

Interim Report for the 1st quarter of 2019

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2019

End of financial period: 31.03.2019

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Table of contents

		2
MANAG	EMENT REPORT	2
CONDE	NSED INTERIM REPORT	7
CONSC	OLIDATED STATEMENT OF COMPREHENSIVE INCOME	7
CONSC	OLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSC	OLIDATED STATEMENT OF CASH FLOWS	9
CONS	OLIDATED STATEMENT OF CHANGES IN EQUITY	10
NOTES	S TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS	11
1	Accounting policies and valuation principles used in compiling the consolidated interim report	11
2	Subsidiaries	12
3	Segment reporting	12
4	Revenue	13
5	Cost of services sold	13
6	Marketing costs	14
7	General and administrative expenses	14
8	Finance costs	14
9	Income tax	14
10	Earnings per share	15
11	Receivables and accrued income	15
12	Investment property	15
13	Borrowings	16
14	Payables and prepayments	17
15	Financial instruments, management of financial risks	18
16	Share capital	22
17	Contingent liabilities	23
18	Related party transactions	23
Dec	claration of the Management Board to the consolidated interim report for the 1st quarter of 2019	24

MANAGEMENT REPORT

Comment of the Fund manager

In February 2019, EfTEN Real Estate Fund III AS acquired the ABC Motors sales and service center in Tallinn. The cost of the investment property, including transaction costs, totaled EUR 3.015 million and a loan of EUR 1.8 million was taken for the transaction. The remaining acquisition amount was financed from the Group's free funds. The investment property added 2,149 m2 of rental property and the Group receives rental income of EUR 252 thousand per year.

In the spring of 2019, EfTEN Real Estate Fund III AS shall carry out an additional share issue of up to EUR 16 million to finance the acquisition of new facilities planned for the future.

The Fund will continue its investment activities based on an opportunistic and value-adding investment strategy.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for the 1st quarter of 2019 was EUR 2.315 million (1st quarter of 2018: EUR 2.000 million), which increased by 16% in a year. The Group's net profit for the same period amounted to EUR 1.369 million (1st quarter of 2018: EUR 1.251 million).

The consolidated gross profit margin in the 1st quarter of 2019 was 97% (1st quarter of 2018: 98%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 3% (1st quarter of 2018: 2%) of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 19.5% of the revenue in the 1st quarter of 2019. The respective indicator was 20.7% in the 1st quarter of 2018.

	1st quarter		
	2019	2018	
EUR million			
Rental revenue, other fees from investment properties	2.315	2.000	
Expenses related to investment properties, incl. marketing costs	-0.162	-0.151	
Interest expense and interest income	-0.338	-0.207	
Net rental revenue less finance costs	1.815	1.642	
Management fees	-0.174	-0.148	
Other revenue and expenses	-0.115	-0.114	
Profit before change in the value of investment property, change in the success fee liability, fair value change of the interest rate swap and income tax expense	1.526	1.380	

As at 31.03.2019, the Group's total assets were in the amount of EUR 111.088 million (31.12.2018: 108.503 million), including fair value of investment property, which accounted for 95% (31.12.2018: same) of the total assets.

	31.03.2019	31.12.2018	31.12.2017	31.12.2016
EUR million				
Investment properties	106.084	102.787	88.390	73.539
Other non-current assets	0.106	0.138	0.090	0.058
Current assets, excluding cash	0.539	0.719	0.678	0.444
Net debt (cash and cash equivalents minus liabilities)	-54.866	-53.150	-42.773	-43.721
Net asset value (NAV)	51.863	50.494	46.385	30.320
Net asset value (NAV) per share (in euros)	16.09	15.67	14.39	12.71

During the 1st quarter of 2019, the net asset value of the share of EfTEN Real Estate Fund III AS increased by 2.7% (1st quarter of 2018: the same). Return on invested capital (ROIC) was 17.9% as of 31.03.2019 (31.12.2018: 17.6%).

Access to flexible financing conditions will help to increase the Group's competitiveness. In the 1st quarter of 2019, the Group entered into new loan contracts in the total amount of EUR 1.978 million in connection with the acquisition of new investment properties and the development of existing investment properties. As at the end of March, 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).

The dividend policy of EfTEN Real Estate Fund III AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In May 2019, EfTEN Real Estate Fund III AS shall pay the shareholders (net) dividends 95 cents per share (in the total amount of EUR 3.061 million). In 2018, the Group paid net dividends to the shareholders 68 cents per share (in the total amount of EUR 2.191 million).

During the 1st quarter of 2019, the Group earned a free cash flow of EUR 0.912 million (1st quarter of 2018: EUR 0.776 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 0.656 million (20 cents per share) from the profit earned in this period.

Potential dividend payment calculation based on the profit earned in the 1st quarter of 2019 and 2018

	1st quarter	1st quarter		
	2019	2018		
EUR thousand				
Operating profit	1,864	1,587		
Adjustment for depreciation of fixed assets	9	13		
EBITDA	1,873	1,600		
Interest expense	-262	-197		
Bank loan repayments	-677	-533		
Income tax expense on profit (Lithuania)	-22	-94		
Free cash flow	912	776		
80% of the free cash flow	730	621		
Potential dividend income tax expense	-74	-73		
Potential net dividend according to dividend policy	656	548		
Number of shares at the end of the period	3,222,535	3,222,535		
Potential net dividends according to dividend policy per share (in EUR)	0.20	0.17		

Key performance and liquidity ratios

	1st quarter	
	2019	2018
ROE, % (net profit of the period / average equity of the period) x 100	2.7	2.7
ROA, % (net profit of the period / average assets of the period) x 100	1.2	1.3
ROIC, % (net profit of the period / average invested capital of the period¹) x 100¹	3.8	3.5
EBITDA (EUR thousand)	1,873	1,600
EBITDA margin, %	81%	80%
EBIT (EUR thousand)	1,864	1,587
EBIT margin, %	81%	79%
Liquidity ratio (current assets / current liabilities), as of 31.03.2019 and 31.12.2018 ²	1.3	0.6
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2.0	2.2

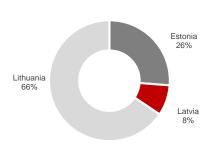
¹ The average invested capital of the period is the paid-in share capital of EfTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

Real estate portfolio

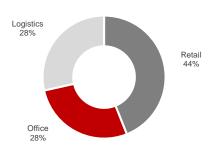
The Group invests in commercial real estate with a strong and long-term tenant base. At the end of March 2019, the Group had 11 (31.12.2018: 10) commercial investment properties with a fair value as at the balance sheet date of EUR 106.084 million (31.12.2018: EUR 102.787 million) and acquisition cost of EUR 98.292 million (31.12.2018: EUR 94.627 million).

² As at 31.12.2018, the Group's liquidity ratio is 0.6. The level of this indicator is due to the short-term recognition of the long-term bank loan portion of the Group's subsidiary EffEN Evolution UAB in the amount of EUR 5,437 thousand due to the non-compliance of the loan service coverage ratio (DSCR) provisionally stipulated in the loan agreement. The covenant is below the required level in relation to the costs and temporary vacancy associated with the rental agreement ending in April 2019 in the Evolution office building. In January 2019, the lender issued a written waiver to EffEN Evolution UAB to continue the loan agreement until the agreed deadline, i.e. until 30.05.2023 and a statement that the covenant may be below the rate stipulated in the agreement until the end of 2019. In the first quarter of 2019, EffEN Evolution's loan service coverage ratio was 1.4, i.e. the loan conditions were not violated and the long-term part of the loan was recognised in the Group's long-term loan commitments.

Real estate portfolio by country



Real estate portfolio by sector



Main figures of the Group's real estate portfolio as of 31.03.2019:

Investment properties	Group's ownership	Fair value of investment property	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	12,850	16,014	1,006	100	7.6	1
DSV Riga	100	8,660	12,149	711	100	7.6	1
DSV Vilnius	100	8,730	11,687	692	100	7.5	1
Total logistics		30,240	39,850	2,409	100	7.6	3
Saules Miestas shopping center	100	31,650	19,881	2,980	98	4.5	119
Hortes gardening center, Laagri	100	3,430	3,470	263	100	13.4	1
Selver in Laagri	100	6,650	3,063	499	99	9	9
ABC Motors sales and service centre	100	3,015	2,149	252	100	10	1
Hortes gardening center, Tallinn	100	1,888		develo	pment stage		
Total retail		46,633	28,563	3,994	99	6.0	130
Ulonu office building	100	9,220	5,174	706	100	2.9	15
L3 office building	100	9,971	6,150	763	100	1.8	35
Evolution office building	100	10,020	6,172	639	90	1.4	40
Total office		29,211	17,496	2,108	94	2.0	90
Total real estate portfolio		106,084	85,909	8,511		5.5	223

Information on shares

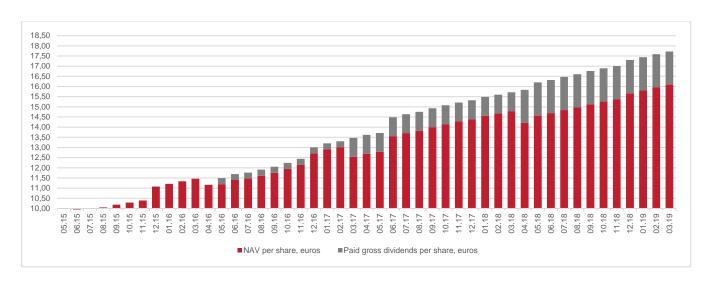
The net asset value of the share of EfTEN Real Estate Fund III as at 31.03.2019 was EUR 16.09 (31.12.2018: EUR 15.67). The shares of EfTEN Real Estate Fund III AS are freely tradable on the Tallinn Stock Exchange from 1 December 2017. During the first quarter of 2019, the share price of EFT1T rose from EUR 16.2 to EUR 18.0 (11.1%). The average closing price of EFT1T shares traded during the quarter was 17.3 euros and the total volume of transactions was EUR 232 thousand (1st quarter of 2018: EUR 693 thousand).

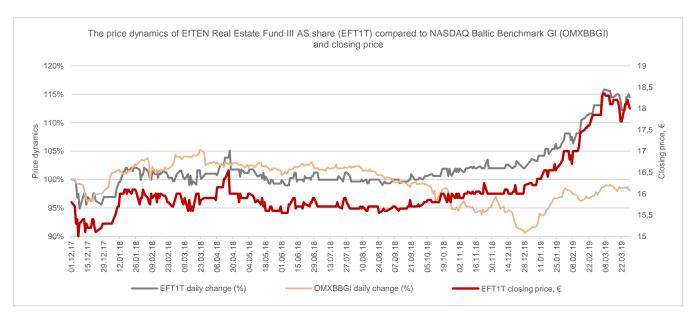
In addition to the aforementioned share net asset value calculated according to IFRS, EfTEN Real Estate Fund III AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most relevant net asset value. The EPRA recommended 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.

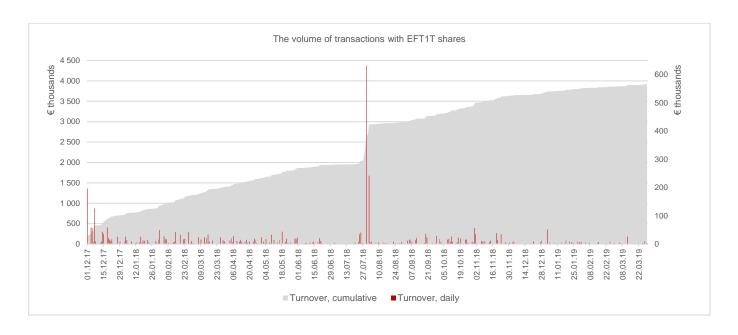
EUR thousand	31.03.2019	31.12.2018	31.03.2018	31.12.2017
Net asset value calculated in accordance with IFRS	51,863	50,494	47,636	46,385
Exclusion of deferred income tax on investment property	3,630	3,496	2,961	2,864
Exclusion of the fair value of financial instruments	264	189	69	58
EPRA net asset value	55,757	54,179	50,666	49,307
Number of shares at the balance sheet date	3,222,535	3,222,535	3,222,535	3,222,535
EPRA net asset value per share, in EUR	17.30	16.81	15.72	15.30
EPRA NAV growth, in EUR	0.49		0.42	
Dividend paid per share, in EUR	0.00		0.00	
Income tax on dividends paid per share, in EUR	0.00		0.00	
Period earnings per share, in EUR	0.49		0.42	
Period earnings per share, increase	2.9%		2.8%	

As at 31.03.2019, the contributions made to the share capital of EfTEN Real Estate Fund III AS totalled EUR 35.883 million (31.12.2018: the same). The number of shares as at 31.03.2019 was 3,222,535 (31.12.2018: the same). The Fund has one class of registered shares with a nominal value of EUR 10 per share. Each share grants one vote to the Fund's shareholder.

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







As at 31.03.2019, EfTEN Real Estate Fund III AS had 1,629 (31.12.2018: 1,709) shareholders, 23.1% (31.12.2018: 24%) of whom were legal entities. A total of 75.9% of the total share capital of the fund was held by legal entities (31.12.2018: 75.2% of the total share capital).

As of 31.03.2019, EfTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

	As at 31.03.2019	As at 31.03.2019		
Company	Number of shares	Ownership, %		
Altius Energia OÜ	455,439	14.13		
Järve Kaubanduskeskus OÜ	329,692	10.23		
Hoiukonto OÜ	328,167	10.18		

CONDENSED INTERIM REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		1st quarter		
EUR thousand	Notes	2019	2018	
Revenue	3,4	2,315	2,000	
Cost of services sold	5	-76	-49	
Gross profit		2,239	1,951	
Marketing costs	6	-86	-102	
General and administrative expenses	7	-288	-262	
Gain / loss from revaluation of investment properties	12	0	0	
Other operating income and expense		-1	0	
Operating profit	3	1,864	1,587	
Interest income		0	1	
Finance costs	8	-338	-208	
Profit before income tax		1,526	1,380	
Income tax expense	9	-157	-129	
Total comprehensive income for the financial period	3	1,369	1,251	
Earnings per share	10			
- Basic		0.42	0.39	
- Diluted		0.42	0.39	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.03.2019	31.12.2018
EUR thousand			
ASSETS			
Cash and cash equivalents	15	4,359	4,859
Receivables and accrued income	11	440	673
Prepaid expenses		99	46
Total current assets		4,898	5,578
Long-term receivables		0	24
Investment property	3,12	106,084	102,787
Property, plant and equipment		106	114
Total non-current assets		106,190	102,925
TOTAL ASSETS		111,088	108,503
LIABILITIES AND EQUITY			
Borrowings	13	2,755	8,105
Derivative instruments	15	264	189
Payables and prepayments	14	673	1,019
Total current liabilities		3,692	9,313
Borrowings	13	51,390	44,743
Other long-term liabilities	14	513	457
Deferred income tax liability	9	3,630	3,496
Total non-current liabilities		55,533	48,696
Total liabilities		59,225	58,009
01	40	20.005	00.005
Share capital	16	32,225	32,225
Share premium	16	3,658	3,658
Statutory reserve capital		621	621
Retained earnings	17	15,359	13,990
Total equity		51,863	50,494
TOTAL LIABILITIES AND EQUITY		111,088	108,503

The notes on pages 11-23 are an integral part of the condensed interim report.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1st quarter 2019	2018
EUR thousand	110.00		2010
Net profit		1,369	1,251
Adjustments:			
Finance costs and income	8	338	208
Depreciation, amortisation and impairment	7	9	13
Property, plant and equipment impairment		0	-8
Income tax expense	9	157	129
Total adjustments with non-cash changes		504	342
Cash flow from operations before changes in working capital		1,873	1,593
Change in receivables and payables related to operating activities		48	-19
Net cash flow generated from operating activities		1,921	1,574
Purchase of property, plant and equipment		-1	0
Purchase of investment property	12	-3,458	-1,849
Sale of investment property	12	0	0
Acquisition of subsidiaries		0	-90
Net cash flow generated from investing activities		-3,459	-1,939
Loans received	13	1,978	220
Scheduled loan repayments	13	-677	-533
Interest paid		-263	-192
Net cash flow generated from financing activities		1,038	-505
NET CASH FLOW		-500	-870
Cash and cash equivalents at the beginning of period		4,859	8,133
Change in cash and cash equivalents		-500	-870
Cash and cash equivalents at the end of period		4,359	7,263

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2017	32,225	3,658	293	10,209	46,385
Net profit for the financial period	0	0	0	1,251	1,251
Total comprehensive income for the period	0	0	0	1,251	1,251
Balance as at 31.03.2018	32,225	3,658	293	11,460	47,636
Balance as at 31.12.2018	32,225	3,658	621	13,990	50,494
Net profit for the financial period	0	0	0	1,369	1,369
Total comprehensive income for the period	0	0	0	1,369	1,369
Balance as at 31.03.2019	32,225	3,658	621	15,359	51,863

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

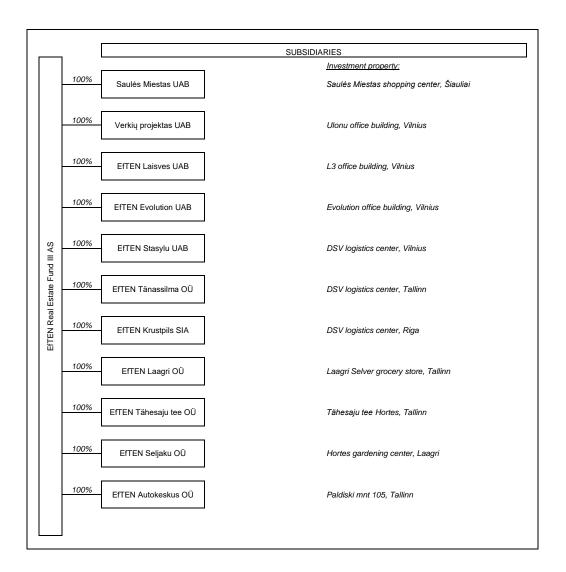
The notes on pages 11-23 are an integral part of the condensed interim report.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

The structure of EfTEN Real Estate Fund III AS Group as at 31.03.2019 is as follows (also see Note 2):



The condensed consolidated interim financial statements of EfTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Current consolidated interim financial statements are prepared in accordance with the International Accounting Standard IAS 34: Interim Financial Reporting. The interim financial statements have been prepared using the same accounting policies as in the financial statements for the year ended 31.12.2018. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2018, which is prepared in accordance with International Financial Reporting Standards (IFRS). According to the Management Board's estimate, EfTEN Real Estate Fund III AS interim financial statements for the 1st quarter of 2019 present a true and fair view of the results of the Group's operations in accordance with the continuity principle. Current interim financial statements have not been audited or otherwise checked by the auditors and contain only Group's consolidated reports. The reporting currency is the euro. The consolidated interim financial statements are prepared in thousands of euros and all figures are rounded to the nearest thousand, if not indicated otherwise.

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiar EUR thou		Group's ow interes	
	domicile		31.03.2019	31.12.2018	31.03.2019	31.12.2018
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping center Saules Miestas	14,308	13,855	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	4,082	3,961	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,890	4,755	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics center, Vilnius	4,163	4,046	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics center, Tallinn	6,415	6,215	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,637	2,511	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	2,099	1,759	100	100
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,257	4,168	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	1,912	1,864	100	100
EfTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,756	3,670	100	100
EfTEN Autokeskus OÜ	Estonia	Car center, Paldiski mnt 105, Tallinn	1,245	5	100	100

All subsidiaries are engaged in the acquisition and leasing of investment property. The shares of any subsidiary are not listed on the stock exchange.

3 Segment reporting

SEGMENT RESULTS

	Office		Logistics		Retail		Non-alloc	ated	Total	
3 months	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
EUR thousand										
Revenue (Note 4), incl.	585	371	602	548	1,128	1,081	0	0	2,315	2,000
Estonia	0	0	251	248	221	183	0	0	472	431
Latvia	0	0	178	128	0	0	0	0	178	128
Lithuania	585	371	173	172	907	898	0	0	1,665	1,441
Operating income, net, incl.	536	345	602	548	1,015	956	0	0	2,153	1,849
Estonia	0	0	251	248	217	179	0	0	468	427
Latvia	0	0	178	128	0	0	0	0	178	128
Lithuania	536	345	173	172	798	777	0	0	1,507	1,294
Operating profit, incl.	478	308	542	489	869	815	-25	-24	1,864	1,588
Estonia	0	0	227	224	175	152	-25	-24	377	352
Latvia	0	0	158	111	0	0	0	0	158	111
Lithuania	478	308	157	154	694	663	0	0	1,329	1,125
EBITDA, incl.	478	307	542	489	878	811	-25	-24	1,873	1,583
Estonia	0	0	227	224	175	152	-25	-24	377	352
Latvia	0	0	158	111	0	0	0	0	158	111
Lithuania	478	307	157	154	703	659	0	0	1,338	1,120
Operating profit									1,864	1,588
Net financial expense									-338	-208
Profit before income tax expense									1,526	1,380
Income tax expense (Note 9)									-157	-129
NET PROFIT FOR THE FINANCIAL P	ERIOD								1,369	1,251

SEGMENT ASSETS

	Offi	ce	Logi	stics	Re	tail	Tot	al
As at 31.03.2019	2019	2018	2019	2018	2019	2018	2019	2018
EUR thousand								
Investment property (Note 12)								
Estonia	0	0	12,850	13,070	14,983	9,795	27,833	22,865
Latvia	0	0	8,660	8,214	0	0	8,660	8,214
Lithuania	29,211	19,082	8,730	8,600	31,650	30,990	69,591	58,672
Total investment property	29,211	19,082	30,240	29,884	46,633	40,785	106,084	89,751
Other non-current assets							106	38
Net debt							-54,866	-42,649
Other short-term assets							539	496
NET ASSETS							51,863	47,636

In the 1st quarter of 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 11.8%, 8.3% and 8.1% of the Group's consolidated rental income, respectively. The revenue from the rest of the tenants is less than 6% of consolidated revenue

4 Revenue

	1st qu	uarter
Areas of activity	2019	2018
EUR thousand		
Rental income from office premises	574	357
Rental income from retail premises	955	912
Rental income from warehousing and logistics premises	602	546
Other sales revenue	184	185
Total revenue by areas of activity (Note 3, 12)	2,315	2,000

	1st quarter		
Revenue by geographical area	2019	2018	
EUR thousand			
Estonia	472	431	
Latvia	178	128	
Lithuania	1,665	1,441	
Total revenue by geographical area (Note 3, 12)	2,315	2,000	

5 Cost of services sold

	1st quarter	
Cost of services sold	2019	2018
EUR thousand		
Repair and maintenance of rental premises	-33	-8
Property insurance	-4	-4
Land tax and real-estate tax	-24	-31
Wages and salaries, incl. taxes	-5	0
Other sales costs	-10	-6
Total cost of service sold (Note 3)	-76	-49

6 Marketing costs

	1st quarter		
Marketing costs	2019	2018	
EUR thousand			
Commission expenses on rental premises	0	-5	
Advertising, promotional events ¹	-86	-97	
Total marketing costs	-86	-102	

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

7 General and administrative expenses

	1st quarter	
General and administrative expenses	2019	2018
EUR thousand		
Management services (Note 17)	-174	-148
Office expenses	-5	-7
Wages and salaries, incl. taxes	-46	-44
Consulting expenses, legal expenses	-25	-24
Regulator costs	-16	-21
Other general and administrative expenses	-13	-5
Depreciation	-9	-13
Total general and administrative expenses	-288	-262

8 Finance costs

	1st qu	1st quarter		
Finance costs	2019	2018		
EUR thousand				
Interest expenses, incl.	-262	-197		
interest expense from loans	-239	-197		
Interest expense from derivatives (-)/ cost reductions (+)	-23	0		
Change in fair value of interest swaps (Note 15)	-76	-11		
Total finance costs	-338	-208		

9 Income tax

	1st quarter		
	2019	2018	
EUR thousand			
Deferred income tax in Lithuanian subsidiaries	-135	-35	
Income tax expense from Lithuanian profit	-22	-94	
Total income tax expense	-157	-129	

As at 31.03.2019, the Group has a deferred tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 3,630 thousand (31.12.2018: EUR 3,496 thousand). Deferred tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

	1st qu	ıarter
	2019	2018
Net profit for the period, in EUR thousand	1,369	1,251
Dividends per share, in EUR	0.00	0.00
Weighted average number of shares over the period, in pcs	3,222,535	3,222,535
Earnings per share, in EUR	0.42	0.39

11 Receivables and accrued income

	31.03.2019	31.12.2018
EUR thousand		
Receivables from customers	339	490
Prepaid taxes and receivables for reclaimed value-added tax	65	115
Other accrued income	36	68
Total receivables	440	673

12 Investment property

As at 31.03.2019, the Group has made investments in the following investment properties: Name Location Net rental area (m2) Year of Date of Acquisition Market Share construction acquisition value at 31.03.2019 market value of the Fund's assets EUR thousand Saules Miestas shopping center Saules Miestas, Lithuania 19,881 2007 08.2015 28,419 31,650 28% DSV logistics center Vilnius, Lithuania 11,687 2005 06.2016 8,470 8,730 8% 2003 07.2016 12,850 DSV logistics center Tallinn, Estonia 16,014 12,228 12% DSV logistics center Riga, Latvia 12,149 2000 07.2016 8,789 8,660 8% L3 office building Vilnius, Lithuania 6,150 2004 10.2016 8,708 9,971 9% 2012 Ulonu office building Vilnius, Lithuania 5,174 12.2015 8,124 9,220 8% 2006 05.2017 3% Hortes gardening center in Laagri Tallinn, Estonia 3,470 3,108 3,430 Hortes gardening center in Tähesaju Tallinn, Estonia in development stage 2019 05.2018 2,139 1,888 2% Selver grocery store in Laagri Tallinn, Estonia 3,063 2017 05.2017 6,223 6,650 6% Evolution office building Vilnius, Lithuania 6,172 05.2018 9,070 10,020 9% 2009 ABC Motors sales and service center Tallinn, Estonia 2,149 2002 02.2019 3,015 3,015 3% 106,084 Total 85,909 98,292 95% In the 1st quarter of 2019 and 2018, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	Total investment property
Balance as at 01.01.2018	0	88,390	88,390
Acquisitions	0	1,361	1,361
Balance as at 31.03.2018	0	89,751	89,751
Balance as at 01.01.2019	1,636	101,151	102,787
Acquisitions	252	3,016	3,268
Capitalised improvements	0	29	29
Balance as at 31.03.2019	1,888	104,196	106,084

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

	1st quarter	
As at 31 March or the quarter	2019	2018
Rental income earned on investment property (Note 4)	2,131	1,814
Expenses directly attributable to management of investment property (Note 5)	-76	-49
Amounts outstanding on the acquisition of investment property (Note 16)	0	463
Carrying amount of investment property pledged as collateral to borrowings (Note 13)	104,196	89,751

For more information on investment properties, see Note 3 "Segment Reporting".

13 Borrowings

As at 31.03.2019, the Group has the following borrowings:

	Country of	Loan amount as per	Loan balance as at	Contract	Interest rate as		Value of	Loan balance's share of the fund's net asset
Lender	lender	agreement	31.03.2019	term	at 31.03.2019	Loan collateral	collateral	value
Swedbank	Lithuania	16,500	15,807	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	31,650	30.5%
SEB	Lithuania	5,500	4,834	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,730	9.3%
SEB	Latvia	3,323	4,668	29.06.21	1.55%	Mortgage – DSV building in Riga	8,660	9.0%
SEB	Estonia	7,950	7,024	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,850	13.5%
SEB	Lithuania	5,620	5,015	30.09.21	1.90%	Mortgage - L3 office building in Vilnius	9,971	9.7%
SEB	Lithuania	5,200	4,429	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,220	8.5%
SEB	Lithuania	5,850	5,634	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,020	10.9%
SEB	Estonia	1,860	1,705	05.07.22	1.82%	Mortgage – Hortes gardening center	3,430	3.3%
Swedbank	Estonia	3,700	3,298	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,650	6.4%
Swedbank	Estonia	3,290	0	11.02.24	1.95%	Mortgage - Tähesaju tee 5, Tallinn	1,888	0.0%
LHV	Estonia	1,800	1,797	25.02.24	2.95%	Mortgage - Paldiski mnt 105, Tallinn	3,015	3.5%
Total		60,593	54,210				106,084	104.5%

For additional information on borrowings, please see Note 15.

Short-term borrowings	31.03.2019	31.12.2018
EUR thousand		
Short-term recognition of the long-term portion of long-term bank loans	0	5,437
Repayments of long-term bank loans in the next period	2,782	2,698
Discounted contract fees on bank loans	-27	-30
Total short-term borrowings	2,755	8,105

Long-term borrowings	31.03.2019	31.12.2018
EUR thousand		
Total long-term borrowings (Note 15)	54,145	52,848
incl. current portion of borrowings	2,755	8,105
incl. non-current portion of borrowings, incl.	51,390	44,743
Bank loans	51,428	44,773
Discounted contract fees on bank loans	-38	-30

Bank loans are divided as follows according to repayment date:

	31.03.2019	31.12.2018
EUR thousand		
Less than 1 year	2,782	8,135
2-5 years	51,428	44,773

	1st quarter		
Cash flows of borrowings	2019	2018	
EUR thousand			
Balance at the beginning of period	52,848	45,776	
Bank loans received	1,978	220	
Annuity payments on bank loans	-677	-533	
Change of discounted contract fees	-4	6	
Balance at the end of period	54,145	45,469	

14 Payables and prepayments

Short-term payables and prepayments

Long-term pa	<u>yables</u>
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	31.03.2019	31.12.2018
EUR thousand		
Tenants security deposits	513	457
Total other long-term payables	513	457

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

15 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables. For additional information on the Group's finance costs, please see Note 8.

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

Carrying amounts of financial instruments

EUR thousand	Notes	31.03.2019	31.12.2018
Financial assets - loans and receivables			
Cash and cash equivalents		4,359	4,859
Trade receivables	11	339	490
Total financial assets		4,698	5,349
Financial liabilities measured at amortised cost			
Borrowings	13	54,145	52,848
Trade payables	14	211	242
Tenant security deposits	14	640	577
Interest payables	14	11	7
Accrued expenses	14	58	134
Success fee liability		0	46
Total financial liabilities measured at amortised cost		55,065	53,854
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		264	189
Total financial liabilities measured at fair value		264	189
Total financial liabilities		55,329	54,043

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 31.03.2019, 57% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 2.95% plus the 6-month, 3-month and 1-month EURIBOR), and 43% of loan contracts carry fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 51% are related to an interest rate swap contract where the 3-month EURIBOR is in turn fixed at 0.35%. In the 1st quarter of 2019, the 3-month EURIBOR fluctuated between - 0.315% and -0.310%, i.e. the maximum change within the year was 0.05 basis points. All contracts in the loan portfolio of EfTEN Real Estate Fund III have a 0% limit (floor) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

Due to the currently prevailing low level of interest rates and market expectations as to the persistence of such interest rates in the near future, the mitigation of interest rate risk is mainly important in the long-term perspective. The fund's management assesses the most significant impact arising from the potential increase in interest rates over the perspective of 3-5 years.

As a result of the long-term nature of the Group's real estate investments and the long-term borrowings associated with the investments, the management of EfTEN Real Estate Fund III AS decided in 2016 to mitigate the risk of an increase in the long-term floating interest rate applicable to the loan portfolio and hedge part of the loan portfolio by fixing the applicable floating interest rate (3-month). It was decided to use interest rate swap agreements for the risk mitigation whereby the floating interest rate of a subsidiary's loan agreement was exchanged for a fixed interest rate. The decision was made to enter into the interest rate swap agreements considering the three following conditions:

- (1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold in the 10 year perspective;
- (2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EfTEN Real Estate Fund
- (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 31.03.2019 was negative in the amount of EUR 264 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 31.03.2019, the Group's interest-bearing liabilities accounted for 52.0% (31.12.2018: 51.4%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 2.0 (2018: the same).

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 31.03.2019	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	Total
EUR thousand						
Interest-bearing liabilities	230	691	1,855	51,434	0	54,210
Interest payments	81	241	627	1,289	0	2,238
Interest payables	11	0	0	0	0	11
Trade payables	211	0	0	0	0	211
Tenant security deposits	7	15	100	376	142	640
Accrued expenses	58	0	0	0	0	58
Total financial liabilities	598	947	2,582	53,099	142	57,368

Report of working capital

	31.03.2019	31.12.2018
EUR thousand		
Cash and cash equivalents	4,359	4,859
Receivables and accrued income (Note 11)	440	673
Prepaid expenses	99	46
Total current assets	4,898	5,578
Short-term portion of long-term liabilities (Note 13)	-2,755	-8,105
Short-term payables and prepayments (Note 14)	-937	-1,208
Total current liabilities	-3,692	-9,313
Total working capital	1,206	-3,735

As at 31.03.2019, the Group's working capital is in the amount of EUR 1,206 thousand. The Group estimates that the working capital is sufficient to cover the claims arising from the Group's day-to-day business operations

As at 31.12.2018, the Group's working capital was negative in the amount of EUR 3,735 thousand. The working capital was negative due to the short-term recognition of the long-term portion of the bank loan of the Group's subsidiary EfTEN Evolution UAB in the amount of EUR 5,437 thousand due to the temporary non-compliance of the loan service coverage ratio (DSCR) provisionally stipulated in the loan agreement. The covenant was below the required level in relation to the costs associated and temporary vacancy associated with the rental agreement ending in April 2019 in the Evolution office building. In January 2019, the lender issued a written waiver to EfTEN Evolution UAB to continue the loan agreement until the agreed deadline, i.e. until 30.05.2023 and a statement that the covenant may be below the rate stipulated in the agreement until the end of 2019. In the first quarter of 2019, EfTEN Evolution's loan service coverage ratio was 1.4, i.e. the loan conditions were not violated and the long-term part of the loan is recognised in the Group's long-term loan commitments.

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 thousand	31.03.2019	31.12.2018
Undue	240	386
Past due, incl.	99	104
up to 30 days	73	91
30-60 days	20	13
more than 60 days	6	0
Total trade receivables (Note 11)	339	490

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

	31.03.2019	31.12.2018
EUR thousand		
Cash and cash equivalents	4,359	4,859
Trade receivables	339	490
Total maximum credit risk	4,698	5,349

Capital management

The Group's capital includes borrowings and equity.

The aim of the Group in capital management is to ensure the Group's going concern status to provide an investment return to shareholders and maintain an optimal capital structure.

The Group continues to invest in real estate that generates cash flow and raises new equity for making investments. The investment policy of the Group prescribes that at least 35% of equity is invested in new real estate projects. The necessary equity level is calculated individually for each investment, taking into consideration the amount of net cash flows and loan payments of each investment and their proportion.

After making an investment, EBITDA on investment of any of the cash flow producing investment properties cannot be less than 120% of the loan annuity payments.

According to the Group's management estimate the free cash flow of the Group allows to pay out in the form of dividends an average of 80% of the annual corrected cash flows (EBITDA minus interest expenses minus loan payments). In May 2019, EfTEN Real Estate Fund III AS shall pay (net) dividends to shareholders 95 cents per share (EUR 3.061 million in total). In 2018, the Group paid the shareholders a net dividend of 68 cents per share (EUR 2.191 million in total).

During the 1st quarter of 2019, the Group has earned a free cash flow of EUR 0.912 million (Q1 2018: EUR 0.776 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 period's profit of EUR 0.656 (20 cents per share).

Report of capitalisation

	31.03.2019	31.12.2018
EUR thousand		
Mortgage guaranteed short-term liabilities (Note 13)	2,782	8,135
Unsecured short-term liabilities (Note 14)	910	1,178
Total short-term liabilities	3,692	9,313
Mortgage guaranteed long-term liabilities (Note 13)	51,428	44,773
Unsecured long-term liabilities (Note 14)	4,105	3,923
Total long-term liabilities	55,533	48,696
Share capital and share premium (Note 16)	35,883	35,883
Reserves	621	621
Retained earnings	15,359	13,990
Total shareholder's equity	51,863	50,494
Total liabilities and equity	111,088	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

EUR thousand	31.03.2019	31.12.2018
Cash	4,359	4,859
Cash equivalents	0	0
Tradable securities	0	0
Total liquid assets	4,359	4,859
The short-term portion of long-term liabilities (Note 13)	2,782	8,135
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	-1,577	3,276
Long-term bank loans (long-term portion) (Note 13)	51,428	44,773
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	51,428	44,773
Total net debt	49,851	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 31.03.2019 nor 31.12.2018, the Group had no assets measured at fair value that would be included within Level 1 of the fair value hierarchy. All of the Group's investment properties are measured at fair value and according to the valuation method are included within Level 3 of the fair value hierarchy (see Note 12). All of the Group's borrowings and the derivative contracts entered into to mitigate the interest risk are included within Level 2 of the fair value hierarchy.

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

16 Share capital

As at 31.03.2019, the registered share capital of EfTEN Real Estate Fund III AS was EUR 32,225 thousand (31.12.2018: the same). As at 31.03.2019, the share capital consisted of 3,222,535 shares (31.12.2018: the same) 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 39,440 thousand.

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

	As at 31.03.	As at 31.03.2019	
Company	Number of shares	Ownership, %	
Altius Energia OÜ	455,439	14.13	
Järve Kaubanduskeskus OÜ	329,692	10.23	
Hoiukonto OÜ	328,167	10.18	

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

	As at 31.03.2019	
Company	Number of shares	Ownership, %
Viljar Arakas, member of the Management Board	2,000	0.06
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	8,793	0.27
Tõnu Uustalu, member of the Management Board	9,184	0.28
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	1,559	0.05
Altius Energia OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	455,439	14.13
Olav Miil, member of the Supervisory Board	24,229	0.75
Siive Penu, member of the Supervisory Board	975	0.03

17 Contingent liabilities

Contingent tax liability

	31.03.2019	31.12.2018
EUR thousands		
Retained earnings	15,359	13,990
Potential income tax liability	3,072	2,798
Dividends can be paid out	12,287	11,192

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 31.03.2018 and 31.12.2018.

18 Related party transactions

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

- Management Board members and companies owned by the Management Board members of EfTEN Real Estate Fund III AS;
- Supervisory Board members and companies owned by the Supervisory Board members of EfTEN Real Estate Fund III AS;
- Employees and companies owned by the employees of EfTEN Real Estate Fund III AS;
- EfTEN Capital AS (the fund management company).

The Group purchased management services from EfTEN Capital AS in 1st quarter of 2019 in the amount of EUR 174 thousand (Q1 2018: EUR 148 thousand), (see Note 7).

EfTEN Real Estate Fund III AS did not purchase from other related parties or sell to other related parties any other goods or services in the 1st quarter of 2019 nor in 2018

As at 31.03.2019, the Group had 12 employees who were remunerated including taxes in the amount of EUR 46 thousand (2018: EUR 44 thousand). In the first quarters of 2019 and 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.

Viljar Arakas

Member of the Management Board

Declaration of the Management Board to the consolidated interim report for the 1st quarter of 2019

lidate

Tõnu Uustalu

Member of the Management Board