



EFTEN Real Estate Fund III

Consolidated interim report for the second quarter and six months of 2020

EFTEN Real Estate Fund III AS

Commercial register number: 12864036

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MANAGEMENT REPORT

EFTEN Real Estate Fund III AS's consolidated sales revenue for the second quarter of 2020 totaled 2.422 million euros (2nd quarter of 2019: 2.321 million euros), increasing by 4.4%. The sales revenue of the two properties acquired at the end of February 2020 (airBaltic office building and Kekava logistics center in Riga) and Tāhesaju Hortes completed at the end of last year totaled 386 thousand euros in the second quarter of 2020, ie sales revenue in the second quarter of the 2020 of new real estate investments accounted for 16.6%. The sales revenue of other investment properties decreased mainly due to the negative economic impact of Covid-19 and the concluded lease reduction agreements.

EFTEN Real Estate Fund III AS's consolidated sales revenue for the first half of 2020 was 4.865 million euros (first half of 2019: 4.636 million euros), increasing by 4.9%. The Group's profit before revaluations of investment properties, changes in the fair value of interest rate swaps and income tax expense totaled 3.132 million euros in the first half of 2020 (first half of 2019: 2.882 million euros), increasing by 8.7. Due to the economic uncertainty caused by Covid-19, the expected decrease in cash flows and the resulting decrease in the fair value of investment properties, the Group earned the first net loss of its operating period in the total amount of 1.065 million euros.

In the first half of 2020, the fund earned consolidated EBITDA of 3.8 million euros (first half of 2019: 3.6 million euros). From the EBITDA growth, 0.3 million euros is related to the addition of airBaltic's office building and Kekava logistics building and 0.2 million euros is related to the addition of Tāhesaju Hortes rental income to the fund's real estate portfolio. Because of the Covid-19 crisis and the resulting temporary discounts, the EBIDTA has decreased by 0.2 million euros compared to the previous year. All temporary discounts will end no later than September of this year. According to the fund's management, the negative economic impact of the Covid-19 crisis on the fund's results is smaller than initially expected, partly due to the well-diversified real estate portfolio of EFTEN Real Estate Fund III AS by sectors and countries, strong tenant base, good capitalization and conservative financing strategy.

The consolidated gross profit margin was 98% in the first half of 2020 (first half of 2019: 97%), so expenses directly related to the management of real estate (incl. land tax, insurance, maintenance and improvement costs) accounted for 2% (first half of 2019: 3%) of sales revenue. Expenses related to the Group's real estate, marketing expenses, overheads and other income and expenses accounted for a total of 22% of sales revenue in the first half of 2020 (first half of 2019: also 22%).

	The first half of	
	2020	2019
€ million		
Rental revenue, other fees from investment properties	4.865	4.636
Expenses related to investment properties, incl. marketing costs	-0.283	-0.367
Interest expense and interest income	-0.678	-0.730
Net rental revenue less finance costs	3.904	3.539
Management fees	-0.416	-0.349
Other revenue and expenses	-0.356	-0.308
Profit before change in the value of investment property, fair value change of the interest rate swap and income tax expense	3.132	2.882

As at 30.06.2020, the Group's total assets were in the amount of EUR 137.676 million (31.12.2019: EUR 132.829 million), including fair value of investment property, which accounted for 91% (31.12.2019: 85%) of the total assets.

	30.06.2020	31.12.2019
€ million		
Investment properties	125.328	113.011
Other non-current assets	0.174	0.114
Cash and deposits	10.920	18.986
Current assets other than cash	1.254	0.718
Net debt (cash less liabilities)	-59.395	-42.672
Net asset value (NAV)	67.361	71.171
Net asset value (NAV) per share, in euros	15.95	16.85
EPRA net asset value (EPRA NAV) per share, in euros	17.00	17.93

The net asset value of the share of EFTEN Real Estate Fund III AS decreased by 5.4% in the first half of 2020. The net asset value of the share decreased by 5.6%, mainly due to the economic instability caused by Covid-19 and the resulting change in the fair value of the Group's investment properties. Due to the declaration of dividends in the amount of 2,745 thousand euros in June 2020, the net asset value of the share decreased by an additional 4.2%. Without the change in the value of real estate investments and profit distribution, the net asset value of EFTEN Real Estate Fund III would have increased by 4.4% in the first half of 2020.

During the next 12 months, there will be deadlines for several loan agreements of the Group subsidiaries. Most of the Group's borrowings are concluded with a term of 5 years, which is refinanced upon termination of the loan agreement. Over the next 12 months, 34.285 million euros, meaning 56.1% of the total loan portfolio, will be refinanced from the Group's loan liabilities. As at 30.06.2020, the average interest rate of the Group's loan agreements (taking into account interest rate swap agreements) is 2.01% (31.12.2019: 1.84%) and LTV (Loan to Value) is 54% (31.12.2019: 52%).

During the first half of 2020, the Group has earned a free cash flow of 1.7 million euros (6 months of 2019: the same), of which the cash flow from investment properties added this year amounts to 234 thousand euros. Discounts on leases caused by the special situation arising from Covid-19 totaled 254 thousand euros in the first half of 2020, ie due to temporary special agreements with tenants, the Group's free cash flow in the first half of 2020 has decreased by 13%.

Key performance and liquidity ratios

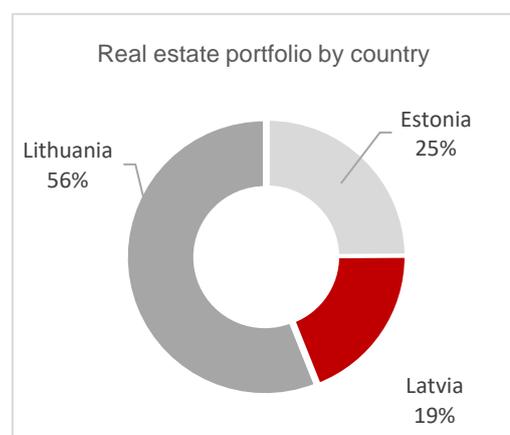
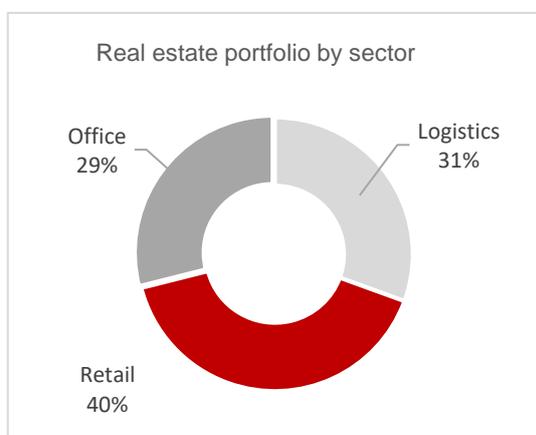
6 months or as at 30 June	2020	2019
ROE, % (net profit of the period / average equity of the period) x 100	-1.5	6.3
ROA, % (net profit of the period / average assets of the period) x 100	-0.8	3.1
ROIC, % (net profit of the period / average invested capital of the period ¹) x 100 ¹	-2.1	8.4
Revenue (EUR thousand)	4,865	4,636
EBITDA (EUR thousand)	3,834	3,612
EBITDA margin, %	78.8	77.9
EBIT (EUR thousand)	-176.0	5,064.0
EBIT margin, %	-3.6	109.2
Liquidity ratio (current assets / current liabilities)	0.3	4.1
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.8	1.9

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

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 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.

As at end of June 2020, the Group has 13 (31.12.2019: 11) commercial investment properties with a fair value as at the balance sheet date of EUR 125.328 million (31.12.2019: EUR 113.011 million) and acquisition cost of EUR 118.053 million (31.12.2019: EUR 101.746 million).



Main figures of the Group's real estate portfolio:

Investment properties as of 30.06.2020	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	12,520	16,014	1,020	100	6.4	1
DSV Riia	100	8,647	12,149	725	100	6.4	1
DSV Vilnius	100	8,740	11,687	708	100	6.3	1
Piepilsetas logistics center, Kekava	100	8,400	13,327	672	100	4	4
Total logistics		38,307	53,177	3,125	100	5.7	7
Saules Miestas shopping centre	100	32,040	19,881	3,110	98	4.1	114
Hortes shopping centre, Laagri	100	3,360	3,470	268	100	11.9	1
Selver, Laagri	100	6,320	3,063	493	100	7.5	1
Hortes gardening centre, Tallinn	100	5,850	5,300	515	100	14	10
ABC Motors sales and service centre, Tallinn	100	3,160	2,149	260	100	8.6	1
Total retail		50,730	33,863	4,646	99	5.9	127
Ulonu office building, Vilnius	100	8,860	5,174	737	86	3.1	12
Evolution office building, Vilnius	100	10,520	6,172	839	100	2.2	31
L3 office building, Vilnius	100	10,041	6,151	812	100	4.3	48
airBaltic office building, Riia	100	6,870	6,217	495	100	6	1
Total office		36,291	23,714	2,883	95	3.6	92
Total real estate portfolio		125,328	110,754	10,654	99	5.2	226

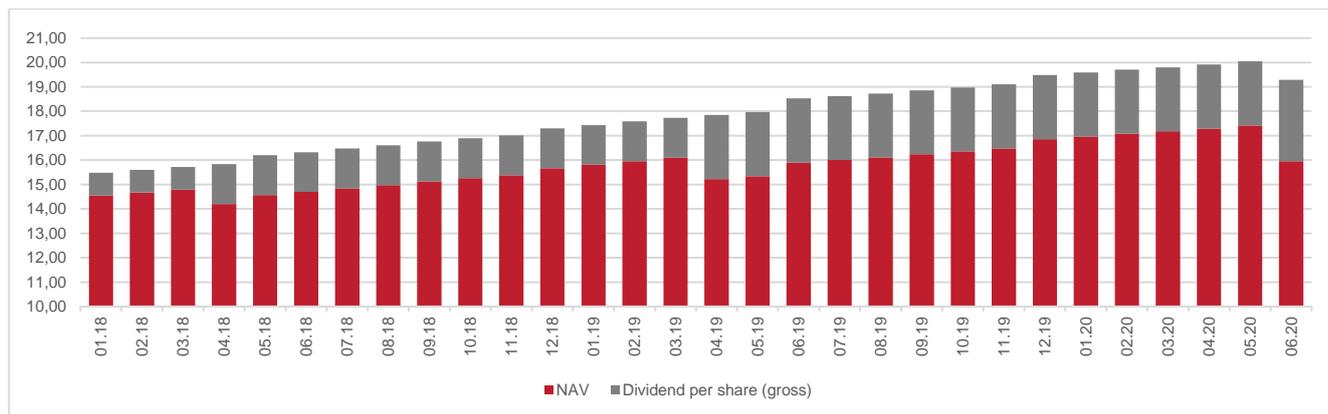
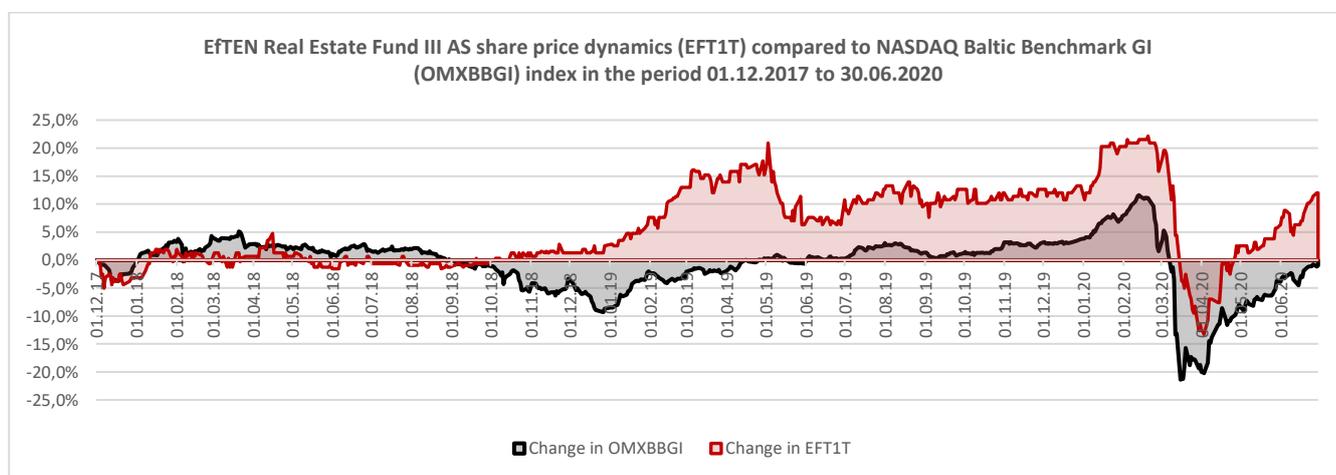
In June 2020, Colliers International conducted a regular valuation of the fund's real estate portfolio, this time even more conservative than before due to the economic uncertainty arising from Covid-19. While yield rates as an input to valuations did not change for any investment property, the discount rates for most properties have risen by 0.3 percentage points due to the expected rise in interest rates. However, the lower cash flow forecast had an even more significant effect on the values of real estate investments, where Colliers International estimates that in the 1 to 1.5 year plan, rental income could be expected to decrease by approximately 4% from its normal level for some properties. Overall, the value of the fund's real estate portfolio decreased by 3.99 million euros (3.1%) as a result of valuations.

Information on shares

The net asset value of the share of EFTEN Real Estate Fund III as at 30.06.2020 was EUR 15.95 (31.12.2019: EUR 16.85). The net value of the share of EFTEN Real Estate Fund III AS decreased in the 1st half of 2020 by 5.4%.

In addition to the aforementioned share net asset value calculated according to IFRS, EFTEN Real Estate Fund III AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most relevant net asset value. The EPRA recommended guide assumes a long-term economic strategy for real estate companies, so temporary differences in the situation where asset sales are unlikely to occur in the near future obscure the transparency of the fair value of the fund's net assets. Therefore, to get the net asset value according to the EPRA, the fair value of the deferred tax expense on investment property and the fair value of financial instruments (interest swap) is eliminated from the net asset value calculated according to IFRS.

€ thousands	30.06.2020	31.12.2019	30.06.2019	31.12.2018
Net asset value calculated in accordance with IFRS	67,361	71,171	67,131	50,494
Exclusion of deferred income tax on investment property	4,150	4,274	3,939	3,496
Exclusion of the fair value of financial instruments	284	271	365	189
EPRA net asset value	71,795	75,716	71,435	54,179
Number of shares at the balance sheet date	4,222,535	4,222,535	4,222,535	3,222,535
EPRA net asset value per share, in euros	17.00	17.93	16.92	16.81
EPRA NAV growth, in euros	-0.93		0.11	
Declared dividend per share, in euros	0.65		0.95	
Income tax on dividends paid per share, in euros	0.06		0.04	
Period earnings per share, in euros	-0.22		1.10	
Period earnings per share, increase	-1.2%		6.6%	

The net asset value of EFTEN Real Estate Fund III share and dividends paid (cumulative)**EFTEN Real Estate Fund III AS share price dynamics (EFT1T) compared to NASDAQ Baltic Benchmark GI (OMXBBGI) index in the period 01.12.2017 to 30.06.2020**

As at 30.06.2020, EFTEN Real Estate Fund III AS had 2,853 shareholders, of whom 20.1% were legal entities. A total of 78.65% of the total share capital of the fund was held by legal entities. The distribution 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%
Cyprus	-	1	1	-	47,631	47,631	-	1.13%	1.1%
Denmark	1	1	2	1	6	7	-	0.00%	0.0%
Estonia	565	2,255	2,820	3,314,509	844,059	4,158,568	78.50%	19.99%	98.5%
Finland	1	5	6	152	444	596	0.00%	0.01%	0.0%
Germany	-	1	1	-	309	309	-	0.01%	0.0%
Hungary	-	1	1	-	80	80	-	0.00%	0.0%
Ireland	-	1	1	-	66	66	-	0.00%	0.0%
Italy	-	1	1	-	75	75	-	0.00%	0.0%
Norway	-	2	2	-	161	161	-	0.00%	0.0%
Latvia	3	-	3	2,474	-	2,474	0.06%	-	0.1%
Lithuania	4	2	6	3,373	7,201	10,574	0.08%	0.17%	0.3%
Netherlands	-	1	1	-	60	60	-	0.00%	0.0%
United Arab Emirates	-	1	1	-	68	68	-	0.00%	0.0%
Oman	-	1	1	-	75	75	-	0.00%	0.0%
Spain	-	1	1	-	80	80	-	0.00%	0.0%
Great Britain	-	2	2	-	54	54	-	0.00%	0.0%
United States of America	1	-	1	327	-	327	0.01%	-	0.0%
Total	575	2,278	2,853	3,320,836	901,699	4,222,535	78.65%	21.35%	100.0%

As at 30.06.2020, EFTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

Company	As at 30.06.2020	
	Number of shares	Ownership, %
Altius Energia OÜ	602,000	14.26
Järve Kaubanduskeskus OÜ	431,992	10.23
Hoiukonto OÜ	430,211	10.19

CONSOLIDATED INTERIM REPORT OF THE GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousands	Notes	II quarter		I half of 2020	
		2020	2019	2020	2019
Revenue	3,4	2,422	2,321	4,865	4,636
Cost of services sold	5	-59	-71	-147	-147
Gross profit		2,363	2,250	4,718	4,489
Marketing costs	6	-43	-134	-136	-220
General and administrative expenses	7	-358	-376	-772	-664
Loss on change in fair value of investment property	12	-3,986	1,460	-3,986	1,460
Other operating income and expense		-5	0	0	-1
Operating profit	3	-2,029	3,200	-176	5,064
Finance costs	8	-345	-392	-678	-730
Profit before income tax		-2,374	2,808	-854	4,334
Income tax expense	9	-59	-479	-211	-636
Total comprehensive income for the financial period	3	-2,433	2,329	-1,065	3,698
Earnings per share	10				
- Basic		-0.58	0.68	-0.25	1.11
- Diluted		-0.58	0.68	-0.25	1.11

The notes on pages 12-27 are an integral part of the consolidated interim report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2020	31.12.2019
<i>€ thousands</i>			
ASSETS			
Cash and cash equivalents	15	10,920	12,986
Short-term deposits	15	0	6,000
Receivables and accrued income	11	1,199	667
Prepaid expenses		55	51
Total current assets		12,174	19,704
Investment property	3,12	125,328	113,011
Property, plant and equipment		170	114
Intangible assets		4	0
Total non-current assets		125,502	113,125
TOTAL ASSETS		137,676	132,829
LIABILITIES AND EQUITY			
Borrowings	13	37,147	21,147
Derivative instruments	15	284	271
Payables and prepayments	14	4,062	1,132
Total current liabilities		41,493	22,550
Borrowings	13	23,882	34,225
Other long-term liabilities	14	790	609
Deferred income tax liability	9	4,150	4,274
Total non-current liabilities		28,822	39,108
Total liabilities		70,315	61,658
Share capital	16	42,225	42,225
Share premium		9,658	9,658
Statutory reserve capital		1,323	936
Retained earnings	17	14,155	18,352
Total equity		67,361	71,171
TOTAL LIABILITIES AND EQUITY		137,676	132,829

The notes on pages 12-27 are an integral part of the consolidated interim report.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	II quarter		I half of 2020	
		2020	2019	2020	2019
<i>€ thousand</i>					
Net profit		-2,433	2,329	-1,065	3,698
<i>Adjustments:</i>					
Finance costs	8	345	392	678	730
Gains / losses on revaluation of investment property	12	3,986	-1,460	3,986	-1,460
Depreciation, amortisation and impairment	7	13	10	25	19
Income tax expense	9	59	479	211	636
Total adjustments with non-cash changes		4,403	-579	4,900	-75
Cash flow from operations before changes in working capital		1,970	1,750	3,835	3,623
Change in receivables and payables related to operating activities		-102	-57	-639	-9
Net cash flow generated from operating activities		1,868	1,693	3,196	3,614
Purchase of property, plant and equipment		-15	-27	-39	-28
Purchase of investment property	12	-215	-1,732	-536	-5,190
Change in short-term deposits		0	-9,000	6,000	-9,000
Acquisition of subsidiaries	2	0	0	-8,615	0
Interest received		0	0	13	0
Net cash flow generated from investing activities		-230	-10,759	-3,177	-14,218
Loans received	13	0	2,938	0	4,916
Scheduled loan repayments	13	-803	-2,160	-1,468	-2,837
Interest paid		-334	-274	-617	-537
Issue of shares	16	0	16,000	0	16,000
Dividends paid	15	0	-3,061	0	-3,061
Income tax on dividends paid		0	-139	0	-139
Net cash flow generated from financing activities		-1,137	13,304	-2,085	14,342
NET CASH FLOW		501	4,238	-2,066	3,738
Cash and cash equivalents at the beginning of period		10,419	4,359	12,986	4,859
Change in cash and cash equivalents		501	4,238	-2,066	3,738
Cash and cash equivalents at the end of period	15	10,920	8,597	10,920	8,597

The notes on pages 12-27 are an integral part of the consolidated interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousands	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
Issue of shares	10,000	6,000	0	0	16,000
Dividends paid	0	0	0	-3,061	-3,061
Provisions for reserve capital	0	0	315	-315	0
Total transactions with owners	10,000	6,000	315	-3,376	12,939
Net profit for the financial period	0	0	0	3,698	3,698
Total comprehensive income for the period	0	0	0	3,698	3,698
Balance as at 30.06.2019	42,225	9,658	936	14,312	67,131
Balance as at 31.12.2019	42,225	9,658	936	18,352	71,171
Dividends declared	0	0	0	-2,745	-2,745
Provisions for reserve capital	0	0	387	-387	0
Total transactions with owners	0	0	387	-3,132	-2,745
Net profit for the financial period	0	0	0	-1,065	-1,065
Total comprehensive income for the period	0	0	0	-1,065	-1,065
Balance as at 30.06.2020	42,225	9,658	1,323	14,155	67,361

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

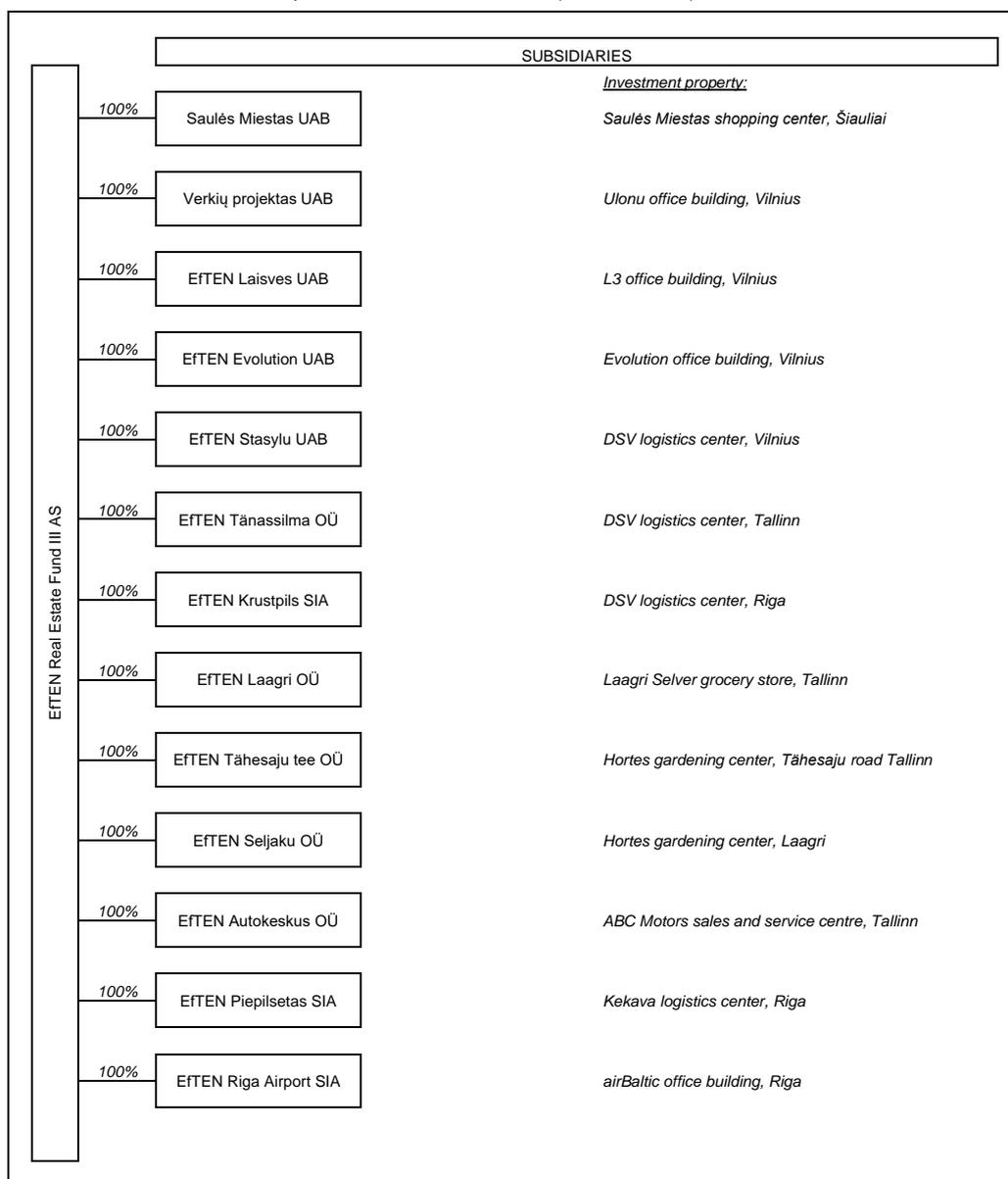
The notes on pages 12-27 are an integral part of the consolidated interim report.

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 31.06.2020 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 2nd quarter and 6-months 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, %	
			30.06.2020	31.12.2019	30.06.2020	31.12.2019
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	15,350	16,140	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	3,628	4,142	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,854	5,087	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics centre, Vilnius	4,113	4,213	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	6,150	6,795	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,586	2,768	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	2,587	2,779	100	100
EFTEN Evolution OÜ	Lithuania	Evolution office building, Vilnius	4,402	4,511	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Saue	1,847	2,034	100	100
EFTEN Autokeskus OÜ	Estonia	ABC Motors car service shop, Tallinn	1,448	1,544	100	100
EFTEN Laagri OÜ	Estonia	Selver Shopping centre, Laagri	3,283	3,613	100	100
EFTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	3,523	0	100	0
EFTEN Riga Airport SIA	Latvia	airBaltic office building, Riga	1,108	0	100	0

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), then as at 30.06.2020 it is estimated that the Group will have to pay an additional 100 thousand euros for the acquisitions. The total value of investment properties owned by subsidiaries is 15,800 thousand euros.

EFTEN Riga Airport (previous NHC1) SIA fair value 29.02.2020

	Fair value
<i>€ thousands</i>	
Cash	203
Receivables	245
Investment property (Note 12)	7,100
Bank loans	-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
<i>€ thousands</i>	
Cash	54
Receivables	16
Investment property (Note 12)	8,700
Bank loans	-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	
	First half of the year		First half of the year		First half of the year		First half of the year		First half of the year	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<i>€ thousands</i>										
Revenue (Note 4), incl.	1,208	1,127	1,326	1,204	2,331	2,305	0	0	4,865	4,636
Estonia	0	0	443	503	669	466	0	0	1,112	969
Latvia	166	0	576	356	0	0	0	0	742	356
Lithuania	1,042	1,127	307	345	1,662	1,839	0	0	3,011	3,311
Operating income, net, incl.	1,076	1,029	1,312	1,205	2,193	2,035	0	0	4,581	4,269
Estonia	0	0	440	503	659	457	0	0	1,099	960
Latvia	165	0	566	356	0	0	0	0	731	356
Lithuania	911	1,029	306	346	1,534	1,578	0	0	2,751	2,953
Operating profit, incl.	-73	1,192	348	1,191	-317	2,785	-134	-104	-176	5,064
Estonia	0	0	35	486	-267	475	-134	-104	-366	857
Latvia	-95	0	99	350	0	0	0	0	4	350
Lithuania	22	1,192	214	355	-50	2,310	0	0	186	3,857
EBITDA, incl.	925	915	1,149	1,085	1,896	1,726	-134	-104	3,836	3,622
Estonia	0	0	395	456	563	371	-134	-104	824	723
Latvia	135	0	479	314	0	0	0	0	614	314
Lithuania	790	915	275	315	1,333	1,355	0	0	2,398	2,585
Operating profit									-176	5,064
Net financial expense									-678	-730
Profit before income tax expense									-854	4,334
Income tax expense (Note 9)									-211	-636
NET PROFIT FOR THE FINANCIAL PERIOD									-1,065	3,698

	Office		Logistics		Retail		Non-allocated		Total	
	2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<i>€ thousands</i>										
Revenue (Note 4), incl.	658	542	657	602	1,107	1,177	0	0	2,422	2,321
Estonia	0	0	190	252	319	245	0	0	509	497
Latvia	166	0	335	178	0	0	0	0	501	178
Lithuania	492	542	132	172	788	932	0	0	1,412	1,646
Operating income, net, incl.	610	493	652	603	1,057	1,020	0	0	2,319	2,116
Estonia	0	0	187	252	313	240	0	0	500	492
Latvia	165	0	334	178	0	0	0	0	499	178
Lithuania	445	493	131	173	744	780	0	0	1,320	1,446
Operating profit, incl.	-473	714	-243	649	-1,288	1,916	-25	-79	-2,029	3,200
Estonia	0	0	-195	259	-562	300	-25	-79	-782	480
Latvia	-95	0	-102	192	0	0	0	0	-197	192
Lithuania	-378	714	54	198	-726	1,616	0	0	-1,050	2,528
EBITDA, incl.	524	437	558	543	914	848	-25	-79	1,971	1,749
Estonia	0	0	165	229	268	196	-25	-79	408	346
Latvia	135	0	278	156	0	0	0	0	413	156
Lithuania	389	437	115	158	646	652	0	0	1,150	1,247
Operating profit									-2,029	3,200
Net financial expense									-345	-392
Profit before income tax expense									-2,374	2,808
Income tax expense (Note 9)									-59	-479
NET PROFIT FOR THE FINANCIAL PERIOD									-2,433	2,329

SEGMENT ASSETS

As at 30 June	Office		Logistics		Retail		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<i>€ thousands</i>								
Investment property (Note 12)								
Estonia	0	0	12,520	12,880	18,690	17,246	31,210	30,126
Latvia	6,870	0	8,647	8,703	0	0	15,517	8,703
Lithuania	29,421	29,501	17,140	8,770	32,040	32,630	78,601	70,901
Total investment property	36,291	29,501	38,307	30,353	50,730	49,876	125,328	109,730
Other non-current assets							174	176
Net debt (liabilities minus cash)							-59,395	-52,489
Other short-term assets							1,254	9,714
NET ASSETS							67,361	67,131

During the reporting periods, the business segments did not enter into transactions with each other. The main income of the Group is derived from investment properties located in the same countries as the subsidiary that owns the investment property.

The Group's largest customers are DSV Transport AS, DSV SIA and DSV Transport UAB, holding respectively 10.2%, 7.2% and 7.0% of the Group's consolidated rental income.

4 Revenue

Areas of activity	First half of the year	
	2020	2019
<i>€ thousands</i>		
Rental income from office premises	1,201	1,105
Rental income from retail premises	2,024	1,953
Rental income from warehousing and logistics premises	1,304	1,204
Other sales revenue	336	374
Total revenue by areas of activity (Note 3, 12)	4,865	4,636

Revenue by geographical area	First half of the year	
	2020	2019
€ thousands		
Estonia	1,112	969
Latvia	741	356
Lithuania	3,012	3,311
Total revenue by geographical area (Note 3, 12)	4,865	4,636

5 Cost of services sold

Cost of services sold	First half of the year	
	2020	2019
€ thousands		
Repair and maintenance of rental space	-61	-59
Property Insurance	-4	-7
Land tax and real estate tax	-7	-49
Wage costs, incl. taxes	-20	-11
Other selling expenses	-55	-21
Impairment of doubtful receivables	0	0
Total cost of services sold	-147	-147

6 Marketing costs

Marketing costs	First half of the year	
	2020	2019
€ thousands		
Commission expenses on rental premises	-40	-5
Advertising, promotional events ¹	-96	-215
Total marketing costs	-136	-220

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

General and administrative expenses	First half of the year	
	2020	2019
<i>€ thousands</i>		
Management services (Note 18)	-416	-349
Office expenses	-15	-16
Wages and salaries, incl. taxes	-96	-106
Depository expenses, share-related expenses	-40	-102
Consulting expenses, legal expenses, due diligence	-90	-9
Accounting service costs	-37	-22
Audit costs	-15	-13
Success fee	0	-7
Other general administrative expenses	-39	-22
Depreciation costs	-24	-18
Total general and administrative expenses	-772	-664

8 Finance costs

Finance costs	First half of the year	
	2020	2019
<i>€ thousands</i>		
Interest expenses, incl.	-664	-554
Interest expense from loans	-615	-507
Interest expense from derivatives (-)/ cost reductions (+)	-49	-47
Change in fair value of interest swaps (Note 15)	-14	-176
Total finance costs	-678	-730

9 Income tax

	First half of the year	
	2020	2019
<i>€ thousands</i>		
Dividend income tax expense	-260	-140
Deferred income tax in Lithuanian subsidiaries	124	-331
Income tax expense from Lithuanian profit	-75	-165
Total income tax expense	-211	-636

As at 30.06.2020, the Group has a deferred income tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 4,150 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

Earnings per share	2nd quarter		6 months	
	2020	2019	2020	2019
Net profit for the period, in € thousands	-2,433	2,329	-1,065	3,698
Dividends per share, in EUR	0.65	0.95	0.65	0.95
Weighted average number of shares over the period, in pcs	4,222,535	3,444,757	4,222,535	3,333,646
Earnings per share, in EUR	-0.58	0.68	-0.25	1.11

11 Receivables and accrued income

	30.06.2020	31.12.2019
€ thousands		
Receivables from customers (Note 15)	763	569
Prepaid taxes and receivables for reclaimed value-added tax	70	76
Prepayments on other taxes	66	0
Other accrued income	300	22
Total receivables and accrued income	1,199	667

12 Investment property

As at 30.06.2020, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m ²)	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.06.2020	Increase in value	Share of market value of the Fund's assets	
€ thousands									
Saules Miestas shopping center	Saules Miestas, Lithuania	19,881	2007	08.2015	28,378	32,040	13%	23%	
DSV logistics center	Vilnius, Lithuania	11,687	2005	06.2016	8,504	8,740	3%	6%	
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,520	2%	9%	
DSV logistics center	Riga, Latvia	12,149	2000	07.2016	8,804	8,647	-2%	6%	
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,713	10,041	15%	7%	
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,182	8,860	8%	6%	
Hortes gardening center in Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,360	8%	2%	
Hortes gardening center in Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	5,850	7%	4%	
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,231	6,320	1%	5%	
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,617	10,520	9%	8%	
ABC Motors sales and service center	Tallinn, Estonia	2,149	2002	02.2019	3,018	3,160	5%	2%	
airBalticu headquarter	Riga, Latvia	6,217	1977, renovated	2016	03.2020	7,100	6,870	-3%	5%
Piepilsetas Ilogistics center	Riga, Latvia	13,327	2007	03.2020	8,712	8,400	-4%	6%	
Total		110,753			118,053	125,328	6%	91%	

Additional information regarding the Investment property is in Note 3 "Segment reporting".

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

Balance as at 01.01.2019	1,636	101,151	102,787
Acquisitions	2,410	3,073	5,483
Gain / loss on change in fair value	0	1,460	1,460
Balance as at 30.06.2019	4,046	105,684	109,730
Balance as at 01.01.2020	0	113,011	113,011
Acquisitions from mergers (note 2)	0	15,812	15,812
Acquisitions	0	491	491
Gain / loss on change in fair value	0	-3,986	-3,986
Balance as at 30.06.2020	0	125,328	125,328

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

As at 30 June or first half of 2020	First half of the year	
	2020	2019
Rental income earned on investment property (Note 4)	4,529	4,262
Expenses directly attributable to management of investment property (Note 5)	-147	-147
Outstanding amounts from the acquisition of investment property	0	607
Carrying amount of investment properties pledged as collateral for loan liabilities	125,328	109,730

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 reported in the Group's financial statements as of 30.06.2020 and 31.12.2019 has been obtained using the discounted cash flow method. The following assumptions have been used in determining fair value:

As at 30.06.2020:

Sector	Fair value	Valuation method	Estimated first year rental income	Discount rate	Capitalization rate	Average rent, €/m ²
<i>€ thousands</i>						
Office premises	36,291	Discounted cash flows	2,792	7.1% - 8.2%	7.0%-8.0%	10.5
Warehouse and logistics premises	38,307	Discounted cash flows	3,044	8.0% -8.6%	7.8%-8.0%	5.5
Retails premises	50,730	Discounted cash flows	4,429	8.6%-8.8%	7.5%-8.0%	11.4
Total	125,328					

As at 31.12.2019:

Sector	Fair value	Valuation method	Estimated first year rental income	Discount rate	Capitalization rate	Average rent, €/m ²
<i>€ thousands</i>						
Office premises	29,711	Diskonteeritud rahavood	2,106	7.9%	7.5%-8.0%	11.7
Warehouse and logistics premises	30,390	Diskonteeritud rahavood	2,436	8.0%-8.6%	7.8%-8.0%	6.1
Retails premises	52,910	Diskonteeritud rahavood	4,535	7.9%-8.5%	7.5%-8.0%	11.7
Total	113,011		9,077			

Independent expert valuation as to the fair value of investment property is based on the following:

- Rental income: real growth rates and rents under current lease agreements are used;
- Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
- Discount rate: calculated using the weighted average cost of capital (WACC) associated with the investment property;
- Capitalisation rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market condition and risks associated with the property.

Fair value sensitivity analysis

The table below illustrates the sensitivity of the fair value of investment properties recognized in the Group's balance sheet as at 30.06.2020 to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Capitalisation rate +50bp	Capitalisation rate -50bp	
<i>€ thousands</i>								
Office premises	36,291	3,010	-3,010	-730	750	-1,600	1,840	
Warehouse and logistics premises	38,307	3,080	-3,100	-772	766	-1,597	1,795	
Retails premises	50,730	4,470	-4,480	-1,000	1,030	-2,110	2,370	
TOTAL	125,328	10,560	-10,590	-2,502	2,546	-5,307	6,005	

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

13 Borrowings

As at 30.06.2020, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2020	Contract term	Interest rate as at 30.06.2020	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	14,692	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	32,040	21.8%
SEB	Lithuania	5,500	4,524	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,740	6.7%
SEB	Latvia	3,323	4,372	29.06.21	1.55%	Mortgage – DSV building in Riga	8,647	6.5%
SEB	Estonia	7,950	6,577	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,520	9.8%
SEB	Lithuania	5,620	4,708	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	10,041	7.0%
SEB	Lithuania	5,200	4,120	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	8,860	6.1%
SEB	Lithuania	5,850	5,348	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,520	7.9%
Swedbank	Estonia	3,290	3,257	11.01.24	1.95%	Mortgage – Hortes gardening center	5,850	4.8%
SEB	Estonia	1,860	1,589	05.07.22	1.82%	Mortgage – Hortes gardening center Laagri	3,360	2.4%
Swedbank	Estonia	3,700	3,136	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,320	4.7%
Swedbank	Latvia	3,201	3,147	05.02.23	2.80%	Mortgage - Piepilsetas logistics center	8,400	4.7%
Luminor	Latvia	3,905	3,886	04.02.25	3.75%	Mortgage – airBaltic office building	6,870	5.8%
LHV	Estonia	1,800	1,730	25.02.24	2.95%	Mortgage – ABC Motors sales and service center	3,160	2.6%
Total		67,699	61,086				125,328	90.7%

For additional information on borrowings, please see Note 15.

Short-term borrowings	30.06.2020	31.12.2019
<i>€ thousands</i>		
Repayments of long-term bank loans in the next period	37,185	21,171
Discounted contract fees on bank loans	-38	-24
Total short-term borrowings	37,147	21,147

Long-term borrowings	30.06.2020	31.12.2019
<i>€ thousands</i>		
Total long-term borrowings (Note 15)	61,029	55,372
incl. current portion of borrowings	37,147	21,147
incl. non-current portion of borrowings, incl.	23,882	34,225
<i>Bank loans</i>	<i>23,901</i>	<i>34,246</i>
<i>Discounted contract fees on bank loans</i>	<i>-19</i>	<i>-21</i>

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	30.06.2020	31.12.2019
<i>€ thousands</i>		
Under 1 year	37,185	21,171
2-5 years	23,901	34,246

Cash flows of borrowings	First half of the year	
	2020	2019
<i>€ thousands</i>		
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	4,916
Repaid bank loans for refinancing	0	-1,500
Annuity payments on bank loans	-1,468	-1,337
Change of discounted contract fees	-39	1
Balance at the end of period	61,029	54,928

14 Payables and prepayments

Short-term payables and prepayments

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Other payables to suppliers	214	642
Total payables to suppliers	214	642
Debts from securities transactions(Note 2)	119	0
Other debts	11	2
Total other debts	130	2
VAT	327	205
Corporate income tax	376	0
Social tax	7	7
Land tax, real estate tax	40	31
Other tax liabilities	5	0
Total tax liabilities	755	243
Debts to employees (Note 15)	34	54
Interest payables (Note 15)	29	9
Dividend payables	2,745	0
Tenants deposits (Note 15)	101	111
Other accrued liabilities (Note 15)	54	57
Total accrued liabilities	2,963	231
Prepayments received from buyers	0	14
Total advances	0	14
Total payables and advances	4,062	1,132

Long-term payables

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Tenants security deposits	786	605
Other long-term payables	4	4
Total other long-term payables	790	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

<i>€ thousands</i>	Notes	30.06.2020	31.12.2019
Financial assets - loans and receivables			
Cash and cash equivalents		10,920	12,986
Short-term deposits		0	6,000
Trade receivables	11	763	569
Total financial assets		11,683	19,555
Financial liabilities measured at amortised cost			
Borrowings	13	61,029	55,372
Trade payables	14	214	642
Tenant security deposits	14	887	716
Interest payables	14	29	9
Accrued expenses	14	88	111
Total financial liabilities measured at amortised cost		62,247	56,850
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		284	271
Total financial liabilities measured at fair value		284	271
Total financial liabilities		62,531	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 30.06.20, 64% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 3.75% plus 1 month to 6 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, 37% are related to an interest rate swap contract where the 3-month EURIBOR is in turn fixed at 0.35%. All contracts in the loan portfolio of EFTEN Real Estate Fund III have a 0% limit (floor) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

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

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

- (1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold in the 10 year perspective;
- (2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EFTEN Real Estate Fund III;
- (3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

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

The Group recognises interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 30.06.2020 was negative in the amount of EUR 284 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 30.06.2020, the Group's interest-bearing liabilities accounted for 49.0% (31.12.2019: same%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 1.8 (First half year of 2019: 1.9).

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 30.06.2020	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>€ thousands</i>						
Interest-bearing liabilities	265	15,301	20,163	25,357	0	61,086
Interest payments	106	263	582	1,161	0	2,112
Interest payables	29	0	0	0	0	29
Trade payables	214	0	0	0	0	214
Tenant security deposits	8	10	83	564	221	887
Accrued expenses	59	0	0	0	0	59
Total financial liabilities	681	15,574	20,828	27,082	221	64,387

Report of working capital

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Cash and cash equivalents	10,920	12,986
Receivables and accrued income (Note 11)	1,199	667
Prepaid expenses	55	51
Total current assets	12,174	13,704
Short-term portion of long-term liabilities (Note 13)	-37,147	-21,147
Short-term payables and prepayments (Note 14)	-4,346	-1,403
Total current liabilities	-41,493	-22,550
Total working capital	-29,319	-8,846

As at 30.06.2020, the working capital of the Group is negative in the amount of EUR 29,319 thousand (31.12.2019: EUR 8,846 thousand). Working capital is negative in connection with the loan agreements of the Group's five subsidiaries expiring in 2020 and during the first six months of 2021 in the total amount of 34,285 thousand euros. As the maturity of the loan agreements approaches, the agreements will be refinanced. For the loan agreement, which expires in August 2020 (balance as of 30.06.2020 14,692 thousand euros), the Group has an indication of refinancing at the time of preparing this report. The debt coverage ratios of all loans refinanced over the next 12 months range from 46% to 53% 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 the Group's working capital is sufficient to cover short-term liabilities. However, based on the refinancing indications received, refinancing can be expected to increase interest rates by an average of one percentage point and shortened payment schedules.

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 activities to prevent the reduction of cash flows arising from credit risk and to minimize such risk consist of daily monitoring and directing the payment behavior of customers, which enables the implementation of operationally necessary measures. Also, customer agreements in most cases provide for the payment of rent payments at the beginning of the calendar month, which provides sufficient time to monitor customer payment discipline and to have sufficient liquidity in cash accounts on the day of annuity payments of financing agreements. The terms of most leases give rise to an obligation to pay a security deposit, at the expense of which the Group has the right to write off debts arising from the insolvency of the lessee. For some leases, the deposit may be replaced by a bank guarantee.

Group companies generally enter into lease agreements only with parties who have previously been declared creditworthy. The customer's analysis of this is made before concluding the lease agreement.

If it becomes apparent that there is a risk of the lessee becoming insolvent, the Group assesses each receivable individually and decides to recognize the receivables as doubtful. Generally, receivables overdue for more than 180 days are considered unlikely to be collected, unless the Group has sufficient assurance that the receivable will be received or a payment schedule has been entered into to receive the receivables.

Due to the economic impact of Covid-19, which started in the spring of 2020, the Group's companies have applied temporary discounts to tenants, most of which expire in September 2020 at the latest. Tenants' payment behavior is monitored on a daily basis and doubtful receivables are provisioned as soon as the risk of default arises. As at 30.06.2020, there has been no significant deterioration in the payment behavior of tenants.

Accounts receivable are illustrated by the table below:

	30.06.2020	31.12.2019
Undue	484	398
Past due, incl.	283	171
<i>up to 30 days</i>	186	160
<i>30-60 days</i>	51	9
<i>more than 60 days</i>	46	2
Doubtful accounts	-4	0
Total trade receivables	763	569

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

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Cash and cash equivalents	10,920	12,986
Short-term deposits	0	6,000
Trade receivables	763	569
Total maximum credit risk	11,683	19,555

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 (including interest expense).

According to the Group's management, the Group's free cash flow allows to pay dividends to investors on average 80% of the adjusted cash flow for the calendar year (EBITDA minus interest expense minus loan payments). The adjusted cash flow for the first half of 2020 totals 1,698 thousand euros, of which 1,283 thousand euros could be paid to shareholders as a net dividend according to the dividend policy, after allocating the liquidity reserve and income tax expense.

Report of capitalisation

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Short-term liabilities guaranteed with mortgage (Note 13)	37,185	21,171
Unsecured short-term liabilities (Note 14)	4,308	1,379
Total short-term liabilities	41,493	22,550
Long-term liabilities guaranteed with mortgage (Note 13)	23,901	34,246
Unsecured long-term liabilities (Note 14)	4,921	4,862
Total long-term liabilities	28,822	39,108
Share capital and share premium (Note 16)	51,883	51,883
Reserves	1,323	936
Retained earnings (Note 17)	14,155	18,352
Total shareholder's equity	67,361	71,171
Total liabilities and equity	137,676	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

<i>€ thousands</i>	30.06.2020	31.12.2019
Cash	10,920	12,986
Tradable securities	0	6,000
Total liquid assets	10,920	18,986
The short-term portion of long-term liabilities (Note 13)	37,185	21,171
Net short-term debt	26,265	2,185
Long-term bank loans (long-term portion) (Note 13)	23,901	34,246
Total long-term debt	23,901	34,246
Total net debt	50,166	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 30.06.2020 and 31.12.2019, the Group does not have any assets at fair value that would belong to the Level 1 group upon finding the value. All of the Group's investment properties are carried at fair value and belong to the Level 3 group according to the valuation method (see Note 12). All of the Group's loan liabilities and derivative securities entered into to hedge interest rate risk belong to the Level 2 group.

To mitigate 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 so that incoming and outgoing cash flows are determined and discounted using a *zero-rate* in accordance with EURIBOR market expectations. The Group uses information received from counterparty credit institutions to recognize interest rate swaps at fair value.

16 Share capital

The amount of the registered share capital of EFTEN Real Estate Fund III AS as of 30.06.2020 was 42,225 thousand euros (31.12.2019: the same). The share capital consisted of 4,222,535 shares (31.12.2019: same) with a nominal value of 10 euros (31.12.2019: same). Without amending the articles of association, the company has the right to increase the share capital to 115,411 thousand euros. As of 30.06.2020, contributions to the share capital have been made in the total amount of 51,883 thousand euros (31.12.2019: the same).

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

Company	As at 30.06.2020	
	Number of shares	Ownership, %
Altius Energia OÜ	602 000	14,26
Järve Kaubanduskeskus OÜ	431 992	10,23
Hoiukonto OÜ	430 211	10,19

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

Company	As at 30.06.2020	
	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	12,793	0.30
Tõnu Uustalu, member of the Management Board	12,281	0.29
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	602,000	14.26
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

	30.06.2020	31.12.2019
<i>€ thousands</i>		
Retained earnings	14,155	18,352
Potential income tax liability	2,831	3,670
Dividends can be paid out	11,324	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 30.06.2020 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 half of of 2020 in the amount of EUR 416 thousand (first half year of 2019: EUR 349 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 half year of 2020 nor in 2019.

As at 30.06.2020, the Group had 12 employees who were remunerated including taxes in the amount of EUR 166 thousand (first half year of 2019: EUR 117 thousand). In the first half year 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 II quarter and 6-months of 2020

We hereby confirm that EFTEN Real Estate Fund III AS consolidated interim report for the 2nd quarter and 6-months 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/

Viljar Arakas

Member of the Management Board

/digitally signed/

Tõnu Uustalu

Member of the Management Board