EfTEN Real Estate Fund III

Consolidated Interim Report – 3rd quarter and nine months ended 30 September 2020

(translation of the Estonian original)

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2020

End of financial period: 30.09.2020

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MANAGEMENT REPORT

The consolidated sales revenue of EfTEN Real Estate Fund III AS for third quarter of 2020 was EUR 2.833 million (third quarter of 2019: EUR 2.364 million), which increased by 20% in a year. The sales revenue of two properties acquired at the end of February 2020 (airBaltic office building and Kekava logistics center in Riga), Tähesaju Hortes completed at the end of last year and the Atea office building in Vilnius acquired in August 2020 totalled 506 thousand euros, i.e. excluding new acquisitions, III quarter sales revenue was 1.6% lower compared to the same period last year. The decrease in sales revenue is related to temporary discounts due to the Covid-19 pandemic. Rental income returned to its normal level in the last month of the quarter, in September.

EfTEN Real Estate Fund III AS's consolidated sales revenue for 9 months of 2020 was 7.698 million euros (9 months 2019: 7.000 million euros).The Group's profit before revaluations of investment properties, changes in the fair value of interest rate swaps and income tax expense totalled 5.141 million euros in the 9 months of 2020 (9 months 2019: 4.459 million euros). The Group earned a significantly lower net profit of 747 thousand euros (net profit for 9 months of 2019: 5,127 thousand euros) 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.

During the 9 months of 2020, the fund earned consolidated EBITDA of 6.1 million euros (9 months of 2019: 5.5 million euros). The negative economic impact of the Covid-19 crisis on the fund's results is significantly smaller than initially expected, which is partly due to the good diversification of EfTEN Real Estate Fund III AS's real estate portfolio by sectors and countries, as well as strong tenant base, good capitalization and conservative financing strategy.

The consolidated gross profit margin was 97% in the first 9 months of 2020 (9 months of 2019: the same), so expenses directly related to the management of real estate (incl. Land tax, insurance, maintenance and improvement costs) accounted for 3% of sales revenue. Expenses related to the Group's real estate, distribution expenses, overheads and other income and expenses accounted for a total of 21% of sales revenue in the first 9 months of 2020 (during the first 9 months of 2019: 22%).

	9 months	
	2020	**2019**
EUR million		
Rental revenue, other fees from investment properties	7.698	7.000
Expenses related to investment properties, incl. marketing costs	-0.428	-0.532
Interest expense and interest income	-0.967	-1.031
Net rental revenue less finance costs	**6.303**	**5.437**
Management fees	-0.652	-0.532
Other revenue and expenses	-0.510	-0.446
Profit before change in the value of investment property, fair value change of the interest rate swap and income tax expense	**5.141**	**4.459**

As at 30.09.2020, the Group's total assets were in the amount of EUR 142.872 million (31.12.2019: EUR 132.829 million), including fair value of investment property, which accounted for 96% (31.12.2019: 85%) of the total assets.

	30.09.2020	**31.12.2019**
€ million		
Investment properties	137.354	113.011
Other non-current assets	0.229	0.114
Cash and deposits	4.313	18.986
Current assets other than cash	0.976	0.718
Net debt (cash less liabilities)	-69.386	-42.672
Net asset value (NAV)	69.173	71.171
Net asset value (NAV) per share, in euros	16.38	16.85
EPRA net asset value (EPRA NAV) per share, in euros	17.46	17.93

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 are refinanced upon the term of the loan agreement. Over the next 12 months, 19.317 million euros, meaning 29% of the total loan portfolio, will be refinanced from the Group's loan liabilities. As at 30.09.2020, the average interest rate of the Group's loan agreements (taking into account interest rate swap agreements) is 2.23% (31.12.2019: 1.84%) and LTV (Loan to Value) is 49% (31.12.2019: 52%).

Key performance and liquidity ratios

9 months or as at 30 September	2020	2019
ROE, % (net profit of the period / average equity of the period) x 100	1.1	8.6
ROA, % (net profit of the period / average assets of the period) x 100	0.5	4.3
ROIC, % (net profit of the period / average invested capital of the period) x 100[1]	1.4	11.7
Sales revenue (EUR thousand)	7,698	7,000
EBITDA (EUR thousand)	6,146	5,518
EBITDA margin, %	79.8	78.8
EBIT (EUR thousand)	2,122	6,950
EBIT margin, %	27.6	99.3
Liquidity ratio (current assets / current liabilities)	0.2	1.0
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	1.8	1.9

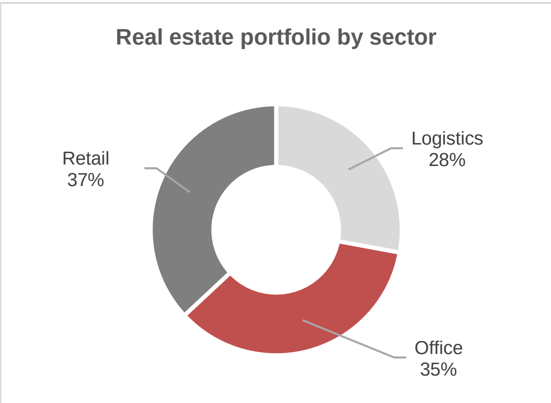
[1] The average invested capital of the period is the paid-in share capital of EfTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

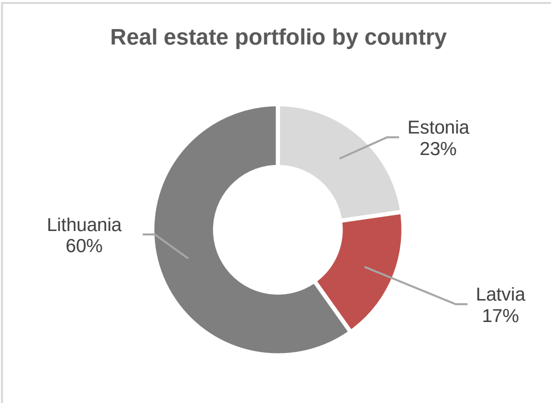
Real estate portfolio

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 additional EUR 100 thousand. The total value of investment properties owned by subsidiaries is EUR 15.800 thousand.

In August 2020, EfTEN Real Estate Fund III AS's 100% subsidiary EfTEN Rutkausko UAB acquired an office building in Vilnius with an acquisition cost of 11.8 million euros. The anchor tenant of the office building is the IT company Atea UAB. The acquisition was financed with 39% of the equity, as a result of which the entire fund's last year's emission of 16 million euros has been invested.

As at end of September 2020, the Group has 14 (31.12.2019: 11) commercial investment properties with a fair value as at the balance sheet date of EUR 137.354 million (31.12.2019: EUR 113.011 million) and acquisition cost of EUR 130.079 million (31.12.2019: EUR 101.746 million).





Main figures of the Group's real estate portfolio:

Investment properties as of 30.09.2020	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	6.1	1
DSV Riga	100	8,673	12,149	725	100	6.1	1
DSV Vilnius	100	8,740	11,687	708	100	6.1	1
Piepilsetas logistics center, Kekava	100	8,403	13,327	672	99	3.5	4
Total Logistics		**38,336**	**53,177**	**3,125**	**100**	**5.5**	**7**
Saules Miestas shopping centre	100	32,059	19,881	3,110	98	3.9	123
Hortes shopping centre, Laagri	100	3,360	3,470	268	100	11.7	1
Selver, Laagri	100	6,320	3,063	493	100	7.2	10
Hortes gardening centre, Tallinn	100	5,850	5,300	515	100	14.0	1
ABC Motors sales and service centre, Tallinn	100	3,160	2,149	260	100	8.4	1
Total retail		**50,749**	**33,863**	**4,646**	**99**	**5.9**	**136**
Ulonu office building, Vilnius	100	8,932	5,174	737	86	3.3	12
Evolution office building, Vilnius	100	10,603	6,172	839	100	4.0	45
L3 office building, Vilnius	100	10,045	6,151	812	100	2.5	33
airBaltic office building, Riga	100	6,870	6,217	495	100	5.4	1
Atea office building, Vilnius	100	11,819	6,811	856	100	3.9	3
Total office		**48,269**	**30,525**	**3,739**	**97**	**3.7**	**94**
Total real estate portfolio		**137,354**	**117,565**	**11,510**	**99**	**5.1**	**237**

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

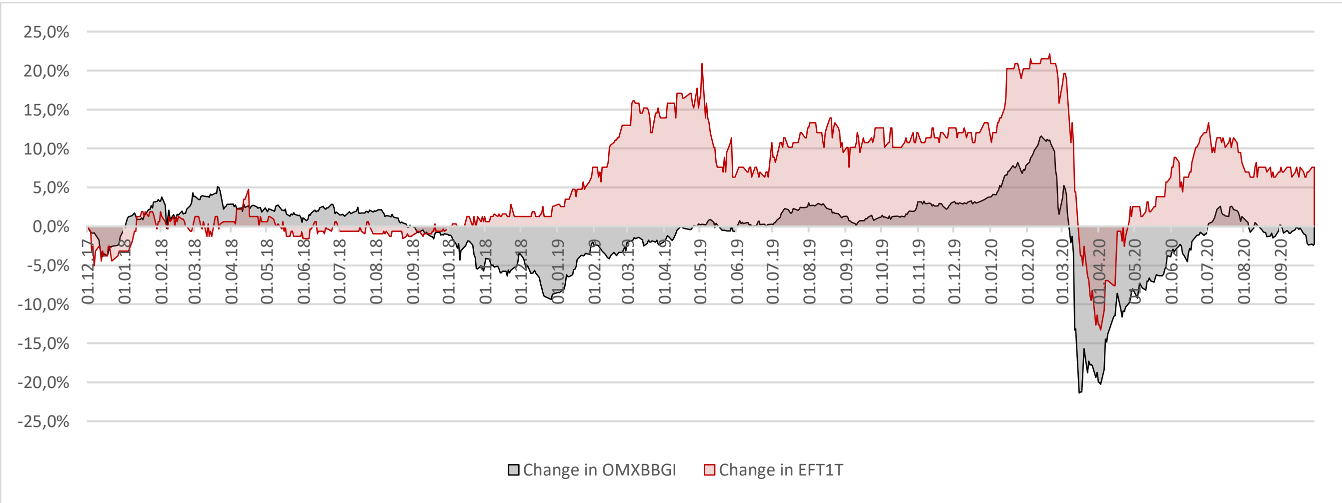
The net asset value of EfTEN Real Estate Fund III shares as of 30.09.2020 was 16.38 euros (31.12.2019: 16.85 euros). The net asset value of EfTEN Real Estate Fund III AS shares decreased by 2.8% during the first 9 months of 2020, including a change of 4.2% in the net asset value related to the announcement of dividends and a decrease of 5.6% due to the decrease in real estate investments. Thus, the net asset value of the fund's share would have increased by 6.9% during the first 9 months of 2020, excluding the discount on investment investments and dividend payments. The same indicator remained at the level of 7.5% during the first 9 months of the previous year. The lower increase in net asset value is related to the decrease in rental income due to the economic instability caused by Covid-19 from March to August 2020.

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.

€ thousands	30.09.2020	31.12.2019	30.09.2019	31.12.2018
Net asset value calculated in accordance with IFRS	69,173	71,171	68,560	50,494
Exclusion of deferred income tax on investment property	4,287	4,274	4,039	3,496
Exclusion of the fair value of financial instruments	272	271	391	189
EPRA net asset value	**73,732**	**75,716**	**72,990**	**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	**17.46**	**17.93**	**17.29**	**16.81**
EPRA NAV growth, in euros	-0.47		0.47	
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	**0.24**		**1.47**	
Period earnings per share, increase	**1.3%**		**8.7%**	

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 30.09.2020



As at 30.09.2020, EfTEN Real Estate Fund III AS had 2,929 shareholders, of whom 19.7% were legal entities. A total of 78.5% of the total share capital of the fund was held by legal entities. The distribution is shown in the table below.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Shareholding		Total shareholding
	Legal entities	Individuals		Legal entities	Individuals		Legal entities	Individuals	
Cyprus	-	1	**1**	-	52,000	**52,000**	-	1.2%	**1.23%**
Denmark	1	1	**2**	1	211	**212**	0.0%	0.0%	**0.01%**
Estonia	569	2,343	**2,912**	3,307,725	848,332	**4,156,057**	78.3%	20.1%	**98.43%**
Finland	1	2	**3**	172	21	**193**	0.0%	0.0%	**0.00%**
Germany	-	1	**1**	-	250	**250**	-	0.0%	**0.01%**
Italy	-	1	**1**	-	75	**75**	-	0.0%	**0.00%**
Latvia	1	-	**1**	724	-	**724**	0.0%	-	**0.02%**
Lithuania	4	2	**6**	5,386	7,201	**12,587**	0.1%	0.2%	**0.30%**
Australia	-	1	**1**	-	110		-	0.0%	**0.00%**
United States of America	1	-	**1**	327	-	**327**	0.0%	-	**0.01%**
Total	**577**	**2,352**	**2,929**	**3,314,335**	**908,200**	**4,222,425**	**78.5%**	**21.5%**	**100.00%**

As at 30.09.2020, EfTEN Real Estate Fund III AS has three shareholders with ownership interest in excess of 10%:

	As at 30.09.2020	
Company	**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

		III quarter		9 months	
€ thousands	Notes	**2020**	2019	**2020**	2019
Revenue	3,4	2,833	2,364	7,698	7,000
Cost of services sold	5	-75	-82	-222	-229
Gross profit		**2,758**	**2,282**	**7,476**	**6,771**
Marketing costs	6	-70	-83	-206	-303
General and administrative expenses	7	-394	-313	-1,166	-977
Gain/ loss on change in fair value of investment property	12	0	0	-3,986	1,460
Other operating income and expense		4	0	4	-1
Operating profit	**3**	**2,298**	**1,886**	**2,122**	**6,950**
Interest income		0	5	0	5
Finance costs	8	-289	-306	-967	-1,036
Profit before income tax		**2,009**	**1,585**	**1,155**	**5,919**
Income tax expense	9	-197	-156	-408	-792
Total comprehensive income for the financial period	**3**	**1,812**	**1,429**	**747**	**5,127**
Earnings per share	10				
- Basic		0.43	0.34	0.18	1.41
- Diluted		0.43	0.34	0.18	1.41

The notes on pages 11-26 are an integral part of the consolidated interim report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.09.2020	31.12.2019
€ thousands			
ASSETS			
Cash and cash equivalents	15	4,313	12,986
Short-term deposits	15	0	6,000
Receivables and accrued income	11	927	667
Prepaid expenses		49	51
Total current assets		**5,289**	**19,704**
Investment property	3,12	137,354	113,011
Property, plant and equipment		229	114
Total non-current assets		**137,583**	**113,125**
TOTAL ASSETS		**142,872**	**132,829**
LIABILITIES AND EQUITY			
Borrowings	13	21,862	21,147
Derivative instruments	15	272	271
Payables and prepayments	14	879	1,132
Total current liabilities		**23,013**	**22,550**
Borrowings	13	45,528	34,225
Other long-term liabilities	14	871	609
Deferred income tax liability	9	4,287	4,274
Total non-current liabilities		**50,686**	**39,108**
Total liabilities		**73,699**	**61,658**
Share capital	16	42,225	42,225
Share premium		9,658	9,658
Statutory reserve capital		1,323	936
Retained earnings	17	15,967	18,352
Total equity		**69,173**	**71,171**
TOTAL LIABILITIES AND EQUITY		**142,872**	**132,829**

The notes on pages 11-26 are an integral part of the consolidated interim report.

CONSOLIDATED STATEMENT OF CASH FLOWS

		III quarter		9 months	
	Notes	**2020**	2019	**2020**	2019
€ thousand					
Net profit		**1,812**	**1,429**	**747**	**5,127**
Adjustments to net profit:					
Finance income and finance costs	8	289	301	967	1,031
Gains / losses on revaluation of investment property	12	0	0	3,986	-1,460
Depreciation, amortisation and impairment	7	13	10	38	29
Income tax expense	9	197	156	408	792
Total adjustments with non-cash changes		**499**	**467**	**5,399**	**392**
Cash flow from operations before changes in working capital		**2,311**	**1,896**	**6,146**	**5,519**
Change in receivables and payables related to operating activities		138	-47	-501	-56
Net cash flow generated from operating activities		**2,449**	**1,849**	**5,645**	**5,463**
Purchase of property, plant and equipment		6	-9	-33	-37
Purchase of investment property	12	-12,114	-1,619	-12,650	-6,809
Change in short-term deposits		0	0	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		**-12,108**	**-1,628**	**-15,285**	**-15,846**
Loans received	13	7,300	1,483	7,300	6,399
Scheduled loan repayments	13	-911	-724	-2,379	-3,561
Interest paid		-332	-284	-949	-821
Issue of shares	16	0	0	0	16,000
Dividends paid	15	-2,745	0	-2,745	-3,061
Income tax on dividends paid		-260	0	-260	-139
Net cash flow generated from financing activities		**3,052**	**475**	**967**	**14,817**
NET CASH FLOW		**-6,607**	**696**	**-8,673**	**4,434**
Cash and cash equivalents at the beginning of period		**10,920**	**8,597**	**12,986**	**4,859**
Change in cash and cash equivalents		-6,607	696	-8,673	4,434
Cash and cash equivalents at the end of period	**15**	**4,313**	**9,293**	**4,313**	**9,293**

The notes on pages 11-26 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	5,127	**5,127**
Total comprehensive income for the period	**0**	**0**	**0**	**5,127**	**5,127**
Balance as at 30.09.2019	**42,225**	**9,658**	**936**	**15,741**	**68,560**
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	747	**747**
Total comprehensive income for the period	**0**	**0**	**0**	**747**	**747**
Balance as at 30.09.2020	**42,225**	**9,658**	**1,323**	**15,967**	**69,173**

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

The notes on pages 11-26 are an integral part of the consolidated interim report.

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 31.09.2020 is as follows (also see Note 2):

EfTEN Real Estate Fund III AS

	SUBSIDIARIES	*Investment property:*
100%	Saulės Miestas UAB (Lithuania)	*Saulės Miestas Shopping center, Šiauliai*
100%	Verkių projektas UAB (Lithuania)	*Ulonu office building, Vilnius*
100%	EfTEN Laisves UAB (Lithuania)	*L3 office building, Vilnius*
100%	EfTEN Evolution UAB (Lithuania)	*Evolution office building, Vilnius*
100%	EfTEN Stasylu UAB (Lithuania)	*DSV logistics center, Vilnius*
100%	EfTEN Tänassilma OÜ (Lithuania)	*DSV logistics center, Tallinn*
100%	EfTEN Krustpils SIA (Latvia)	*DSV logistics center, Riga*
100%	EfTEN Laagri OÜ (Estonia)	*Laagri Selver grocery store, Tallinn*
100%	EfTEN Tähesaju tee OÜ (Estonia)	*Hortes gardening center, Tähesaju road*
100%	EfTEN Seljaku OÜ (Estonia)	*Hortes gardening center, Laagri*
100%	EfTEN Autokeskus OÜ (Estonia)	*ABC Motors sales and service centre, Tallinn*
100%	EfTEN Piepilsetas SIA (Latvia)	*Kekava logistics center, Riga*
100%	EfTEN Riga Airport SIA (Latvia)	*airBaltic office building, Riga*
100%	EfTEN Rutkausko UAB (Lithuania)	*Atea office building, Vilnius*

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 3rd quarter and 9-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, %	
			30.09.2020	31.12.2019	30.09.2020	31.12.2019
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	15,892	16,140	100	100
Verkiu projektas UAB	Lithuania	Ulonu Office building, Vilnius	3,734	4,142	100	100
EfTEN Laisves UAB	Lithuania	L3 Office building, Vilnius	4,986	5,087	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	4,243	4,213	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	6,329	6,795	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,684	2,768	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	2,657	2,779	100	100
EfTEN Evolution OÜ	Lithuania	Evolution Office building, Vilnius	4,552	4,511	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Saue	1,888	2,034	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors car service shop, Tallinn	1,491	1,544	100	100
EfTEN Laagri OÜ	Estonia	Selver Shopping centre, Laagri	3,371	3,613	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	3,425	0	100	0
EfTEN Riga Airport SIA	Latvia	airBaltic Office building, Riga	1,152	0	100	0
EfTEN Rutkausko	Lithuania	Atea Office building, Vilnius	4,614	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 8,873 thousand euros was paid for the subsidiaries, including loan receivables from the former owners in the amount of 3,780 thousand euros 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 30.09.2020 it is estimated that the Group will have to pay an additional 119 thousand euros for the acquisitions. The total value of investment properties owned by subsidiaries is 15,800 thousand euros.

EfTEN Riga Airport (previously NHC1) SIA fair value 29.02.2020

	Fair value
€ thousands	
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 (previously NHC3) SIA fair value 29.02.2020

	Fair value

€ thousands	
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**

On August 7, 2020, EfTEN Real Estate Fund III AS established a 100% subsidiary EfTEN Rutkausko UAB in Lithuania. After the establishment, the equity of the subsidiary was paid together with the initial capital in the amount of 4,560 thousand euros. In August 2020, the subsidiary acquired an office building in Vilnius at an acquisition cost of 11,819 thousand euros.

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**	
	9 months		**9 months**		**9 months**		**9 months**		**9 months**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
€ thousands										
Revenue (Note 5), incl.	**2,033**	**1,652**	**2,060**	**1,806**	**3,605**	**3,542**	**0**	**0**	**7,698**	**7,000**
Estonia	0	0	676	754	1,007	712	0	0	1,683	1,466
Latvia	291	0	908	533	0	0	0	0	1,199	533
Lithuania	1,742	1,652	476	519	2,598	2,830	0	0	4,816	5,001
Operating income, net, incl.	**1,855**	**1,504**	**2,030**	**1,806**	**3,385**	**3,158**	**0**	**0**	**7,270**	**6,468**
Estonia	0	0	669	754	995	694	0	0	1,664	1,448
Latvia	289	0	892	533	0	0	0	0	1,181	533
Lithuania	1,566	1,504	469	519	2,390	2,464	0	0	4,425	4,487
Operating profit, incl.	**600**	**1,607**	**976**	**1,733**	**710**	**3,734**	**-164**	**-124**	**2,122**	**6,950**
Estonia	0	0	241	715	25	669	-164	-124	102	1,260
Latvia	9	0	373	507	0	0	0	0	382	507
Lithuania	591	1,607	362	511	685	3,065	0	0	1,638	5,183
EBITDA, incl.	**1,602**	**1,331**	**1,776**	**1,628**	**2,936**	**2,682**	**-164**	**-124**	**6,150**	**5,517**
Estonia	0	0	601	685	856	565	-164	-124	1,293	1,126
Latvia	239	0	753	472	0	0	0	0	992	472
Lithuania	1,363	1,331	422	471	2,080	2,117	0	0	3,865	3,919
Operating profit									**2,122**	**6,950**
Net financial expense									-967	-1,031
Profit before income tax expense									**1,155**	**5,919**
Income tax expense (Note 9)									-408	-792
NET PROFIT FOR THE FINANCIAL PERIOD									**747**	**5,127**

	Office		Logistics		Retail		Non-allocated		Total	
	III quarter		III quarter		III quarter		III quarter		III quarter	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
€ thousands										
Revenue (Note 5), incl.	**825**	**525**	**734**	**602**	**1,274**	**1,237**	**0**	**0**	**2,833**	**2,364**
Estonia	0	0	233	251	338	246	0	0	571	497
Latvia	125	0	332	177	0	0	0	0	457	177
Lithuania	700	525	169	174	936	991	0	0	1,805	1,690
Operating income, net, incl.	**779**	**475**	**718**	**601**	**1,192**	**1,123**	**0**	**0**	**2,689**	**2,199**
Estonia	0	0	229	251	336	237	0	0	565	488
Latvia	124	0	326	177	0	0	0	0	450	177
Lithuania	655	475	163	173	856	886	0	0	1,674	1,534
Operating profit, incl.	**673**	**415**	**628**	**542**	**1,027**	**949**	**-30**	**-20**	**2,298**	**1,886**
Estonia	0	0	206	229	292	194	-30	-20	468	403
Latvia	104	0	274	157	0	0	0	0	378	157
Lithuania	569	415	148	156	735	755	0	0	1,452	1,326
EBITDA, incl.	**677**	**416**	**627**	**543**	**1,040**	**956**	**-30**	**-20**	**2,314**	**1,895**
Estonia	0	0	206	229	293	194	-30	-20	469	403
Latvia	104	0	274	158	0	0	0	0	378	158
Lithuania	573	416	147	156	747	762	0	0	1,467	1,334
Operating profit									**2,298**	**1,886**
Net financial expense									-289	-301
Profit before income tax expense									**2,009**	**1,585**
Income tax expense (Note 9)									-197	-156
NET PROFIT FOR THE FINANCIAL PERIOD									**1,812**	**1,429**

SEGMENT ASSETS

	Office		Logistics		Retail		Total	
As at 30 September	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
€ thousands								
Investment property (Note 14)								
Estonia	0	0	12,520	12,880	18,690	18,507	31,210	31,387
Latvia	6,870	0	17,076	8,706	0	0	23,946	8,706
Lithuania	41,399	29,618	8,740	8,770	32,059	32,631	82,198	71,019
Total investment property	**48,269**	**29,618**	**38,336**	**30,356**	**50,749**	**51,138**	**137,354**	**111,112**
Other non-current assets							229	134
Net debt (liabilities minus cash)							-69,386	-52,444
Other short-term assets							976	9,758
NET ASSETS							**69,173**	**68,560**

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 9.1%, 6.4% and 6.3% of the Group's consolidated rental income, respectively.

4 Revenue

	9 months	
Areas of activity	**2020**	2019
€ thousands		
Rental income from office premises	2,023	1,642
Rental income from retail premises	2,015	3,004
Rental income from warehousing and logistics premises	3,126	1,806
Other sales revenue	534	548
Total revenue by areas of activity (Note 4, 12)	**7,698**	**7,000**

Revenue by geographical area	9 months 2020	2019
€ thousands		
Estonia	1,683	1,466
Latvia	1,199	533
Lithuania	4,816	5,001
Total revenue by geographical area	**7,698**	**7,000**

5 Cost of services sold

Cost of services sold	9 months 2020	2019
€ thousands		
Repair and maintenance of rental space	-103	-163
Improvement expenses	-6	-16
Property Insurance	-6	-2
Land tax and real estate tax	-14	-10
Wage costs, incl. taxes	-29	-16
Depreciation expenses	-1	0
Other selling expenses	-63	-22
Impairment of doubtful receivables	0	0
Total cost of services sold	**-222**	**-229**

6 Marketing costs

Marketing costs	9 months 2020	2019
€ thousands		
Commission expenses on rental premises	-46	-7
Advertising, promotional events[1]	-160	-296
Total marketing costs	**-206**	**-303**

[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

	9 months	
General and administrative expenses	**2020**	2019
€ thousands		
Management services (Note 18)	-652	-532
Office expenses	-23	-27
Wages and salaries, incl. taxes	-163	-176
Depository expenses, share-related expenses	-70	-107
Consulting expenses, legal expenses, due diligence	-163	-54
Valuation of investment properties	-14	-10
Audit costs	-17	-13
Other general administrative expenses	-26	-30
Depreciation costs	-38	-28
Total general and administrative expenses	**-1,166**	**-977**

8 Finance costs

	9 months	
	2020	2019
€ thousands		
Interest expenses, incl.	-966	-834
Interest expense from loans	-891	-762
Interest expense from derivatives (-)/ cost reductions (+)	-75	-72
Change in fair value of interest swaps (Note 15)	-1	-202
Total finance costs	**-967**	**-1,036**

9 Income tax

	9 months	
	2020	2019
€ thousands		
Dividend income tax expense	-261	-142
Deferred income tax in Lithuanian subsidiaries	-13	-543
Income tax expense from Lithuanian profit	-134	-107
Total income tax expense	**-408**	**-792**

As at 30.09.2020, the Group has a deferred income tax liability in connection with the use of tax depreciation of subsidiaries located in Lithuania in the amount of 4,287 thousand euros (31.12.2019: 4,274 thousand euros). Deferred income tax expense payment / netting obligation arises after the expiration of the tax depreciation period.

10 Earnings per share

	III quarter		9 months	
Earnings per share	**2020**	2019	**2020**	2019
Net profit for the period, *in € thousands*	**1,812**	1,429	**747**	5,127
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**	4,222,535	**4,222,535**	3,634,300
Earnings per share, in EUR	**0.43**	0.34	**0.18**	1.41

11 Receivables and accrued income

	30.09.2020	31.12.2019
€ thousands		
Receivables from customers (Note 15)	353	569
Prepaid taxes and receivables for reclaimed value-added tax	69	76
Prepayments on other taxes	149	0
Discounting of rental income	315	0
Other accrued income	41	22
Total receivables and accrued income	**927**	**667**

12 Investment property

As at 30.09.2020, the Group has made investments in the following investment properties:

Name	**Location**	**Net rental area (m2)**	**Year of construction**	**Date of acquisition**	**Acquisition cost**	**Market value at 30.09.2020**	**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	28,398	32,060	13%	22%
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	8,830	8,673	-2%	6%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,716	10,044	15%	7%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,254	8,932	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%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,700	10,603	9%	7%
ABC Motors sales and service center	Tallinn, Estonia	2,149	2002	02.2019	3,018	3,160	5%	2%
airBaltic headquarter	Riga, Latvia	6,217	1977, renovated 2016	03.2020	7,100	6,870	-3%	5%
Piepilsetas logistics center	Riga, Latvia	13,327	2007	03.2020	8,715	8,403	-4%	6%
ATEA office building	Vilnius, Lithuania	6,811		08.2020	11,819	11,819	0%	8%
Total		**117,564**			**130,079**	**137,354**	**6%**	**96%**

Additional information regarding the investment properties is in Note 3 “Segment reporting”.

During the first 9 months of 2020 and 2019, the following changes have taken place in the Group's investment properties:

	Investment property under development	Ready real estate investments	**Total real estate investments**
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		1,460	1,460
Balance as at 30.09.2019	**4,046**	**105,684**	**109,730**
Balance as at 01.01.2020	**0**	**113,011**	**113,011**
Acquisitions	0	11,819	**11,819**
Acquisitions from mergers (note 2)	0	15,800	**15,800**
Capitalized improvements	0	710	**710**
Gain / loss on change in fair value	0	-3,986	**-3,986**
Balance as at 30.09.2020	**0**	**137,354**	**137,354**

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

	9 months	
As at 30 September or 9 months	**2020**	2019
Rental income earned on investment property (Note 4)	7,164	6,452
Expenses directly attributable to management of investment property (Note 5)	-222	-229
Unpaid amounts from acquisition of investment properties (Note 14)	0	325
Carrying amount of investment property pledged as collateral to borrowings	137,354	111,112

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

The Group's investment properties are valued by an independent appraiser. The fair value of all investment properties reported in the Group's financial statements as of 30.09.2020 and 31.12.2019 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 30.09.2020:

Sector	**Fair value**	**Valuation method**	**Estimated first year rental income**	**Discount rate**	**Capitalization rate**	**Average rent, €/,m2**
€ thousands						
Office premises	48,269	Discounted cash flows	3,648	7.1% - 8.2%	7.0%-80%	10.5
Warehouse and logistics premises	38,336	Discounted cash flows	3,044	8.0% -8.6%	7.8%-8.0%	5.5
Retails premises	50,749	Discounted cash flows	4,429	8.6%-8.8%	7.5%-8.0%	11.4
Total	**137,354**		**11,121**			

As at 31.12.2019:

Sector	**Fair value**	**Valuation method**	**Estimated first year rental income**	**Discount rate**	**Capitalization rate**	**Average rent, €/,m2**
€ thousands						
Office premises	29,711	Discounted cash flows	2,106	7.9%	7.5%-8.0%	11.7
Warehouse and logistics premises	30,390	Discounted cash flows	2,436	8.0%-8.6%	7.8%-8.0%	6.1
Retails premises	52,910	Discounted cash flows	4,535	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 of 30.09.2020 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**
€ thousands							
Office	48,269	*3,950*	*-3,950*	*-970*	*990*	*-2,160*	*2,490*
Warehouse and logistics	38,336	*3,080*	*-3,100*	*-772*	*766*	*-1,597*	*1,795*
Retail	50,749	*4,470*	*-4,480*	*-1,000*	*1,030*	*-2,110*	*2,370*
Total	**137,354**	**11,500**	**-11,530**	**-2,742**	**2,786**	**-5,867**	**6,655**

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 30.09.2020, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.09.2020	Contract term	Interest rate as at 30.09.2020	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	14,474	14.08.23	2.65%	Mortgage - Saules Miestas Shopping center	32,059	20.9%
SEB	Lithuania	5,500	4,461	29.06.21	1.55%	Mortgage – DSV building in Vilnius	8,740	6.4%
SEB	Latvia	3,323	4,312	29.06.21	1.55%	Mortgage – DSV building in Riga	8,673	6.2%
SEB	Estonia	7,950	6,487	29.06.21	1.55%	Mortgage – DSV building in Estonia	12,520	9.4%
SEB	Lithuania	5,620	4,646	30.09.21	1.90%	Mortgage – L3 office building in Vilnius	10,044	6.7%
SEB	Lithuania	5,200	4,057	21.12.20	1.75%	Mortgage – Ulonu office building in Vilnius	8,933	5.9%
SEB	Lithuania	5,850	5,279	30.05.23	2.00%	Mortgage – Evolution office building in Vilnius	10,603	7.6%
Swedbank	Estonia	3,290	3,224	11.01.24	1.95%	Mortgage – Hortes gardening center Tähesaju	5,850	4.7%
SEB	Estonia	1,860	1,566	05.07.22	1.82%	Mortgage – Hortes gardening center Laagri	3,360	2.3%
Swedbank	Estonia	3,700	3,101	26.06.22	1.40%	Mortgage – Selver grocery store in Laagri	6,320	4.5%
Swedbank	Latvia	3,201	3,094	05.02.23	2.80%	Mortgage - Piepilsetas logistics center	8,403	4.5%
Luminor	Latvia	3,905	3,789	04.02.25	3.75%	Mortgage – airBaltic office building	6,870	5.5%
LHV	Estonia	1,800	1,713	25.02.24	2.95%	Mortgage – ABC Motors sales and service center	3,160	2.5%
SEB	Lithuania	7,300	7,272	12.08.25	2.10%	ATEA office building, Vilnius	11,819	10.5%
Total		**74,999**	**67,475**				**137,354**	**97.5%**

For additional information on borrowings, please see Note 15.

Short-term borrowings	**30.09.2020**	31.12.2019
€ thousands		
Repayments of long-term bank loans in the next period	21,905	21,171
Discounted contract fees on bank loans	-43	-24
Total short-term borrowings	**21,862**	**21,147**

Long-term borrowings	30.09.2020	31.12.2019
€ thousands		
Total long-term borrowings (Note 15)	**67,390**	**55,372**
incl. current portion of borrowings	21,862	21,147
incl. non-current portion of borrowings, incl.	45,528	34,225
Bank loans	*45,569*	*34,246*
Discounted contract fees on bank loans	-41	*-21*

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	30.09.2020	31.12.2019
€ thousands		
Under 1 year	21,905	21,171
2-5 years	45,569	34,246

	9 months	
Cash flows of borrowings	**2020**	2019
€ thousands		
Balance at the beginning of period	**55,372**	**52,848**
Bank loans received through business combinations and acquisitions	7,164	0
Bank loans received	7,300	4,916
Repaid bank loans for refinancing	0	-1,500
Annuity payments on bank loans	-2,379	-1,337
Change of discounted contract fees	-67	1
Balance at the end of period	**67,390**	**54,928**

14 Payables and prepayments

Short-term payables and prepayments

	30.09.2020	31.12.2019
€ thousands		
Other payables to suppliers	134	642
Total payables to suppliers	**134**	**642**
Debts from securities transactions(Note 2)	119	0
Other debts	9	2
Total other debts	**128**	**2**
VAT	235	205
Corporate income tax	134	0
Social tax	6	7
Land tax, real estate tax	19	31
Other tax liabilities	5	0
Total tax liabilities	**399**	**243**
Debts to employees (Note 15)	28	54
Interest payables (Note 15)	27	9
Tenants deposits (Note 15)	93	111
Other accrued liabilities (Note 15)	70	57
Total accrued liabilities	**218**	**231**
Prepayments received from buyers	0	14
Total advances	**0**	**14**
Total payables and advances	**879**	**1,132**

Long-term payables

	30.09.2020	31.12.2019
€ thousands		
Tenants security deposits	868	605
Other long-term payables	3	4
Total other long-term payables	**871**	**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

€ thousands	Notes	30.09.2020	31.12.2019
Financial assets - loans and receivables			
Cash and cash equivalents		4,313	12,986
Short-term deposits		0	6,000
Trade receivables	11	353	569
Total financial assets		**4,666**	**19,555**
Financial liabilities measured at amortised cost			
Borrowings	13	67,390	55,372
Trade payables	14	134	642
Tenant security deposits	14	961	716
Interest payables	14	27	9
Accrued expenses	14	98	111
Total financial liabilities measured at amortised cost		**68,610**	**56,850**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		272	271
Total financial liabilities measured at fair value		**272**	**271**
Total financial liabilities		**68,882**	**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 30.09.20, 68% 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 32% of loan contracts carry fixed interest rate ranging from 1.55% to 1.9%. Of contracts based on floating interest rate, 31% 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 30.09.2020 was negative in the amount of EUR 272 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 30.09.2020, 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 30.09.2020	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
€ thousands						
Interest-bearing liabilities	305	4,892	16,713	45,564	0	**67,474**
Interest payments	129	378	894	2,302	0	**3,703**
Interest payables	27	0	0	0	0	**27**
Trade payables	134	0	0	0	0	**134**
Tenant security deposits	5	48	40	639	228	**961**
Accrued expenses	71	0	0	0	0	**71**
Total financial liabilities	**671**	**5,318**	**17,647**	**48,505**	**228**	**72,370**

Report of working capital

	30.09.2020	31.12.2019
€ thousands		
Cash and cash equivalents	4,313	12,986
Receivables and accrued income (Note 11)	927	667
Prepaid expenses	49	51
Total current assets	**5,289**	**13,704**
Short-term portion of long-term liabilities (Note 13)	-21,862	-21,147
Short-term payables and prepayments (Note 14)	-1,151	-1,403
Total current liabilities	**-23,013**	**-22,550**
Total working capital	**-17,724**	**-8,846**

As at 30.09.2020, the working capital of the Group is negative in the amount of EUR 17,724 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 19,317 thousand euros. As the maturity of the loan agreements approaches, the agreements will be refinanced. The debt coverage ratios of all loans refinanced over the next 12 months range from 45% to 52% 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 behaviour 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 companies temporarily applied discounts to tenants, which had expired at the end of September 2020. As of 30.09.2020, the payment behaviour of the tenants of the fund's subsidiaries is good.

Accounts receivable are illustrated by the table below:

	30.09.2020	31.12.2019
Undue	274	398
Past due, incl.	**84**	**171**
up to 30 days	*64*	*160*
30-60 days	*6*	*9*
more than 60 days	*14*	*2*
Doubtful accounts	-5	0
Total trade receivables (Note 11)	**353**	**569**

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

	30.09.2020	31.12.2019
€ thousands		
Cash and cash equivalents	4,313	12,986
Short-term deposits	0	6,000
Trade receivables	353	569
Total maximum credit risk	**4,666**	**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 nine months of 2020 is a total of 2,809 thousand euros, of which 2,011 thousand euros (48 cents per share) could be paid to shareholders as a net dividend according to the dividend policy after allocating the liquidity reserve and income tax expense. In July 2020, the fund paid dividends of 2,745 thousand euros (65 cents per share) from the profit of 2019.

Report of capitalisation

	30.09.2020	31.12.2019
€ thousands		
Short-term liabilities guaranteed with mortgage (Note 15)	21,905	21,171
Unsecured short-term liabilities (Note 16)	1,108	1,379
Total short-term liabilities	**23,013**	**22,550**
Long-term liabilities guaranteed with mortgage (Note 15)	45,569	34,246
Unsecured long-term liabilities (Note 16)	5,117	4,862
Total long-term liabilities	**50,686**	**39,108**
Share capital and share premium (Note 19)	51,883	51,883
Reserves	1,323	936
Retained earnings (Note 20)	15,967	18,352
Total shareholder's equity	**69,173**	**71,171**
Total liabilities and equity	**142,872**	**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

€ thousands	30.09.2020	31.12.2019
Cash	4,313	12,986
Short - term deposits	0	6,000
Tradable securities	0	0
Total liquid assets	**4,313**	**18,986**
The short-term portion of long-term liabilities (Note 13)	21,905	21,171
Short - term bank loans	0	0
Other current financial liabilities	0	0
Net short-term debt	**17,592**	**2,185**
Long-term bank loans (long-term portion) (Note 13)	45,569	34,246
Bonds issued	0	0
Other long - term loans	0	0
Total long-term debt	**45,569**	**34,246**
Total net debt	**63,161**	**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 of 30.09.2020 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 registered share capital of EfTEN Real Estate Fund III AS as of 30.09.2020 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 30.09.2020, 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:

	As at 30.09.2020	
Company	**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:

	As at 30.09.2020	
Company	**Number of shares**	**Ownership, %**
Viljar Arakas, member of the Management Board	2,000	0.05
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	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

	30.09.2020	31.12.2019
€ thousands		
Retained earnings	15,967	18,352
Potential income tax liability	3,193	3,670
Dividends can be paid out	12,774	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 30.09.2020 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).

During the 9 months of 2020, the Group purchased management services from EfTEN Capital AS in the amount of 652 thousand euros (9 months of 2019: 532 thousand euros) (see Note 7).

EfTEN Real Estate Fund III AS did not buy or sell other goods or services from other related parties during 9 months of 2020 or 2019.

As of 30.09.2020, the Group had a total of 12 employees, who were paid a total of 192 thousand euros, including related taxes (9 months of 2019: the same). No remuneration was calculated or paid to the members of the Group's Management Board or Supervisory Board during the 9 months of 2020 or 2019. The members of the Group's Management Board work for EfTEN Capital AS, a company providing management services to the Group, and expenses related to the activities of a member of the Management Board are included in the management services.

Declaration of the Management Board on the consolidated interim report for the third quarter and 9 months of 2020

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