Consolidated Interim Report – 4th quarter and 12 months ended 31 December 2018

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2018

End of financial period: 31.12.2018

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MANAGEMENT REPORT

Comment of the Fund manager

The most important economic events of EfTEN Real Estate Fund III AS in 2018 were the acquisition of the "Evolution" office building in Vilnius, the completion of DSV Riga logistics center and the beginning of the construction of Hortes gardening centre in the business district of Tähesaju in Tallinn. The gardening center serving eastern Tallinn and Viimsi is scheduled to open in the 4th quarter of 2019. In the last month of the year, the fund entered into a contract under the Law of Obligations for the purchase and leaseback of the Renault center rented by ABC Motors. The transaction will be completed in the beginning of 2019. In addition, a substantial renewal of the tenants' composition will be carried out at Saules Miestas shopping center. SportsDirect and Pepco will open the city's new flagship stores. The two anchor tenants will significantly increase the attractiveness of the second floor of the shopping center. In the spring of 2019, the fund plans to conduct an additional emission of shares to fund the acquisition of new objects in the future. The fund completed its first full year as a listed company in the main list of Nasdaq Baltic. The fund will continue its investment activities based on an opportunistic and value-adding investment strategy. After the listing on the stock exchange at the end of 2017, the fund is open-ended.

The Group's cash balance allows dividends to be paid from the 2018 profit to investors in a total amount of EUR 3.055 million (95 cents per share), which is 28% more than determined by the dividend policy of EfTEN Real Estate Fund III. The detailed methodology for dividend calculation is given below in the financial overview. The dividend pay-out from the year 2018 profit will proceed after the general shareholders' meeting in spring 2019.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for 12 months of 2018 was EUR 8.672 million (12 months of 2017: EUR 7.300 million), which increased by 19% in a year. The Group's profit before revaluation of investment properties, cost of performance fee, depreciation and financial income/-costs and income tax expense in 2018 totalled EUR 6.763 million (12 months of 2017: EUR 5.659 million), which increased by 19.5% in a year. The Group's net profit for the same period amounted to EUR 6.299 million (12 months of 2017: EUR 6.574 million). The smaller net profit in 2018 is due to lower investment property revaluation profit, which in the current year was EUR 1.562 million, but EUR 2.855 million last year.

The consolidated gross profit margin in the 12 months of 2018 was 96% (12 months of 2017: 98%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 4% (12 months of 2017: 2%) of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 22.3% of the revenue in 2018. The respective indicator was 22.8% in the 12 months of 2017.

	4th quarter		12 months	
	2018	**2017**	**2018**	**2017**
EUR million				
Rental revenue, other fees from investment properties	2.329	1.965	8.672	7.300
Expenses related to investment properties, incl. marketing costs	-0.238	-0.200	-0.754	-0.611
Interest expense and interest income	-0.380	-0.189	-1.096	-0.691
Net rental revenue less finance costs	**1.711**	**1.576**	**6.822**	**5.998**
Management fees	-0.165	-0.149	-0.632	-0.549
Other revenue and expenses	-0.182	-0.212	-0.544	-0.501
Profit before change in the value of investment property, change in the success fee liability, fair value change of the interest rate swap and income tax expense	**1.364**	**1.215**	**5.646**	**4.948**

As at 31.12.2018, the Group's total assets were in the amount of EUR 108.503 million (31.12.2017: 97.291 million), including fair value of investment property, which accounted for 95% (31.12.2017: 91%) of the total assets.

	31.12.2018	**31.12.2017**	**31.12.2016**	**31.12.2015**
EUR million				
Investment properties	102.787	88.390	73.539	36.506
Other non-current assets	0.138	0.090	0.058	0.080
Current assets, excluding cash	0.719	0.678	0.444	0.327
Net debt	-53.150	-42.773	-43.721	-21.567
Net asset value (NAV)	50.494	46.385	30.320	15.346
Net asset value (NAV) per share (in euros)	15.67	14.39	12.71	11.08

During 2018, the net asset value of the share of EfTEN Real Estate Fund III AS increased by 8.9%. From the 2017 profit, EUR 2.191 million (in spring 2017: EUR 1.503 million) was paid out in dividends in April 2018. Without the dividend payment, the Fund's NAV would have increased by 13.7% in 2018. Return on invested capital (ROIC) was 17.6% in the 2018 financial year (12 months of 2017: 21.6%).

Access to flexible financing conditions will help to increase the Group's competitiveness. In 2018, the Group entered into new loan contracts in the total amount of EUR 7.692 million in connection with the acquisition of new investment properties. In addition, the subsidiary which owns the Saules Miestas shopping center in Lithuania refinanced its loan, receiving EUR 1.8 million of additional funds that the Group used for investments in new projects. As at the end December, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.8% (31.12.2017: 1.73%) and the LTV (Loan to Value) ratio was 52% (31.12.2017: the same).

The dividend policy of EfTEN Real Estate Fund III AS provides that the Group will pay out 80% of the free cash flow to shareholders as (gross) dividends in each accounting year. In April 2018, EfTEN Real Estate Fund III AS paid the shareholders (net) dividends in the amount of EUR 2.191 million (2017: EUR 1.5 million).

During 2018, the Group earned a free cash flow of EUR 3.151 million (12 months of 2017: EUR 2.408 million). Following the deduction of Lithuanian income tax expense and the calculation of the dividend income tax expense in Estonian and Latvian companies, EfTEN Real Estate Fund III would be able to pay net dividends to the shareholders in the total amount of EUR 2.378 million (74 cents per share) from the profit earned in this year. However, the Group's cash balance at the end of 2018 allows to pay more dividends than the dividend policy establishes, which is why the Management Board of the Fund proposes to the Council in the spring of 2019 to pay a dividend of EUR 3.055 million (95 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 68 cents per share.

Potential dividend payment calculation

	12 months	
	2018	**2017**
EUR thousand		
Operating profit	**8,258**	**8,033**
Adjustment for revaluation gains on investment property	-1,562	-2,855
Adjustment for depreciation of fixed assets	21	20
Adjustment for profit on sale of investment property	-7	-40
Adjustment for non-monetary change in performance fee	0	461
EBITDA	**6,710**	**5,619**
Interest expense	-965	-770
Bank loan repayments	-2,431	-2,003
Income tax expense on profit (Latvia, Lithuania)	-163	-438
Free cash flow	**3,151**	**2,408**
80% of the free cash flow	2,521	1,926
Potential dividend income tax expense	-143	-70
Potential net dividend according to dividend policy	**2,378**	**1,856**
Number of shares at the end of the period	3,222,535	3,222,535
Potential net dividends according to dividend policy per share (in EUR)	**0.74**	**0.58**
Potential Additional Cash Flow[1]	750	335
Dividend income tax on additional cash flows	-73	0
Potential net dividend with additional cash flow	**3,055**	**2,191**
Potential net dividend per share, in EUR	**0.95**	**0.68**

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

Key performance and liquidity ratios

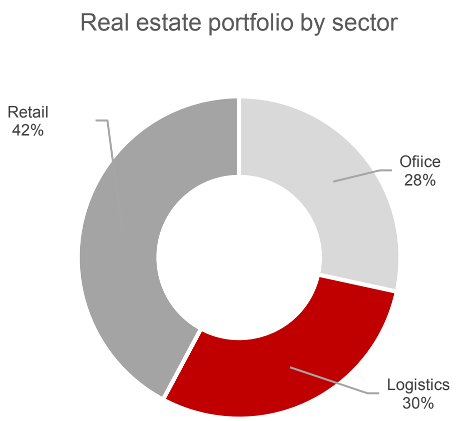
12 months	31.12.2018	31.12.2017
ROE, % (*net profit of the period / average equity of the period) x 100*	15.6	17.1
ROA, % (*net profit of the period / average assets of the period) x 100*	6.8	7.5
ROIC, % *(net profit of the period / average invested capital of the period[1]) * 100*	17.6	21.6
EBITDA (EUR thousand)	6,710	5,619
EBITDA margin, %	77.4	77.0
EBIT (EUR thousand)	8,258	8,033
EBIT margin, %	95.2	110.0
Liquidity ratio (current assets / current liabilities)	0.6[2]	2.2
DSCR (EBITDA/*(interest expenses + scheduled loan payments))*	2.0	2.0

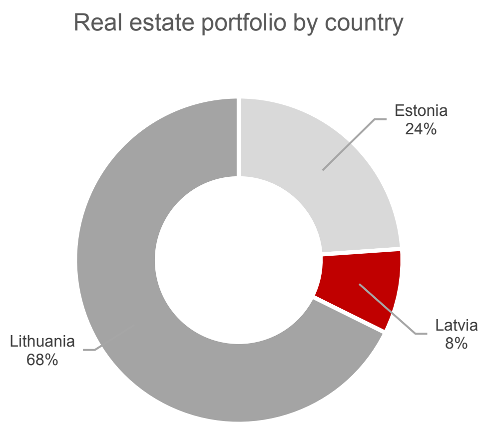
[1] The average invested capital of the period is the paid-in share capital of EfTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

[2] As at 31.12.2018, the Group's liquidity ratio is 0.6, i.e. the Group's current assets account for 60% of its current liabilities. The level of this indicator is due to the short-term recognition of the long-term bank loan portion of the Group's subsidiary EfTEN Evolution UAB in the amount of EUR 5,437 thousand due to the non-compliance of the loan service coverage ratio (DSCR) provisionally stipulated in the loan agreement. The covenant is below the required level in relation to the costs and temporary vacancy associated with the rental agreement ending in April 2019 in the Evolution office building. After the balance sheet date, in January 2019, the lender has issued a written waiver to EfTEN Evolution UAB to continue the loan agreement until the agreed deadline, i.e. until 30.05.2023. As at 31.12.2018, the loan of EfTEN Evolution UAB has been recognised in the financial statements as short-term according to International Accounting Standard IAS 1 paragraph 74. If the loan were recognised as long-term according to the contractual maturity, the Group's liquidity ratio as at 31.12.2018 would be 1.4.

Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2018, the Group had 10 (31.12.2017: 8) commercial investment properties with a fair value as at the balance sheet date of EUR 102.787 million (31.12.2017: EUR 88.4 million) and acquisition cost of EUR 94.627 million (31.12.2017: EUR 81.7 million).





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

Investment property, as at 31.12.2018	Group's ownership	Fair value of investment property	Net leasable area	Rental revenue per annum (EUR thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	12,850	16,014	1,006	100	7.6	1
DSV Riga	100	8,660	12,149	711	100	7.6	1
DSV Vilnius	100	8,730	11,687	692	100	7.5	1
Total logistics		**30,240**	**39,850**	**2,409**	**100**	**7.6**	**3**
Saules Miestas shopping center	100	31,640	19,881	2,980	98	4.5	119
Hortes gardening center, Laagri	100	3,430	3,470	263	100	13.4	1
Selver in Laagri	100	6,650	3,063	499	99	9.0	9
Hortes gardening center, Tallinn	100	1,636			*development stage*		
Total retail		**43,356**	**26,414**	**3,742**	**99**	**5.8**	**129**
Ulonu office building	100	9,220	5,174	706	100	2.9	15
L3 office building	100	9,971	6,151	763	100	1.8	35
Evolution office building	100	10,000	6,172	639	90	1.4	40
Total office		**29,191**	**17,497**	**2,108**	**94**	**2.0**	**90**
Total real estate portfolio		**102,787**	**83,761**	**8,260**		**5.2**	**222**

After the balance sheet date, on 6 February, 2019, the Group's subsidiary EfTEN Kolmas OÜ acquired the properties of ABC Motor's sales and service center on Paldiski highway. The acquisition cost of the properties is EUR 3 million and a loan agreement was entered into in the amount of EUR 1.8 million for the acquisition. The maturity of the loan is 25.02.2024 and the interest rate is 2.95% + 6 month Euribor. A 0% floor is set for the Euribor rate. The expected annual rental income from the investment property is EUR 252 thousand.

Information on shares

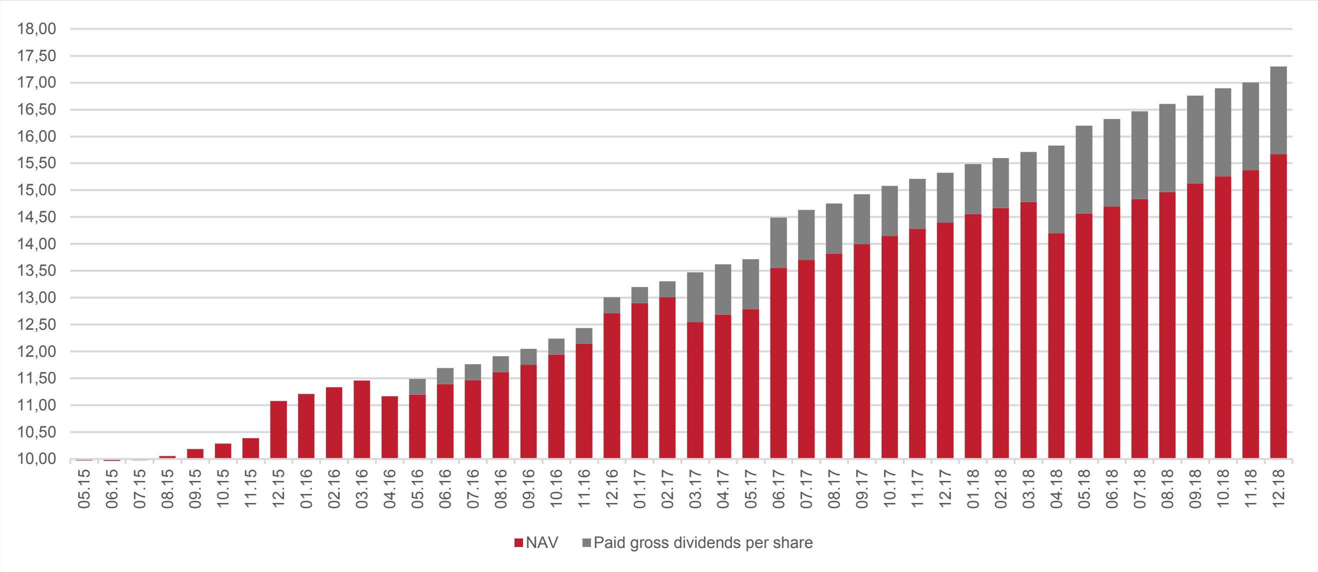
The net asset value of the share of EfTEN Real Estate Fund III as at 31.12.2018 was EUR 15.67 (31.12.2017: EUR 15.13). The shares of EfTEN Real Estate Fund III AS are freely tradable on the Tallinn Stock Exchange from 1 December 2017. The year of 2018 was successful for EfTEN Real Estate Fund III AS on the stock exchange, maintaining a stable price increase during the year despite the overall market decline – the closing price of EFT1T share as at 31.12.2018 was EUR 16.2, rising 5.9% in a year (from a price level of EUR 15.3 as at 31.12.2017). During 2018, EFT1T shares were traded at price levels from EUR 15.3 to 16.55 per share and the average closing price was EUR 15.8 during the year. In 2018, the volume of transactions with EFT1T shares totalled EUR 2,981 thousand.

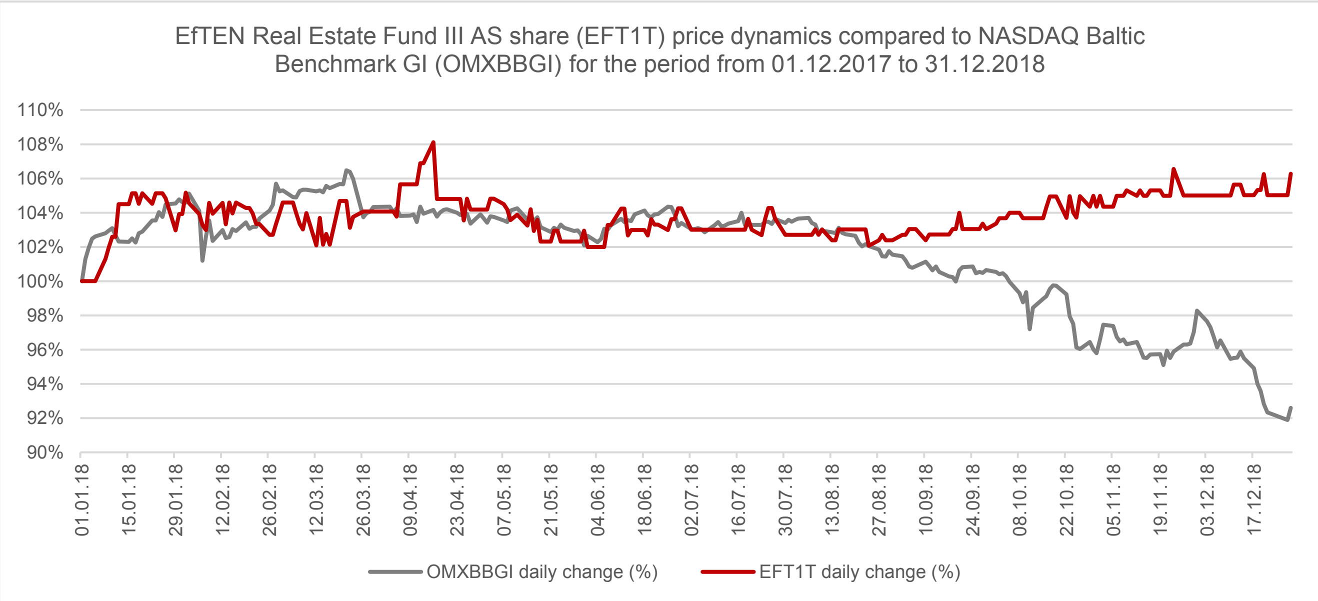
In addition to the aforementioned share net asset value calculated according to IFRS, EfTEN Real Estate Fund III AS also calculates the net asset value of the share recommended by EPRA (European Public Real Estate Association) to provide investors with the most relevant net asset value. The EPRA recommended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

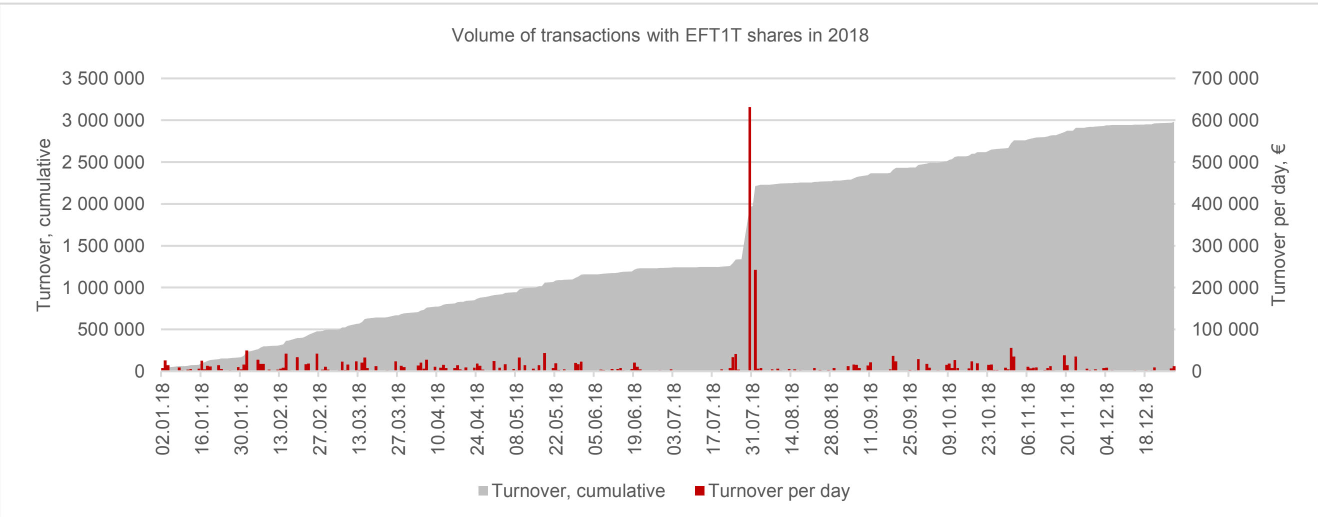
EUR thousand	**31.12.2018**	**31.12.2017**
Net asset value calculated in accordance with IFRS	50,494	46,385
Exclusion of deferred income tax on investment property	3,496	2,864
Exclusion of the fair value of financial instruments	189	58
EPRA net asset value	**54,179**	**49,307**
Number of shares at the balance sheet date	3,222,535	3,222,535
EPRA net asset value per share, EUR	**16.81**	**15.30**
EPRA NAV growth, in EUR	1.51	1.55
Dividend paid per share, in EUR	0.68	0.63
Income tax on dividends paid per share, in EUR	0.02	0.00
Period earnings per share, in EUR	**2.21**	**2.18**
Period earnings per share, increase compared to the balance sheet date value of the previous period	**14.5%**	**15.9%**

As at 31.12.2018, the contributions made to the share capital of EfTEN Real Estate Fund III AS totalled EUR 35.883 million (31.12.2017: the same). The number of shares as at 31.12.2018 was 3,222,535 (31.12.2017: the same). EfTEN Real Estate Fund III AS listed its shares on the NASDAQ Tallinn Stock Exchange in November 2017. The Fund has one class of registered shares with a nominal value of EUR 10 per share. Each share grants one vote to the Fund's shareholder.

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







As at 31.12.2018, EfTEN Real Estate Fund III AS had 1,709 shareholders, 24% of whom were legal entities. A total of 75.2% of the total share capital of the fund was held by legal entities. The distribution of shares is shown in the table below.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Ownership		Total ownership
	Legal entities	Private individuals		Legal entities	Private individuals		Legal entities	Private individuals	
Austria	-	1	**1**	-	1,255	**1,255**	-	0.0%	**0.0%**
China	-	1	**1**	-	254	**254**	-	0.0%	**0.0%**
Estonia	402	1,286	**1,688**	2,419,331	777,745	**3,197,076**	75.1%	24.1%	**99.2%**
Finland	-	2	**2**	-	427	**427**	-	0.0%	**0.0%**
Germany	-	1	**1**	-	309	**309**	-	0.0%	**0.0%**
Hong Kong	1	-	**1**	256	-	**256**	0.0%	-	**0.0%**
Latvia	3	1	**4**	3,714	6,555	**10,269**	0.1%	0.2%	**0.3%**
Lithuania	4	2	**6**	904	9,201	**10,105**	0.0%	0.3%	**0.3%**
Russia	-	2	**2**	-	1,620	**1,620**	-	0.1%	**0.1%**
Saudi Arabia	-	1	**1**	-	75	**75**	-	0.0%	**0.0%**
Singapore	-	1	**1**	-	590	**590**	-	0.0%	**0.0%**
Turkey	-	1	**1**	-	299	**299**	-	0.0%	**0.0%**
Total	**410**	**1,299**	**1,709**	**2,424,205**	**798,330**	**3,222,535**	**75.2%**	**24.8%**	**100.0%**

As at 31.12.2018, EfTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

	As at 31.12.2018	
Company	**Number of shares**	**Ownership, %**
Altius Energia OÜ	455,439	14.13
Järve Kaubanduskeskus OÜ	329,692	10.23
Väärtpaberid OÜ	328,167	10.18

CONDENSED INTERIM REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		4th quarter		12 months	
	Notes	2018	2017	2018	2017
EUR thousand					
Revenue	3,4	2,329	1,965	8,672	7,300
Cost of services sold	5	-135	-91	-319	-167
Gross profit		**2,194**	**1,874**	**8,353**	**7,133**
Marketing costs	6	-103	-109	-435	-444
General and administrative expenses	7	-389	-361	-1,225	-1,556
Gain / loss from revaluation of investment properties	12	600	539	1,562	2,855
Other operating income and expense		-4	32	3	45
Operating profit	**3**	**2,298**	**1,975**	**8,258**	**8,033**
Finance costs	8	-380	-189	-1,096	-691
Profit before income tax		**1,918**	**1,786**	**7,162**	**7,342**
Income tax expense	9	-167	-510	-863	-768
Total comprehensive income for the financial period	**3**	**1,751**	**1,276**	**6,299**	**6,574**
Earnings per share	10				
- Basic		0.54	0.42	1.96	2.39
- Diluted		0.54	0.42	1.96	2.39

The notes on pages 12-27 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2018	31.12.2017
EUR thousand			
ASSETS			
Cash and cash equivalents		4,859	8,133
Receivables and accrued income	11	673	641
Prepaid expenses		46	37
Total current assets		**5,578**	**8,811**
Long-term receivables		24	49
Investment property	3,12	102,787	88,390
Property, plant and equipment		114	37
Intangible assets		0	4
Total non-current assets		**102,925**	**88,480**
TOTAL ASSETS		**108,503**	**97,291**
LIABILITIES AND EQUITY			
Borrowings	13	8,105	2,109
Derivative instruments	15	189	58
Payables and prepayments	14	1,019	1,848
Total current liabilities		**9,313**	**4,015**
Borrowings	13	44,743	43,667
Other long-term liabilities	14	457	360
Deferred income tax liability	9	3,496	2,864
Total non-current liabilities		**48,696**	**46,891**
Total liabilities		**58,009**	**50,906**
Share capital	16	32,225	32,225
Share premium	16	3,658	3,658
Statutory reserve capital		621	293
Retained earnings	17	13,990	10,209
Total equity		**50,494**	**46,385**
TOTAL LIABILITIES AND EQUITY		**108,503**	**97,291**

The notes on pages 12-27 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		4th quarter		12 months	
	Notes	**2018**	2017	**2018**	2017
EUR thousand					
Net profit		**1,751**	**1,267**	**6,299**	**6,574**
Adjustments:					
Finance costs	8	380	190	1,096	691
Gain / loss from revaluation of investment properties	12	-600	-539	-1,562	-2,855
Change in success fee liability		0	-2	0	461
Profit / loss from the sale of investment property		-20	-56	-7	-40
Depreciation, amortisation and impairment		28	20	21	20
Income tax expense	9	167	510	863	768
Total adjustments with non-cash changes		**-45**	**123**	**411**	**-955**
Cash flow from operations before changes in working capital		**1,706**	**1,399**	**6,710**	**5,619**
Change in receivables and payables related to operating activities		197	-1,531	-115	-1,471
Net cash flow generated from operating activities		**1,903**	**-132**	**6,595**	**4,148**
Purchase of property, plant and equipment		-94	-18	-96	-20
Purchase of investment property	12	-1,217	-2,121	-13,526	-9,880
Sale of investment property		0	40	7	40
Acquisition of subsidiaries	2	0	0	-100	-1,141
Net cash flow generated from investing activities		**-1,311**	**-2,099**	**-13,715**	**-11,001**
Loans received	14	0	1,335	9,492	5,111
Scheduled loan repayments	14	-667	-510	-2,431	-2,003
Interest paid		-256	-204	-954	-770
Proceeds from issuance of shares		0	4,722	0	10,993
Dividends paid	15	0	0	-2,191	-1,503
Income tax paid on dividends		0	0	-70	-35
Net cash flow generated from financing activities		**-923**	**5,343**	**3,846**	**11,793**
NET CASH FLOW		**-331**	**3,112**	**-3,274**	**4,940**
Cash and cash equivalents at the beginning of period		**5,190**	**5,021**	**8,133**	**3,193**
Change in cash and cash equivalents		-331	3,112	-3,274	4,940
Cash and cash equivalents at the end of period		**4,859**	**8,133**	**4,859**	**8,133**

The notes on pages 12-27 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
EUR thousand					
Balance as at 31.12.2016	**23,853**	**1,038**	**75**	**5,355**	**30,321**
Issue of shares	8,372	2,620	0	0	**10,992**
Dividends paid (Note 15)	0	0	0	-1,503	**-1,503**
Transfers to statutory reserve capital	0	0	218	-218	**0**
Total transactions with owners	**8,372**	**2,620**	**218**	**-1,721**	**9,489**
Net profit for the financial period	0	0	0	6,574	**6,574**
Total comprehensive income for the period	**0**	**0**	**0**	**6,574**	**6,574**
Balance as at 31.12.2017	**32,225**	**3,658**	**293**	**10,209**	**46,385**
Dividends paid (Note 15)	0	0	0	-2,191	**-2,191**
Transfers to statutory reserve capital	0	0	328	-328	**0**
Total transactions with owners	**0**	**0**	**328**	**-2,519**	**-2,191**
Net profit for the financial period	0	0	0	6,299	**6,299**
Total comprehensive income for the period	**0**	**0**	**0**	**6,299**	**6,299**
Balance as at 31.12.2018	**32,225**	**3,658**	**621**	**13,990**	**50,494**

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

The notes on pages 12-27 are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The structure of EfTEN Real Estate Fund III AS Group as at 31.12.2018 is as follows (also see Note 2):

EfTEN Real Estate Fund III AS

	SUBSIDIARIES	*Investment property:*
100%	Saulės Miestas UAB	*Saulės Miestas Shopping Center, Šiauliai*
100%	Verkių projektas UAB	*Ulonu office building, Vilnius*
100%	EfTEN Laisves UAB	*L3 office building, Vilnius*
100%	EfTEN Stasylu UAB	*DSV logistics centre, Vilnius*
100%	EfTEN Tänassilma OÜ	*DSV logistics centre, Tallinn*
100%	EfTEN Krustpils SIA	*DSV logistics centre, Riga*
100%	EfTEN Laagri OÜ	*Selver shopping centre, Tallinn*
100%	EfTEN Seljaku OÜ	*Hortes gardening centre, Laagri*
100%	EfTEN Tähesaju tee OÜ	*Hortes gardening centre, Tallinn*
100%	EfTEN Kolmas OÜ	-

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 31.12.2017. The interim financial statements should be read in conjunction with the latest disclosed financial statements of the Group for 2017, which is prepared in accordance with International Financial Reporting Standards (IFRS). According to the Management Board's estimate, EfTEN Real Estate Fund III AS interim financial statements for the 4th quarter and 12 months of 2018 present a true and fair view of the results of the Group's operations in accordance with the continuity principle. Current interim financial statements have not been audited or otherwise checked by the auditors and contain only Group's consolidated reports. The reporting currency is the euro. The consolidated interim financial statements are prepared in thousands of euros and all figures are rounded to the nearest thousand, if not indicated otherwise.

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			31.12.2018	31.12.2017	31.12.2018	31.12.2017
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping center Saules Miestas	13,855	12,980	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	3,961	3,855	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	4,755	4,286	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics center, Vilnius	4,046	3,683	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics center, Tallinn	6,215	6,007	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,511	2,134	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	1,864	1,445	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	1,759	-	100	-
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,168	-	100	-
EfTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,670	3,255	100	100
EfTEN Kolmas OÜ	Estonia	investment property to be acquired	5	-	100	100

On April 19, 2018, EfTEN Real Estate Fund III founded a 100% owned subsidiary, EfTEN Tähesaju tee OÜ for the purpose of acquiring the Hortes gardening center in Tallinn, contributing EUR 2,500 to the company's share capital. In May 2018, additional EUR 1,080 was paid to company's share capital.

On May 30, 2018, EfTEN Real Estate Fund III acquired a 100% ownership in the subsidiary EfTEN Evolution UAB with the aim of acquiring the "Evolution" office building in Vilnius. The acquisition cost of the subsidiary was EUR 2,500 and the company's equity was equal to the purchase price at the time of the acquisition. After the acquisition, EfTEN Real Estate Fund III paid an additional EUR 3,205 thousand to the company's equity. The funds received by the subsidiary were used as own investment to the "Evolution" office building purchase cost.

On December 13, 2013, EfTEN Real Estate Fund III founded a 100% owned subsidiary EfTEN Kolmas OÜ, contributing EUR 2,500 to the share capital of the subsidiary. The subsidiary plans to acquire investment property by the end of January 2019.

During 2018, EfTEN Real Estate Fund III AS paid the last instalment for the shares of EfTEN Laagri OÜ acquired in 2017 in the amount of EUR 100 thousand.

3 Segment reporting

SEGMENT RESULTS

	Office		Logistics		Retail		Non-allocated		Total	
12 months	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
EUR thousand										
Revenue (Note 5), incl.	**1,894**	**1,470**	**2,323**	**2,065**	**4,455**	**3,765**	**0**	**0**	**8,672**	**7,300**
Estonia	0	0	989	977	738	172	0	0	1,727	1,149
Latvia	0	0	652	417	0	0	0	0	652	417
Lithuania	1,894	1,470	682	671	3,717	3,593	0	0	6,293	5,734
Operating income, net, incl.	**1,708**	**1,412**	**2,320**	**2,063**	**3,890**	**3,214**	**0**	**0**	**7,918**	**6,689**
Estonia	0	0	989	977	726	167	0	0	1,715	1,144
Latvia	0	0	650	417	0	0	0	0	650	417
Lithuania	1,708	1,412	681	669	3,164	3,047	0	0	5,553	5,128
Operating profit, incl.	**2,518**	**1,953**	**1,929**	**2,458**	**3,958**	**3,763**	**-147**	**-141**	**8,258**	**8,033**
Estonia	0	0	679	1,302	901	563	-147	-141	1,433	1,724
Latvia	0	0	506	399	0	0	0	0	506	399
Lithuania	2,518	1,953	744	757	3,057	3,200	0	0	6,319	5,910
EBITDA, incl.	**1,484**	**1,275**	**2,083**	**1,847**	**3,291**	**2,638**	**-147**	**-141**	**6,711**	**5,619**
Estonia	0	0	899	886	610	98	-147	-141	1,362	843
Latvia	0	0	570	358	0	0	0	0	570	358
Lithuania	1,484	1,275	614	603	2,681	2,540	0	0	4,779	4,418
Operating profit									**8,258**	**8,033**
Net financial expense									-1,096	-691
Profit before income tax expense									**7,162**	**7,342**
Income tax expense (Note 9)									-863	-768
NET PROFIT FORT HE FINANCIAL PERIOD									**6,299**	**6,574**

	Office		Logistics		Retail		Non-allocated		Total	
4th quarter	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
EUR thousand										
Revenue, incl.	**547**	**360**	**587**	**517**	**1,195**	**1,088**	**0**	**0**	**2,329**	**1,965**
Estonia	0	0	247	245	184	87	0	0	431	332
Latvia	0	0	175	104	0	0	0	0	175	104
Lithuania	547	360	165	168	1,011	1,001	0	0	1,723	1,529
Operating income, net, incl.	**462**	**333**	**589**	**517**	**1,040**	**915**	**0**	**0**	**2,091**	**1,765**
Estonia	0	0	247	245	181	85	0	0	428	330
Latvia	0	0	173	104	0	0	0	0	173	104
Lithuania	462	333	169	168	859	830	0	0	1,490	1,331
Operating profit, incl.	**463**	**413**	**545**	**844**	**1,359**	**808**	**-69**	**-90**	**2,298**	**1,975**
Estonia	0	0	135	541	356	526	-69	-90	422	978
Latvia	0	0	159	101	0	0	0	0	159	101
Lithuania	463	413	251	202	1,003	281	0	0	1,717	896
EBITDA, incl.	**368**	**300**	**527**	**457**	**878**	**732**	**-69**	**-89**	**1,704**	**1,400**
Estonia	0	0	225	221	147	62	-69	-89	303	194
Latvia	0	0	151	85	0	0	0	0	151	85
Lithuania	368	300	151	151	731	670	0	0	1,250	1,121
Operating profit									**2,298**	**1,975**
Net financial expense									-380	-189
Profit before income tax expense									**1,918**	**1,786**
Income tax expense (Note 9)									-167	-510
NET PROFIT FORT HE FINANCIAL PERIOD									**1,751**	**1,276**

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
As at the end of the year	2018	2017	2018	2017	2018	2017	2018	2017
EUR thousand								
Investment property (Note 12)								
Estonia	0	0	12,850	13,070	11,716	9,790	24,566	22,860
Latvia	0	0	8,660	6,980	0	0	8,660	6,980
Lithuania	29,191	18,960	8,730	8,600	31,640	30,990	69,561	58,550
Total investment property	**29,191**	**18,960**	**30,240**	**28,650**	**43,356**	**40,780**	**102,787**	**88,390**
Other non-current assets							138	90
Net debt							-53,151	-42,773
Other short-term assets							720	678
NET ASSETS							**50,494**	**46,385**

In 2018 and 2017, 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 12.1%, 8.7% and 8.3% of the Group's consolidated rental income, respectively. The revenue from the rest of the tenants is less than 6% of consolidated revenue.

4 Revenue

Areas of activity	**2018**	2017
EUR thousand		
Rental income from office premises	1,851	1,437
Rental income from retail premises	3,785	3,092
Rental income from warehousing and logistics premises	2,322	2,065
Other sales revenue	714	706
Total revenue by areas of activity (Note 3, 12)	**8,672**	**7,300**

Revenue by geographical area	**2018**	2017
EUR thousand		
Estonia	1,727	1,148
Latvia	652	417
Lithuania	6,293	5,735
Total revenue by geographical area	**8,672**	**7,300**

5 Cost of services sold

Cost of services sold	**2018**	2017
EUR thousand		
Repair and maintenance of rental premises	-100	-29
Property insurance	-14	-13
Land tax and real-estate tax	-74	-104
Wages and salaries, incl. taxes	-12	0
VAT proportional costs	-47	-30
Other sales costs	-68	0
Impairment losses of doubtful receivables	-4	9
Total cost of service sold (Note 12)	**-319**	**-167**

6 Marketing costs

Marketing costs	**2018**	2017
EUR thousand		
Commission expenses on rental premises	-8	-2
Advertising, promotional events[1]	-427	-442
Total marketing costs	**-435**	**-444**

[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

	2018	2017
EUR thousand		
Management services (Note 18)	-632	-549
Office expenses	-38	-45
Wages and salaries, incl. taxes	-229	-241
Consulting expenses	-132	-172
Regulator costs	-73	-27
Change in success fee liability (Note 18)	-46	-461
Other general and administrative expenses	-54	-41
Depreciation	-21	-20
Total general and administrative expenses	**-1,225**	**-1,556**

8 Finance costs

Finance costs	2018	2017
EUR thousand		
Interest expenses, incl.	-965	-770
interest expense from loans	-889	-770
Interest expense from derivatives (-)/ cost reductions (+)	-76	0
Change in fair value of interest swaps (Note 15)	-131	79
Total finance costs	**-1,096**	**-691**

9 Income tax

	2018	2017
EUR thousand		
Income tax from dividends	-70	-35
Deferred income tax in Latvian and Lithuanian subsidiaries	-630	-295
Income tax expense from Latvian and Lithuanian profit	-163	-438
Total income tax expense	**-863**	**-768**

As at 31.12.2018, the Group has a deferred tax liability in connection with the use of tax amortisation in Lithuania in the amount of EUR 3,496 thousand (31.12.2017: EUR 2,864 thousand). Deferred tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

	4th quarter		12 months	
Earnings per share	**2018**	2017	**2018**	2017
Net profit for the period, *in EUR thousand*	**1,751**	1,276	**6,299**	6,574
Dividends per share, in EUR	**0**	0	**0.68**	0.63
Weighted average number of shares over the period, in pcs	**3,222,535**	3,052,045	**3,222,535**	2,749,761
Earnings per share, in EUR	**0.54**	0.42	**1.96**	2.39

11 Receivables and accrued income

	31.12.2018	31.12.2017
EUR thousand		
Receivables from customers	490	480
Amounts unlikely to accrue	0	0
Total receivables from customers	**490**	**480**
Accrued income		
Prepaid taxes and receivables for reclaimed value-added tax	115	65
Other accrued income	69	96
Total accrued income	184	161
Total receivables	**674**	**641**

12 Investment property

As at 31.12.2018, 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 31.12.2018**	**Share of market value of the Fund's assets**
EUR thousand							
Saules Miestas shopping center	Saules Miestas, Lithuania	19,881	2007	08.2015	28,312	31,640	29%
DSV logistics center	Vilnius, Lithuania	11,687	2005	06.2016	8,470	8,730	8%
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	12,850	12%
DSV logistics center	Riga, Latvia	5,398	2000	07.2016	8,789	8,660	8%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,707	9,970	9%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,124	9,220	8%
Hortes gardening center in Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,430	3%
Hortes gardening center in Tähesaju	Tallinn, Estonia	in development stage	2019	05.2018	1,637	1,637	2%
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,223	6,650	6%
Evolution office building	Vilnius, Lithuania	6,172		05.2018	9,030	10,000	9%
Total		**77,009**			**94,627**	**102,787**	**95%**

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

In 2018 and 2017, the following changes have occurred in the Group's investment property:

	Investment property in the development stage	Completed investment property	**Total investment property**
Balance as at 31.12.2016	**0**	**73,539**	**73,539**
Acquisitions	4,318	5,068	**9,386**
Additions from business combinations (Note 3)	1,900	0	**1,900**
Capitalised improvements	0	710	**710**
Reclassifications	-6,218	6,218	**0**
Gain/loss on changes in the fair value	0	2,855	**2,855**
Balance as at 31.12.2017	**0**	**88,390**	**88,390**
Acquisitions	1,636	10,774	**12,410**
Capitalised improvements	0	425	**425**
Gain/loss on changes in the fair value	0	1,562	**1,562**
Balance as at 31.12.2018	**1,636**	**101,151**	**102,787**

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

As at 31 December or the period	**2018**	2017
Rental income earned on investment property (Note 4)	7,958	6,594
Expenses directly attributable to management of investment property (Note 5)	-319	-167
Amounts outstanding on the acquisition of investment property (Note 14)	178	1,000
Prepayments for investment property (Note 14)	17	49
Carrying amount of investment property pledged as collateral to borrowings	101,151	88,390

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

Payments from non-cancellable operating leases	**31.12.2018**	31.12.2017
EUR thousand		
up to 1 year	6,872	5,668
2-5 years	18,279	15,554
over 5 years	13,489	15,367
Total	**38,640**	**36,589**

Assumptions and basis for the calculation of fair value of investment property

An independent appraiser values the investment property of the Group. The fair value of all investment properties presented in the financial statements of the Group as at 31.12.2018 and 31.12.2017 was determined using the discounted cash flow method, excl. investment property in the development stage (Hortes gardening center in Tähesaju), where the investment property was recorded at cost (there were no significant changes in the real estate market between the transaction date and the balance sheet date). The following assumptions were used to determine fair value:

As at 31.12.2018:

Sector	**Fair value**	**Valuation method**	**Yearly rental income**	**Discount rate**	**Capitalisation rate**	**Average rent, €/m2**
EUR thousand						
Office premises	29,190	Discounted cash flows	2,110	7.9%	7.5%-8.0%	11.4
Storage and logistics premises	30,240	Discounted cash flows	2,408	8.0%-8.6%	7.8%-8.0%	6.1
Retail premises	41,720	Discounted cash flows	3,742	8.25%-8.6%	7.5%-8.0%	11.4
Total	**101,150**		**8,260**			

In 2017:

Sector	Fair value	Valuation method	Yearly rental income	Discount rate	Capitalisation rate	Average rent, €/m2
EUR thousand						
Office premises	18,960	Discounted cash flows	1,476	7.9%	7.5%-8.0%	11.2
Storage and logistics premises	28,650	Discounted cash flows	2,336	8.25%-8.6%	7.9%-8.0%	5.9
Retail premises	40,780	Discounted cash flows	3,636	7.9%-8.6%	7.5%-8.0%	11.1
Total	**88,390**		**7,448**			

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

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

Fair value sensitivity analysis

The table provided below illustrates the sensitivity of the fair value of investment property recognised in the Group's balance sheet **as at 31.12.2018** to the most significant assumptions:

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	The effect of the decrease on value	The effect of the increase on value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/- 10%	*-2,350*	*2,350*	Change in capitalisation rate	-0.5%	*30,420*	*30,610*	*29,200*
					0.0%	*29,800*	*29,190*	*28,610*
					0.5%	*29,200*	*27,970*	*28,040*
Logistics premises	Change in rental income +/- 10%	*-2,413*	*2,414*	Change in capitalisation rate	-0.5%	*31,478*	*31,655*	*30,240*
					0.0%	*30,857*	*30,240*	*29,638*
					0.5%	*30,240*	*28,994*	*29,061*
Retail premises	Change in rental income +/- 10%	*-3,830*	*3,840*	Change in capitalisation rate	-0.5%	*43,450*	*43,680*	*41,720*
					0.0%	*42,580*	*41,720*	*40,900*
					0.5%	*41,720*	*40,010*	*40,100*

As at 31.12.2017

Sector	Sensitivity to management estimate			Sensitivity to discount rate and capitalisation rate				
	Assessment	The effect of the decrease on value	The effect of the increase on value			Change in discount rate		
						-0.5%	0.0%	0.5%
EUR thousand							*Fair value*	
Office premises	Change in rental income +/- 10%	*-1,550*	*1,540*	Change in capitalisation rate	-0.5%	*20,300*	*19,890*	*19,480*
					0.0%	*19,350*	*18,960*	*18,570*
					0.5%	*18,510*	*18,140*	*17,770*
Storage and logistics premises	Change in rental income +/- 10%	*-2,370*	*2,370*	Change in capitalisation rate	-0.5%	*30,664*	*30,031*	*29,413*
					0.0%	*29,254*	*28,650*	*28,061*
					0.5%	*28,001*	*27,436*	*26,864*
Retail premises	Change in rental income +/- 10%	*-3,770*	*3,770*	Change in capitalisation rate	-0.5%	*43,570*	*42,680*	*41,840*
					0.0%	*41,610*	*40,780*	*39,960*
					0.5%	*39,890*	*39,110*	*38,330*

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

13 Borrowings

As at 31.12.2018, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2018	Contract term	Interest rate as at 31.12.2018	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	16,027	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	31,640	31.7%
SEB	Lithuania	5,500	4,895	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,730	9.7%
SEB	Latvia	3,323	4,547	29.06.21	1.55%	Mortgage – DSV building in Riga	8,660	9.0%
SEB	Estonia	7,950	7,113	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,850	14.1%
SEB	Lithuania	5,620	5,076	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	9,970	10.1%
SEB	Lithuania	5,200	4,490	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,220	8.9%
SEB	Lithuania	5,850	5,699	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,000	11.3%
SEB	Estonia	1,860	1,728	05.07.22	1.82%	Mortgage – Hortes gardening center	3,430	3.4%
Swedbank	Estonia	3,700	3,333	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,650	6.6%
Total		**55,503**	**53,572**				**101,150**	**48.8%**

For additional information on borrowings, please see Note 15.

As at 31.12.2017, the Group had the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2017	Contract term	Interest rate as at 31.12.2017	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	15,006	14.08.20	1.70%	Mortgage – Saules Miestas shopping center	30,990	32.4%
SEB	Lithuania	5,500	5,137	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,600	11.1%
SEB	Latvia	3,323	3,121	29.06.21	1.55%	Mortgage – DSV building in Riga	6,980	6.7%
SEB	Estonia	7,950	7,463	29.06.21	1.55%	Mortgage – DSV building in Estonia	13,070	16.1%
SEB	Lithuania	5,620	5,316	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	9,760	11.5%
SEB	Lithuania	5,200	4,730	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	9,200	10.2%
SEB	Estonia	1,860	1,821	05.07.22	1.82%	Mortgage – Hortes gardening center	3,210	3.9%
Swedbank	Estonia	3,700	3,251	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,580	7.8%
Total		**49,653**	**45,845**				**88,390**	**98.8%**

Short-term borrowings	31.12.2018	31.12.2017
EUR thousand		
Short-term recognition of the long-term portion of long-term bank loans (Note 15)	5,437	0
Repayments of long-term bank loans in the next period	2,698	2,129
Discounted contract fees on bank loans	-30	-20
Total short-term borrowings	**8,105**	**2,109**

Long-term borrowings	31.12.2018	31.12.2017
EUR thousand		
Total long-term borrowings (Note 15)	**47,411**	**45,776**
incl. current portion of borrowings	2,668	2,109
incl. non-current portion of borrowings, incl.	44,743	43,667
Bank loans	*44,773*	*43,716*
Discounted contract fees on bank loans	-30	*-49*

Bank loans are divided as follows according to repayment date:

Bank loan repayments by repayment terms	31.12.2018	31.12.2017
EUR thousand		
Less than 1 year	8,135	2,129
2-5 years	44,773	43,716

Cash flows of borrowings	**2018**	2017
EUR thousand		
Balance at the beginning of period	**45,776**	**42,667**
Bank loans received	9,492	5,111
Annuity payments on bank loans	*-2,431*	*-2,003*
Capitalised contract fees	*-13*	*-17*
Change of discounted contract fees	*24*	*18*
Balance at the end of period	**52,848**	**45,776**

14 Payables and prepayments

Short-term payables and prepayments

	31.12.2018	31.12.2017
EUR thousand		
Trade payables from fixed asset transactions	0	503
Other trade payables	242	205
Total trade payables	**242**	**708**
Payables from securities transactions	0	100
Payables from fixed asset transactions	178	497
Other payables	0	0
Total other payables	**178**	**597**
Value added tax	189	206
Corporate income tax	14	43
Social tax	9	8
Land tax and real-estate tax	125	50
Tax liabilities	1	0
Total tax liabilities	**338**	**307**
Payables to employees	20	25
Interest liabilities	7	4
Tenant security deposits	120	138
Other accrued liabilities	114	20
Total accrued expenses	**261**	**187**
Prepayments received from buyers	0	24
Other deferred income	0	25
Total prepayments	**0**	**49**
Total payables and prepayments	**1,019**	**1,848**

Long-term payables

	31.12.2018	31.12.2017
EUR thousand		
Tenants security deposits	457	360
Total other long-term payables	**457**	**360**

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	31.12.2018	31.12.2017
Financial assets - loans and receivables			
Cash and cash equivalents		4,859	3,192
Trade receivables	11	490	480
Total financial assets		**5,349**	**3,672**
Financial liabilities measured at amortised cost			
Borrowings	13	52,848	45,776
Trade payables	14	242	708
Tenant security deposits	14	578	498
Interest payables	14	7	0
Accrued expenses	14	134	45
Success fee liability		0	760
Total financial liabilities measured at amortised cost		**53,809**	**47,787**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		189	137
Total financial liabilities measured at fair value		**189**	**137**
Total financial liabilities		**53,998**	**47,924**

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

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

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

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

Market risk

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

Interest rate risk

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

As at 31.12.2018, 56% of the Group's loan contracts were based on floating interest rate (margin range from 1.40% to 2.0% plus the 3-month and 1-month EURIBOR), and 44% of loan contracts carry fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 54% are related to an interest rate swap contract where the 3-month EURIBOR is in turn fixed at 0.35%. In 2018, the 3-month EURIBOR fluctuated between -0.329% and -0.309, i.e.

the maximum change within the year was 0.2 basis points. All contracts in the loan portfolio of EfTEN Real Estate Fund III have a 0% limit (floor) as protection against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin of these loan commitments does not decrease.

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

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

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

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

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

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

The Group recognises interest rate swaps through profit or loss. The fair value of interest rate swap contracts as at 31.12.2018 was negative in the amount of EUR 189 thousand (31.12.2017: EUR 58 thousand). Additional information on finding the fair value of interest rate swaps is provided in the section "Fair value" below.

Liquidity risk

Liquidity risk arises from potential changes in the financial position, reducing the Group’s ability to meet its liabilities in due time and in a correct manner. Above all, the group’s liquidity is affected by the following factors:

- Decrease or volatility of rental income, reducing the Group’s ability to generate positive net cash flows;
- Vacancy of rental property;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Marketability of long-term assets;
- Volume and pace of real estate development activities;
- Financing structure.

The objective of the Group is to manage its net cash flows, so as to not use debt in making real estate investments in excess of 65% of the cost of the investment and to maintain the Group's debt coverage ratio in excess of 1.2. As at 31.12.2018, the Group's interest-bearing liabilities accounted for 51.4% (31.12.2017: 51.8%) of rental income generating investment property and the average debt coverage ratio (DSCR) of the last 12 months was 2.0 (2017: the same).

The financing policy of the Group specifies that loan agreements for raising debt are entered into on a long-term basis, also taking into consideration the maximum duration of the lease agreements on these properties. The table below summarises the information on the maturities of the Group’s financial liabilities (undiscounted cash flows):

As at 31.12.2018	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	224	673	1,804	50,207	0	**52,908**
Interest payments	77	230	598	1,314	0	**2,219**
Interest payables	7	0	0	0	0	**7**
Trade payables	242	0	0	0	0	**242**
Tenant security deposits	8	31	94	338	107	**577**
Accrued expenses	134	0	0	0	0	**134**
Total financial liabilities	**692**	**934**	**2,496**	**51,859**	**107**	**56,087**

As at 31.12.2017	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 1 and 5 years	Over 5 years	**Total**
EUR thousand						
Interest-bearing liabilities	165	484	1,298	43,898	0	**45,845**
Interest payments	66	195	510	1,651	0	**2,422**
Interest payables	4	0	0	0	0	**4**
Trade payables	205	0	0	0	0	**205**
Tenant security deposits	12	36	91	294	65	**498**
Accrued expenses	49	0	0	0	0	**49**
Total financial liabilities	**501**	**715**	**1,899**	**45,843**	**65**	**49,023**

Report of working capital

	31.12.2018	31.12.2017
EUR thousand		
Cash and cash equivalents	4,859	8,133
Receivables and accrued income (Note 11)	673	641
Prepaid expenses	46	37
Total current assets	**5,578**	**8,811**
Short-term portion of long-term liabilities (Note 13)	-8,105	-2,109
Short-term payables and prepayments (Note 14)	-1,208	-1,906
Total current liabilities	**-9,313**	**-4,015**
Total working capital	**-3,735**	**4,796**

As at 31.12.2018, the Group's working capital is negative in the amount of EUR 3,735 thousand (31.12.2017: EUR 4,796 thousand). The working capital is negative due to the short-term recognition of the long-term portion of the bank loan of the Group's subsidiary EfTEN Evolution UAB in the amount of EUR 5,437 thousand due to the non-compliance of the loan service coverage ratio (DSCR) provisionally stipulated in the loan agreement. The covenant is below the required level in relation to the costs associated and temporary vacancy associated with the rental agreement ending in April 2019 in the Evolution office building. After the balance sheet date, in January 2019, the lender has issued a written waiver to EfTEN Evolution UAB to continue the loan agreement until the agreed deadline, i.e. until 30.05.2023. As at 31.12.2018, the loan of EfTEN Evolution UAB has been recognised in the financial statements as short-term according to International Accounting Standard 1 p. 74. If the loan was recognised as long-term loan according to the maturity specified in the contract, the Group's working capital would be positive in the amount of EUR 1,702 thousand. As the loan will not have to be repaid early, the Group's management estimates that working capital is sufficient to meet the claims arising from everyday business activities.

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:

	31.12.2018	31.12.2017
EUR thousand		
Undue	386	332
Past due, incl.	**104**	**148**
up to 30 days	*91*	*134*
30-60 days	*13*	*6*
more than 60 days	*0*	*8*
Total trade receivables	**490**	**480**

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

	31.12.2018	31.12.2017
EUR thousand		
Cash and cash equivalents	4,859	8,133
Trade receivables	490	480
Total maximum credit risk	**5,349**	**8,613**

Capital management

The Group's capital includes borrowings and equity.

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

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

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

According to the Group's management estimate the free cash flow of the Group allows to pay out in the form of dividends an average of 80% of the annual corrected cash flows (EBITDA minus interest expenses minus loan payments). In April 2018, EfTEN Real Estate Fund III AS paid (net) dividends to shareholders in the amount of EUR 2.191 million (2017: EUR 1.5 million). During 2018, the Group has earned a free cash flow of EUR 3.151 million (12 months of 2017: EUR 2.408 million). After deduction of Lithuanian corporate income tax and calculation of the calculated dividend income tax in Estonian and Latvian companies, according to the established dividend policy, EfTEN Real Estate Fund III would be able to pay net dividends to the shareholders of this year's profit of EUR 2.378 million (74 cents per share). However, the Group's cash balance at the end of 2018 allows to pay more dividends than the dividend policy permits, which is why the Management Board of the Fund proposes to the Council in spring 2019 to pay a dividend of EUR 3.055 million (95 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 68 cents per share.

Report of capitalisation

	31.12.2018	31.12.2017
EUR thousand		
Mortgage guaranteed short-term liabilities (Note 13)	8,135	2,129
Unsecured short-term liabilities (Note 14)	1,178	1,886
Total short-term liabilities	**9,313**	**4,015**
Mortgage guaranteed long-term liabilities (Note 13)	44,773	43,716
Unsecured long-term liabilities (Note 14)	3,923	3,175
Total long-term liabilities	**48,696**	**46,891**
Share capital and share premium (Note 16)	35,883	35,883
Reserves	621	293
Retained earnings (Note 20)	13,990	10,209
Total shareholder's equity	**50,494**	**46,385**
Total liabilities and equity	**108,503**	**97,291**

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	31.12.2018	31.12.2017
Cash (Note 12)	4,859	8,133
Cash equivalents	0	0
Tradable securities	**0**	0
Total liquid assets	**4,859**	**8,133**
The short-term portion of long-term liabilities (Note 15)	8,135	2,129
Short-term bank loans	0	0
Other short-term financial liabilities	0	0
Net short-term debt	**3,276**	**-6,004**
Long-term bank loans (long-term portion) (Note 15)	**44,773**	43,716
Issued debt securities	0	0
Other long-term loans	0	0
Total long-term debt	**44,773**	**43,716**
Total net debt	**48,049**	**37,712**

Fair value

The valuation methods used to analyse the Group's assets and liabilities measured at fair value have been defined as follows:

Level 1 – quoted prices in active markets;

Level 2 – inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs at the market.

As at 31.12.2018 nor 31.12.2017, 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 31.21.2018, the registered share capital of EfTEN Real Estate Fund III AS was EUR 32,225 thousand (31.12.2017: the same). As at 31.12.2018, the share capital consisted of 3,222,535 shares (31.12.2017: the same) with a nominal value of EUR 10 (31.12.2017: the same). Without amending the articles of association, the company may increase its share capital to EUR 39,440 thousand. As at 31.12.2018, the share capital has been paid in the amount of EUR 35,883 thousand (31.12.2017: same).

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

	As at 31.12.2018	
Company	**Number of shares**	**Ownership, %**
Altius Energia OÜ	455,439	14.13
Järve Kaubanduskeskus OÜ	329,692	10.23
Väärtpaberid OÜ	328,167	10.18

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

	As at 31.12.2018	
Company	**Number of shares**	**Ownership, %**
Viljar Arakas, member of the Management Board	2,000	0.06
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	8,793	0.27
Tõnu Uustalu, member of the Management Board	9,184	0.28
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	1,559	0.05
Altius Energia OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	455,439	14.13
Olav Miil, member of the Supervisory Board	24,229	0.75
Siive Penu, member of the Supervisory Board	975	0.03

17 Contingent liabilities

Contingent tax liability

	31.12.2018	31.12.2017
EUR thousands		
Retained earnings	13,990	10,209
Potential income tax liability	2,798	2,042
Dividends can be paid out	11,192	8,167

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 31.12.2018 and 31.12.2017.

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 2018 in the amount of EUR 632 thousand (2017: EUR 549 thousand), (see Note 7). In addition to the periodic management service, the Group calculated a performance fee of EUR 46 thousand in 2018 (2017: EUR 461 thousand).

EfTEN Real Estate Fund III AS did not purchase from other related parties or sell to other related parties any other goods or services in 2018 nor in 2017.

As at 31.12.2018, the Group had 12 employees who were remunerated including taxes in the amount of EUR 229 thousand (2017: EUR 241 thousand). In 2018 and in 2017, no compensations were calculated nor paid to the management and supervisory board members of the Group. Members of the Group's management board are employed by EfTEN Capital AS, the company providing management services to the Group, and expenses related to management board members' activities are included in management services.

19 Events after the balance sheet date

After the balance sheet date, on 6 February, 2019, the Group's subsidiary EfTEN Kolmas OÜ acquired the properties of ABC Motor's sales and service center on Paldiski highway. The acquisition cost of the properties is EUR 3 million and a loan agreement was entered into in the amount of EUR 1.8 million for the acquisition. The maturity of the loan is 25.02.2024 and the interest rate is 2.95% + 6 month Euribor. A 0% floor is set for the Euribor rate. The expected annual rental income from the investment property is EUR 252 thousand.

Declaration of the Management Board to the consolidated interim report for the 4th quarter and 12 months of 2018

We hereby confirm that EfTEN Real Estate Fund III AS consolidated interim report for the 4th quarter and 12 months of 2018 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/	/digitally signed/
__________________	__________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board