Interim Report for the 1st quarter of 2020

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2020

End of financial period: 31.03.2020

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Table of contents

MANAGEMENT REPORT

Potential effects of Covid-19

The Covid-19 pandemic, which affected economic activity at the end of the first quarter of 2020, and the establishment of national emergencies led to activities related to the transition from the normal business environment to the crisis management phase. Significant national restrictions on movement, including in shopping malls, were lifted in mid-March, splitting the last month of the quarter into two - the usual first two weeks, followed by two weeks of crisis. April is expected to be the central month of the crisis, and May will hopefully be the month of lifting the movement restrictions during the crisis. It will take several months after the end of the medical crisis to restore consumer confidence.

Cash flow management is paramount in portfolio management during a crisis. We have turned to the banks financing the projects and applied for temporary (minimum 3 months, rather 6 months) basic leave. As EfTEN Real Estate Fund III's usual repayment of principal on bank loans has averaged EUR 230 thousand per month (30% of the fund's monthly rental income), it provides us with the necessary additional cash flow buffer to provide temporary rental discounts to tenants directly affected by the crisis to minimize the negative impact on the Fund's cash flow. In March, grace period began on two loan agreements of the fund, which had a positive effect on cash flows of EUR 80 thousand. In April, the Fund's subsidiaries entered into grace period agreements for the remaining loan agreements, the positive effect of which, together with the agreements entered into in March, is an average of EUR 197 thousand per calendar month for the Fund's cash flow.

The primary task of the fund manager is to take care of the interests of investors in every economic environment, but at the same time help our dozens of tenants to survive the crisis economically. We have not implemented uniform temporary discount policies for all tenants in the same way, as each customer needs to find a solution that takes into account their business vulnerabilities. The rent reductions offered are also temporary, lasting a few months and in no case permanent - in most cases we have agreed with the tenants to extend the term of the lease at the post-original rent level for the same period as the discounted lease. We have followed this principle for all segments - offices, retail premises and logistics. It is important to ensure a positive monthly cash flow on a site-by-object basis, which takes into account both temporary rent reductions and grace period for the main parts of bank loans. The Fund's subsdiaries provisioned a total of EUR 94 thousand for invoices issued in March 2020. According to the reached agreements, the impact of temporary rent reductions on the monthly cash flow from April is EUR 204 thousand. Agreements are made for three months for most cases, but also for four and six months for some contracts.

EfTEN Real Estate Fund III is well-capitalized, and the payment of principal loans helps the fund's tenants in times of crisis. We believe that April is the most difficult month, and observing the trends in the spread of Covid-19 in the rest of the world, we can expect that in May the restrictions on movement will decrease and normal economic life will be able to resume partially.

In connection with the Covid-19 pandemic and the establishment of an emergency situation, the Management Board of EfTEN Real Estate Fund IIII AS also postponed the general meeting scheduled for March 24, where, inter alia, the merger agreement concluded between EfTEN Real Estate Fund III AS (the merging fund) and EfTEN Kinnisvarafond AS (the merged fund) on 14 January 2020 was subject to approval and therefore no merger of the two funds took place on the balance sheet date 1 April 2020.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for the 1st quarter of 2020 was EUR 2.443 million eurot (1st quarter of 2019: EUR 2.315 million), which increased by 5.5% in a year. The Group's net rental revenue less finance costs for the 1st quarter of 2020 was EUR 1.929 million (1st quarter of 2019: EUR 1.815 million), which increased by 6.2% in a year. The Group's net profit for the same period amounted to EUR 1,368 million (2019: EUR 1.369 million). The relatively smaller increase in net profit compared to the increase in sales revenue and net rental income is related to higher general administrative expenses, which in the first quarter of 2020 included due diligence expenses of two new real estate investments in the amount of EUR 60 thousand.

The consolidated gross profit margin in the 1st quarter of 2020 was 96% (2019: 97%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 4% (2019: 3%) of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 24.2% of the revenue in the 1st quarter of 2020 (1st quarter of 2019: 19.5%).

	1st quarter	
	2020	**2019**
EUR million		
Rental revenue, other fees from investment properties	2.443	2.315
Expenses related to investment properties, incl. marketing costs	-0.181	-0.162
Interest expense and interest income	-0.327	-0.262
Net rental revenue less finance costs	**1.935**	**1.891**
Management fees	-0.193	-0.174
Other revenue and expenses	-0.216	-0.115
Profit before change in the value of investment property, fair value change of the interest rate swap and income tax expense	**1.526**	**1.602**

As at 31.03.2020, the Group's total assets were in the amount of EUR 140.649 million (31.12.2019: EUR 132.829 million), including fair value of investment property, which accounted for 92% (31.12.2019: 85%) of the total assets.

	31.03.2020	**31.12.2019**
EUR million		
Investment properties	129.132	113.011
Other non-current assets	0.126	0.114
Current assets, excluding cash	0.972	6.717
Net debt (*cash and cash equivalents minus current and non-current borrowings)*	-57.691	-36.431
Net asset value (NAV)	72.539	71.171
Net value of EPRA (EPRA NAV)	77.190	75.719
Net asset value (NAV) per share (in euros)	17.18	16.85
EPRA net value (EPRA NAV) per share, in euro	18.28	17.93

Key performance and liquidity ratios

1st quarter	**2020**	**2019**
ROE, % (*net profit of the period / average equity of the period) x 100*	2.2	2.7
ROA, % (*net profit of the period / average assets of the period) x 100*	1.1	1.2
ROIC, % *(net profit of the period / average invested capital of the period[1]) x 100[1]*	2.6	3.8
EBITDA (EUR thousand)	1,865	1,873
EBITDA margin, %	76%	81%
EBIT (EUR thousand)	1,853	1,864
EBIT margin, %	76%	81%
Liquidity ratio (current assets / current liabilities)[2]	0.5	1.3
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] The liquidity ratio of the Group as of 31.03.2020 is 0.5, ie the Group has less current assets than necessary to cover its short-term liabilities. The level of this indicator is caused by the maturity of the loan agreements of the Group's two subsidiaries ending in 2020 - Saules Kaupunki UAB and Verkiu projekts UAB (Ulonu office building) in the second half of 2020 in the total amount of EUR 19,174 thousand. The debt coverage ratio of both loans is less than 50% and investment properties have a strong long-term rental cash flow, which means that the Group's management believes that there are no obstacles to extending loan agreements and that the Group's working capital is sufficient to cover short-term liabilities. Loan agreements are refinanced as they approach maturity.

In the first quarter of 2020, the Group has earned a free cash flow (EBITDA less loan payments and interest expenses) of EUR 0.873 million (Q1 2019: EUR 0.934 million). The lower free cash flow this year is mainly due to provisions made in March in connection with the Covid-19 pandemic and the establishment of a state of emergency in Estonia, Latvia and Lithuania, one-off takeover costs and due diligence costs of two real estate investment companies acquired in 2020.

Access to flexible financing terms helps to increase the Group's competitiveness. Due to the emergency situation caused by the Covid-19 pandemic and the decrease in potential rental income and deteriorating customer payment behavior from March 2020, the Group's management has requested payment leave for most real estate investment loan agreements for up to six months from March and April 2020. From March 2020, payment leave became effective for two investment properties, and the rest became effective after the balance sheet date, from April 2020. The monthly repayments under the loan agreements decrease by an average of 197 thousand euros per month during the Group's borrowings' payment leave. The weighted average interest rate of the Group's loan agreements (incl. taking into account interest rate swap agreements) as of the end of March is 2.0% (31.12.2019: 1.8%) and LTV (Loan to Value) 50% (31.12.2019: 52%)

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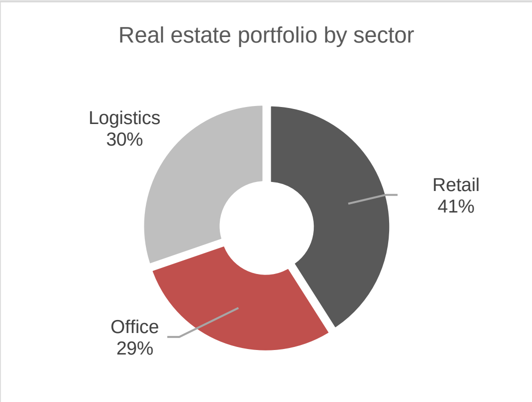
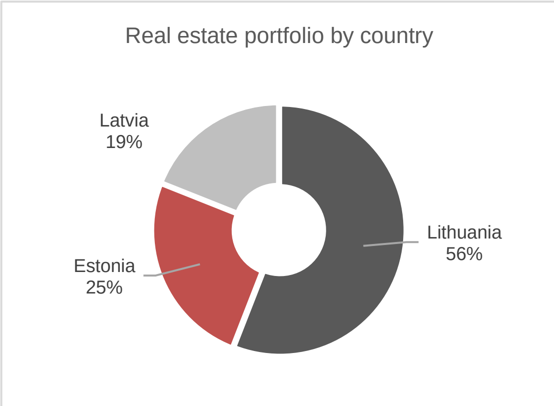
Real estate portfolio

On 10 January 2020, EfTEN Real Estate Fund III AS entered into debt purchase agreements for the acquisition of the owners of the Air Baltic head office at Riga Airport and Piepilsetas production and warehouse building in Kekava near Riga. The transactions were completed on March 12 and March 13, 2020. and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements since 1 March 2020. A total of EUR 8,873 thousand was paid for the subsidiaries, including loan receivables from the former owners in the amount of EUR 3,780 thousand. As the transaction price is adjusted by changes in the working capital of subsidiaries during the contract period (mid-January to mid-March), the final acquisition cost of the subsidiaries will be determined during the second quarter of 2020, but it is estimated that the Group will have to pay extra EUR 100 thousand. The total value of investment properties owned by subsidiaries is EUR 15,800 thousand.

At the end of March 2020, the Group had 13 (31.12.2019: 11) commercial investment properties with a fair value as at the balance sheet date of EUR 129.132 million (31.12.2019: EUR 113.011 million) and acquisition cost of EUR 117.869 million (31.12.2019: EUR 101.746 million).





Main figures of the Group's real estate portfolio:

Investment properties as of 31.03.2020	Group's ownership	Fair value of investment property	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	12,880	16,014	1,015	100	6.2	1
DSV Riia	100	8,710	12,149	720	100	6.2	1
DSV Vilnius	100	8,800	11,687	701	100	6.2	1
Piepilsetas logistics center, Kekava	100	8,700	13,327	730	99	4.0	4
Total logistics		**39,090**	**53,177**	**3,166**	**100**	**5.8**	**7**
Saules Miestas shopping center	100	33,394	19,881	3,122	98	4.3	116
Hortes gardening center, Laagri	100	3,520	3,470	269	100	12.2	1
Selver in Laagri	100	6,630	3,063	502	98	14.5	10
Hortes gardening center, Tallinn	100	6,180	5,300	383	100	7.9	1
ABC Motors sales and service centre	100	3,190	2,149	258	100	8.9	1
Total retail		**52,914**	**33,863**	**4,534**	**99**	**6.3**	**129**
Ulonu office building	100	9,236	5,174	673	86	3.3	13
L3 office building	100	10,181	6,151	750	98	2.3	32
Evolution office building	100	10,611	6,172	683	97	2.8	46
airBaltic office building, Riga	100	7,100	6,217	483	100	5.9	1
Total office		**37,128**	**23,714**	**2,589**	**96**	**3.3**	**92**
Total real estate portfolio		**129,132**	**110,753**	**10,289**	**99**	**5.4**	**228**

EfTEN Real Estate Fund III AS evaluates its real estate investments twice a year - as of 31 December and 30 June. The main inputs to the fair value measurement of investment property are cash flow from investment property, vacancy forecasts, discount rate (WACC) and exit productivity. All changes in the lease agreements entered into by the Group companies in connection with the Covid-19 crisis are temporary (mainly 1-3 months, in some cases also up to 4 and 6 months), therefore the long-term cash flow is not affected by the current agreements. As of the preparation of the interim report, temporary lease agreements have been entered into to suspend or reduce the rent in the total amount of 204 thousand euros per month (25% of the usual monthly rental income). The change in discount rates and exit yields depends on both market and borrower interest rates, as well as the price levels of transactions in the real estate market, for which input information is provided by the Group's independent appraiser Colliers International. The next valuations of the Group's real estate investments will be performed in June 2020.

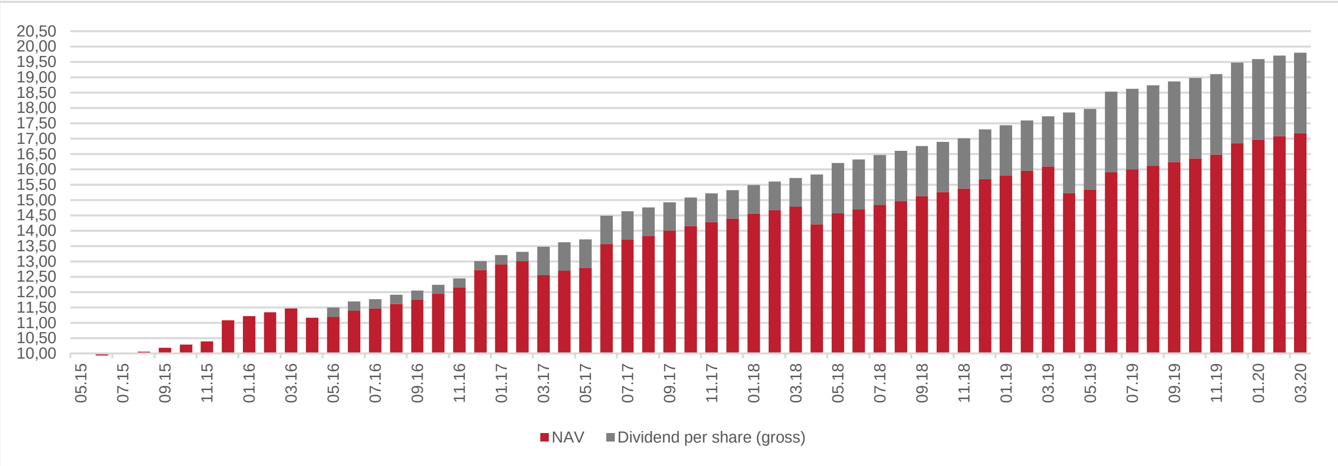
Information on shares

The net asset value of the share of EfTEN Real Estate Fund III as at 31.03.2020 was EUR 17.18 (31.12.2019: EUR 16.85).The net value of the share of EfTEN Real Estate Fund III AS increased in the 1st quarter of 2020 1.9% (1st quarter of 2019: 2.7%).

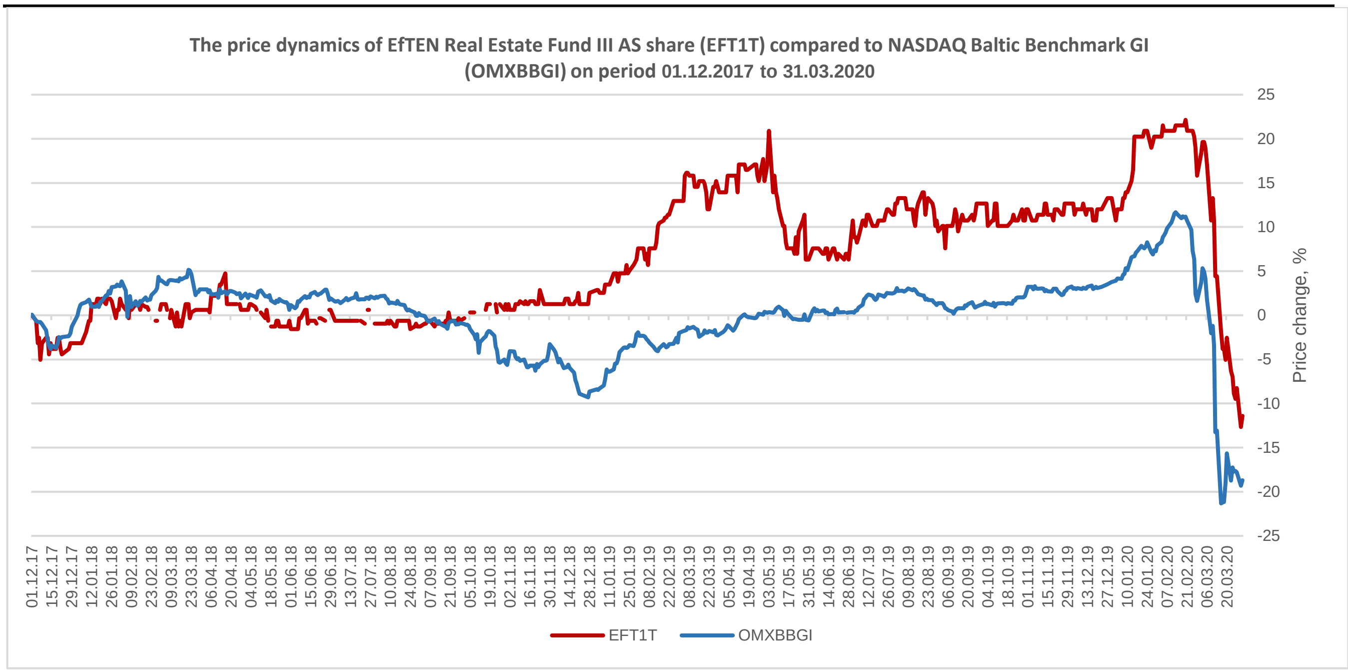
In addition to the aforementioned share net asset value calculated according to IFRS, EfTEN Real Estate Fund III AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most relevant net asset value. The EPRA recommended 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	31.03.2020	31.12.2019	31.03.2019	31.12.2018
Net asset value calculated in accordance with IFRS	72,539	71,171	51,863	50,494
Exclusion of deferred income tax on investment property	4,375	4,274	3,630	3,496
Exclusion of the fair value of financial instruments	276	271	264	189
EPRA net asset value	**77,190**	**75,716**	**55,757**	**54,179**
Number of shares at the balance sheet date	4,222,534	4,222,534	3,222,535	3,222,535
EPRA net asset value per share, in EUR	**18.28**	**17.93**	**17.30**	**16.81**
EPRA NAV growth, in EUR	0.35		0.49	
Period earnings per share, in EUR	**0.35**		**0.49**	
Period earnings per share, increase	**1.9%**		**2.9%**	

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



The shares of EfTEN Real Estate Fund III AS are freely tradable on the Tallinn Stock Exchange from 1 December 2017. The first quarter of 2020 was characterized by a sharp fall in stock prices due to the Covid-19 pandemic and the introduction of national emergencies in mid-March, where the EFT1T stock behaved similarly to the general market index, but slightly lower than the OMCBBGI index.



EFT1T share statistics	1st quarter 2020	2019
Opening price	17.9	16.2
Closing price	13.8	18.1
Stock price, lowest	13.8	16.2
Stock price, hightest	19.3	18.35
Traded shares, thousand	150	14
Turnover, EUR million	2.482	2.318
Market capitalization as of 31.03, EUR million	58.271	58.328
Earnings per share, EUR	0.32	0.42
Dividends per share, EUR	0.00	0.00
Dividends / net profit	0%	0%
P/B (share closing price / equity per share [1])	0.80	1.12
P/B EPRA (share closing price / EPRA equity per share [1])	0.75	1.05

[1] Equity per share and EPRA equity per share are calculated by dividing equity and EPRA equity with the average number of shares for the period.

As at 31.03.2020, EfTEN Real Estate Fund III AS had 2 748 shareholders, 21% 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, pc			Number of shares			Ownership		
	Legal entities	Private individuals	Total shareholders	Legal entities	Private individuals	Total shares	Legal entities	Private individuals	Total ownership
Austria	-	1	**1**	-	1,255	**1,255**	-	0.03%	**0.0%**
China	-	1	**1**	-	75	**75**	-	0.00%	**0.0%**
Denmark	1	2	**3**	1	88	**89**	-	0.00%	**0.0%**
Estonia	559	2,159	**2,718**	3,342,395	863,615	**4,206,010**	79.16%	20.45%	**99.6%**
Finland	1	4	**5**	151	380	**531**	0.00%	0.01%	**0.0%**
Germany	-	1	**1**	-	309	**309**	-	0.01%	**0.0%**
Hungary	-	1	**1**	-	65	**65**	-	0.00%	**0.0%**
Ireland	-	1	**1**	-	66	**66**	-	0.00%	**0.0%**
Norway	-	2	**2**	-	161	**161**	-	0.00%	**0.0%**
Latvia	2	1	**3**	2,086	1,692	**3,778**	0.05%	0.04%	**0.1%**
Lithuania	4	2	**6**	2,391	7,201	**9,592**	0.06%	0.17%	**0.2%**
Netherlands	-	1	**1**	-	60	**60**	-	0.00%	**0.0%**
United Arab Emiraes	-	1	**1**	-	68	**68**	-	0.00%	**0.0%**
Oman	-	1	**1**	-	73	**73**	-	0.00%	**0.0%**
Spain	-	1	**1**	-	75	**75**	-	0.00%	**0.0%**
Great Britain	-	1	**1**	-	5	**5**	-	0.00%	**0.0%**
United States of America	1	-	**1**	323	-	**323**	0.01%	-	**0.0%**
Total	**568**	**2,180**	**2,748**	**3,347,347**	**875,188**	**4,222,535**	**79.27%**	**20.73%**	**100.00%**

As at 31.03.2020, EfTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

	As at 31.03.2020	
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%

CONDENSED INTERIM REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		1st quarter	
EUR thousand	Notes	**2020**	2019
Revenue	3,4	2,443	2,315
Cost of services sold	5	-88	-76
Gross profit		**2,355**	**2,239**
Marketing costs	6	-93	-86
General and administrative expenses	7	-414	-288
Other operating income and expense		5	-1
Operating profit	**3**	**1,853**	**1,864**
Finance costs	8	-333	-338
Profit before income tax		**1,520**	**1,526**
Income tax expense	9	-152	-157
Total comprehensive income for the financial period	**3**	**1,368**	**1,369**
Earnings per share	10		
- Basic		0.32	0.42
- Diluted		0.32	0.42

The notes on pages 13-27 are an integral part of the condensed interim report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.03.2020	31.12.2019
EUR thousand			
ASSETS			
Cash and cash equivalents	15	10,419	12,986
Short-term deposits	15	0	6,000
Receivables and accrued income	11	913	667
Prepaid expenses		59	51
Total current assets		**11,391**	**19,704**
Investment property	3,12	129,132	113,011
Property, plant and equipment		126	114
Total non-current assets		**129,258**	**113,125**
TOTAL ASSETS		**140,649**	**132,829**
LIABILITIES AND EQUITY			
Borrowings	13	21,394	21,147
Derivative instruments	15	276	271
Payables and prepayments	14	866	1,132
Total current liabilities		**22,536**	**22,550**
Borrowings	13	40,430	34,225
Other long-term liabilities	14	769	609
Deferred income tax liability	9	4,375	4,274
Total non-current liabilities		**45,574**	**39,108**
Total liabilities		**68,110**	**61,658**
Share capital	16	42,225	42,225
Share premium		9,658	9,658
Statutory reserve capital		936	936
Retained earnings	17	19,720	18,352
Total equity		**72,539**	**71,171**
TOTAL LIABILITIES AND EQUITY		**140,649**	**132,829**

The notes on pages 13-27 are an integral part of the condensed interim report.

CONSOLIDATED STATEMENT OF CASH FLOWS

		1st quarter	
	Notes	2020	2019
EUR thousand			
Net profit		**1,368**	**1,369**
Adjustments:			
Finance costs and income	8	333	338
Property, plant and equipment impairment	7	12	9
Income tax expense	9	152	157
Total adjustments with non-cash changes		**497**	**504**
Cash flow from operations before changes in working capital		**1,865**	**1,873**
Change in receivables and payables related to operating activities		-537	48
Net cash flow generated from operating activities		**1,328**	**1,921**
Purchase of property, plant and equipment		-24	-1
Purchase of investment property	12	-321	-3,458
Change in short-term deposits	12	6,000	0
Acquisition of subsidiaries	2	-8,615	0
Interest received		13	0
Net cash flow generated from investing activities		**-2,947**	**-3,459**
Loans received	13	0	1,978
Scheduled loan repayments	13	-665	-677
Interest paid		-283	-263
Net cash flow generated from financing activities		**-948**	**1,038**
NET CASH FLOW		**-2,567**	**-500**
Cash and cash equivalents at the beginning of period		**12,986**	**4,859**
Change in cash and cash equivalents		-2,567	-500
Cash and cash equivalents at the end of period		**10,419**	**4,359**

The notes on pages 13-27 are an integral part of the condensed interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
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**
Balance as at 31.12.2019	**42,225**	**9,658**	**936**	**18,352**	**71,171**
Net profit for the financial period	0	0	0	1,368	**1,368**
Total comprehensive income for the period	**0**	**0**	**0**	**1,368**	**1,368**
Balance as at 31.03.2020	**42,225**	**9,658**	**936**	**19,720**	**72,539**

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

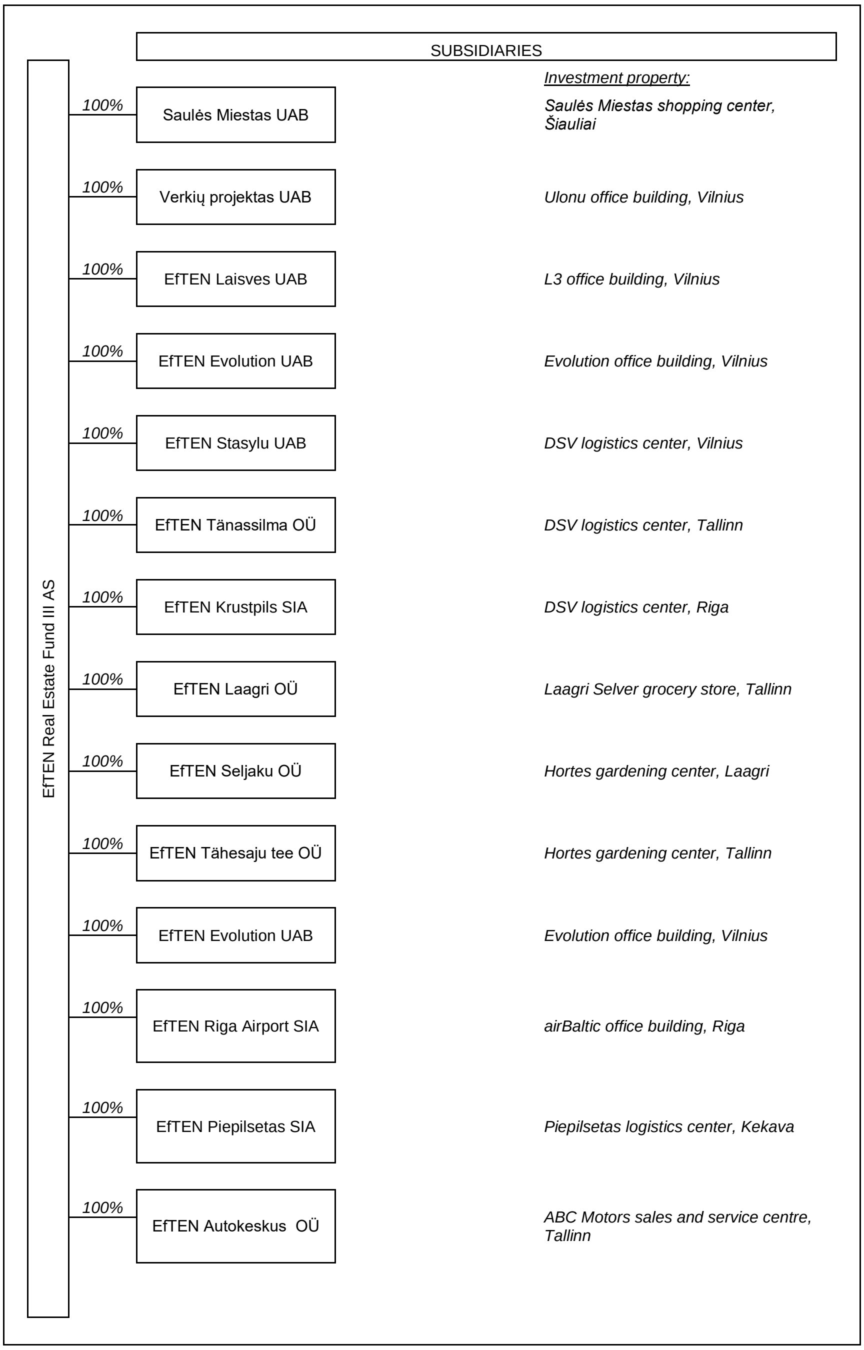
The notes on pages 13-27 are an integral part of the condensed interim report.

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 31.03.2020 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 31.12.2019. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2019, 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 2020 present a true and fair view of the results of the Group's operations in accordance with the continuity principle. Current interim financial statements have not been audited or otherwise checked by the auditors and contain only Group's consolidated reports. The reporting currency is the euro. The consolidated interim financial statements are prepared in thousands of euros and all figures are rounded to the nearest thousand, if not indicated otherwise.

2 *Subsidiaries*

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			31.03.2020	31.12.2019	31.03.2020	31.12.2019
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping center Saules Miestas	16,632	16,140	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	3,854	4,142	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,850	5,087	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics center, Vilnius	4,333	4,213	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics center, Tallinn	6,998	6,795	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,896	2,768	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	2,080	2,034	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	2,853	2,779	100	100
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,536	4,511	100	100
EfTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,698	3,613	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors car center, Tallinn	1,585	1,544	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics center, Kekava	3,528	0	100	0
EfTEN Riga Airport	Latvia	airBaltic office building, Riga	1,297	0	100	0
TOTAL			**59,140**	**53,626**		

On 10 January 2020, EfTEN Real Estate Fund III AS entered into debt purchase agreements for the acquisition of the owners of the Air Baltic main building at Riga Airport and Piepilsetas production and warehouse building in Kekava near Riga. The transactions were completed on March 12 and March 13, 2020. and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements since 1 March 2020. A total of EUR 8,873 thousand was paid for the subsidiaries, including loan receivables from the former owners in the amount of EUR 3,780 thousand. As the transaction price is adjusted by changes in the working capital of subsidiaries during the contract period (mid-January to mid-March), the final acquisition cost of the subsidiaries will be determined during the second quarter of 2020, but it is estimated that the Group will have to pay extra EUR 100 thousand. The total value of investment properties owned by subsidiaries is EUR 15,800 thousand.

EfTEN Riga Airport (previous NHC1) SIA fair value 29.02.2020

	Fair value
EUR thousand	
Cash	203
Nõuded	245
Investment property (Note 12)	7,100
Bank loans (Note 13)	-3,941
Owners' loans	-2,030
Other liabilities	-304
Fair value of net assets	**1,273**
Acquisition cost	1,273
Goodwill	**0**

EfTEN Piepilsetas (previous NHC3) SIA fair value 29.02.2020

	Fair value
Eur thousand	
Cash	54
Nõuded	16
Investment property (Note 12)	8,700
Bank loans (Note 13)	-3,223
Owners' loans	-1,750
Other liabilities	-295
Fair value of net assets	**3,502**
Acquisition cost	3,502
Goodwill	**0**

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

3 *Segment reporting*

SEGMENT RESULTS

	Office		**Logistics**		**Retail**		**Non-allocated**		**Total**	
3 months	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
EUR thousand										
Revenue (Note 4), incl.	**550**	**585**	**669**	**602**	**1,224**	**1,128**	**0**	**0**	**2,443**	**2,315**
Estonia	0	0	253	251	350	221	0	0	603	472
Latvia	0	0	241	178	0	0	0	0	241	178
Lithuania	550	585	175	173	874	907	0	0	1,599	1,665
Operating income, net, incl.	**466**	**536**	**660**	**602**	**1,136**	**1,015**	**0**	**0**	**2,262**	**2,153**
Estonia	0	0	253	251	346	217	0	0	599	468
Latvia	0	0	232	178	0	0	0	0	232	178
Lithuania	466	536	175	173	790	798	0	0	1,431	1,507
Operating profit, incl.	**400**	**478**	**591**	**542**	**971**	**869**	**-109**	**-25**	**1,853**	**1,864**
Estonia	0	0	230	227	295	175	-109	-25	416	377
Latvia	0	0	201	158	0	0	0	0	201	158
Lithuania	400	478	160	157	676	694	0	0	1,236	1,329
EBITDA, incl.	**401**	**478**	**591**	**542**	**982**	**878**	**-109**	**-25**	**1,865**	**1,873**
Estonia	0	0	230	227	295	175	-109	-25	416	377
Latvia	0	0	201	158	0	0	0	0	201	158
Lithuania	401	478	160	157	687	703	0	0	1,248	1,338
Operating profit									**1,853**	**1,864**
Net financial expense									-333	-338
Profit before income tax expense									**1,520**	**1,526**
Income tax expense (Note 9)									-152	-157
NET PROFIT FOR THE FINANCIAL PERIOD									**1,368**	**1,369**

SEGMENT ASSETS

	Office		**Logistics**		**Retail**		**Total**	
As at 31.03.2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
EUR thousand								
Investment property (Note 12)								
Estonia	0	0	12,880	12,850	19,520	14,983	32,400	27,833
Latvia	7,100	0	8,710	8,660	0	0	15,810	8,660
Lithuania	30,028	29,211	17,500	8,730	33,394	31,650	80,922	69,591
Total investment property	**37,128**	**29,211**	**39,090**	**30,240**	**52,914**	**46,633**	**129,132**	**106,084**
Other non-current assets							126	106
Net debt							-57,691	-54,866
Other short-term assets							972	539
NET ASSETS							**72,539**	**51,863**

In the 1st quarter of 2020 and 2019, 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 10.2%, 7.2% ja 7.0% of the Group's consolidated rental income, respectively. The revenue from the rest of the tenants is less than 6.4% of consolidated revenue

4 Revenue

	1st quarter	
Areas of activity	**2020**	2019
EUR thousand		
Rental income from office premises	546	574
Rental income from retail premises	1,047	955
Rental income from warehousing and logistics premises	664	602
Other sales revenue	186	184
Total revenue by areas of activity (Note 3, 12)	**2,443**	**2,315**

	1st quarter	
Revenue by geographical area	**2020**	2019
EUR thousand		
Estonia	603	472
Latvia	241	178
Lithuania	1,599	1,665
Total revenue by geographical area (Note 3, 12)	**2,443**	**2,315**

5 Cost of services sold

	1st quarter	
	2020	2019
EUR thousand		
Repair and maintenance of rental premises	-64	-33
Property insurance	-1	-4
Land tax and real-estate tax	-3	-24
Wages and salaries, incl. taxes	-12	-5
Other sales costs	-8	-10
Total cost of service sold (Note 3)	**-88**	**-76**

6 Marketing costs

	1st quarter	
	2020	2019
EUR thousand		
Commission expenses on rental premises	-30	0
Advertising, promotional events[1]	-63	-86
Total marketing costs (Note 3)	**-93**	**-86**

[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	
	2020	2019
EUR thousand		
Management services (Note 18)	-193	-174
Office expenses	-6	-5
Wages and salaries, incl. taxes	-52	-46
Consulting expenses, legal expenses	-119	-25
Depository costs, regulator costs	-22	-16
Other general and administrative expenses	-10	-13
Depreciation	-12	-9
Total general and administrative expenses	**-414**	**-288**

8 Finance costs

	1st quarter	
	2019	2019
EUR thousand		
Interest expenses, incl.	-327	-262
Interest expense from loans	-302	-239
Interest expense from derivatives (-)/ cost reductions (+)	-25	-23
Change in fair value of interest swaps (Note 15)	-6	-76
Total finance costs	**-333**	**-338**

9 Income tax

	1st quarter	
	2020	2019
EUR thousand		
Deferred income tax in Lithuanian subsidiaries	-102	-135
Income tax expense from Lithuanian profit	-50	-22
Total income tax expense	**-152**	**-157**

As at 31.03.2020, the Group has a deferred income tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 4,375 thousand (31.12.2019: EUR 4,274 thousand). Deferred income tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

	1st quarter	
Earnings per share	**2020**	**2019**
Net profit for the period, *in EUR thousand*	**1,368**	1,369
Weighted average number of shares over the period, in pcs	**4,222,534**	3,222,535
Earnings per share, in EUR	**0.32**	0.42

11 Receivables and accrued income

	31.03.2020	31.12.2019
EUR thousand		
Receivables from customers	504	569
Prepaid taxes and receivables for reclaimed value-added tax	66	76
Other accrued income	343	22
Total accured income	**409**	**98**
Total receivables	**913**	**667**

12 Investment property

As at 31.03.2020, the Group has made investments in the following investment properties:

Name	**Location**	**Net rental area (m2)**	**Year of construction**	**Date of acquisition**	**Acquisition cost**	**Market value at 31.03.2019**	**Increase in value**	**Share of market value of the Fund's assets**
EUR thousand								
Saules Miestas shopping center	Saules Miestas, Lithuania	19,881	2007	08.2015	28,372	33,394	18%	24%
DSV logistics center	Vilnius, Lithuania	11,687	2005	06.2016	8,502	8,800	4%	6%
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,880	5%	9%
DSV logistics center	Riga, Latvia	12,149	2000	07.2016	8,800	8,710	-1%	6%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,708	10,181	17%	7%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,180	9,236	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%	4%
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	9,465	10,611	12%	8%
ABC Motors sales and service center	Tallinn, Estonia	2,149	2002	02.2019	3,018	3,190	6%	2%
airBalticu headquarter	Riga, Latvia	6,217	1977, renovated 2016	03.2020	7,100	7,100	0%	5%
Piepilsetas llogistics center	Riga, Latvia	13,327	2007	03.2020	8,700	8,700	0%	6%
Total		**110,753**			**117,869**	**129,132**	**10%**	**92%**

In the 1st quarter of 2020 and 2019, the following changes have occurred in the Group's investment property:

	Completed investment property	**Total investment property**
Balance as at 01.01.2018	**88,390**	**88,390**
Acquisitions	1,361	1,361
Balance as at 31.03.2018	**89,751**	**89,751**
Balance as at 01.01.2020	**113,011**	**113,011**

Acquisitions	15,800	**15,800**
Capitalised improvements	321	**321**
Balance as at 31.03.2020	**129,132**	**129,132**

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	**2020**	2019
Rental income earned on investment property (Note 4)	2,257	2,131
Expenses directly attributable to management of investment property (Note 5)	-88	-76
Carrying amount of investment property pledged as collateral to borrowings (Note 13)	129,132	104,196

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

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 31.03.2020 was determined using the discounted cash flow method. In the first quarter of 2020 acquired airBaltic office building and Piepilsetas logistics center fair value inputs are based on purchase analysis indicators. The following assumptions were used to determine fair value:

Sector	**Fair value**	**Valuation method**	**Yearly rental income**	**Discount rate**	**Capitalization rate**	**Average rent, €/,m2**
EUR thousands						
Office premises	37,128	Discounted cash flows	2,708	7.9%-8.5%	7.5%-8.0%	10.2
Warehouse and logistics premises	39,090	Discounted cash flows	3,167	8.0%-8.6%	7.8%-8.0%	5.0
Retails premises	52,914	Discounted cash flows	4,542	8.25%-8.5%	7.8%-8.4%	11.4
Total	**129,132**		**10,417**			

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

Sector		**Sensitivity to management estimate**		**Sensitivity to discount rate and capitalisation rate**			
	Fair value	**Revenue +10%**	**Revenue -10%**	**Discount rate +50bp**	**Discount rate -50bp**	**Output productivity +50bp**	**Output productivity -50bp**
EUR thousand							
Office premises	37,128	*2,980*	*-2,990*	*-750*	*760*	*-1,620*	*1,840*
Warehouse and logistics premises	39,090	*3,100*	*-3,100*	*-763*	*787*	*-1,569*	*1,787*
Retails premises	52,914	*4,640*	*-4,640*	*-1,060*	*1,070*	*-2,190*	*2,470*
TOTAL	**129,132**	**10,720**	**-10,730**	**-2,573**	**2,617**	**-5,379**	**6,097**

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

13 Borrowings

As at 31.03.2020, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.03.2020	Contract term	Interest rate as at 31.03.2020	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	14,990	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	33,394	20.7%
SEB	Lithuania	5,500	4,587	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,800	6.3%
SEB	Latvia	3,323	4,432	29.06.21	1.55%	Mortgage – DSV building in Riga	8,710	6.1%
SEB	Estonia	7,950	6,667	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,880	9.2%
SEB	Lithuania	5,620	4,770	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	10,181	6.6%
SEB	Lithuania	5,200	4,182	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,236	5.8%
SEB	Lithuania	5,850	5,371	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,611	7.4%
Swedbank	Estonia	3,290	3,268	11.01.24	1.95%	Mortgage – Hortes gardening center Tähesaju	6,180	4.5%
SEB	Estonia	1,860	1,612	05.07.22	1.82%	Mortgage – Hortes gardening center	3,520	2.2%
Swedbank	Estonia	3,700	3,159	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,630	4.4%
Swedbank	Latvia	3,201	3,201	05.02.23	2.80%	Mortgage - Piepilsetas logistics center	8,700	4.4%
Luminor	Latvia	3,905	3,905	04.02.25	3.75%	Mortgage – airBaltic office building	7,100	5.4%
LHV	Estonia	1,800	1,736	25.02.24	2.95%	Mortgage – ABC Motors sales and service center	3,190	2.4%
Total		**67,699**	**61,880**				**129,132**	**85.3%**

For additional information on borrowings, please see Note15

Short-term borrowings	**31.03.2020**	31.12.2019
EUR thousand		
Repayments of long-term bank loans in the next period	21,420	21,171
Discounted contract fees on bank loans	-26	-24
Total short-term borrowings	**21,394**	**21,147**

Long-term borrowings	**31.03.2020**	31.12.2019
EUR thousand		
Total long-term borrowings (Note 15)	**61,824**	**55,372**
incl. current portion of borrowings	21,394	21,147
incl. non-current portion of borrowings, incl.	40,430	34,225
Bank loans	*40,460*	*34,246*
Discounted contract fees on bank loans	-30	*-21*

Bank loans are divided as follows according to repayment date:

	31.03.2020	31.12.2019
EUR thousand		
Less than 1 year	21,420	21,171
2-5 years	40,460	34,246

	1st quarter	
Cash flows of borrowings	**2020**	2019
EUR thousand		
Balance at the beginning of period	**55,372**	**52,848**
Bank loans received through business combinations and acquisitions (Note 2)	7,164	0,
Bank loans received	0	1,978
Annuity payments on bank loans	-665	*-677*
Change of discounted contract fees	*-47*	*-4*
Balance at the end of period	**61,824**	**54,145**

14 Payables and prepayments

Short-term payables and prepayments	31.03.2020	31.12.2019
EUR thousand		
Trade payables	145	642
Debts from Securities transactions (Note 2)	119	0
Other payables	14	2
Value added tax	241	205
Corporate income tax	87	0
Social tax	6	7
Land tax and real-estate tax	16	31
Total tax liabilities	**350**	**243**
Payables to employees (Note 15)	33	54
Interest liabilities (Note 15)	33	9
Tenant security deposits (Note 15)	106	111
Other accrued liabilities (Note 15)	66	57
Total accrued expenses	**238**	**231**
Prepayments received from buyers	0	14
Total prepayments	**0**	**14**
Total payables and prepayments	**866**	**1,132**

Long- term payables	31.03.2020	31.12.2019
EUR thousand		
Tenants security deposits (Note 15)	765	605
Other long-tem payables	4	4
Total other long-term payables	**769**	**609**

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	31.03.2020	31.12.2019
Financial assets - loans and receivables			
Cash and cash equivalents		10,419	12,986
Short-term deposits		0	6,000
Trade receivables	11	504	569
Total financial assets		**10,923**	**19,555**
Financial liabilities measured at amortised cost			
Borrowings	13	61,824	55,372
Trade payables	14	145	642
Tenant security deposits	14	871	716
Interest payables	14	33	9
Accrued expenses	14	99	111
Total financial liabilities measured at amortised cost		**62,972**	**56,850**

Financial liabilities measured at fair value		
Derivative instruments (interest rate swaps)	276	271
Total financial liabilities measured at fair value	**276**	**271**
Total financial liabilities	**63,248**	**57,121**

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 31.03.20, 64% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 3.75% plus the 6-month, 3-month and 1-month EURIBOR), and 36% 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 the 1st quarter of 2020, the 3-month EURIBOR fluctuated between -0.489% and -0.220%, i.e. the maximum change within the year was 269 basis points. All contracts in the loan portfolio of EfTEN Real Estate Fund III have a 0% limit (floor) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

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

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

(1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold in the 10 year perspective;

(2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EfTEN Real Estate Fund III;

(3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

For hedging the interest rate risk, an interest swap contract was concluded in 2016 in the total nominal amount of EUR 14,835 thousand by fixing the three-month EURIBOR at the level of 0.35%. The maturity of interest rate swaps contracts is in year 2023, whereas quarterly payments of the interest rate swap contract started in the spring of 2018.

The Group recognises interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 31.03.2020 was negative in the amount of EUR 276 thousand (31.12.2019: EUR 271 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 31.03.2020, the Group's interest-bearing liabilities accounted for 50.0% (31.12.2019: 52%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 1.8 (2019: 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 31.03.2020	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	268	840	20,301	40,471	0	**61,880**
Interest payments	107	319	633	1,369	0	**2,428**
Interest payables	33	0	0	0	0	**33**
Trade payables	145	0	0	0	0	**145**
Tenant security deposits	17	18	71	504	261	**871**
Accrued expenses	99	0	0	0	0	**99**
Total financial liabilities	**669**	**1,177**	**21,005**	**42,344**	**261**	**65,456**

Report of working capital

	31.03.2020	31.12.2019
EUR thousand		
Cash and cash equivalents	10,419	12,986
Receivables and accrued income (Note 11)	913	667
Prepaid expenses	59	51
Total current assets	**11,391**	**13,704**
Short-term portion of long-term liabilities (Note 13)	-21,394	-21,147
Short-term payables and prepayments (Note 14)	-1,142	-1,403
Total current liabilities	**-22,536**	**-22,550**
Total working capital	**-11,145**	**-8,846**

As of 31.03.2020, the working capital of the Group is negative in the amount of EUR 11,145 thousand (31.12.2019: EUR 8,846 thousand). Working capital is negative due to the loan agreement of the Group's two subsidiaries Saules Kaupunki UAB and Verkiu projekts UAB (Ulonu office building), that expire in 2020, in the total amount of EUR 19,174 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 coverage ratio of both loans is less than 50% and investment properties have a strong long-term rental cash flow, which means that the Group's management believes that there are no obstacles to extending loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

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	**31.03.2020**	31.12.2019
Undue	199	398
Past due, incl.	**399**	**171**
up to 30 days	*312*	*160*
30-60 days	*75*	*9*
more than 60 days	*12*	*2*
Provisions	-94	0
Total trade receivables (Note 11)	**504**	**569**

As of 31.03.2020, the Group has made a provision in the amount of EUR 94 thousand in connection with the Covid-19 pandemic and the resulting emergency situations. Rental income for the first quarter of 2020 has been reduced by the provision.

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

Rating	**31.03.2020**	**31.12.2019**
Aa2	10,068	12,832
Baa1	349	4,153
Without rating	2	2,000
Total	**10,419**	**18,985**

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.

During the 1st quarter of 2020, the Group has earned a free cash flow (EBITDA minus loan and interest payments) of EUR 0.873 million (2019 1st quarter: EUR 0.934 million). The lower free cash flow this year is mainly due to provisions made in March in connection with the Covid-19 pandemic and emergency situation in Estonia, Latvia and Lithuania, one-off costs of taking over former loan agreements of two real estate investment companies acquired in 2020 and *due diligence* costs.

Report of capitalisation

	31.03.2020	31.12.2019
EUR thousand		
Short-term liabilities guaranteed with mortgage (Note 13)	21,420	21,171
Unsecured short-term liabilities (Note 14)	1,116	1,379
Total short-term liabilities	**22,536**	**22,550**
Long-term liabilities guaranteed with mortgage (Note 13)	40,460	34,246
Unsecured long-term liabilities (Note 14)	5,114	4,862
Total long-term liabilities	**45,574**	**39,108**
Share capital and share premium (Note 16)	51,883	51,883
Reserves	936	936
Retained earnings	19,720	18,352
Total shareholder's equity	**72,539**	**71,171**
Total liabilities and equity	**140,649**	**132,829**

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	31.03.2020	31.12.2019
Cash	10,419	12,986
Tradable securities	0	6,000
Total liquid assets	**10,419**	**18,986**
The short-term portion of long-term liabilities (Note 13)	21,420	21,171
Net short-term debt	**11,001**	**2,185**
Long-term bank loans (long-term portion) (Note 13)	40,460	34,246
Total long-term debt	**40,460**	**34,246**
Total net debt	**51,461**	**36,431**

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 31.03.2020 nor 31.12.2019, 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 31.03.2020, the registered share capital of EfTEN Real Estate Fund III AS was EUR 42,225 thousand (31.12.2019: the same). As at 31.03.2020, the share capital consisted of 4,222,535 shares (31.12.2019: the same) with a nominal value of EUR 10 (31.12.2019: the same). Without amending the articles of association, the company may increase its share capital to EUR 115,411 thousand. As at 31.03.2020, the share capital has been paid in the amount of EUR 51,883 thousand (31.12.2019: the same).

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

	As at 31.03.2020	
Company	**Number of shares**	**Ownership, %**
Altius Energia OÜ	598,013	14.16
Järve Kaubanduskeskus OÜ	431,992	10.23
Hoiukonto OÜ	430,211	10.19

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

	As at 31.03.2020	
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%

17 Contingent liabilities

Contingent tax liability

	31.03.2020	31.12.2019
EUR thousands		
Retained earnings	19,720	18,352
Potential income tax liability	3,944	3,670
Dividends can be paid out	15,776	14,682

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 31.03.2020 and 31.12.2019.

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 2020 in the amount of EUR 193 thousand (Q1 2019: EUR 174 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 2020 nor in 2019.

As at 31.03.2020, the Group had 12 employees who were remunerated including taxes in the amount of EUR 64 thousand (Q1 2019: EUR 51 thousand). In the first quarters of 2020 and 2019, no compensations were calculated nor paid to the management and supervisory board members of the Group. Members of the

Group's management board are employed by EfTEN Capital AS, the company providing management services to the Group, and expenses related to management board members' activities are included in management services.

Declaration of the Management Board to the consolidated interim report for the 1st quarter of 2020

We hereby confirm that EfTEN Real Estate Fund III AS consolidated interim report for the 1st quarter and of 2020 provides a true and fair overview of the Group's assets, liabilities, financial position and a description of the main risks and the development and results of the business activities of the consolidated entities as a whole.

/digitally signed/

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Viljar Arakas

Member of the Management Board

/digitally signed/

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Tõnu Uustalu

Member of the Management Board