owned by Marcel Vichmann and 30.5% is held by the holding company owned by Hanno Murrand.

Fund manager EfTEN Capital AS holds 2.07% of the fund's share capital.

Convening of the General Meeting and information to be published

Every shareholder has the right to attend the general meeting, to speak at the general meeting on the items on the agenda and to ask reasonable questions and make proposals. The annual general meeting of shareholders shall be called at least once a year within four months after the end of the financial year of EfTEN Real Estate Fund III AS. An Extraordinary General Meeting of Shareholders shall be called if deemed necessary by the Fund Manager or the Management Board of the Fund or at the request of the Fund's Supervisory Board, auditor, Fund Management Company, Financial Supervision Authority or the depositary of the Fund. In addition to other persons prescribed d by the law, shareholders whose shares represent at least 1/20 of the share capital may also request the convening of the General Meeting and the inclusion of questions on the agenda of the General Meeting. The request to call an extraordinary general meeting shall be submitted to the Management Board in writing, stating the reason for the convocation.

The shareholders will be notified of the convening of ordinary and extraordinary meetings of shareholders via Nasdaq Tallinn Stock Exchange System and the notice will also be published on the website of Real Estate Fund III AS and in a national daily newspaper at least three weeks prior to the meeting. Information related to the General Meeting is published as a stock exchange announcement and on the website in both Estonian and English. The newspaper will only publish the notice of the meeting in Estonian.

The agenda of the general meeting, the proposals of the Management and Supervisory Board, draft resolutions and other relevant materials and information are made available to the shareholders before the General Meeting together with the notice the General Meeting.

In 2019, there was one ordinary General Meeting of shareholders held. EfTEN Real Estate Fund III AS published the notice of the Annual General Meeting via Nasdaq Tallinn Stock Exchange System and on its website on 26 March 2019 and on the same day in daily newspapers 'Eesti Päevaleht' and 'Äripäev'. EfTEN Real Estate Fund III AS provided the shareholders with the opportunity to ask questions about the items on the agenda both by e-mail and by phone and by accessing the Annual Report on its website and at its registered office at A. Lauteri 5, Tallinn, 26.03.2019.

The Annual General Meeting of shareholders of EfTEN Real Estate Fund III AS was held on April 17, 2019 at 10:15 on the 2nd floor of Radisson Blu Sky Hotel Conference Center, Rävala pst 3, Tallinn. The decisions made at the General Meeting are published both via Nasdaq Tallinn Stock Exchange System and on the website of EfTEN Real Estate Fund III AS.

Conducting the Annual General Meeting

17.04.2019 the annual General Meeting was held in Estonian and was chaired by an independent person, attorney at law Raino Paron, who also introduced the procedure for conducting the meeting, including asking questions from the Management Board and voting on items on the agenda. All members of the Management Board; Chairman of the Supervisory Board Arti Arakas, members of the Supervisory Board Sander Rebane and Siive Penu, and Rando Rand, Lead Auditor of the Fund's auditor AS PricewaterhouseCoopers participated in the meeting. Supervisory Board member Olav Miil was unable to attend the General Meeting due to his absence. According to the Articles of Association, the General Meeting may adopt resolutions if shareholders who hold more than half of the votes represented by shares participate in the General Meeting. 78.55% of the votes represented by shares were present at the General Meeting. EfTEN Real Estate Fund III AS's Articles of Association do not provide for electronic monitoring or participation in the General Meeting and must be attended personally or by proxy. The general meeting provided an overview of the fund's activities, including the commercial real estate market in general and by the Fund's real estate investments. Thereafter, the Annual Report 2018 was approved and decisions were made on the distribution of profits, increase of share capital and listing of new shares on the stock exchange as separate agenda items. Shareholders were granted the opportunity to ask questions, make proposals and ask questions. No statements or dissent were made at the annual General Meeting.

Management Board

Tasks of the Management Board

The Management Board shall monitor the Fund Management Company's Fund related activities, i.e monitor Fund Management Company's compliance with the obligations arising from the management agreement and supervise the activities of the depository as prescribed in the depository contract, as well as supervise other functions related to management and transferred tasks carried out by third parties.

The Management Board of EfTEN Real Estate Fund III AS does not manage the assets of the Fund under the current legislation, the articles of association and the management agreement.

Composition and remuneration

According to the Articles of Association of EfTEN Real Estate Fund III AS, the Management Board consists of one to three members. The members of the board are elected and recalled by the Supervisory Board. Viljar Arakas and Tõnu Uustalu have been members of the Management Board since its establishment and in 2019 no changes were made to the members of the Management Board. The Chairman of the Management Board has not been elected. The member of the Management Board is appointed for a term of five years and re-election of a Management Board member is permitted. Each member of the Management Board may represent EfTEN Real Estate Fund III AS in all legal acts.

No separate contracts have been concluded with the members of the Management Board. No remuneration has been paid to the members of the Management Board and there are no decisions to pay any remuneration or benefits (including non-cash) to the members of the Management Board in the future. Viljar Arakas, member of the Management Board of EfTEN Real Estate Fund III AS, is simultaneously a member of the Management Board of the Fund Management Company, with whom he has a Management Board member contract. Tõnu Uustalu, member of the Management Board of EfTEN Real Estate Fund III AS, is simultaneously the manager of the investment department of the Fund Management Company, with whom he has an employment contract.

In connection with the management of EfTEN Real Estate Fund III AS, the Fund Management Company has established internal rules to ensure the functioning of risk management and internal controls of the Fund, as well as internal rules to organise accounting and preparationg of financial statements, and, together with the management, organise a control and reporting system. Once a year, members of the Management Board submit a declaration of economic interest.

Conflict of interest

In 2019, there were no transactions between EfTEN Real Estate Fund III AS and members of the Management Board, their close relatives or related persons, except under the management services provided to EfTEN Real Estate Fund III AS by the Fund Management Company. Participation in other associations or entities (besides the responsibilities of the Management Board) is disclosed in the Fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS www.eref.ee. The members of the Management Board do not participate simultaneously in the work of other publicly listed entities' Management or Supervisory Boards.

As at 31.12.2019, Viljar Arakas, a member of the Management Board, owns 0.33% of the Fund's share capital and 27.41% of the share capital of the Fund Management Company through his holding company and as a private individual. Member of the Management Board, Tõnu Uustalu, holds 0.28% of the Fund's share capital and 20.56% of the share capital of the Fund Management Company.

The member of the Management Board or an employee of the company does not require or accept money or other benefots for personal gain from third parties in connection with his or her work and does not give unlawful or unjustified benefits to third parties on behalf of the Fund. In 2019, the Management Board is not aware of any misconduct by the management itself or the Group's employees. The members of the Management Board are not authorised to issue and repurchase shares.

Supervisory Board

Tasks of the Supervisory Board

According to the articles of association of EfTEN Real Estate Fund III As, the Supervisory Board is authorised to approve the budget, appoints and recall procurator, appoint an audit firm, approve the terms of a deposit agreement, approve a stockholder, decide on a transaction with a Management Board member, determine the terms of the transaction, decide on legal disputes and appoint a representative of the Fund n this transaction or dispute, approve semi-annual reports, approve opening balance and annual report of liquidation, supervise the Management Board and increase share capital within three years from the date of establishment.

The Supervisory Board's approval is required for transactions that go beyond the normal course of business, including acquisition and termination of holdings in other companies, the establishment or termination of a subsidiary, the approval and amendment of a Fund's operating strategy, significant changes to the Fund's activities or involving the Fund in business activities that are not directly related to the objectives of the Fund's current economic activity and transactions in excess of EUR 250,000.

EfTEN Real Estate Fund III AS does not have audit or remuneration committee. The functions of the audit and remuneration committee shall be performed by the Supervisory Board.

The work of the Supervisory Board is organized by the Chairman elected by the members of the Supervisory Board amongst themselves. The Supervisory Board makes decisions on Board or without convening a meeting. A resolution of the supervisory board shall be adopted if more than a half of the votes represented at the meeting are in favour, unless the legislation or the articles of association prescribe a greater majority requirement. The Chairman of the Supervisory Board has no decisive vote in the event of equal division of votes. In order to make decisions without convening a meeting, all members of the Supervisory Board must be in favour.

Composition and remuneration

According to the Articles of Association of EfTEN Real Estate Fund III AS, the Supervisory Board consists of three to five members. Since its establishment, the Supervisory Board has consisted of four members: Arti Arakas (Chairman of the Supervisory Board), Olav Miil, Siive Penu and Sander Rebane. According to the Articles of Association, the re-election of the members of the Supervisory Board is allowed (extension of the mandate). There were no changes in the composition of the Supervisory Board in 2019.

No contracts have been concluded with the members of the Supervisory Board. No remuneration has been paid to the members of the Supervisory Board and there are no decisions for the Supervisory Board to receive any remuneration or benefots (including non-cash) in the future. All Supervisory Board members attended more than half of the Supervisory Board meetings.

Conflict of interest

Members of the Supervisory Board shall avoid conflicts of interest in their activities. A member of the Supervisory Board favours the interests of the issuer to his or her personal or thirh party interests. A member of the Supervisory Board does not use commercial offers, directed at the issuer, for personal gain. In 2019, EfTEN Real Estate Fund III AS is not aware of any misconduct by the Supervisory Board members. Once a year, members of the Supervisory Board submit a declaration of economic interests.

In 2019, there were no transactions between EfTEN Real Estate Fund III and EfTEN Real Estate Fund III AS Supervisory Board members, their close relatives or related persons, except the management services provided to EfTEN Real Estate Fund III AS by the Fund Management Company. The members of the Supervisory Board do not participate simultaneously in the work of other publicly listed entities' Management or Superviosry Boards. Participation in other associations or entities is disclosed in the Fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS www.eref.ee.

As of 31.12.2019, Arti Arakas, member of the Supervisory Board, owns 6.41% of the Fund's share capital and 10.56% of the Fund Management Company's share capital through a holding company, Olav Miil owns 0.77% of the Fund's share capital and 5.55% of the Fund Management Company's share capital. Siive Penu owns 0.03% of the Fund's share capital and does not hold any interest in the Fund's Management Company. Siive Penu is a member of the Management Board of HTB Investeeringud OÜ, which owns 1.57% of the Fund's share capital and 5.55% of the Fund Management Company's share capital. Sander Rebane, member of the Supervisory Board, does not own shares in the Fund or the Fund Management Company.

Cooperation of Management and Supervisory Board

The Management Board and Supervisory Board work in close co-operation to best protect the interests of EfTEN Real Estate Fund III. The co-operation is, above all, based on an open exchange of views between as well as within the Management Board and the Supervisory Board. The members of the Management Board participate in the Supervisory Board meetings where the Supervisory Board reviews the financial results of the issuer or makes decisions regarding the approval of the acquisition of investment objects. Generally, members of the Management Board are also invited to Supervisory Board meetings where EfTEN Real Estate Fund III management related issues are discussed.

The Management Board informs the Supervisory Board of all important management and business activity related events outside of meetings, to ensure prompt transmission of urgent and important information.

Information, where sufficient time is needed for a decision to be reached (e.g. making investment decisions, approving annual reports), is forwarded by the Management Board to the members of the Supervisory Board before the meeting takes place.

Confidentiality requirements are being applied throughout the exchange of information between the Management and Supervisory Board, which ensures control over sensitive information. On 27 November 2017, internal rules for handling internal information, keeping a list of persons that have access to sensitive information and the disclosure of that information were established.

As far as EfTEN Real Estate Fund III AS is aware, in 2019 the Management Board has not deviated from the instructions given by the Supervisory Board.

Disclosure of information

EfTEN Real Estate Fund III AS informs all shareholders about material matters equally, using the information system of the Tallinn Stock Exchange and its website. The website of EfTEN Real Estate Fund III AS www.eref.ee contains general information about the fund, an overview of real estate investments, information about the members of the management board and supervisory board, the main service providers; as well as stock exchange announcements, reports and other relevant information. The annual and interim reports of EfTEN Real Estate Fund III AS provide information on the fund's strategy and financial performance, as well as a report on corporate governance. Information on the composition of the Supervisory Board and the auditor, resolutions of the general meeting and other important information is published in the section of stock exchange releases. In addition, the annual reports of the Fund are available on the website of the Management Company EfTEN Capital AS at www.eften.ee.

In addition to the quarterly interim reports and the annual report, EfTEN Real Estate Fund III AS also publishes the Fund's net asset value on a monthly basis as of its registration on the Nasdaq Tallinn Stock Exchange, which is also available on the Fund's website. Before the end of each financial year, EfTEN Real Estate Fund III shall publish through the Nasdaq Tallinn stock exchange system and thereafter on its website the following financial year, showing the dates of quarterly and annual financial results and the date of the annual general meeting. Once the information has been published through the Nasdaq Tallinn Stock Exchange system, all of this information will also be available on the Fund's website. EfTEN Real Estate Fund III AS regularly communicates with its shareholders. The general meeting of shareholders shall be convened at least once a year, with a separate agenda item providing an overview of the activities of the fund and where each shareholder can ask questions to the members of the management and supervisory boards. The Management Board also meets with shareholders outside general meetings, including at conferences and meetings.

Financial reporting and auditing

Reporting

The consolidated financial statements of EfTEN Real Estate Fund III AS are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The annual report is audited and approved by the supervisory board and approved by the annual general meeting of shareholders. EfTEN Real Estate Fund III publishes its consolidated audited annual report and consolidated interim reports for the financial year, which are published through the information system of the Tallinn Stock Exchange and are publicly available on the website of the Fund and the Management Company.

Election of the auditor and audit of the financial statements

The independent auditor of EfTEN Real Estate Fund III AS is AS PricewaterhouseCoopers, who was appointed as the auditor of the fund at the foundation of the fund (06.05.2015). There is a valid contract with the auditor for the audit of the financial year 2019 (inclusive). The contract with the auditor sets out the auditor's duties, schedule and fees.

According to the fund's articles of association, the appointment of an audit firm is a matter for the supervisory board.

During the reporting period, in addition to auditing the annual report, the contracted auditor of EfTEN Real Estate Fund III AS provided the following services: translation services and other services for performing agreed procedures. In 2019, the Group paid a total of EUR 37 thousand for services to auditors.

In 2019, the auditor did not inform the supervisory board of material matters that came to its attention that could affect the work of the supervisory board or the management of EfTEN Real Estate Fund III AS. Nor has the auditor communicated any threat to the auditor's independence or professionalism. In 2019, the auditor attended the annual general meeting of shareholders of AS PricewaterhouseCoopers, the auditor of Rando Rand, where the previous annual report for the financial year 2018 was approved.

Risk management

EfTEN Real Estate Fund III AS is a public limited-liability investment fund (alternative investment fund) established in the Republic of Estonia with the aim of providing shareholders with an opportunity to participate in an actively managed real estate portfolio. EfTEN Real Estate Fund III AS is not a guaranteed fund and dividend payment is not guaranteed to investors. Key information published for investors about EfTEN Real Estate Fund III AS is available on the Fund's website at www.eref.ee

In its day-to-day operations, EfTEN Real Estate Fund III AS faces various risks. The Fund and the Management Company view the risk as a potential risk that an event, action or omission could result in loss of property or reputation or jeopardize the effective performance of tasks / objectives. The main risks related to the Fund and its subsidiaries are described in the Prospectus of the Fund, which is available on EfTEN Real Estate Fund III AS website www.eref.ee.

EfTEN Real Estate Fund III AS and the Management Company treat risk management as an ongoing process of risk identification, measurement, measurement and mitigation and as part of the day-to-day management of a company. The principle is that the risks should be taken in a balanced manner, taking into account the internal risk management rules established by the Management Company, the investment and risk diversification restrictions set out in the fund's articles of association and implementing risk management measures as appropriate. Excessive risk-taking is unacceptable when investing the Fund's assets and appropriate risk management, risk assessment, risk analysis and performance evaluation measures are required. Thus, the risk management process covers both the risks associated with the investment planned or made on behalf of the fund, as well as the management of the fund and the management company's own operational and other risks. An independent internal auditor of the management company is also involved in the risk management process and the evaluation of the measures and, in addition, the compliance function is part of the management company's internal control. The role of risk management and internal control is to ensure that risks are recognized and addressed at all levels within the risk management process. The Management Board shall ensure that each staff member and member of the management body is aware of the requirements which he or she has to comply with in order to fulfill his or her duties and that the performance of different functions does not prevent the employee or member of the management body from acting.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019	2018
EUR thousand			
Revenue	4,5	9,512	8,672
Cost of services sold	6	-329	-319
Gross profit		**9,183**	**8,353**
Marketing costs	7	-429	-435
General and administrative expenses	8	-1,847	-1,225
Gain / loss from revaluation of investment properties	13	3,101	1,562
Other operating income and expense		37	3
Operating profit	**4**	**10,045**	**8,258**
Interest income		14	0
Finance costs	9	-1,197	-1,096
Profit before income tax		**8,862**	**7,162**
Income tax expense	10	-1,125	-863
Net profit for the financial year			
Total comprehensive income for the financial year	**4**	**7,737**	**6,299**
Earnings per share	11		
- Basic		2.05	1.96
- Diluted		2.05	1.96

The notes on pages 17-44 are an integral part of the financial statements

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019	31.12.2018
EUR, thousands			
ASSETS			
Cash and cash equivalents	16	12,986	4,859
Short - term deposits	16	6,000	0
Receivables and accrued income	12	667	673
Prepaid expenses		51	46
Total current assets		**19,704**	5,578
Long-term receivables		0	24
Investment property	4,13	113,011	102,787
Property, plant and equipment		114	114
Intangible assets		0	0
Total non-current assets		**113,125**	**102,925**
TOTAL ASSETS		**132,829**	**108,503**
LIABILITIES AND EQUITY			
Borrowings	14	21,147	8,105
Derivative instruments	16	271	189
Payables and prepayments	15	1,132	1,019
Total current liabilities		**22,550**	**9,313**
Borrowings	14	34,225	44,743
Other long-term liabilities	15	609	457
Deferred income tax liability	10	4,274	3,496
Total non-current liabilities		**39,108**	**48,696**
Total liabilities		**61,658**	**58,009**
Share capital	17	42,225	32,225
Share premium	17	9,658	3,658
Statutory reserve capital	17	936	621
Retained earnings	18	18,352	13,990
Total equity		**71,171**	**50,494**
TOTAL LIABILITIES AND EQUITY		**132,829**	**108,503**

The notes on pages 17-44 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019	2018
EUR, thousands			
Net profit		**7,737**	**6,299**
Adjustments:			
Finance costs	9	1,183	1,096
Gain / loss from revaluation of investment properties	13	-3,101	-1,562
Profit / loss from the sale of investment property		0	-7
Depreciation, amortisation and impairment		41	21
Income tax expense	10	1,125	863
Total adjustments with non-cash changes		**-753**	**411**
Cash flow from operations before changes in working capital		**6,984**	**6,710**
Change in receivables and payables related to operating activities		301	-115
Net cash flow generated from operating activities		**7,285**	**6,595**
Purchase of property, plant and equipment		-41	-96
Purchase of investment property	13	-7,329	-13,526
Sale of investment property		0	7
Change in short-term deposits		-6,000	0
Acquisition of subsidiaries	3	0	-100
Net cash flow generated from investing activities		**-13,370**	**-13,715**
Loans received	14	6,768	9,492
Scheduled loan repayments	14	-4,259	-2,431
Interest paid		-1,096	-954
Proceeds from issuance of shares		16,000	0
Dividends paid	16	-3,061	-2,191
Income tax paid on dividends		-140	-70
Net cash flow generated from financing activities		**14,212**	**3,846**
NET CASH FLOW		**8,127**	**-3,274**
Cash and cash equivalents at the beginning of period	**16**	**4,859**	**8,133**
Change in cash and cash equivalents		8,127	-3,274
Cash and cash equivalents at the end of period	**16**	**12,986**	**4,859**

The notes on pages 17-44 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
EUR, thousands					
Balance 31.12.2017	**32,225**	**3,658**	**293**	**10,209**	**46,385**
Dividends paid	0	0	0	-2,191	-2,191
Transfers to statutory reserve capital	0	0	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
Blance 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 17.

The notes on pages 17-44 are an integral part of the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The structure of EfTEN Real Estate Fund III AS as at 31.12.2019 is as follows (see also Note 3):

EfTEN Real Estate Fund III AS

	SUBSIDIARIES	*Investment Property:*
100%	Saulės Miestas UAB	*Saulės Miestas Shopping center, Šiauliai*
100%	Verkių projektas UAB	*Ulonu office building, Vilnius*
100%	EfTEN Laisves UAB	*L3 office building, Vilnius*
100%	EfTEN Evolution UAB	*Evolution office building, Vilnius*
100%	EfTEN Stasylu UAB	*DSV logistics center, Vilnius*
100% *100%*	EfTEN Tänassilma OÜ	*DSV logistics center, Tallinn*
100%	EfTEN Krustpils SIA	*DSV logistics center, Riga*
100% *100%*	EfTEN Laagri OÜ	*Selver Shopping Center, Tallinn*
100%	EfTEN Seljaku OÜ	*Hortes gardening center, Laagri*
100%	EfTEN Tähesaju tee OÜ	*Hortese gardening center, Tallinn*
100%	EfTEN Evolution UAB	*Evolution office building, Vilnius*
100%	EfTEN Autokeskus OÜ (previously EfTEN Kolmas OÜ)	*ABC Motors car center, Tallinn*

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

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the financial year ended 31.12.2019 were signed by the Management Board on 21.02.2020. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board is approved by the General Meeting of Shareholders. These consolidated financial statements form part of the annual report for approval by the shareholders and are one of the basis for deciding on the distribution of profits. Shareholders have the right not to approve the annual report prepared by the Management Board and approved by the Supervisory Board and to request the preparation of a new report until approval by the general meeting.

2 Summary of significant accounting policies

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements of the Group are presented in thousands of euros.

The financial statements have been prepared under the historical cost convention, unless otherwise stated (for example, investment property is carried at fair value).

2.1 Changes in the accounting policies and presentation

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became mandatory for the Group's annual periods beginning at 1 January 2019:

''IFRS 16 Leases''

The new standard sets out the principles for recording, measuring, presenting and disclosing leases. As a result of all leases, the lessee obtains the right to use the asset from the commencement of the lease and, in the case of lease payments over a period, to finance. Consequently, IFRS 16 eliminates the classification of operating leases as operating and finance leases, as IAS 17 does, and instead introduces a single accounting model for lessees. Lessees must (a) record assets and liabilities for all leases with a term of more than 12 months, unless the leased asset is of low value; and (b) recognize in the income statement depreciation on leased assets and interest expense on lease liabilities. The principles of IFRS 16 for lessors remain substiantially unchanged from those of IAS 17, that is, the lessor continues to subdivide its leases into operating and finance leases and to treat these types of leases differently.

As the Group has no leases with a term of more than 12 months as a lessee, the standard is not relevant to the Group.

''Amendments to IFRSs 2015-2017''

The amendments with limited scope affect four standards. IFRS 3 clarified that an acquirer should reassess its previous interest in a jointly controlled entity when it acquires control of that business. In contrast, IFRS 11 now explicitly states that an investor should not reassess its previous interest in acquiring or losing joint control over a jointly controlled operation. The Group's control over the joint venture has not changed since the acquisition of the joint venture, therefore the amendment to IFRS 3 will not have any impact on the Group's financial statements.

The revised IAS 12 clarifies that the income tax effect of dividends should be recognized in the manner in which the distributable profit is generated, for example, in the income statement or other comprehensive income. It is now understood that this requirement applies in all circumstances when payments made from financial instruments classified as equity are treated as distributions, and not only when the tax effects result from the application of different tax rates to distributed and undistributed profits. The Group recognizes derivative financial instruments (interest rate swaps) at fair value through profit or loss, but as such derivatives are only available in Estonia and Latvia, these financial instruments have no effect on income tax expense.

Revised IAS 23 now provides explicit guidance that loans taken to finance the construction of a particular asset should not be withdrawn from the general borrowing cost until the construction of that particular asset is substantially completed. The revised standard does not have a significant impact on the Group's financial statements.

''IFRIC 23, Income Tax Inconsistency''

IAS 12 sets out how to account for current period and deferred tax, but not how to account for the effect of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty about tax treatment. It is for the enterprise to decide whether to deal with each uncertain tax treatment separately or in combination with one or more other tax treatments, depending on which method better predicts the resolution of the uncertainty. The enterprise must expect the tax administration to verify the tax records that it is entitled to audit and that, at the time of such verification, the tax authority will know all relevant information. If the enterprise concludes that the tax administration is unlikely to accept the uncertain tax treatment, the effect of the uncertainty should be taken into account when estimating taxable profit or loss, tax base, unused tax losses, unused tax benefits or tax rates, whichever method is most appropriate. The company estimates that it will better predict the resolution of uncertainty. Effects arising from changes in the underlying data and circumstances, or from new information affecting the entity's judgments or estimates, should, by interpretation, be accounted for as changes in accounting estimates. Examples of changes in data and circumstances or new information that may result in a change in judgment or judgment include, but are not limited to, a control procedure or other action by the tax authority, a change in the rules established by the tax authority, or Unless the tax administration agrees or disagrees with a particular tax treatment, it is unlikely that it will be treated in isolation as a change in facts or circumstances or as new information that could affect decisions or estimates under that interpretation. The Group estimates that the adoption of the standard will not have a significant impact on the financial statements of the Group.

New standards, interpretations, and their changes

New or revised standards and interpretations have been issued that become mandatory for the Group for periods beginning on or after 1 January 2020, and which the Group has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes a new chapter on measurement, guidance on financial performance reporting, revised concepts and guidance (eg on liability) and clarifications on the role of critical areas in financial reporting, such as diligence, conservatism, management uncertainty.

The amendments will not have a material impact on the Group's financial statements.

'Materiality concept' - Amendments to IAS 1 and IAS 8

The amendments clarify the concept of materiality and how to apply the concept by including in the definition the guidance that was previously included in other standards. The explanatory notes to the definition have also been updated. As a result of the changes, the concept of materiality is consistent across IFRSs. Information is important if its omission, misrepresentation, or concealment could, with reasonable assumption, influence decisions made by major users of an enterprise's general purpose financial statements based on those statements.

The amendments will not have a material impact on the Group's financial statements.

Standards not yet adopted

"Sale or transfer of assets between investor and its associate or joint venture" - Amendments to IFRS 10 and IAS 28 (effective date to be determined by IASB; not yet adopted by the EU).

The amendments remove inconsistencies between the requirements of IFRS 10 and IAS 28 governing the sale or transfer of assets between an investor and its associate or joint venture. The primary effect of the change is that the gain or loss is fully recognized when the transaction involves a business. When a transaction involves assets that do not constitute a business, part of the gain or loss is recognized even if those assets are owned by the subsidiary and the subsidiary's shares are transferred in the transaction.

The Group will analyze and disclose the impact of this change after implementation.

Definition of Business Practices - Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

The amendments have adjusted the definition of a business. A business must have inputs and a meaningful process that together make a significant contribution to the ability to create outputs. The new guidance provides a framework for assessing when an input and a meaningful process exist, including for early-stage companies that have not produced outputs. If there are no outputs, an organized workforce is required to classify as a business. The concept of output has been narrowed and now focuses on providing goods and services to customers and generating investment and other income; the term no longer includes cost savings and other economic benefits. It is also no longer necessary to assess whether market participants are able to replace missing parts or integrate acquired activities and assets. An entity may perform a "concentration test" - acquired assets do not meet the business definition if substantially all of the fair value of the acquired gross assets is concentrated on a single asset (or set of similar assets).

The Group will analyze and disclose the impact of this change after implementation.

2.2 Summary of the most important accounting principles

Management's critical estimates and judgements

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities.

Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

Information about management's critical judgements and estimates that have a material effect on the amounts reported in the financial statements is provided below:

2.2.1 Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date of preparation of the financial statements. Therefore there is a risk with the assets and liabilities presented at the balance sheet date, and the related revenue and expenses, that the estimates applied need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material restatements to the financial statements are described below.

a) Determination of the fair value of investment property

Investment property is measured at each balance sheet date at its fair value. The Group's real estate investments are valued by Colliers International Advisors OÜ. The Group's independent valuer evaluates investment property on an individualized basis using the discounted cash flow method. All of the Group's investment properties earn (or are beginning to earn) rental income, therefore the applied method best indicates the fair value of the investment properties among the alternatives (comparison method for example). The estimates of cash flows of properties have been updated to determine the fair value and the discount rates and exit yields have been differentiated depending on the location of the properties, their technical conditiona and the tenant risk level. In 2019, the discount rates of EfTEN Real Estate Fund III AS real estate portfolio have not changed significantly in valuations, remaining between 7.9% and 8.6% (2018: same). The capitalisation rates are the same compared to last year (7.5% -8.0%).

Additional information on the assumptions used in valuation of fair values can be found in Note 13.

b) Business combinations and acquisition of assets

Purchases of real estate are generally treated as acquisitions of assets. The management estimates that there is no business combination if the property has individual tenants, the Fund does not acquire any assets or rights other than the property, and does not employ any past employees. The Fund does not acquire the business process management know-how of the real estate object, but manages all the acquired objects centrally.

2.2.2 Investment company

The management of the Group has assessed its activities to meet the definition of an investment company and considers that EfTEN Real Estate Fund III AS does not meet the definition of an investment company as it has the characteristics of a real estate company rather than a pure investment company. Although investors in EfTEN Real Estate Fund III AS expect both capital appreciation and operating profit from their capital investment, EfTEN Real Estate Fund III also carries a significant amount of development risk in its investments, which is typical of a typical real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. For the parent company of EfTEN Real Estate Fund III AS, fair value measurement is indirect - the fair value is the value of assets held in subsidiaries, resulting in the fair value of the subsidiary not necessarily being the ultimate market price of the subsidiary. The Group also estimates its financial performance on the basis of rental income, profit margins, volume of assets and other financial indicators of the real estate business, which cannot be measured solely by the fair value of the subsidiary.

Consolidation

The consolidated financial statements present the financial information of EfTEN Real Estate Fund III AS and its subsidiaries, consolidated on a line-by-line basis. The subsidiaries are consolidated from the date on which control is transferred to the Group, and subsidiaries are deconsolidated from the date that control ceases.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. All inter-company transactions, receivables and payables and unrealised gains and losses from transactions between the Group companies have been fully eliminated in the financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

Business combinations are accounted for in the consolidated financial statements using the acquisition method.

The cost of a business combination accounted for using the acquisition method is allocated to the fair value of assets, liabilities and contingent liabilities as at the date of acquisition. The difference between the cost of the acquisition and the fair value of acquired assets, liabilities and contingent liabilities is recognised as goodwill. If fair value exceeds cost, the difference (negative goodwill) is immediately recognised as income of the period.

Segment reporting

The Group allocates raised capital and available resources for investments in accordance with the Group's investment policy, analysing the reasonable allocation of risks by real estate sector.

In disclosing information on segments, the Group adheres to the principles of grouping used in the Group's internal accounting and reporting. Independent business segments are sub-sectors of commercial real estate, which differentiate from one another by type of rented space and have different yield rates (rental income per sqm, acquisition price of one sqm. capitalisation rates).

The Group's three business segments and geographical segments are presented in the following table:

Premises / country	Estonia	Latvia	Lithuania
Office premises	-	-	Ulonu office building, Vilnius L3 office building, Vilnius Evolution office building, Vilnius
Storage and logistics premises	DSV logistics centre, Tallinn	DSV logistics centre, Riga	DSV logistics centre, Vilnius
Retail premises	Laagri Selver, Tallinn Hortes gardening centre, Saue Hortes gardening centre, Tallinn ABC Motors Autokeskus, Tallinn	-	Saules Miestas shopping centre

The main indicators used by the management in making business decisions is sales revenue, net operating income (net sales less the cost of sales and marketing costs), EBITDA and operating profit. It is also important to monitor the volume of property investments by segments. The Group analyses all indicators on a monthly basis.

Investments in subsidiaries in the separate balance sheet of the parent company

In the separate balance sheet of the parent company (presented in Note 21), the investments in subsidiaries are measured at fair value. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

Revenue is income arising in the course of the Company’s ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a good or service to a customer.

The Group's revenue includes rental income, administration fees, marketing fees, and utility and administrative agency fees.

Lease income from operating leases is recognised on a straight-line basis over the lease term. If the Group agrees with the tenants during the lease-free period, the said expense is also recognised on a straight-line basis over the lease term, reducing rental income.

Administrative fees and marketing fees are recognised in the period in which the control over the services is transferred to the customer, i.e. during the service period.

Some management fees may include different service components. In this case, the Group assesses whether they give rise to a number of implementation obligations. If such different implementation obligations exist, then the total transaction fee is allocated to each obligation to execute on the basis of a separate selling price. If there is no separate selling price, it is derived from the expected cost plus margin.

The Group acts as an agent for resale of utility and administrative expenses, and therefore such income is not shown in gross amount but is offset by the related expense.

Financing component

Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Finance income

Interest income is recognised on an accrual basis, using the effective interest rate method. Dividend income is recognised when the right to receive payment has been established.

Cash and cash equivalents

Cash and cash equivalents are cash and short-term (up to 3 months from the moment of acquisition) high-liquidity investments that are readily convertible into a known amount of cash for up to three months from the actual transaction date and which are subject to an insignificant risk of changes in market value. Such assets are cash, demand deposits and term deposits with a maturity of up to three months.

Financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Regular purchases and sales of financial assets are recognised on the trade date, the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. All Company's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses.

As at 31 December 2018 and 31 December 2019, all the Company's financial assets were classified in this category:

- cash and cash equivalents;
- trade receivables.

Equity instruments

The Company does not have any investments in equity instruments.

(iv) Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Derivative instruments

The risk policy of the Group specifies that company may use interest rate swaps from among derivative instruments to hedge the risks related to change in interest rates of financial liabilities. Such derivative instruments are initially recognised in the balance sheet at their fair value at the date of entering into a contract and subsequently remeasured in accordance with the change in the fair value of the instruments at the balance sheet date. A derivative instrument with a positive fair value is recognised as an asset and a derivative instrument with a negative fair value is recognised as a liability. In determining the fair value of interest rate swaps, bank quotations at the balance sheet date are used as a basis. Derivative instruments are measured at fair value through profit or loss.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Investment property

Investment property is property (land or a building or both) held or developed to earn rental income or for capital appreciation rather than for use in the production or supply of goods or services for administrative purposes. In addition, investment property includes properties, which are held over an extended period for an undetermined future use.

An investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would not have taken place). After initial recognition, investment property is measured at fair value at each balance sheet date. The fair value of investment property reflects market conditions at the balance sheet date.

The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square meter and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate, which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income.

Gains and losses arising from changes in the value of investment property are recognised in profit or loss in the period in which they arise (in other income and other expenses, respectively).

An investment property is derecognised from the balance sheet on disposition or when the property is permanently withdrawn from use and the asset is expected to generate no future economic benefits. Gains and losses arising from the derecognition of investment property are recognised in profit or loss in the period of derecognition (in other income and other expenses, respectively).

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the Group where the item has been transferred are applied. For a transfer from investment property to property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortised cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in their net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received (less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method. Interest expenses on financial liabilities are recognised on the line "finance income" and "finance costs" in the income statement on an accrual basis. Interest expenses on financing the development of assets from the start of the development period until the acceptance of completed assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset as borrowing costs.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the Group does not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue, are recognised as current. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current.

A financial liability is removed from the statement of financial position when it is settled or cancelled or expires.

Success fee liability

EfTEN Real Estate Fund III AS and EfTEN Capital AS have entered into a management contract, according to which the success fee is calculated based on the growth of the adjusted share closing prices on the stock exchange for the last two years, adjusting the closing prices of the trading day by dividends paid, income tax on dividends and minimum expected return (the minimum expected return is 10% of the closing price of the last trading day). The success fee is equal to 20% of the change in the closing price of the last trading day of the current and the previous reporting year, multiplied by the number of shares of the Fund. The costs incurred due to changes in the success fee are recognised as general expenses (see Note 8).

Provisions and contingent liabilities

Provisions are recognized in the balance sheet only when the enterprise has a legal or constructive obligation as a result of events that existed at the balance sheet date, and its fulfillment will probably require the asset to be disposed of in a reliable amount in the future.

Contingent liabilities also include liabilities arising from events occurring on the balance sheet date, the management of which, in the opinion of the management, is unlikely to materialize.

Leases

Business as a lessor

Leases, which transfer substantially all the risks and rewards incidental to ownership to the lessee. are classified as finance leases. Other leases are classified as operating leases.

Assets subject to operating leases are recognised in the lessor's balance sheet. Operating lease payments received and made are recognised as income and expenses, respectively, on a straight-line basis over the period of the lease.

Statutory reserve capital

According to the Estonian Commercial Code, the statutory reserve capital of a company has to amount to at least 10% of its share capital. Based on that, the parent company shall allocate at least 5% of the net profit to the statutory reserve capital annually. Transfers are continued until the required level has been achieved. The statutory reserve capital may not be paid out as dividends but it may be used for covering accumulated losses if there is an insufficient amount of unrestricted equity to cover the losses. The statutory reserve capital may also be used to increase equity through issuing new shares.

Income tax

<u>Parent company and subsidiaries in Estonia</u>

According to the Income Tax Act, the profit of a financial year is not taxed in Estonia, but the distribution of profit (dividends). The (net) dividend tax rate is 20/80. Income tax relating to the payment of a dividend is recognized in the income statement as an expense when the dividend is declared (when a liability is payable).

Starting in 2019, it will be possible to apply a tax rate of 14/86 on dividend payments. This more favorable tax rate can be used for dividend payments up to the average dividend payout of the three preceding financial years, subject to a 20/80 tax rate. The average dividend payment for the previous three financial years is 2018. the first year to be taken into account.

<u>Subsidiaries in Latvia and Lithuania</u>

In Lithuania, the company's net profit is subject to a 15% tax rate. Taxable income is calculated on the profit before tax of the enterprise, adjusted for income tax expense on a temporary or permanent basis in accordance with the requirements of local tax laws.

For Lithuanian subsidiaries, a deferred tax asset or liability is recognized for the tax bases of assets and liabilities at each balance sheet date, and for temporary differences between their carrying amounts. Deferred tax assets are recognized in the balance sheet only when it is probable that future taxable profits will be available against which the deferred tax assets can be utilized.

Latvian subsidiaries are taxed at the rate of 20/80. Transitional rules in the Act allow for a reduction in dividend payouts if a company had unused tax losses or certain provisions as of December 31, 2017

3 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			31.12.2019	31.12.2018	31.12.2018	31.12.2017
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 Stasylu UAB	Lithuania	DSV logistics center, Vilnius	4,213	4,046	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics center, Tallinn	6,795	6,215	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,768	2,511	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	2,034	1,864	100	100
EfTEN Tähesaju 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 (previously EfTEN Kolmas OÜ)	Estonia	ABC Motors car center, Tallinn	1,544	5	100	100

All subsidiaries are engaged in the acquisition and leasing of investment properties. The shares of any of the subsidiaries are not quoted on the stock exchange.

19.04.2018 EfTEN Real Estate Fund III AS established a 100% subsidiary of EfTEN Tähesaju tee OÜ with the purpose of acquiring the Hortes Gardening Center building in Tallinn. When the company was founded, the share capital of the subsidiary was paid up to EUR 2,500. In May 2018, an additional EUR 1,080 thousand was paid in the equity of the subsidiary for investment in real estate.

On May 30, 2018, EfTEN Real Estate Fund III AS acquired its 100% subsidiary EfTEN Evolution UAB with the purpose of acquiring the Evolution office building in Vilnius. The acquired company was paid EUR 2,500 and the equity of the company at the time of acquisition was equal to the purchase price. Following the acquisition, EfTEN Real Estate Fund III subsidiary paid EUR 3,205 thousand in equity. The subsidiary invested the proceeds as an investment in the cost of the Evolution office building.

On December 13, 2018, EfTEN Real Estate Fund III AS established a 100% subsidiary EfTEN Kolmas OÜ, paying EUR 2,500 in the share capital of the subsidiary. The subsidiary plans to acquire an investment property by the end of January 2019.

In 2018, EfTEN Real Estate Fund III AS paid the last installment in the amount of EUR 100 thousand from EfTEN Laagri OÜ acquired last year.

In 2019, EfTEN Real Estate Fund III AS did not establish or acquire any new subsidiaries, but made equity investments in existing subsidiaries totaling EUR 1,570 thousand.

On the balance sheet date, 13.01.2020, EfTEN Real Estate Fund III AS signed a debt purchase agreement for the acquisition of 100% shareholding in two Latvian companies, which own the airBaltic headquarters office building in Riga Airport and a production and warehouse building in Ķekava, Riga. Approximately EUR 8.6 million will be invested in equity to acquire subsidiaries (see also Note 20).

4 *Segment reporting*

SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
12 months	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EUR, thousands										
Revenue (Note 5), 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 (note 9)									-1,183	-1,096
Profit before income tax expense									**8,862**	**7,162**
Income tax expense (Note 10)									-1,125	-863
NET PROFIT FOR THE FINANCIAL PERIOD									**7,737**	**6,299**

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
As at the end of the year	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
EUR, thousands								
Investment property (Note 13)								
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.

5 Revenue

Areas of activity	2019	2018
EUR thousand		
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 4, 13)	**9,512**	**8,672**

Revenue by geographical area	2019	2018
EUR thousand		
Estonia	2,002	1,727
Latvia	711	652
Lithuania	6,799	6,293
Total revenue by geographical area (Note 4,13)	**9,512**	**8,672**

6 The cost of services sold

Cost of services sold	2019	2018
EUR thousand		
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 13)	**-329**	**-319**

7 Marketing costs

Marketing costs	2019	2018
EUR thousand		
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.

8 General and administrative expenses

	2019	2018
EUR thousands		
Management services (Note 19)	-702	-632
Office expenses	-66	-38
Wages and salaries, incl. taxes	-257	-229
Consulting expenses	-102	-96
Audit	-37	-36
Regulator costs	-118	-73
Change in success fee liability	-479	-46
Other general and administrative expenses	-46	-54
Depreciation	-40	-21
Total general and administrative expenses	**-1,847**	**-1,225**

9 Finance costs

	2019	2018
EUR thousand		
Interest expenses, incl.	-1,115	-965
Interest expense from loans	*-1,016*	*-889*
Interest expense from derivatives (-)/ cost reductions (+)	*-99*	*-76*
Change in fair value of interest swaps (Note 16)	-82	-131
Total finance costs	**-1,197**	**-1,096**

10 Income tax

	2019	2018
EUR thousand		
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.

11 Earnings per share

Earnings per share	2019	2018
Net profit of the period, *in EUR thousands*	7,737	6,299
Dividends per share, in EUR	0.95	0.68
Weighted average number of shares over the period, in pcs	3,782,975	3,222,535
Earnings per share, in EUR	2.05	1.96

12 Receivables and accrued income

	31.12.2019	31.12.2018
EUR, thousands		
Receivables from costumers	569	490
Total receivables from customers (note 16)	**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**

13 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
EUR, thousands								
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	Riga, 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 4 “Segment reporting”.

In the years 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 12 months	2019	2018
Rental income earned on investment property (Note 5)	8,782	7,958
Expenses directly attributable to management of investment property (Note 6)	-329	-319
Amounts outstanding on the acquisition of investment property (Note 15)	0	178
Prepayments for investment property (Note 12)	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
EUR, thousands		
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 (Hortes 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, €/,m2
EUR, thousands						
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
EUR, thousands						
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%
EUR, thousands							*Fair value*	
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	Effect to decrease to value	Effect to increase to value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/-10%	*-2,350*	*2,350*	Change in the 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*
Storage and logistics premises	Change in rental income +/-10%	*-2,413*	*2,414*	Change in the 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 the 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 16).

14 Borrowings

As at 31 December 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%
LHV	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 16

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
EUR, thousands		
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
EUR, thousands		
Total long-term borrowings (Note 16)	**55,372**	**47,411**
incl. current portion of borrowings	21,147	2,668
incl. non-current portion of borrowings, incl.	34,225	44,743
Bank loans	*34,246*	44,773
Discounted contract fees on bank loans	-21	-30

Bank loans are divided as follows according to repayment date:

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

Cash flows of borrowings	**2019**	2018
EUR, thousands		
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**

15 Payables and prepayments

Short-term payables and prepayments

	31.12.2019	31.12.2018
EUR, thousands		
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
EUR, thousands		
Tenants security deposits	605	457
Other long-term debts	4	0
Total ohter long-term payables	**609**	**457**

For additional information on payables and prepayments, please see Note 16.

16 *Financial instruments, management of financial risks*

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables. For additional information on the Group's finance costs, please see Note 9.

The table below indicates the division of the Group's financial assets and financial liabilities according to financial instrument type.

Carrying amounts of financial instruments

	Notes	31.12.2019	31.12.2018
EUR, thousands			
Financial assets – loans and receivables			
Cash and cash equivalents		12,986	4,859
Short - term deposits		6,000	0
Trade receivables	12	569	490
Total financial assets		**19,555**	**5,349**
Financial liabilities measured at amortised cost:			
Borrowings	14	55,372	52,848
Trade payables	15	642	242
Tenant security deposits	15	716	577
Interest payables	15	9	7
Accrued expenses	15	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 2.95% 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 FundIII;

(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**
EUR, thousands						
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	Less than 1 month	2-4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	Total
EUR thousand						
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
EUR, thousands		
Cash and cash equivalents	12,986	4,859
Receivables and accrued income (Note 12)	667	673
Prepaid expenses	51	46
Total current assets	**13,704**	**5,578**
Short-term portion of long-term liabilities (Note 14)	-21,147	-8,105
Short-term payables and prepayments (Note 15)	-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:

EUR, thousands	31.12.2019	31.12.2018
Undue	398	386
Past due, incl.	**171**	**104**
up to 30 days	*160*	*91*
30-60 days	*9*	*13*
more than 60 days	*2*	*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
EUR, thousands		
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**

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

Reiting	**31.12.2019**	**31.12.2018**
Aa2	12,832	4,855
Baa1	4,153	0
Without rating	2,000	0
Total	**18,985**	4,855

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
EUR, thousands		
Mortgage guaranteed short-term liabilities (Note 14)	21,171	8,135
Unsecured short-term liabilities (Note 15)	1,379	1,178
Total short-term liabilities	**22,550**	**9,313**
Mortgage guaranteed long-term liabilities (Note 14)	34,246	44,773
Unsecured long-term liabilities (Note 15)	4,862	3,923
Total long-term liabilities	**39,108**	**48,696**
Share capital and share premium (Note 17)	51,883	35,883
Reserves	936	621
Retained earnings (Note 18)	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
EUR, thousands		
Cash	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 14)	21,171	8,135
Net short-term debt	**2,185**	**3,276**
Long-term bank loans (long-term portion) (Note 14)	**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 13). 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.

17 Share capital

The Annual General Meeting of EfTEN Real Estate Fund III held on April 17, 2019 decided to increase the share capital of the Fund by 10,000 thousand euros by issuing 1,000 thousand shares with a nominal value of 10 euros each. The shares were issued at a premium of EUR 6 per share, ie a total of EUR 16,000 thousand was paid up in the share capital increase.

As at 31.21.2019, 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).

The Annual General Meeting of EfTEN Real Estate Fund III AS decided on April 17, 2019 to distribute EUR 3,061 thousand to shareholders as dividends and to make a provision in the reserve capital of EUR 315 thousand.

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

	As at 31.12.2019	
Company	**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:

	As at 31.12.2019	
Company	**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%

18 Contingent liabilities

Contingent income tax liability

	31.12.2019	31.12.2018
EUR, thousands		
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 is calculated on the assumption that the total net dividends to be distributed and the tax expense on the payment of such dividends cannot exceed the distributable profit as at 31.12.2019 and 31.12.2018. As at 31.12.2019 and 31.12.2018, the tax rate applied to calculate the potential income tax liability is 20/80.

Potential liabilities arising from the tax audit

Estonia

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

Latvia and Lithuania

The management estimates that there are not any circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

19 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.

20 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.

21 *Parent company's separate financial statements*

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the annual report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments in subsidiaries are measured at fair value.

Parent company's income statement and other comprehensive income statement:

	2018	2018
EUR thousand		
General and administrative expenses	-622	-147
Gain from subsidiaries	8,311	6,367
Finance income	71	81
Finance expense	-23	0
Profit before income tax	**7,737**	**6,301**
Total comprehensive income for the financial period	**7,737**	**6,301**

Parent company's statement of financial position

	31.12.2019	31.12.2018
EUR thousand		
ASSETS		
Cash and cash equivalents	8,440	489
Receivables and accrued income	6,000	36
Short-term receivables from subsidiaries	377	704
Total current assets	**14,817**	**1,229**
Non-current assets		
Shares of subsidiaries	53,628	46,808
Long-term receivables from subsidiaries	3,209	2,513
Total non-current assets	**56,837**	**49,321**
TOTAL ASSETS	**71,654**	**50,550**
Payables	482	55
Total short-term liabilities	**482**	**55**
Total liabilities	**482**	**55**
Share capital	42,225	32,225
Share premium	9,658	3,658
Statutory reserve capital	936	621
Retained earnings	18,353	13,991
Total equity	**71,172**	**50,495**
TOTAL LIABILITIES AND EQUITY	**71,654**	**50,550**

Parent company's separate statement of changes in equity

	Sharecapital	Share premium	Mandatory reserv capital	Retained profits	**Total**
EUR, thousands					
Balance as at 31.12.2017	**32,225**	**3,658**	**293**	**10,209**	**46,385**
Payment of dividends	0	0	0	-2,191	**-2,191**
Provisions in reserve capital	0	0	328	-328	**0**
Gross profit for the financial year	0	0	0	6,301	**6,301**
Balance as at 31.12.2018	**32,225**	**3,658**	**621**	**13,991**	**50,495**
Issue of shares	10,000	6,000	315	-315	**16,000**
Payment of dividends	0	0	0	-3,061	**-3,061**
Gross profit for the financial year	0	0	0	7,737	**7,737**
Balance as at 31.12.2019	**42,225**	**9,658**	**936**	**18,353**	**71,172**

Adjusted unconsolidated equity of the parent company (to account for compliance with the requirements set forth in the Commercial Code) is as follows:

	31.12.2019	31.12.2018
EUR thousand		
Parent company's unconsolidated equity	71,172	50,495
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-53,628	-46,808
Value of subsidiaries and joint ventures under the equity method (plus)	53,628	46,808
Total	**71,172**	**50,495**

Parent company's statement of cash flows

	2018	2017
EUR thousand		
Cash flows from operating activities		
Net profit	**7,737**	**6,301**
Adjustments to net profit:		
Finance income and finance costs	-48	-81
Gain/loss on the fair value adjustment of subsidiaries	-5,250	-4,177
Dividends received	-3,061	-2,191
Total adjustments	**-8 359**	**-6,449**
Cash flow from operations before changes in working capital	**-622**	**-148**
Change in receivables and payables related to operating activities	405	-1
Net cash generated from operating activities	**-217**	**-149**
Cash flows from investing activities		
Acquisition of subsidiaries	-1,570	-5,087
Change in short-term holdings	-6,000	0
Loans granted	-240	-2,007
Repayment of loans granted	0	3,125
Dividends received	3,061	2,191
Interest received	1	0
Net cash generated from investing activities	**-4,748**	**-1,778**
Cash flows from financing activities		
Loans received	2,760	0
Repayment of loans received	-2,760	0
Interest paid	-23	0
Dividends paid	-3,061	-2,191
Income tax paid on dividends	0	0
Proceeds from issuance of shares	16,000	0
Net cash generated from financing activities	**12,916**	**-2,191**
NET CASH FLOW	**7,951**	**-4,118**
Cash and cash equivalents at the beginning of the period	**489**	**4,607**
Change in cash and cash equivalents	7,951	-4,118
Cash and cash equivalents at the end of the period	**8,440**	**489**

Management Board Declaration for the Consolidated Annual Report 2019

The Management Board has prepared the management report and consolidated financial statements of EfTEN Real Estate Fund III AS for the financial year ended 31 December 2019.

The Management Board confirms that the EfTEN Real Estate Fund III AS annual report and consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the parent and the Group as a whole in accordance with International Financial Reporting Standards as adopted by the European Union..

/signed digitally/

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Viljar Arakas

Board member

/signed digitally/

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Tõnu Uustalu

Board member

Independent auditor's report

To the Shareholders of EfTEN Real Estate Fund III AS

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Real Estate Fund III AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 February 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

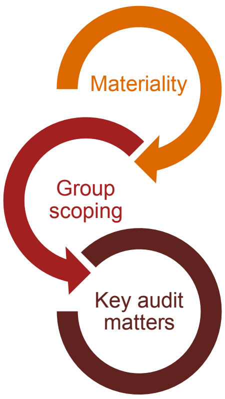
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the Corporate Governance Report and note 8 to the consolidated financial statements.

Our audit approach

Overview



Overall group audit materiality is EUR 1,328 thousand which represents 1% of the Group's total assets.

The Group audit team or component auditors, under our instructions, audited the Group companies essentially covering all parts of the consolidated statements financial position and comprehensive income.

- Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 1,328 thousand
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We have applied this benchmark, as this is the key indicator on which the Group's value depends and that is monitored by the management board and investors.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties Addition information is disclosed in Note 2.2 "Summary of the most important accounting principles" and in Note 14 "Investment property". As at 31 December 2019 the investment properties carried at fair value amounted to EUR 113 million and the revaluation gain recognised in 2019 profit or loss statement was EUR 3.1 million. The management uses independent appraisers to evaluate the fair values by engaging an external valuation at least twice a year for each asset. The Group measures the fair value of the investment properties using the discounted cash flow method, based on the rental rates of these properties, using the existing rental rates for properties leased out. Among other factors, the valuation of the Group's investment property portfolio is inherently subjective due to the individual nature of each investment property, its location and the expected future rental rates. In determining the fair value of investment property, the appraisers and the management take into account property specific information such as the current tenancy agreements and rental income. Assumptions for yields and estimated market rent used are influenced by prevailing market yields and comparable market transactions.	Given the inherent subjectivity involved in the valuation of investment properties and the need for market knowledge and valuation expertise, we engaged PwC valuation specialists to assist us in our audit of this area. We obtained and read the valuation reports and valuation inputs for all the investment properties and assessed whether the valuation approach for each investment property was in accordance with the principles of measuring fair value under IFRS. We found the methods to be consistent with the guidance in IFRS. We assessed the qualifications and expertise of the external appraisers and we found that the appraisers performed their work in accordance with the respective professional valuation standards and that they have considerable experience in the markets in which the Group operates. We found no evidence to suggest that the objectivity of the appraisers was compromised. We compared the major assumptions such as rental rates, discount rates, capitalisation rates and vacancy rates used by the appraisers with our internally developed estimated ranges, determined via reference to published benchmarks when applicable. Where assumptions were outside the expected range or otherwise deemed unusual, or valuations demonstrated unexpected movements not consistent with general trends in the market, we undertook further investigations and challenged the appraisers and Group management by requesting additional

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual investment property valuations, when aggregated, could result in a material impact, warranted specific audit focus in this area.	information and explanations on inputs and assumptions used. We concluded that the data and assumptions used by management were reasonable. It was evident from our interaction with management and the appraisers, and from our procedures in respect of the valuation reports that close attention had been paid to each investment property's individual characteristics, such as considering the overall quality, geographic location and cash flow potential of the property as a whole. We also found that the impact of recent and significant market transactions on each individual investment property's valuation were appropriately considered when determining the assumptions used in the valuation. We saw evidence that alternative assumptions had been considered and evaluated by management and the appraisers before determining the final fair value. We concluded that the assumptions used in the valuations were supported by the available and comparable market evidence. We also considered whether the disclosures made in note 13 to the financial statements met the requirements set out in IFRS and noted no issues.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's financial statements consolidate twelve reporting units. Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope considering the relative significance of each entity to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. For the subsidiaries EfTEN Real Estate Fund III AS, EfTEN Tänassilma OÜ, EfTEN Laagri OÜ, EfTEN Tähesaju tee OÜ, EfTEN Autokeskus OÜ (formerly known as EfTEN Kolmas OÜ) and EfTEN Seljaku OÜ, full scope statutory audits were performed by the Group audit team and for Saules Miestas UAB and EfTEN Krustpils SIA by component auditors in accordance with our instructions. For other subsidiaries the Group audit team performed full scope audit procedures on investment properties' balances and the component auditors performed full scope audit procedures on cash and bank accounts, receivables from customers, notes payable and long-term debt, deferred income tax balances and revenue transactions from rental income. For the audit procedures performed by component auditors, we determined the level of involvement we needed to have in their audits to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report and the Corporate Governance Report (but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of EfTEN Real Estate Fund III AS, as a public interest entity, on 1 December 2017 for the financial year ended 31 December 2017. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for EfTEN Real Estate Fund III AS, as a public interest entity, of 3 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of EfTEN Real Estate Fund III AS can be extended for up to the financial year ending 31 December 2036.]

AS PricewaterhouseCoopers

Lauri Past
Certified auditor in charge, auditor's certificate no.567

Rando Rand
Auditor's certificate no.617

21 February 2020

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Profit Allocation Proposal

The Management Board of EfTEN Real Estate Fund III AS proposes to the General Meeting to distribute the profit for the year 2019 as follows (in EUR):

Retained earnings as at 31.12.2019	18,351,597
Provision for mandatory legal reserve	386,852
Dividend distribution	3,464,939
Surplus retained earnings after provisioning	14,499,806

Viljar Arakas

Board member

Tõnu Uustalu

Board member

Signatures of the members of the supervisory board to the annual report

The Supervisory Board has reviewed the Annual Report prepared by the Management Board consisting of the Management Report, the Corporate Governance Report and the Consolidated Financial Statements, the independent sworn auditor's report and the proposal for the distribution of profit to the General Meeting of Shareholders.

21. veebruar 2020

Arti Arakas

Chairman of the Board

Siive Penu

Member of a council

Sander Rebane

Member of a council

Olav Miil

Member of a council

Distribution of revenue according to the Estonian Classification of Economic Activities

	EMTAK code	2019	Sales revenue%	Main activity
EUR,Thousands				
Fund management	66301	0	-	Yes