



EFTEN Real Estate Fund III

Interim report for the third quarter and 9 months of 2021

EFTEN Real Estate Fund III AS

Commercial register number: 12864036

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MANAGEMENT REPORT

Financial overview

EFTEN Real Estate Fund III AS's consolidated sales revenue for the third quarter of 2021 totalled 3.458 million euros (3rd quarter of 2020: 2.833 million euros), increasing by 22% year-on-year. The increase in sales revenue is 68% due to new acquisitions (Ramygalos logistics building, Rutkausko office building, Pirita care home) and 32% increase in sales revenue due to the end of Covid-19 temporary discounts granted to tenants last year and also renting out vacant premises. The rental income of no real estate investment is lower in the third quarter of this year than in the third quarter of the previous year.

EFTEN Real Estate Fund III AS's consolidated sales revenue for the first 9 months of 2021 was 9.413 million euros (9 months of 2020: 7.698 million euros), increasing by 22% year-on-year. The Group's profit before revaluations of investment properties, changes in the fair value of interest rate swaps and income tax expense totalled 6.439 million euros in the first 9 months of 2021 (9 months of 2020: 5.142 million euros).

During the 9 months of 2021, the fund earned consolidated EBITDA of 7.8 million euros (9 months of 2020: 6.1 million euros), thus the fund's EBITDA has increased by a total of 1.7 million euros (27%). The increase in EBITDA, in turn, is 56% of the operating profit from the addition of new acquisitions.

The consolidated gross profit margin was 98% in the first 9 months of 2021 (97% in the first 9 months of 2020), so expenses directly related to the management of real estate (incl. land tax, insurance, maintenance, and improvement costs) accounted for 2% of sales revenue. Expenses related to the Group's real estate, marketing expenses, overheads and other income and expenses accounted for a total of 17% of sales revenue in the first 9 months of 2021 (during the first 9 months of 2020: 21%).

	9 months	
	2021	2020
€ million		
Rental revenue, other fees from investment properties	9.413	7.698
Expenses related to investment properties, incl. marketing costs	-0.337	-0.428
Net rental income	9.076	7.270
<i>Net rental income margin</i>	96%	94%
Interest expense and interest income	-1.353	-0.966
Net rental revenue less finance costs	7.723	6.304
Management fees	-0.787	-0.652
Other revenue and expenses	-0.497	-0.510
Profit before change in the value of investment property, success fee, fair value change of the interest rate swap and income tax expense	6.439	5.142

The volume of the Group's assets as of 30.09.2021 was 170.446 million euros (31.12.2020: 151.632 million euros), including the fair value of investment properties accounted for 92% of the volume of assets (31.12.2020: 95%).

	30.09.2021	31.12.2020
€ millions		
Investment properties	157.402	144.235
Other non-current assets	0.156	0.123
Current assets, excluding cash	1.000	2.146
Net debt (cash and deposits minus short-term and long-term bank loans)	60.092	67.240
Net asset value (NAV)	91.559	71.483
EPRA net asset value (EPRA NAV)	96.773	76.112
Net asset value (NAV) per share, in euros	18.05	16.93
EPRA net asset value (EPRA NAV) per share, in euros	19.07	18.03

Over the next 12 months, the loan agreements of several group subsidiaries will mature. Most of the Group's loans are concluded with a 5-year term, which is refinanced upon termination of the loan agreement. Over the next 12 months, 8.888 million euros of the Group's loan liabilities will be refinanced, i.e. 12% of the total loan portfolio. As of 30.09.2021, the average interest rate of the Group's loan agreements (incl. taking into account interest rate swap agreements) is 2.2% (31.12.2020: 2.3%) and LTV (Loan to Value) 46% (31.12.2020: 50%).

Key performance and liquidity ratios

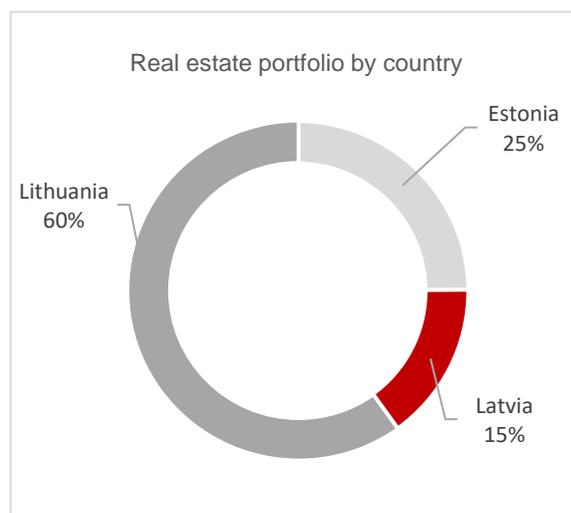
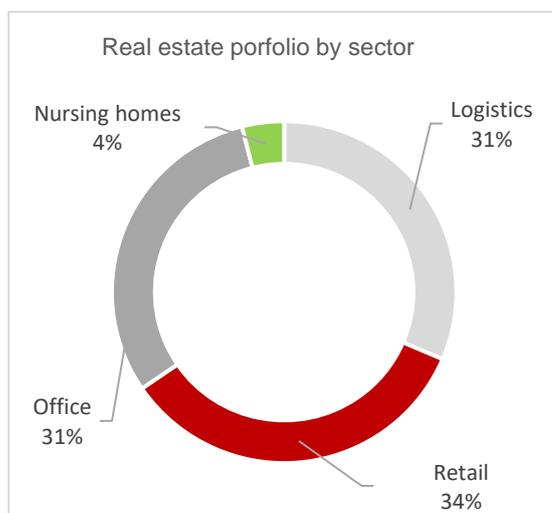
9 months	2021	2020
ROE. % (net profit of the period / average equity of the period) x 100	9.5	1.1
ROA. % (net profit of the period / average assets of the period) x 100	4.8	0.5
ROIC. % (net profit of the period / average invested capital of the period) x 100 ¹	13.0	1.4
Revenue (€ thousands)	9,413	7,698
EBITDA (€ thousands)	7,837	6,146
EBITDA margin. %	83%	80%
EBIT (€ thousands)	9,812	2,122
EBIT margin. %	104%	28%
Liquidity ratio (current assets / current liabilities)	1.0	0.2
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.9	1.8

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

In mid-June 2021, the Group acquired a new investment property in Panevežys, Lithuania. The cost of the investment property, including transaction costs, totalled 10.011 million euros and the annual rental income of the building is 799 thousand euros.

As of the end of September, 2021, the Group has 16 (31.12.2020: 15) commercial real estate investments with a fair value of 157.402 million euros (31.12.2020: 144.235 million euros) and an acquisition cost of 147.964 million euros (31.12.2020: 136.349 million euros) at the balance sheet date.



Main figures of the Group's real estate portfolio:

Investment property as of 30.09.2021	Group's ownership	Fair value of investment properties	Net leasable area	Rental revenue per annum (€ thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV logistics centre. Tallinn	100	13,132	16,014	1,020	100	5.1	1
DSV logistics centre. Riga	100	8,685	12,149	722	100	5.2	1
DSV logistics centre. Vilnius	100	9,110	11,687	710	100	5.1	1
Piepilsetas logistics centre. Kekava	100	8,501	13,327	642	99	2.3	6
Panevėžys logistics centre. Panevėžys	100	10,011	20,125	799	100	5.6	2
Total logistics		49,439	73,302	3,893	100	4.8	11
Saulės Miestas logistics centre. Šiauliai	100	33,690	19,881	3,099	97	4.7	133
Hortes shopping centre. Laagri	100	3,550	3,470	266	100	10.7	1
Laagri Selver. Tallinn	100	6,910	3,063	498	100	6.4	11
Hortes gardening centre. Tallinn	100	6,210	5,300	507	100	13.0	1
ABC Motors sales and service centre. Tallinn	100	3,297	2,149	259	100	7.4	1
Total retail		53,657	33,863	4,629	98	6.2	147
Ulonu office building. Vilnius	100	8,861	5,174	747	99	2.7	14
L3 office building. Vilnius	100	10,025	6,150	744	95	3.4	34
Evolution office building. Vilnius	100	10,620	6,172	790	100	3.5	27
airBaltic main office. Riga	100	6,800	6,217	499	100	4.4	1
Rutkausko office building. Vilnius	100	11,800	6,812	847	100	8.9	3
Total office		48,106	30,525	3,627	99	4.7	79
Pirita care home. Tallinn	100	6,200	6,045	443	100	9.2	1
Total care homes		6,200	6,045	443	100	9.2	1
Total real estate portfolio		157,402	143,735	12,592	99	5.3	238

In June 2021, the fund conducted its usual valuation of investment properties, during which the value of the fund's real estate portfolio increased by 1.4% (2.020 million euros). The change in value was mainly due to the improvement in cash flow expectations in Saules Miestas and the Ulonu office building. The increase in the value of other objects was mainly due to the reduction of the exit yield by half or a quarter of a percentage point.

Information on shares

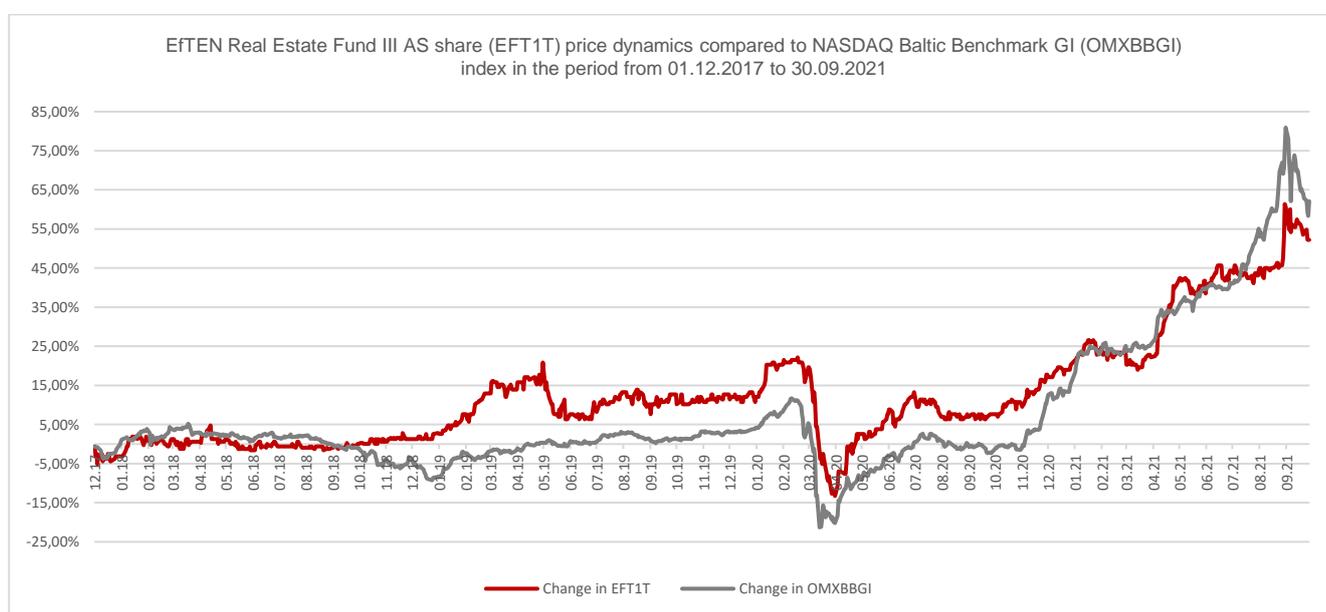
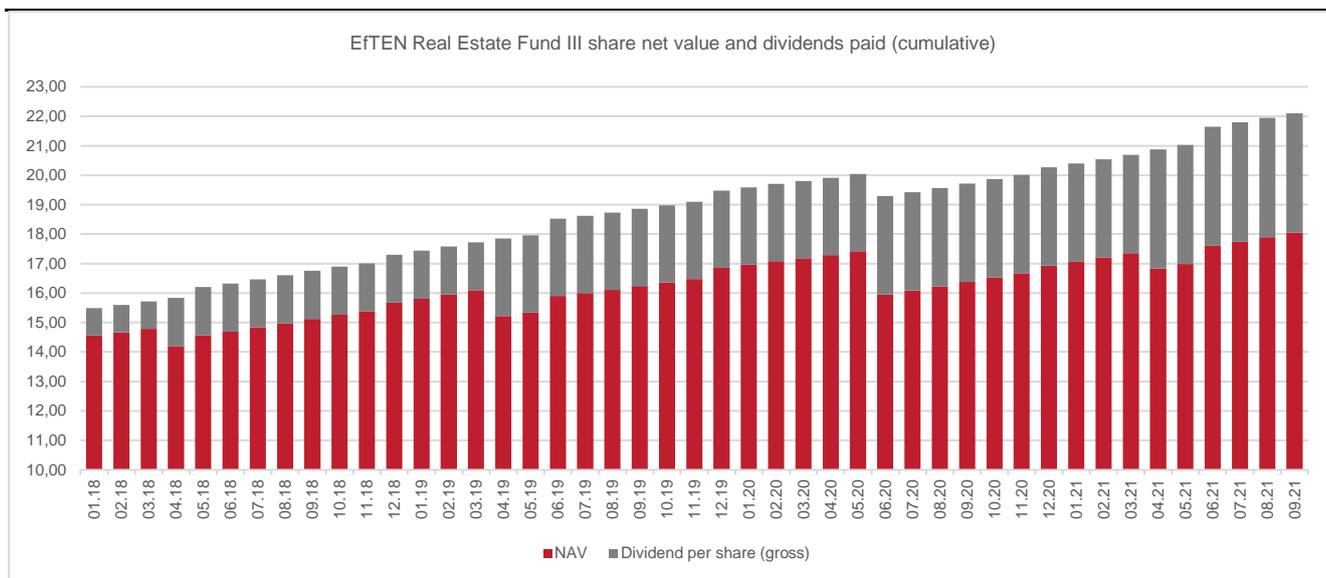
The net asset value of the share of EFTEN Real Estate Fund III as of 30.09.2021 was 18.05 euros (31.12.2020: 16.93 euros). The net asset value of EFTEN Real Estate Fund III AS increased by 6.6% during the first 9 months of 2021.

In April, 2021, the general meeting of the fund decided to distribute a total of 2.798 thousand euros (66.3 eurocents per share) in net dividends from the net profit for 2020. Without dividends, the net asset value of the fund's share would have increased by 10.1% during the first 9 months of 2021.

In May 2021, EFTEN Real Estate Fund III AS conducted a public offering of shares, as a result of which the share capital of the fund increased by 8,500 thousand euros. Payments were made to the share capital of the Fund in the total amount of 15,130 thousand euros.

In addition to the net asset value per share calculated in accordance with the above IFRS, EFTEN Real Estate Fund III AS also calculates the net asset value recommended by EPRA (European Public Real Estate Association) to provide investors with the most appropriate net asset value, EPRA's indicative guidance presupposes a long-term economic strategy for real estate companies, so that temporary differences in a situation where assets are not likely to be sold in the near future will obscure the transparency of the fair value of the fund's net assets. Therefore, deferred income tax expense on investment property and the fair value of financial instruments (interest rate swaps) are eliminated from the net asset value calculated in accordance with IFRS from the net asset value of EPRA.

€ thousands	30.09.2021	31.12.2020	30.09.2020	31.12.2019
Net asset value calculated in accordance with IFRS	91,559	71,483	69,173	70,911
Exclusion of deferred income tax on investment properties	5,031	4,383	4,287	4,274
Exclusion of the fair value of financial instruments	151	246	272	271
EPRA net asset value	96,741	76,112	73,732	75,456
Number of shares at the balance sheet date	5,072,535	4,222,535	4,222,535	4,222,534
EPRA net asset value per share, in euros	19.07	18.03	17.46	17.87
EPRA NAV growth, in euros	1.05		-0.41	
Declared dividend per share, in euros	0.66		0.95	
Period earnings per share, in euros	1.71		0.54	
Period earnings per share, increase	9.5%		3.0%	



EFT1T share statistics	9 months	
	2021	2020
Opening price	19	17.9
Closing price	23.3	17
Minimum share price	13.6	13.6
Maximum share price	25.6	19.3
Volume of traded shares, thousands	227	326
Volume, EUR million	4.769	5.310
Market capitalisation as at 30.09, EUR million	106.540	71.783
Earnings per share, euros	1.69	0.24
P/B (closing price / equity per share)	1.29	1.04
P/B EPRA (closing price / EPRA equity per share)	1.22	0.97

As of 30.09.2021, EFTEN Real Estate Fund III AS had 5,935 shareholders. of which 17% were legal entities. Legal entities owned a total of 78.31% of the total share capital of the fund. The distribution of shares is shown in the table below.

	Shareholders. pcs		Total shareholders	Number of shares		Total shares	Ownership		Ownership total
	Juridical entity	Private individual		Juridical entity	Private individual		Juridical entity	Private individual	
Afghanistan	-	1	1	-	16	16	-	0.0003%	0.0003%
Albania	-	1	1	-	14	14	-	0.0003%	0.0003%
Algeria	-	1	1	-	317	317	-	0.0062%	0.0062%
Australia	-	3	3	-	19	19	-	0.0004%	0.0004%
Austria	-	1	1	-	1,255	1,255	-	0.0247%	0.0247%
Belgium	-	1	1	-	5	5	-	0.0001%	0.0001%
China	-	1	1	-	172	172	-	0.0034%	0.0034%
Denmark	1	1	2	1	31	32	-	0.0006%	0.0006%
Estonia	1,003	4,874	5,877	3,959,777	1,089,337	5,049,114	78.0631%	21.4752%	99.5383%
Finland	1	10	11	42	587	629	0.0008%	0.0116%	0.0124%
France	-	1	1	-	5	5	-	0.0001%	0.0001%
Germany	-	5	5	-	291	291	-	0.0057%	0.0057%
Holland	-	1	1	-	109	109	-	0.0021%	0.0021%
Ireland	-	1	1	-	11	11	-	0.0002%	0.0002%
Italy	-	1	1	-	75	75	-	0.0015%	0.0015%
Latvia	1	1	2	1,520	31	1,551	0.0300%	0.0006%	0.0306%
Lithuania	4	1	5	10,640	6,406	17,046	0.2098%	0.1263%	0.3360%
Malta	-	1	1	-	20	20	-	0.0004%	0.0004%
Norway	-	1	1	-	3	3	-	0.0001%	0.0001%
Oman	-	1	1	-	106	106	-	0.0021%	0.0021%
Portugal	-	1	1	-	100	100	-	0.0020%	0.0020%
South Africa	-	1	1	-	228	228	-	0.0045%	0.0045%
Spain	-	1	1	-	105	105	-	0.0021%	0.0021%
Sweden	1	3	4	25	94	119	0.0005%	0.0019%	0.0023%
Switzerland	-	4	4	-	385	385	-	0.0076%	0.0076%
United Arab Emirates	-	1	1	-	99	99	-	0.0020%	0.0020%
United Kingdom	-	4	4	-	518	518	-	0.0102%	0.0102%
United States	1	-	1	191	-	191	0.0038%	-	0.0038%
Total	1,012	4,923	5,935	3,972,196	1,100,339	5,072,535	78.31%	21.69%	100.00%

As of 30.09.2021, EFTEN Real Estate Fund III AS has three shareholders with more than 10% participation:

Entity	As at 30.09.2021	
	Number of shares	Ownership. %
Altius Energia OÜ	723,182	14.26
Järve Kaubanduskeskus OÜ	518,952	10.23
Hoiukonto OÜ	516,930	10.19

INTERIM FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousands	Notes	3rd quarter		9 months	
		2021	2020 ¹	2021	2020 ¹
Revenue	3.4	3,458	2,833	9,413	7,698
Cost of sales	5	-54	-75	-193	-222
Gross profit		3,404	2,758	9,220	7,476
Marketing costs	6	-54	-70	-144	-206
General and administrative expenses	7	-426	-394	-1,302	-1,166
Gain / loss from revaluation of investment properties	12	0	0	2,020	-3,986
Other operating income and expense		12	4	18	4
Operating profit	3	2,936	2,298	9,812	2,122
Other finance income and expense	8	-419	-289	-1,258	-967
Profit before income tax		2,517	2,009	8,554	1,155
Income tax expense	9	-243	63	-810	-148
Net profit for the financial year	3	2,274	2,072	7,744	1,007
Earnings per share	10				
- Basic		0.45	0.49	1.69	0.24
- Diluted		0.45	0.49	1.69	0.24

¹ In the comprehensive income statement for the 3rd quarter of 2020 and 9 months of 2020, the income tax expense has been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

The notes on pages 11 to 28 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.09.2021	31.12.2020
<i>€ thousands</i>			
ASSETS			
Cash and cash equivalents	15	11,888	5,128
Receivables and accrued income	11	955	2,018
Prepaid expenses		17	128
Inventory		28	0
Total current assets		12,888	7,274
Long-term receivables		3	18
Investment property	3.12	157,402	144,235
Property, plant and equipment		150	101
Intangible assets		3	4
Total non-current assets		157,558	144,358
TOTAL ASSETS		170,446	151,632
LIABILITIES AND EQUITY			
Borrowings	13	11,985	28,781
Derivative instruments	15	151	246
Payables and prepayments	14	683	1,995
Total current liabilities		12,819	31,022
Borrowings	13	59,995	43,587
Other long-term debt	14	1,010	957
Deferred income tax liability	9	5,063	4,583
Total non-current liabilities		66,068	49,127
Total liabilities		78,887	80,149
Share capital	16	50,725	42,225
Share premium		16,288	9,658
Statutory reserve capital		1,489	1,323
Retained earnings	17	23,057	18,277
Total equity		91,559	71,483
TOTAL LIABILITIES AND EQUITY		170,446	151,632

The notes on pages 11 to 28 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	3 rd quarter		9 months	
		2021	2020 ¹	2021	2020 ¹
€ thousands					
Net profit		2,274	2,072	7,744	1,007
<i>Adjustments of net profit:</i>					
Finance income and expense	8	421	289	1,260	967
Gains / losses on revaluation of investment property	12	0	0	-2,020	3,986
Depreciation and impairment losses	7	15	13	43	38
Income tax expense	9	243	-63	810	148
Total adjustments with non-cash changes		679	239	93	5,139
Cash flow from operations before changes in working capital		2,953	2,311	7,837	6,146
Change in receivables and payables related to operating activities		882	138	-170	-501
Net cash flow generated from operating activities		3,835	2,449	7,667	5,645
Purchase of property, plant and equipment		-13	6	-90	-33
Purchase of investment property	12	-239	-12,114	-11,147	-12,650
Change in short-term deposits		0	0	0	6,000
Acquisition of subsidiaries	2	-95	0	-95	-8,615
Interest received		5	0	9	13
Net cash flow generated from investing activities		-342	-12,108	-11,323	-15,285
Loans received	13	0	7,300	6,300	7,300
Scheduled loan repayments	13	-914	-911	-6,690	-2,379
Interest paid		-454	-332	-1,357	-949
Issue of shares	16	0	0	15,130	0
Dividends paid	15	0	-2,745	-2,798	-2,745
Income tax on dividends paid		-169	-260	-169	-260
Net cash flow generated from financing activities		-1,537	3,052	10,416	967
NET CASH FLOW		1,956	-6,607	6,760	-8,673
Cash and cash equivalents at the beginning of period		9,932	10,920	5,128	12,986
Change in cash and cash equivalents		1,956	-6,607	6,760	-8,673
Cash and cash equivalents at the end of period	15	11,888	4,313	11,888	4,313

¹ In the cash flow statement for the 3rd quarter of 2020 and 9 months of 2020, net profit and net profit adjustments have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

The notes on pages 11 to 28 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousands	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2019¹	42,225	9,658	936	18,092	70,911
Dividends declared	0	0	0	-2,745	-2,745
Provision for reserve capital	0	0	387	-387	0
Total transactions with owner	0	0	387	-3,132	-2,745
Net profit for the financial period	0	0	0	1,007	1,007
Total comprehensive income for the period	0	0	0	1,007	1,007
Balance as at 30.09.2020¹	42,225	9,658	1,323	15,967	69,173
Balance as at 31.12.2020	42,225	9,658	1,323	18,277	71,483
Issue of shares	8,500	6,630	0	0	15,130
Dividends declared	0	0	0	-2,798	-2,798
Provision for reserve capital	0	0	166	-166	0
Total transactions with owners	8,500	6,630	166	-2,964	12,332
Net profit for the financial period	0	0	0	7,744	7,744
Total comprehensive income for the period	0	0	0	7,744	7,744
Balance as at 30.09.2021	50,725	16,288	1,489	23,057	91,559

¹ In the consolidated statement of changes in equity for 2020, the figures for retained earnings as of 31.12.2019 and 30.09.2020 have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

Additional information on share capital is provided in Note 16.

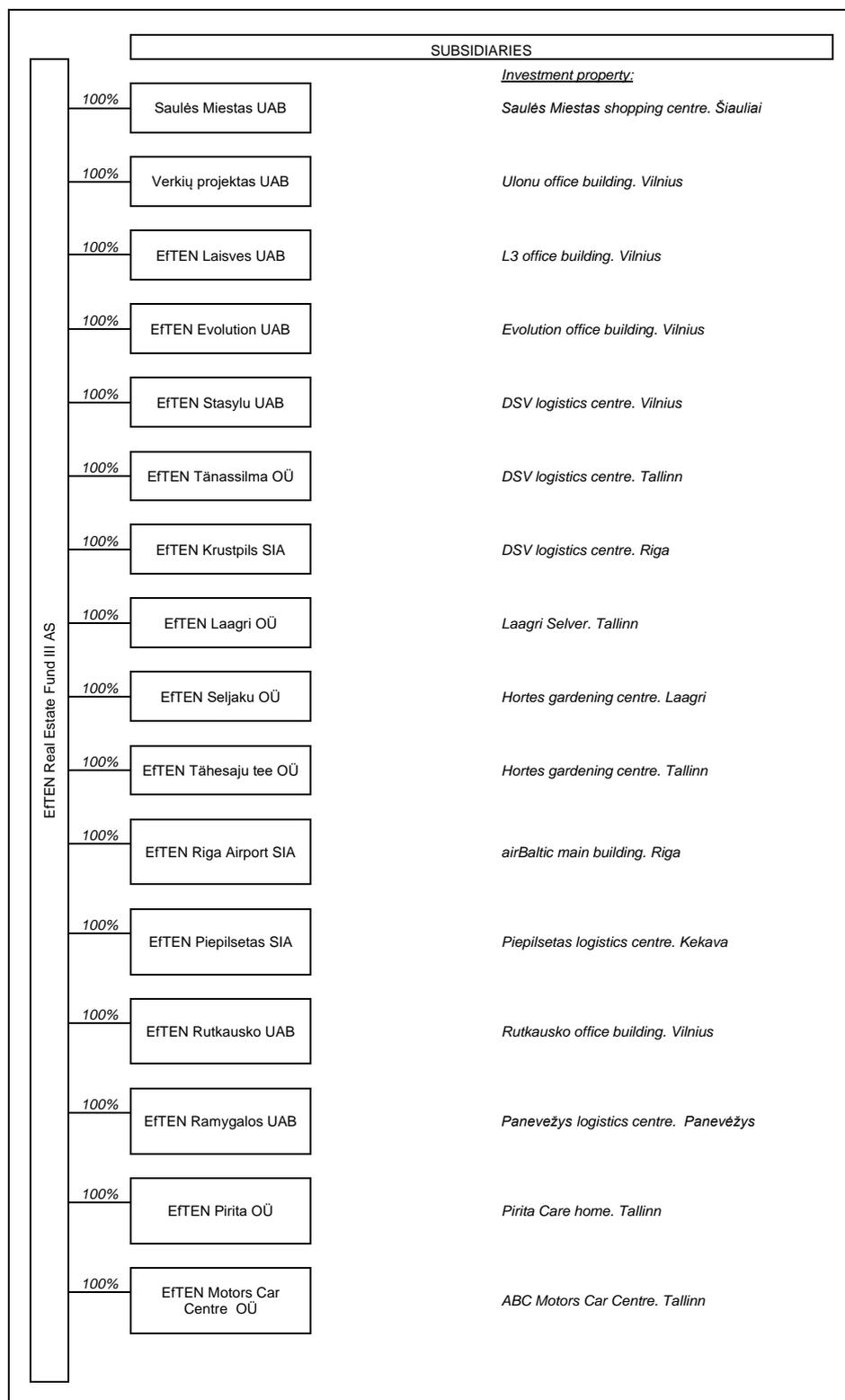
The notes on pages 11 to 28 form an integral part of these financial statements

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Accounting policies and measurement bases used in the preparation of the consolidated interim financial statements

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 30.09.2021 is as follows (also see Note 2):



The consolidated interim financial statements of EFTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with the International Standards as adopted by the European Union (IFRS EU). These consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting. The interim report has been prepared using the same accounting methods as in the annual report for the year ended 31.12.2020. The interim report should be read in conjunction with the Group's most recently published annual report for 2020, prepared in accordance with International Financial Reporting Standards (IFRS). In the opinion of the Management Board, the interim report of EFTEN Real Estate Fund III AS for the third quarter and 9 months of 2021 correctly and fairly reflects the financial results of the Group in accordance with the principle of continuity. This interim report has not been audited or otherwise verified by auditors and contains only the consolidated financial statements of the Group. The reporting currency is the euro. The consolidated interim financial statements have been prepared in thousands of euros and all figures have been rounded to the nearest thousand, unless otherwise stated.

Impact of changes in accounting policies on the financial statements of the reference period, 9 months of and the third quarter of 2020

In preparing the annual report for 2020, the Group changed the accounting policies for deferred income tax liability due to the change in the interpretation of IAS 12.52A. As the effect of the change in accounting policies presented in the 2020 Annual Report was presented for 12 months, the table below shows the effect of deferred tax recognition separately for the comparative periods - 9 months and 3rd quarter of 2020 income statement and cash flow statement:

Impact on the consolidated statement of comprehensive income:

For the 9 months of 2020	Initial	Adjusted	Change
<i>€ thousands</i>			
Income tax expense	-408	-148	260
Net profit for the financial year	747	1,007	260
Earnings per share (euros)			
- basic	0.18	0.24	0.06
- diluted	0.18	0.24	0.06

For the third quarter of 2020	Initial	Adjusted	Change
<i>€ thousands</i>			
Income tax expense	-197	63	260
Net profit for the financial year	1,812	2,072	260
Earnings per share (euros)			
- basic	0.43	0.49	0.06
- diluted	0.43	0.49	0.06

Impact on the consolidated cash flow statement:

For the 9 months	Initial	Adjusted	Change
<i>€ thousands</i>			
Net profit	747	1,007	260
Adjustments of net profit (Income tax expense)	-747	-1,007	-260
NET CASH FLOW	-8,673	-8,673	0

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, € thousands		Group's ownership Interest, %	
			30.09.2021	31.12.2020	30.09.2021	31.12.2020
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Saulės Miestas shopping centre, Šiauliai	17,703	16,495	100	100
Verkiu projektas UAB	Lithuania	Ulonu office building, Vilnius	4,010	3,747	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	5,021	4,816	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics centre, Vilnius	4,760	4,461	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	7,370	7,046	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,965	2,776	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	3,185	2,880	100	100
EFTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	4,956	4,593	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,204	2,079	100	100
EFTEN Laagri OÜ	Estonia	Laagri Selver, Tallinn	4,130	3,552	100	100
EFTEN Motors Car Centre OÜ	Estonia	ABC Motors Car Centre, Tallinn	2,065	1,479	100	100
EFTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	3,766	3,509	100	100
EFTEN Rīga Airport SIA	Latvia	airBaltic main building, Riga	4,415	1,121	100	100
EFTEN Rutkauskos UAB	Lithuania	Rutkauskos office building, Vilnius	5,008	4,711	100	100
EFTEN Ramygalos UAB	Lithuania	Panevėžys logistics centres, Panevėžys	4,138	0	100	0
EFTEN Piritā OÜ	Estonia	Pirita Care home, Tallinn	3,339	3,116	100	100

In June 2021, EFTEN Real Estate Fund III AS established a wholly-owned subsidiary, EFTEN Ramygalos UAB, which, after establishment, acquired production and warehouse buildings in Panevėžys, Lithuania. The total cost of investment property, including transaction costs, amounted to 10,011 thousand euros. The fund invested 4,036 thousand euros in the subsidiary's equity transaction prior to the transaction.

On 10 January 2020, EFTEN Real Estate Fund III AS entered into debt purchase agreements for the acquisition of the owner of the Air Baltic main building at Riga Airport and the owner of the production and warehouse building in Piepilsetas, 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 as of March 1, 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. Pursuant to the acquisition agreement, the transaction price of EFTEN Riga Airport SIA and EFTEN Piepilsetas SIA was adjusted by working capital Changes during the transaction period (mid-January to mid-March) and the fund paid an additional 95 thousand euros for the Acquisition of subsidiaries in the third quarter of 2021. The value of real estate investments owned by subsidiaries is Total 15,800 thousand euros.

Fair value of EFTEN Riga Airport (formerly NHC1) SIA 29.02.2020

	Fair value
<i>€ thousands</i>	
Cash	203
Receivables	245
Investment property (note 12)	7,100
Bank loans	-3,941
Owners' loans	-2,030
Other liabilities	-304
Fair value of net assets	1,273
Acquisition cost	1,273
Goodwill	0

EFTEN Piepilsetas (former NHC3) SIA Fair value 29.02.2020

	Fair value
<i>€ thousands</i>	
Cash	54
Receivables	16
Investment property (Note 12)	8,700
Bank loans	-3,223
Owners' loans	-1,750
Other liabilities	-295
Fair value of net assets	3,502
Acquisition cost	3,502
Goodwill	0

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 with an acquisition cost of 11,819 thousand euros.

On November 18, 2020, EFTEN Real Estate Fund III AS established a 100% subsidiary EFTEN Pirita OÜ in Tallinn. After the establishment, the equity of the subsidiary was paid together with the initial capital in the amount of 3,103 thousand euros. In December 2020, the subsidiary acquired the property of the newly completed Pirita boarding house, the total cost of which is 6,200 thousand euros. Of this cost, 5.9 million euros were paid immediately and the remaining 300 thousand euros will be paid to the seller after the construction deficiencies have been eliminated.

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****9 months**

	Office		Logistics		Retail		Care homes		Non-Allocated		Total	
	9 months		9 months		9 months		9 months		9 months		9 months	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue (Note 4), incl.	2,830	2,033	2,613	2,060	3,658	3,605	312	0	0	0	9,413	7,698
Estonia	0	0	763	676	1,094	1,007	312	0	0	0	2,169	1,683
Latvia	374	291	1,088	908	0	0	0	0	0	0	1,462	1,199
Lithuania	2,456	1,742	762	476	2,564	2,598	0	0	0	0	5,782	4,816
Net operating income, incl.	2,723	1,855	2,592	2,030	3,453	3,385	308	0	0	0	9,076	7,270
Estonia	0	0	763	669	1,084	995	308	0	0	0	2,155	1,664
Latvia	373	289	1,068	892	0	0	0	0	0	0	1,441	1,181
Lithuania	2,350	1,566	761	469	2,369	2,390	0	0	0	0	5,480	4,425
Operating profit. incl.	2,608	600	2,576	976	4,497	710	272	0	-141	-164	9,812	2,122
Estonia	0	0	695	241	1,617	25	272	0	-141	-164	2,443	102
Latvia	305	9	978	373	0	0	0	0	0	0	1,283	382
Lithuania	2,303	591	903	362	2,880	685	0	0	0	0	6,086	1,638
EBITDA, incl.	2,402	1,602	2,259	1,776	3,026	2,936	288	0	-141	-164	7,837	6,149
Estonia	0	0	695	601	946	856	288	0	-141	-164	1,788	1,293
Latvia	305	239	911	753	0	0	0	0	0	0	1,216	992
Lithuania	2,097	1,363	653	422	2,080	2,080	0	0	0	0	4,830	3,865
Operating profit											9,812	2,122
Net financial expense											-1,258	-967
Profit before income tax											8,554	1,155
Income tax expense (note 9)											-810	-148
NET PROFIT FOR THE REPORTING PERIOD											7,744	1,007

3rd quarter

	Office 3rd quarter		Logistics 3rd quarter		Retail 3rd quarter		Care homes 3rd quarter		Non-Allocated 3rd quarter		Total 3rd quarter	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue. incl.	961	825	998	734	1 395	1 274	104	0	0	0	3 458	2 833
Estonia	0	0	256	233	380	338	104	0	0	0	740	571
Latvia	125	125	366	332	0	0	0	0	0	0	491	457
Lithuania	836	700	376	169	1 015	936	0	0	0	0	2 227	1 805
Net operating income. incl.	929	779	990	718	1 328	1 192	103	0	0	0	3 350	2 689
Estonia	0	0	256	229	378	336	103	0	0	0	737	565
Latvia	125	124	358	326	0	0	0	0	0	0	483	450
Lithuania	804	655	376	163	950	856	0	0	0	0	2 130	1 674
Operating profit. incl.	815	673	880	628	1 177	1 027	87	0	-23	-30	2 936	2 298
Estonia	0	0	234	206	334	292	87	0	-23	-30	632	468
Latvia	99	104	308	274	0	0	0	0	0	0	407	378
Lithuania	716	569	338	148	843	735	0	0	0	0	1 897	1 452
EBITDA. incl.	815	677	879	627	1 191	1 040	87	0	-23	-30	2 949	2 314
Estonia	0	0	234	206	334	293	87	0	-23	-30	632	469
Latvia	99	104	307	274	0	0	0	0	0	0	406	378
Lithuania	716	573	338	147	857	747	0	0	0	0	1 911	1 467
Operating profit											2,936	2,298
Net financial expense											-419	-289
Profit before income tax											2,517	2,009
Income tax expense											-243	63
NET PROFIT FOR THE REPORTING PERIOD											2,274	2,072

SEGMENT ASSETS

As at 30.09.2021	Office		Logistics		Retail		Care homes		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>										
Investment property (note 12)										
Estonia	0	0	13,132	12,520	19,967	18,690	6,200	0	39,299	31,210
Latvia	6,800	6,870	17,185	17,076	0	0	0	0	23,985	23,946
Lithuania	41,306	41,399	19,121	8,740	33,691	32,059	0	0	94,118	82,198
Investment property Total	48,106	48,269	49,438	38,336	53,658	50,749	6,200	0	157,402	137,354
Other non-current assets									156	229
Net debt (liabilities less cash)									-66,999	-69,386
Other current assets									1,000	976
NET ASSETS									91,559	69,173

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 Estonia AS and AQ Wiring Systems UAB, holding 7.9% and 6.3% of the Group's consolidated rental income, respectively. The share of income of other tenants in the consolidated income is less than 6%.

4 Revenue

Segments	9 months	
	2021	2020
<i>€ thousands</i>		
Rental income from office premises	2,782	2,023
Rental income from retail premises	3,147	2,015
Rental income from warehousing and logistics premises	2,571	3,126
Rental income from care home premises	312	0
Other sales revenue	601	534
Total revenue by areas of activity (Note 12)	9,413	7,698

Revenue by geographical area	9 months	
	2021	2020
€ thousands		
Estonia	2,169	1,683
Latvia	1,462	1,199
Lithuania	5,782	4,816
Total revenue by geographical area (Note 3)	9,413	7,698

5 Cost of services sold

	9 months	
	2021	2020
€ thousands		
Repair and maintenance of rental premises	-28	-103
Improvement costs	0	-6
Property insurance	-4	-6
Land tax and real estate tax	-51	-14
Wage costs, including taxes	-24	-29
Depreciation of property, plant and equipment	0	-1
Other administrative expenses	-82	-63
Impairment of doubtful receivables	-4	0
Total cost of services sold (Note 12)	-193	-222

6 Marketing costs

	9 months	
	2021	2020
€ thousands		
Commission expenses on rental premises	-21	-46
Advertising, advertising events ¹	-123	-160
Total marketing costs	-144	-206

¹The 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	
	2021	2020
<i>€ thousands</i>		
Management services (Note 18)	-787	-652
Office expenses	-30	-23
Wages and salaries, incl. taxes	-146	-163
Depository expenses, share-related expenses	-114	-70
Consulting expense, legal expense, accounting service, evaluation service	-128	-163
Costs of valuation of investment properties	-17	-14
Audit costs	-11	-17
Other general administrative expenses	-27	-26
Depreciation costs	-42	-38
Total general and administrative expenses	-1,302	-1,166

8 Other financial income and expense

	9 months	
	2021	2020
<i>€ thousands</i>		
Interest expenses. incl.		
Interest expense from loans	-1,353	-966
Interest expense from derivatives (-)/ cost reductions (+)	-1,268	-891
Change in fair value of interest swaps (Note 15)	-85	-75
	95	-1
Total finance costs	-1,258	-967

9 Income tax

	9 months	
	2021	2020
<i>€ thousands</i>		
Deferred income tax expense for Lithuanian companies	-648	-14
Lithuanian corporate income tax expense on profits	-162	-134
Total income tax expense	-810	-148

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
<i>€ thousands</i>			
Balance as at 31.12.2020	4,383	200	4,583
Change in deferred income tax liability in the income statement for the 9 months of 2021	648	0	648
Income tax paid on dividends	0	-168	-168
Balance as at 30.09.2021	5,031	32	5,063

10 Earnings per share

Earnings per share	3rd quarter		9 months	
	2021	2020	2021	2020
Net profit for the period, in EUR thousands	2,274	2,072	7,744	1,007
Dividends per share, in EUR	0.66	0.65	0.66	0.65
Weighted average number of shares over the period, in pcs	„5,072,535	4,222,535	4,572,535	4,222,535
Earnings per share, in EUR	0.45	0.49	1.69	0.24

11 Receivables and accrued income

	30.09.2021	31.12.2020
€ thousands		
Receivables from customers	334	480
Allowance for doubtful accounts	-8	-59
Total trade receivables (note 15)	326	421
Advances and refunds of VAT	42	1,316
Advances on other taxes	39	0
Other accrued income	548	281
Total accrued income	629	1,597
Total receivables and accrued income (note 15)	955	2,018

12 Investment property

As of 30.09.2021, 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 as at 30.09.2021	Increase in value	Share of market value of the Fund's asset
€ thousands								
Saules Miestas shopping centre	Šiauliai, Lithuania	19,881	2007	08.2015	29,614	33,690	14%	20%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,504	9,110	7%	5%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,280	13,132	7%	8%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,835	8,685	-2%	5%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,816	10,025	14%	6%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,280	8,861	7%	5%
Hortes gardening centre Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,550	14%	2%
Hortes gardening centre Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,210	14%	4%
Laagri Selver	Tallinn, Estonia	3,063	2017	05.2017	6,277	6,910	10%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,733	10,620	9%	6%
ABC Motors Car Centre	Tallinn, Estonia	2,149	2002	02.2019	3,189	3,297	3%	2%
airBaltic main building	Riga, Latvia	6,217	recon. 2016	03.2020	7,100	6,800	-4%	4%
Piepilsetas logistics centre	Kekava, Latvia	13,327	2007	03.2020	8,723	8,501	-3%	5%
Rutkausko office building	Vilnius, Lithuania	6,812	2014	08.2020	11,819	11,800	0%	7%
Pirita Care home	Tallinn, Estonia	6,045	2020	12.2020	6,217	6,200	0%	4%
Panevežys logistics centres	Panevėžys, Lithuania	20,125	2007	6.2021	10,011	10,011	0%	6%
Total		143,735			147,964	157,402	6%	92%

Additional information regarding the investment properties is in Note 3 "Segment reporting"

During the 9 months of 2020 and 2021, the following changes have taken place in the Group's investment properties:

	Finished real estate investments	Total real estate investments
Balance as at 01.01.2020	113,011	113,011
Acquisitions	11,819	11,819
Acquisitions from business combinations (note 2)	15,800	15,800
Capitalized improvements	710	710
Gain / loss on change in fair value	-3,986	-3,986
Balance as at 30.09.2020	137,354	137,354
Balance as at 01.01.2021	144,235	144,235
Acquisitions	10,311	10,311
Capitalized improvements	836	836
Gain / loss on change in fair value	2,020	2,020
Balance as at 30.09.2021	157,402	157,402

The Group's income statement and balance sheet include the following income and expenses and balances related to investment properties:

	9 months	
As of 30 September or per 9 months	2021	2020
Rental income from investment properties (Note 4)	8,812	7,164
Costs directly related to the management of investment properties (Note 5)	-193	-222
Book value of investment properties pledged as collateral for loan liabilities	157,402	137,354

Assumptions and basis for determining the fair value of investment properties

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 30.09.2021 and 31.12.2020 have been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 30.09.2021:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price€/m2
<i>€ thousands</i>						
Office	48,106	Discounted cash flows	3,751	8.2%	7.0%-7.8%	10.5
Logistics	49,439	Discounted cash flows	3,985	8.2%-9.1%	7.5%-7.9%	4.4
Retail	53,657	Discounted cash flows	4,704	8.2%-8.6%	7.0%-8.0%	11.7
Care homes	6,200	Discounted cash flows	443	7.8%	6.8%	6.1
Total	157,402		12,883			

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price€/m2
<i>€ thousands</i>						
Office	47,751	Discounted cash flows	3,712	7.1%-8.2%	7.0%-8.0%	10.4
Logistics	39,047	Discounted cash flows	3,156	8.0%-8.6%	7.5%-7.9%	5.6
Retail	51,520	Discounted cash flows	4,707	8.5%-8.6%	7.5%-8.0%	11.5
Care homes	5,917	Discounted cash flows	454	8.0%	7.3%	6.1
Total	144,235		12,029			

Independent expert estimates for the fair value of investment properties are based on the following:

- Rental income: prices and real growth rates resulting from existing leases are used;
- Vacancy: the actual vacancy of an investment property, taking into account the risks associated with the object;
- Discount rate: calculated on the basis of the weighted average cost of capital (WACC) related to investment property;
- Exit yield: based on the estimated level of return at the end of the expected deposit period, taking into account the foreseeable market situation and the risks associated with the object.

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 30.09.2021 to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate			Sensitivity to independent appraisal		
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield +50bp	Exit yield -50bp
<i>€ thousands</i>							
Office	48,106	5,090	-5,070	-986	974	-2,216	2,494
Logistics	49,439	5,300	-5,100	-1,059	941	-2,169	2,351
Retail	53,657	6,130	-6,160	-1,227	913	-2,427	2,393
Care homes	6,200	660	-660	-130	130	-310	350
TOTAL	157,402	17,180	-16,990	-3,402	2,958	-7,122	7,588

As at 31.12.2020:

Sector	Fair value	Sensitivity to management estimate			Sensitivity to independent appraisal		
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield +50bp	Exit yield -50bp
<i>€ thousands</i>							
Office	47,751	5,040	-5,040	-970	980	-2,150	2,460
Logistics	39,047	4,147	-4,147	-777	793	-1,657	1,883
Retail	51,520	6,060	-6,060	-1,040	1,040	-2,170	2,430
Care homes	5,917	630	-630	-120	130	-280	330
TOTAL	144,235	15,877	-15,877	-2,907	2,943	-6,257	7,103

Level three inputs have been used to determine the fair value of all of the Group's investment properties (Note 15).

13 Borrowings

As at 30.09.2021, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.09.2021	Contract term	Interest rate as at 30.09.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,616	13,634	13.08.23	2.65%	Mortgage - Saules Miestas Shopping centre	33,690	14.9%
SEB	Lithuania	5,500	4,248	28.06.26	1.85%	Mortgage - DSV logistics centre	9,110	4.6%
SEB	Latvia	5,123	4,090	29.06.26	1.85%	Mortgage - DSV logistics centre	8,685	4.5%
SEB	Lithuania	5,620	4,394	27.10.21	1.90%	Mortgage L3 office building	10,025	4.8%
SEB	Estonia	7,950	6,160	29.06.26	1.85%	Mortgage - DSV logistics centre	13,132	6.7%
SEB	Lithuania	5,200	3,881	21.12.25	2.25%	Mortgage - Ulonu office building	8,861	4.2%
SEB	Lithuania	5,850	5,002	30.05.23	2.00%	Mortgage - Evolution office building	10,620	5.5%
Swedbank	Estonia	3,700	2,961	29.06.22	1.40%	Mortgage - Laagri Selver	6,910	3.2%
SEB	Estonia	1,860	1,473	05.07.22	1.82%	Mortgage - Hortes gardening centre Laagri	3,550	1.6%
Swedbank	Estonia	3,290	3,093	11.01.24	1.95%	Mortgage - Hortes gardening centre Tähesaju	6,210	3.4%
LHV	Estonia	1,800	1,642	25.02.24	2.95%	Mortgage - ABC Motors Car Centre	3,297	1.8%
Swedbank	Latvia	3,201	2,881	05.02.23	2.80%	Mortgage - Piepilsetas logistics centre	8,501	3.1%
Luminor	Latvia	3,905	2,673	04.02.25	3.75%	Mortgage - airBaltic main building	6,800	2.9%
Swedbank	Estonia	3,100	3,069	28.11.25	1.95%	Mortgage - Pirita Care home. parent company guarantee	6,200	3.4%
Šiaulių bankas	Lithuania	6,000	5,942	13.06.26	2.50%	Mortgage - Panevėžys logistics centreed	10,011	6.5%
SEB	Lithuania	7,300	6,930	12.08.25	2.10%	Mortgage - Rutkausko office building	11,800	7.6%
Total		84,015	72,073				157,402	71.1%

Short-term borrowings	30.09.2021	31.12.2020
€ thousands		
Short-term borrowings	0	3,100
Recognition of the long-term portion of long-term bank loans as short-term ¹	0	3,732
Repayments of long-term bank loans in the next period ²	12,017	21,988
Discounted contract fees for bank loans	-32	-39
Total short-term borrowings	11,985	28,781

¹ As of 31.12.2020, the Group has recognized as a short-term loan liability of the subsidiary EFTEN Riga Airport SIA, the maturity date of which is 04.02.2025. The loan is recognized as short-term due to a decrease in the debt coverage ratio below the rate allowed in the special terms of the agreement. In June 2021, the Group's subsidiary reduced its loan liability by 900 thousand euros and converted the equity loan into a share capital contribution, as a result of which the special terms of the loan agreement have been met.

² Repayments of long-term bank loans in the next period as of 30.09.2021 include three group loan agreements expiring in the next 12 months in the amount of 8,828 thousand euros. The LTVs of the expiring loan agreements is 44%, 43% and 41% and the investment properties have a stable strong rental cash flow which means that the Group's management estimates that there are no obstacles to extending the loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

As of 31 December 2020, the repayments of long-term loan liabilities in the next period included loan agreements of four groups expiring in 2021 in the total amount of 22,729 thousand euros. Three of these loan agreements have been extended as of the balance sheet date.

Long-term borrowings	30.09.2021	31.12.2020
€ thousands		
Total long-term borrowings	71,980	72,368
incl. current portion of borrowings	11,985	28,781
incl. non-current portion of borrowings, incl.	59,995	43,587
Bank loans	60,056	43,643
Discounted contract fees on bank loans	-61	-56

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	30.09.2021	31.12.2020
<i>€ thousands</i>		
Up to 1 year	12,017	28,820
2-5 years	60,056	43,643
Total repayments of bank loans	72,073	72,463

Cash flows of borrowings	9 months	
	2021	2020
<i>€ thousands</i>		
Balance at the beginning of period	72,368	55,372
Bank loans received through business combinations and acquisitions	0	7,164
Bank loans received	6,300	7,300
Annuity payments on bank loans	-6,690	-2,379
Change of discounted contract fees	2	-67
Balance as at the end of period	71,980	67,390

Additional information on loan liabilities is also provided in Note 15.

14 Payables and prepayments

Short-term payables and prepayments

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Other payables to suppliers	254	173
Total payables to suppliers	254	173
Debts from securities transactions	0	95
Debts from the acquisition of investment property	0	1,240
Other debts	18	12
Total other debts	18	1,347
VAT	228	228
Land tax. real estate tax	26	61
Other tax liabilities	2	2
Total tax arrears	256	291
Debts to employees	14	14
Interest payable	34	29
Tenants' security deposits	47	45
Other accrued liabilities	60	96
Total prepayments	155	184
Total payables and prepayments	683	1,995

Long-term payables

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Tenants security deposits	1,008	954
Other long-term debts	2	3
Total other long-term payables	1,010	957

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	30.09.2021	31.12.2020
Financial assets - loans and receivables			
Cash and cash equivalents		11,888	5,128
Trade receivables	11	326	421
Total financial assets		12,214	5,549
Financial liabilities measured at amortised cost			
Borrowings	13	71,980	72,368
Trade payables	14	254	173
Tenant security deposits	14	1,055	999
Interest payables	14	34	29
Accrued expenses	14	74	110
Total financial liabilities measured at amortised cost		73,397	73,679
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		151	246
Total financial liabilities measured at fair value		151	246
Total financial liabilities		73,548	73,925

The fair values of financial assets and financial liabilities carried at amortised cost in the table above do not differ materially from their fair values.

The Group's risk management is based on the principle that risks must be taken in a balanced manner, considering the rules established by the Group and implementing risk mitigation measures as appropriate, which achieves the Group's stable profitability and shareholder value growth. When making new investment decisions, the solvency of future customers, the length of lease agreements, the possibility of tenant substitutability and the risks of rising interest rates are carefully assessed.

The investment of the Group's assets is based on the risk expectations of the Group's investors, therefore excessive risk-taking is unacceptable and appropriate measures must be applied to manage the risks.

The Group considers financial risk to be the risk that arises directly from investing in real estate, including market risk, liquidity risk and credit risk, thereby reducing the company's financial strength 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 of 30.09.2021, 92% of the Group's loan agreements are based on floating interest (margin between 1.40% and 3.75% plus 1-month and 6-month EURIBOR) and 8% of loan agreements bear fixed interest in the range of 1.55% up to 1.9%. In turn, 21% of floating interest rate contracts are linked to an interest rate swap, where the 3-month EURIBOR is fixed at 0.35%. All contracts in the loan portfolio of EFTEN Real Estate Fund III have a 0% floor (negative) to protect against negative EURIBOR, i.e. in the event of a negative EURIBOR, the loan margin on these loan liabilities does not decrease.

Due to the current low level of interest rates and market expectations that interest rates will remain in the near future, hedging interest rate risk is particularly important in the long run. The Fund's management estimates the most significant impact of a possible rise in interest rates in a 5-year perspective.

Due to the long-term nature of the Group's real estate investments and long-term loan liabilities related to investments, the management of EFTEN Real Estate Fund III AS decided in 2016 to cover the risk of long-term floating interest rate increase by fixing a partial floating interest rate (3-month EURIBOR). It was decided to hedge the risk with an interest rate swap agreement, where the floating interest rate of the subsidiary's loan agreement was exchanged for a fixed interest rate. It was decided to enter into interest rate swaps subject to the following three 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 cashflows 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 recognizes interest rate swaps with a change in profit or loss. The fair value of interest rate swaps as at 30.09.2021 was negative in the amount of EUR 151 thousand (31.12.2020: EUR 246 thousand). Additional information on determining the fair value of interest rate swaps is provided in the 'Fair value' section below.

Liquidity risk

Liquidity risk arises from a potential change in financial position that would reduce the Group's ability to service its liabilities in a timely and correct manner. The Group's liquidity is primarily 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 Group's objective is to manage net cash flows in such a way that no more than 65% of the acquisition cost of the investment property involves external debt and the Group's debt coverage ratio would be higher than 1.2. As at 30.09.2021, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 46% (31.12.2020: 50%) and the average debt coverage ratio (DSCR) for the last 12 months was 1.9 (2020 9 months: 1.8)

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 30.09.2021	Less than 1 month	Between 2 and 4 months	between 5 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>€ thousands</i>						
Interest-bearing liabilities	4,678	852	6,488	60,055	0	72,073
Interest payments	143	404	1,036	3,057	0	4,640
Interest payables	34	0	0	0	0	34
Trade payables	254	0	0	0	0	254
Tenant security deposits	0	8	39	875	134	1,055
Accrued expenses	74	0	0	0	0	74
Total financial liabilities	5,183	1,264	7,563	63,987	134	78,130

Statement of working capital

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	11,888	5,128
Receivables and accrued income (Note 11)	955	2,018
Prepaid expenses	17	128
Inventory	28	0
Total current assets	12,888	7,274
Short-term portion of long-term liabilities (Note 13)	-11,985	-28,781
Short-term payables and prepayments	-834	-2,241
Total current liabilities	-12,819	-31,022
Total working capital	69	-23,748

As of 30.09.2021, the working capital of the Group is positive in the amount of 69 thousand euros (31.12.2020: negative 23,748 thousand euros). As of 31 December 2020, working capital was negative due to the termination of the Group's five loan agreements expiring in 2021 in the total amount of 22,729 thousand euros. Three of those loan agreements have been extended as of the balance sheet date (see also Note 13) and one has been repaid.

Credit risk

Credit risk is the risk that counterparties will fail to meet their obligations to the Group. The Group is exposed to credit risk due to its business activities (mainly trade receivables) and transactions with financial institutions including cash in bank accounts and deposits.

The Group's action to prevent and minimize cash flow from credit risk is to monitor and direct the customer's payment behaviour on a day-to-day basis, enabling operational measures to be taken. Similarly, client contracts provide in most cases for payment of rent at the beginning of the calendar month, which gives sufficient time to monitor the payment discipline of the clients and to have sufficient liquidity in the cash accounts at the date of annuity payments on the finance contracts. To mitigate the risk, the Group has entered into an agreement with one of the anchor tenants under which the finance institution of the lessee is obliged to guarantee the lease payments throughout the lease period. Most leases also give rise to an obligation to pay a deposit, which the Group is entitled to settle as a result of the lessee's default.

Group companies generally only enter into lease agreements with counterparties previously recognized as creditworthy. The client's analysis of this is made before concluding the lease agreement.

An analysis of the client on this subject shall be made before the conclusion of the lease contract. If there is a risk that the lessee will become insolvent, the Group assesses each receivable individually and determines whether it is unlikely that the receivable will become receivable. In general, receivables that are overdue for more than 180 days are considered unlikely to be collected, unless the Group has a reasonable amount of receivables or has a payment schedule.

Accounts receivable are illustrated by the table below:

	30.09.2021	31.12.2020
Undue	291	330
Past due. incl.	43	150
<i>up to 30 days</i>	21	121
<i>30-60 days</i>	0	16
<i>more than 60 days</i>	22	13
Allowance for doubtful accounts	-8	-59
Total trade receivables (Note 11)	326	421

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

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	11,888	5,128
Trade receivables (Note 11)	326	421
Total maximum credit risk	12,214	5,549

Capital management

The Group treats borrowings and equity as capital.

The Group's objective in capital management is to secure the Group's ability to continue as a going concern in order to ensure return on investment for its shareholders and to maintain an optimal capital structure.

The Group invests in cash-generating real estate and raises equity to make investments. The Group's investment policy requires that at least 35% of the equity is invested in new real estate projects. The required amount of equity is calculated individually for each investment taking into account the volume and proportion of the net cash flows and loan payments of the particular investment.

After making the investment, the net operating profit on any cash-generating property cannot be less than 120% of the loan annuity, (incl. 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. During the 9 months of 2021 the group has earned free cash flow of EUR 3,791 thousands (previous year's 9 months: EUR 2,818 thousands). In June 2021, the fund paid dividends (net) of 2,798 thousand euros from the profit for 2020 (2020: 2,745 thousand euros).

Statement of capitalisation

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Short-term liabilities guaranteed with mortgage (Note 13)	12,017	28,820
Unsecured short-term liabilities	802	2,202
Total short-term liabilities	12,819	31,022
Long-term liabilities guaranteed with mortgage (Note 13)	60,056	43,643
Unsecured long-term liabilities	6,012	5,484
Total long-term liabilities	66,068	49,127
Share capital and share premium (Note 16)	67,013	51,883
Reserves	1,489	1,323
Retained earnings (Note 17)	23,057	18,277
Total shareholder's equity	91,559	71,483
Total liabilities and equity	170,446	151,632

More detailed information on mortgages established as collateral for the obligations provided in the capitalisation report is available in Note 12 of the report.

Report of net debt

<i>€ thousands</i>	30.09.2021	31.12.2020
Cash	11,888	5,128
Total liquid assets	11,888	5,128
The short-term portion of long-term liabilities (Note 13)	12,017	28,820
Net short-term debt	129	23,692
Long-term bank loans (long-term portion) (Note 13)	60,056	43,643
Total long-term debt	60,056	43,643
Total net debt	60,185	67,335

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 30.09.2021 and 31.12.2020, 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, in accordance with EURIBOR market expectations, cash inflows and outflows are determined and discounted using a zero-rate. The Group uses information received from counterparty credit institutions to recognize interest rate swaps at fair value.

16 Share capital

In June 2021, EFTEN Real Estate Fund III AS conducted a public offering of shares, as a result of which the share capital of the fund increased by 8,500 thousand euros and 850,000 shares. Payments totalling 15,130 thousand euros were made to the share capital of the Fund in the course of the share issue.

The registered share capital of EFTEN Real Estate Fund III AS as of 30.09.2021 was EUR 50,725 thousand (31.12.2019: EUR 42,225 thousand). As of 31.12.2020, the share capital consisted of 5,072,535 shares (31.12.2020: 4,222,535 shares) with a nominal value of 10 euros (31.12.2020: the same). Without amending the articles of association, the company has the right to increase the share capital to EUR 168,901 thousand. As of 30.09.2021, contributions to the share capital have been made in the total amount of EUR 67,013 thousand (31.12.2020: EUR 51,883 thousand)

List of shareholders of EFTEN Real Estate Fund III AS with more than 5% ownership:

Company	As at 30.09.2021	
	Number of shares	Ownership. %
Altius Energia OÜ	723,182	14.26
Järve Kaubanduskeskus OÜ	518,952	10.23
Hoiukonto OÜ	516,930	10.19

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

Company	As at 30.09.2021	
	Number of shares	Ownership, %
Viljar Arakas, member of the Management Board	2,000	0.04
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	15,440	0.30
Tõnu Uustalu, member of the Management Board	14,753	0.29
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	2,457	0.05
Altius Energia OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	723,182	14.26
Olav Miil, member of the Supervisory Board	38,933	0.77
Siive Penu, member of the Supervisory Board	1,350	0.03

17 Contingent liabilities**Contingent tax liability**

	30.09.2021	31.12.2020
<i>€ thousands</i>		
Retained earnings (Note 15)	23,057	18,277
Potential income tax liability	4,611	3,655
Dividends can be paid out	18,446	14,622

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 30.09.2021 and 31.12.2020.

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 2021, the Group purchased management services from EFTEN Capital AS in the amount of 787 thousand euros (9 months of 2020: 652 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 the 9 months of 2021 or 2020.

As at 30.09.2021, the Group had a total of 10 employees, who were paid a total of EUR 170 thousand, including related taxes (2020 9 months: 192 thousand euros). No fees were calculated or paid to the members of the Group's Management Board or Supervisory Board during the 9 months of 2021 or 2020. 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.

Management Board Declaration for the Consolidated Interim Report for the 3rd quarter and 9 months of 2021

We hereby confirm that the consolidated interim report of EFTEN Real Estate Fund III AS for the third quarter and 9 months of 2021 provides a true and fair view of the Group's assets, liabilities, financial position and includes a description of key risks and business development and results of the companies included in the consolidation.

/signed digitally/

Viljar Arakas

Member of the Management Board

/signed digitally/

Tõnu Uustalu

Member of the Management Board