

Consolidated Interim Report – 4th quarter and 12 months ended 31 December 2021

EfTEN Real Estate Fund III AS
Commercial register number: 12864036

Beginning of financial period: 01.01.2021
End of financial period: 31.12.2021

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**EFTEN
REAL
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FUND III**



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MANAGEMENTS REPORT

Comment of the fund manager regarding the 2021. year's results

The year 2021 turned out to be a successful year above expectations for EFTEN Real Estate Fund III AS. Despite the two coronavirus waves that occurred during the year, EFTEN Real Estate Fund III increased both rental income and EBITDA in each commercial real estate segment, even excluding revenues from the new commercial buildings. The portfolio's commercial areas' vacancy rate remained at a record low of less than 1%. The revaluation of investment property generated a total profit of EUR 6.4 million for 2021 and the portfolio's unleveraged primary net yield was 7.1% at year-end. The fund generated total free cash flow of EUR 4.55 million in 2021, of which the total gross dividend would be EUR 3.64 million according to the fund's dividend policy. Taking into account the obligation to maintain minimum cash balances resulting from the special terms of the Fund's subsidiaries' loans and the short-term liquidity needs, the Fund's Management Board proposes to the Supervisory Board to pay dividends in excess of the dividend policy, totalling EUR 4.06 million (80 cents per share).

As at 31.12.2021, the Fund has EUR 5.9 million of uninvested equity, the safe investment of which is a priority for the Fund's management. In view of the fact that the level of yield on transactions in the Baltic commercial real estate market has been steadily declining in recent years, the Fund's management does not plan to organise a new share issue in the current financial year.

Financial overview

EFTEN Real Estate Fund III AS's consolidated revenue for the 12 months of 2021 amounted to EUR 12.921 million (12 months 2020: EUR 10.731 million), up 20% year-on-year. The group's net rental income for 2021 totalled EUR 12.412 million (2020: EUR 10.103 million), increasing 23%. The Group's net profit for the same period amounted to EUR 13.099 million (2020 12 months: EUR 3.317 million).

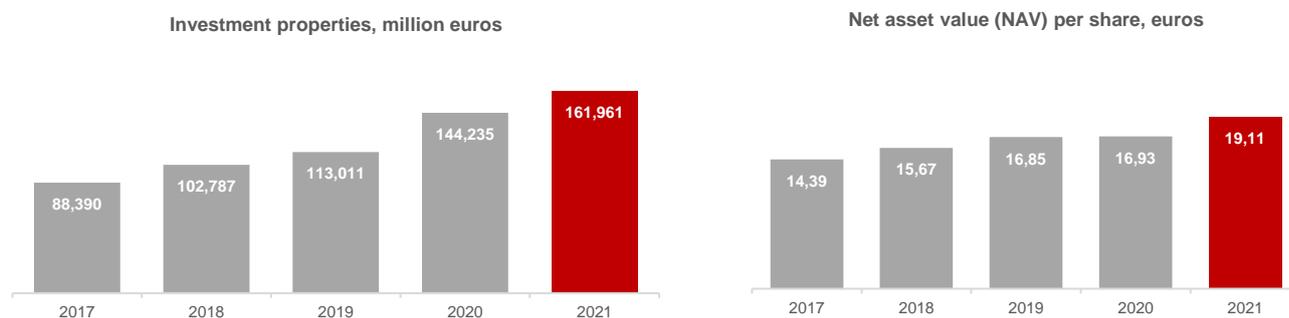
The Fund generated total revenue of €3.508 million in the fourth quarter of 2021, up €475 thousand (16%) on the same period last year. The Fund's net rental income for the fourth quarter of 2021 amounted to EUR 2,916 thousand, an increase of 17.7% compared to the same period last year.

In December 2021, Colliers International carried out a regular valuation of the Fund's real estate portfolio, which resulted in an increase of 2.8% (EUR 4.423 million) in the value of the real estate portfolio, mainly due to the expected rental cash flow and lower exit yields. The Fund's consolidated net profit for Q4 amounted to EUR 5.355 million (Q4 2020: EUR 2,310 million).

	IV quarter		12 months	
	2021	2020	2021	2020
€ million				
Rental revenue, other fees from investment properties	3.508	3.033	12.921	10.731
Expenses related to investment properties, incl. marketing costs	-0.172	-0.200	-0.509	-0.628
Net rental income	3.336	2.833	12.412	10.103
<i>Net rental income margin</i>	95%	93%	96%	94%
Interest expense and interest income	-0.420	-0.355	-1.678	-1.322
Net rental revenue less finance costs	2.916	2.478	10.734	8.781
Management fees	-0.287	-0.246	-1.074	-0.899
Other revenue and expenses	-0.217	-0.192	-0.714	-0.701
Profit before change in the value of investment property, success fee, fair value change of the interest rate swap and income tax expense	2.412	2.040	8.946	7.181

Consolidated net rental income margin for the 12 months of 2021 was 96% (2020 12 months: 94%), so costs directly related to property management (including land tax, insurance, maintenance and improvement costs) and marketing costs accounted for 4% (2020: 6%) of revenue. Interest expenses have increased in 2021 due to the addition of loans taken out for the acquisition of new real estate investments, but also due to an increase in the interest rate of 0.3-0.5 percentage points as a result of the refinancing of loans taken out for the Ulonu office building and the DSV logistics centres.

The Group's assets as at 31.12.2021 amounted to EUR 176.401 million (31.12.2020: EUR 151.632 million), i.e. the fair value of investment properties accounted for 92% of the assets (31.12.2020: 95%).



	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
<i>€ million</i>					
Investment properties	161.961	144.235	113.011	102.787	88.390
Other non-current assets	0.147	0.123	0.114	0.138	0.090
Current assets, excluding cash	1.219	2.146	6.717	0.719	0.678
Net debt (cash and deposits minus short-term and long-term bank loans)	-58.103	-67.335	-36.431	-48.049	-37.712
Net asset value (NAV)	96.914	71.483	70.911	50.354	46.385
EPRA net asset value (EPRA NAV)	102.708	76.112	75.456	54.179	49.307
Net asset value (NAV) per share, in euros	19.11	16.93	16.85	15.67	14.39
EPRA net asset value (EPRA NAV) per share, in euros	20.25	18.03	17.93	16.81	15.30

Access to flexible financing terms helps to increase the Group's competitiveness. During 2021, the Group received bank loans for the acquisition and development of new real estate investments totalling EUR 6.3 million. The weighted average interest rate on the Group's loan agreements (including interest rate swap agreements) at the end of December is 2.3% (31.12.2020: same) and LTV (Loan to Value) 44% (31.12.2020: 50%).

Key performance and liquidity ratios

12 months	31.12.2021	31.12.2020
ROE, % (net profit of the period / average equity of the period) x 100	15.6	5.4
ROA, % (net profit of the period / average assets of the period) x 100	8.0	2.6
ROIC, % (net profit of the period / average invested capital of the period) x 100 ¹	22.0	6.4
Revenue (€ thousands)	12,921	10,731
EBITDA (€ thousands)	10,163	8,556
EBITDA margin, %	79%	80%
EBIT (€ thousands)	16,529	5,129
EBIT margin, %	128%	48%
Liquidity ratio (current assets / current liabilities)	1.6	0.2
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.9	1.9

¹ The average invested capital for the period is the paid-in share capital and share premium of the equity of EFTEN Real Estate Fund III AS. The indicator does not take into account the actual investment of funds raised as equity.

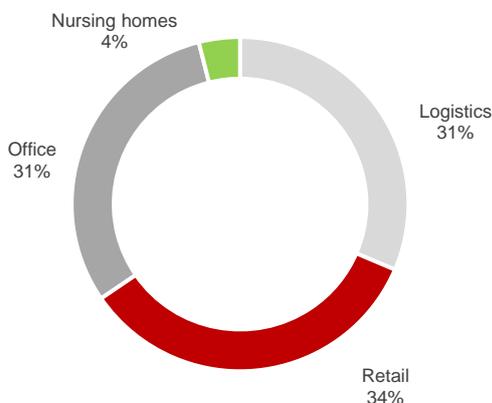
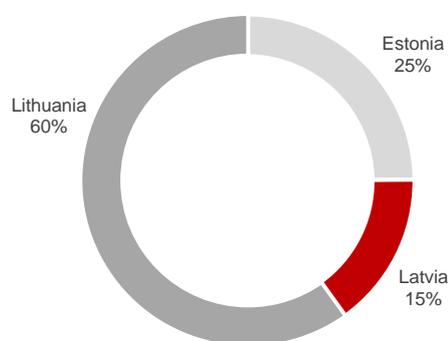
Real estate portfolio

Purchases during the year 2021

In mid-June 2021, the Group acquired a new real estate investment in Panevežys, Lithuania. The total cost of the real estate investment, including transaction costs, amounted to EUR 10.011 million and the annual rental income of the building is EUR 799 thousand.

Real estate portfolio as at 31.12.2021

At the end of December 2021, the Group has 16 (31.12.2020: 15) commercial property investments with a fair value at the balance sheet date of EUR 161.961 million (31.12.2020: EUR 144.235 million) and an acquisition cost of EUR 147.557 million (31.12.2020: EUR 136.349 million).

Real estate portfolio by sector**Real estate portfolio by country****MAIN INDICATORS OF THE REAL ESTATE PORTFOLIO**

Investment property as of 31.12.2021	Group's ownership	Acquisition cost, thousand €	Fair value of investment properties, thousand € ¹	Net leasable area	Prognosed rental revenue per annum, € thousand	Direct yield ²	Net initial rate of return ³	Occupancy, %	Average length of rental agreements	Number of tenants
DSV logistics centre, Tallinn	100	12,287	13,370	16,014	1,003	8.2%	7.6%	100	4.9	1
DSV logistics centre, Riga	100	8,835	8,710	12,149	698	8.1%	8.2%	100	4.9	1
DSV logistics centre, Vilnius	100	8,504	9,380	11,687	698	8.3%	7.5%	100	4.8	1
Piepilsetas logistics centre, Kekava	100	8,751	8,730	13,327	564	8.0%	8.1%	99	2.7	6
Ramygalos logistics centre, Panevėžys	100	10,011	10,400	20,125	776	7.4%	7.1%	100	5.4	2
Total logistics		48,388	50,590	73,302	3,739	6.5%	6.2%	100	4.7	11
Saulės Miestas logistics centre, Šiauliai	100	29,027	34,500	19,881	2,532	10.2%	8.6%	97	4.6	143
Hortes shopping centre, Laagri	100	3,108	3,680	3,470	272	8.4%	7.1%	100	10.4	1
Laagri Selver, Tallinn	100	6,279	7,340	3,063	494	7.9%	6.8%	100	6.3	11
Hortes gardening centre, Tallinn	100	5,458	6,480	5,300	479	8.2%	6.9%	100	12.8	1
ABC Motors Car Centre, Tallinn	100	3,259	3,270	2,149	264	7.8%	7.8%	100	7.1	1
Total retail		47,131	55,270	33,863	4,041	9.4%	8.0%	98	6.1	157
Ulonu office building, Vilnius	100	8,280	9,080	5,174	698	8.7%	7.9%	100	2.4	14
Evolution office building, Vilnius	100	9,806	11,190	6,172	735	8.6%	7.5%	100	3.3	28
L3 office building, Vilnius	100	8,816	10,281	6,151	748	8.7%	7.5%	100	3.2	36
airBaltic main office, Riga	100	7,100	6,800	6,217	434	7.0%	7.3%	100	4.2	1
Rutkauskos office building, Vilnius	100	11,819	12,480	6,811	829	7.2%	6.8%	100	8.6	3
Total office		45,821	49,831	30,525	3,444	8.0%	7.4%	100	4.4	82
Pirita care home, Tallinn	100	6,217	6,270	6,045	426	6.6%	6.6%	100	8.9	1
Total care homes		6,217	6,270	6,045	426	6.6%	6.6%	100	8.9	1
Total real estate portfolio		147,557	161,961	143,735	11,650	7.9%	7.2%	99	5.2	251

¹ The fair value of the investment property of the Fund is the market price of the investment property, calculated on a discounted cash flow basis. The external valuer of the Fund's real estate portfolio is Colliers International.

² The direct yield is calculated by dividing the Net rental income by the sum of the cost of the investment property and the subsequent capitalised costs.

³ The net rental income is calculated by dividing the net rental income by the market value of the investment property.

In 2021, the Group earned a total rental income of EUR 12,165 thousand. Rental income calculated on a comparable basis totalled EUR 9,283 thousand in 2021, 7% more than in 2020. In 2021, the Group granted a total of EUR 369 thousand in write-downs related to the Covid-19 crisis, i.e. without these write-downs, the Group's rental income in 2021 would have been 2.9% higher.

Comparable rental income by business segment

€ thousands	Fair value 31.12.2021	Rental income 2021	Rental income 2020	Change	Change, %
Office	30,551	2,434	2,218	216	10%
Logistics	31,460	2,436	2,229	207	9%
Retail	55,270	4,413	4,234	179	4%
Total comparable assets and rental income	117,281	9,283	8,681	602	7%
Acquired assets and rental income	44,680	2,882	1,320	1,562	118%
Total real estate portfolio and rental income	161,961	12,165	10,001	2,164	22%

Comparable rental income by country

€ thousands	Fair value 31.12.2021	Rental income 2021	Rental income 2020	Change	Change, %
Estonia	34,140	2,480	2,299	181	8%
Latvia	8,710	717	642	75	12%
Lithuania	74,431	6,086	5,740	346	6%
Total comparable assets and rental income	117,281	9,283	8,681	602	7%
Acquired assets and rental income	44,680	2,882	1,320	1,562	118%
Total real estate portfolio and rental income	161,961	12,165	10,001	2,164	22%

The largest tenants of EFTEN Real Estate Fund III AS as of 31.12.2021

Tenant	Share of total rental income
DSV Estonia AS	7.8%
AQ Wiring Systems UAB	6.2%
Hortes AS	5.7%
DSV Latvia SIA	5.5%
DSV Lithuania UAB	5.4%
Atea UAB	4.8%
Air Baltic Corporation AS	3.9%
RIMI Lietuva UAB	3.7%
Adax UAB	3.1%
Pirita Kodu OÜ	2.7%
Selver AS	2.6%
Others	48.6%
Total	100.0%

Information on shares

The net asset value per share of EFTEN Real Estate Fund III AS as of 31.12.2021 was EUR 19.11 (31.12.2020: EUR 16.93). The net asset value of the share of EFTEN Real Estate Fund III AS increased by 12.9% during 2021. In June 2021, the fund paid dividends from the profit for 2020 totalling EUR 2.798 million (spring 2020: EUR 2.745 million). Without the payment of dividends, the Fund's net asset value would have increased by 16.3% in 2021.

In addition to the net asset value per share calculated in accordance with the IFRS mentioned above, EFTEN Real Estate Fund III AS also calculates the net asset value per share recommended by EPRA (European Public Real Estate Association) to provide investors with the most appropriate fair value of net assets. EPRA's recommended guidance assumes a long-term economic strategy for real estate companies, so temporary differences in a situation where no sale of assets is likely to take place in the foreseeable future will cloud the transparency of the fair value of the net assets of the fund. Therefore, the deferred income tax charge related to investment property and the fair value of financial instruments (interest rate swaps) are eliminated from the net asset value calculated under IFRS in arriving at the net asset value of EPRA.

<i>€ thousands</i>	31.12.2021	31.12.2020
Net asset value calculated in accordance with IFRS	96,914	71,483
Exclusion of deferred income tax on investment property	5,673	4,383
Exclusion of the fair value of financial instruments	121	246
EPRA net asset value	102,708	76,112
Number of shares at the balance sheet date	5,072,535	4,222,534
EPRA net asset value per share, in euros	20.25	18.03
EPRA NAV growth, in euros	2.22	0.16
Declared dividend per share, in euros	0.55	0.65
Dividend tax paid per share, in EUR	0.03	0.06
Period earnings per share, in euros	2.81	0.87
Period earnings per share, increase	15.6%	4.9%

During 2021, the Group has generated a free cash flow of EUR 4.550 million (2020 12 months: EUR 3.747 million), of which the total gross dividend would be EUR 3.64 million, in line with the Fund's dividend policy. In view of the obligation to maintain minimum cash balances resulting from the special terms of the Fund's subsidiaries' loans and the short-term liquidity needs, the Fund's Board of Directors proposes to the Board of Governors to pay a dividend in excess of the dividend policy of EUR 4.06 million (80 cents per share).

Calculation of the potential dividend payment

	12 months	
	2021	2020
<i>€ thousands</i>	-	
Operating profit	16,529	5,129
Adjustment for revaluation gains on investment property	-6,442	3,374
Adjustment for depreciation and write-downs of fixed assets	76	50
Adjustment for profit on sale of fixed assets	0	3
EBITDA	10,163	8,556
Interest expense	-1,804	-1,346
Repayments of bank loans	-3,586	-3,282
Income tax expense on profits (Lithuania)	-222	-181
Free cash flow	4,551	3,747
80% of free cash flow	3,641	2,998
Dividend tax expense	-240	-200
Potential net dividend according to dividend policy	3,401	2,798
Potential incremental cash flow ¹	700	0
Income tax charge on dividends from incremental cash flow	-42	0
Potential net dividend with incremental cash flow	4,059	2,798
Number of shares at the end of the period	5,072,535	4,222,535
Potential net dividend per share, euros	0.80	0.66

¹ Potential incremental cash flow includes cash accumulated in the accounts of the Fund's subsidiaries at the end of the reporting period that is not intended to be invested or held in the day-to-day business to provide liquidity.

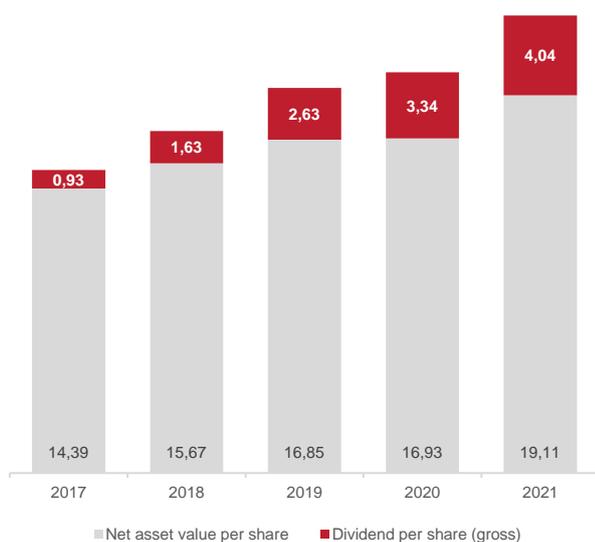
As of 31.12.2021, EFTEN Real Estate Fund III AS had 5,902 shareholders, of which 16.9% were legal entities. In total, 78.5% of the total share capital of the Fund was held by legal entities. The distribution of shares is shown in the table below.

	Shareholders, number		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	-	15	15	-	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%
Denmark	1	1	2	1	15	16	-	0.0003%	0.0003%
Estonia	985	4,856	5,841	3,968,365	1,078,428	5,046,793	78.2324%	21.2601%	99.4925%
Finland	1	14	15	42	726	768	0.0008%	0.0143%	0.0151%
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	-	20	20	-	0.0004%	0.0004%
Italy	-	1	1	-	75	75	-	0.0015%	0.0015%
Latvia	1	1	2	2,065	31	2,096	0.0407%	0.0006%	0.0413%
Lithuania	5	1	6	12,203	6,406	18,609	0.2406%	0.1263%	0.3669%
Malta	-	1	1	-	20	20	-	0.0004%	0.0004%
Norway	-	1	1	-	3	3	-	0.0001%	0.0001%
Oman	-	1	1	-	115	115	-	0.0023%	0.0023%
Portugal	-	1	1	-	100	100	-	0.0020%	0.0020%
South Africa	-	1	1	-	228	228	-	0.0045%	0.0045%
Spain	-	1	1	-	110	110	-	0.0022%	0.0022%
Sweden	1	3	4	25	83	108	0.0005%	0.0016%	0.0021%
Switzerland	-	3	3	-	429	429	-	0.0085%	0.0085%
United Arab Emirates	-	1	1	-	99	99	-	0.0020%	0.0020%
United Kingdom	-	5	5	-	648	648	-	0.0128%	0.0128%
United States	1	-	1	271	-	271	0.0053%	-	0.0053%
Total	995	4,907	5,902	3,982,972	1,089,563	5,072,535	78.52%	21.48%	100.00%

As of 31.12.2021, EFTEN Real Estate Fund III AS has three shareholders with more than 10% participation:

Entity	As at 31.12.2021	
	Number of shares	Ownership, %
Altius Energia OÜ	723,182	14.26%
Järve Kaubanduskeskus OÜ	518,952	10.23%
Hoiukonto OÜ	516,930	10.19%

EFTEN Real Estate Fund III AS net asset value per share (NAV) and dividends per share (gross), cumulatively for the period from 2017 to 2021



EFTEN Real Estate Fund III AS (EFT1T) share price dynamic compared to the NASDAQ Baltic Benchmark GI (OMXBBGI) index for the period from 01.12.2017 to 31.12.2021



EFT1T share statistics	12 months	
	2021	2020
Opening price	19.0	17.9
Closing price	22.8	18.8
Minimum share price	18.8	13.6
Maximum share price	25.6	19.3
Volume of traded shares, thousands	282	381
Volume, million €	6.026	6.280
Market capitalization as at 31.12, million €	108.075	79.384
Profit per share, euros	2.79	0.79
P/B (closing price / equity per share)	1.20	1.11
P/B EPRA (closing price / EPRA equity per share)	1.14	1.04

INTERIM FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	IV quarter		12 months	
		2021	2020	2021	2020
<i>€ thousands</i>					
Revenue	3,4	3,508	3,033	12,921	10,731
Cost of sales	5	-48	-103	-241	-325
Gross profit		3,460	2,930	12,680	10,406
Marketing costs	6	-124	-97	-268	-303
General and administrative expenses	7	-1,024	-431	-2,326	-1,597
Gain / loss from revaluation of investment properties	12	4,422	612	6,442	-3,374
Other operating income and expense		-17	-7	1	-3
Operating profit	3	6,717	3,007	16,529	5,129
Other finance income and expense	8	-420	-355	-1,678	-1,322
Profit before income tax		6,297	2,652	14,851	3,807
Income tax expense	9	-942	-342	-1,752	-490
Net profit for the financial year	3	5,355	2,310	13,099	3,317
Earnings per share	10				
- Basic		1.06	0.55	2.79	0.79
- Diluted		1.06	0.55	2.79	0.79

The notes on pages 13 to 30 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2021	31.12.2020
<i>€ thousands</i>			
ASSETS			
Cash and cash equivalents	15	13,074	5,128
Receivables and accrued income	11	876	2,018
Prepaid expenses		314	128
Inventory		29	0
Total current assets		14,293	7,274
Long-term receivables		4	18
Investment property	3,12	161,961	144,235
Property, plant and equipment		140	101
Intangible assets		3	4
Total non-current assets		162,108	144,358
TOTAL ASSETS		176,401	151,632
LIABILITIES AND EQUITY			
Borrowings	13	7,645	28,781
Derivative instruments	15	121	246
Payables and prepayments	14	1,349	1,995
Total current liabilities		9,115	31,022
Borrowings	13	63,440	43,587
Other long-term debt	14	987	957
Deferred income tax liability	9	5,945	4,583
Total non-current liabilities		70,372	49,127
Total liabilities		79,487	80,149
Share capital	16	50,725	42,225
Share premium	16	16,288	9,658
Statutory reserve capital		1,489	1,323
Retained earnings	17	28,412	18,277
Total equity		96,914	71,483
TOTAL LIABILITIES AND EQUITY		176,401	151,632

The notes on pages 10 to 30 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	IV quarter		12 months	
		2021	2020	2021	2020
<i>€ thousands</i>					
Net profit		5,355	2,310	13,099	3,317
<i>Adjustments of net profit:</i>					
Finance income and expense	8	418	355	1,678	1,322
Gains / losses on revaluation of investment property	12	-4,422	-612	-6,442	3,374
Gain / loss on sale of investment properties		0	3	0	3
Depreciation and impairment losses	7	11	13	54	51
Profit / loss on sale of fixed assets		21	0	21	0
Income tax expense	9	942	342	1,752	490
Total adjustments with non-cash changes		-3,030	101	-2,937	5,240
Cash flow from operations before changes in working capital		2,325	2,411	10,162	8,557
Change in receivables and payables related to operating activities		359	-24	167	-525
Net cash flow generated from operating activities		2,684	2,387	10,351	8,032
Purchase of property, plant and equipment		1	-8	-89	-41
Purchase of investment property	12	-159	-6,148	-11,284	-18,798
Change in short-term deposits		0	0	0	6,000
Acquisition of subsidiaries	2	0	0	-95	-8,615
Interest received		3	0	12	13
Net cash flow generated from investing activities		-155	-6,156	-11,456	-21,441
Loans received	13	0	5,900	6,300	13,200
Repayments of loans upon refinancing	13	0	0	-4,000	0
Scheduled loan repayments	13	-896	-903	-3,586	-3,282
Interest paid		-447	-414	-1,804	-1,363
Issue of shares		0	0	15,130	0
Dividends paid	15	0	0	-2,798	-2,745
Income tax on dividends paid		0	1	-169	-259
Net cash flow generated from financing activities		-1,343	4,584	9,073	5,551
NET CASH FLOW		1,186	815	7,946	-7,858
Cash and cash equivalents at the beginning of period		11,888	4,313	5,128	12,986
Change in cash and cash equivalents		1,186	815	7,946	-7,858
Cash and cash equivalents at the end of period	15	13,074	5,128	13,074	5,128

The notes on pages 10 to 30 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
<i>€ thousands</i>					
Balance as at 31.12.2019	42,225	9,658	936	18,092	70,911
Dividends declared	0	0	0	-2,746	-2,746
Provision for reserve capital	0	0	387	-387	0
Total transactions with owners	0	0	387	-3,133	-2,746
Net profit for the financial period	0	0	0	3,317	3,317
Other comprehensive loss	0	0	0	0	0
Total comprehensive income for the period	0	0	0	3,317	3,317
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	13,099	13,099
Other comprehensive loss	0	0	0	0	0
Total comprehensive income for the period	0	0	0	13,099	13,099
Balance as at 31.12.2021	50,725	16,288	1,489	28,412	96,914

Further information on the share capital can be found in note 16.

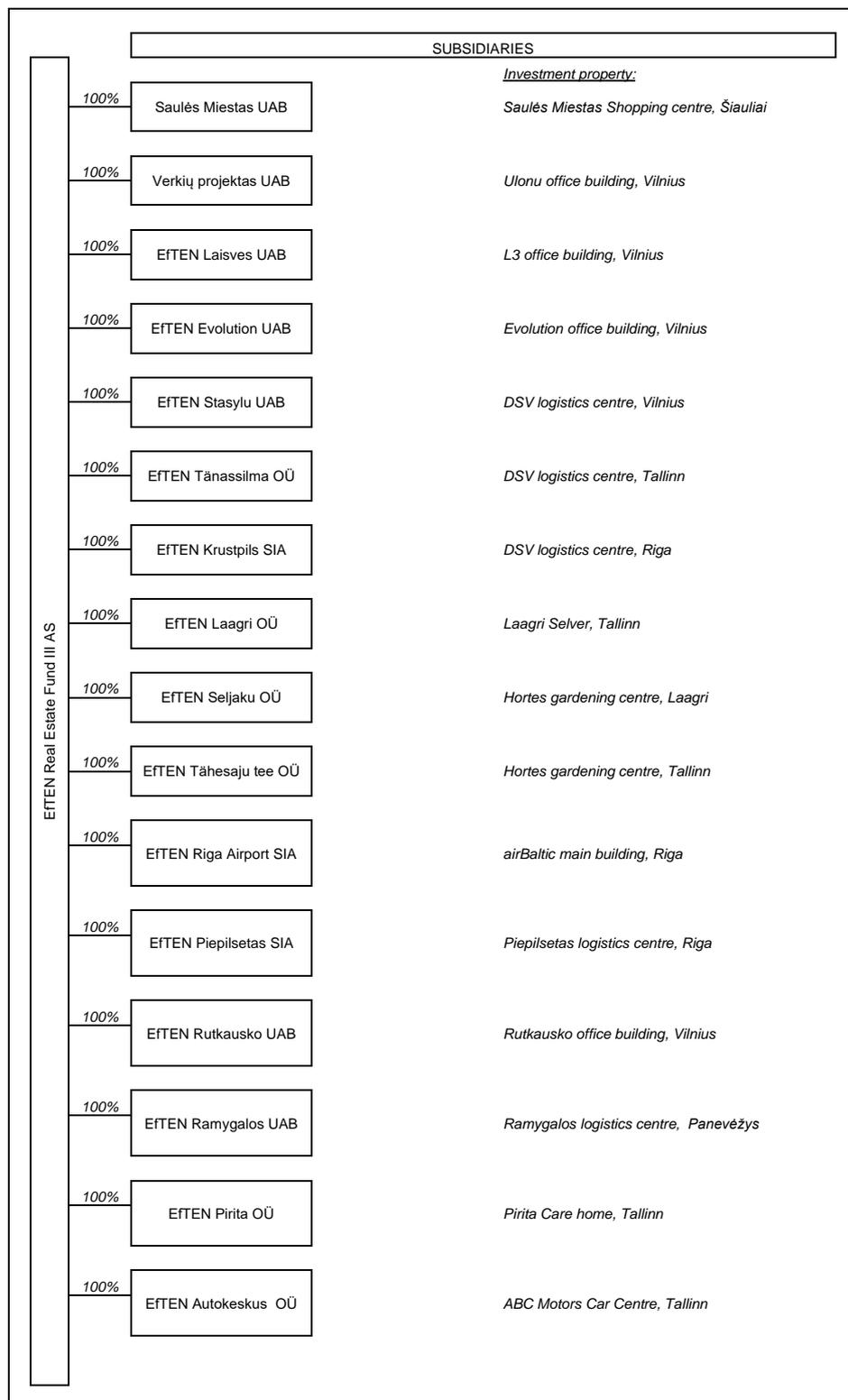
The notes on pages 10 to 30 form an integral part of these financial statements

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 31.12.2021 is as follows (also see note 2):



The condensed consolidated interim financial statements of EFTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards 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 same accounting policies have been applied in the preparation of the interim financial statements as in the annual financial statements for the year ended 31 December 2020. The interim financial statements should be read in conjunction with the Group's last published annual report for the year ended 31 December 2020, prepared in accordance with International Financial Reporting Standards (IFRS). In the opinion of the Management Board, the interim financial statements for the fourth quarter and 12 months of 2021 of EFTEN Real Estate Fund III AS present fairly and fairly the financial performance of the group on a going concern basis. These interim financial statements have not been audited or otherwise reviewed by auditors and include only the consolidated financial statements of the Group. The reporting currency is the euro. The consolidated interim financial statements are presented in thousands of euro and all figures are rounded to the nearest thousand, unless otherwise indicated.

2 Subsidiaries

Company name	Country of domicile	Investment property	Subsidiary's equity, € thousands		Group's ownership interest, %	
			31.12.2021	31.12.2020	31.12.2021	31.12.2020
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Saulės Miestas shopping centre, Šiauliai	18,990	16,495	100	100
Verkiu Projektas UAB	Lithuania	Ulonu office building, Vilnius	4,326	3,747	100	100
EFTEN Laisves UAB	Lithuania	L3 office building, Vilnius	5,375	4,816	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics centre, Vilnius	5,106	4,461	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	7,729	7,046	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	3,083	2,776	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	3,507	2,880	100	100
EFTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	5,528	4,593	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,374	2,079	100	100
EFTEN Laagri OÜ	Estonia	Laagri Selver, Tallinn	4,623	3,552	100	100
EFTEN Autokeskus OÜ	Estonia	ABC Motors Car Centre, Tallinn	1,996	1,479	100	100
EFTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Riga	4,042	3,509	100	100
EFTEN Rīga Airport SIA	Latvia	airBaltic main building, Riga	4,469	1,121	100	100
EFTEN Rutkauskos UAB	Lithuania	Rutkauskos office building, Vilnius	5,714	4,711	100	100
EFTEN Piritā OÜ	Estonia	Pirita Care home, Tallinn	3,479	3,116	100	100
EFTEN Ramygalos UAB	Lithuania	Ramygalos logistics centre, Panevėžys	4,585	0	100	0

In June 2021, EFTEN Real Estate Fund III AS established EFTEN Ramygalos UAB, a wholly-owned subsidiary, which, following its establishment, acquired production and warehouse buildings in Panevėžys, Lithuania. The total value of the real estate investment, including transaction costs, amounted to EUR 10,011 thousand. The Fund invested EUR 4,036 thousand in the equity of the subsidiary prior to the transaction.

On 10 January 2020, EFTEN Real Estate Fund III AS entered into purchase and sale agreements for the acquisition of the owner company of the Air Baltic headquarters building at Riga Airport and the owner company of the Piepilsetas production and warehouse building in Kekava, near Riga. The transactions were completed on 12 March and 13 March 2020 and the financials of the two new subsidiaries have been consolidated in the Group's financial statements on a line-by-line basis as of 1 March 2020. The total amount paid for the subsidiaries was EUR 8,873 thousand, including the assumption of loan receivables of former owners from the subsidiaries in the amount of EUR 3,780 thousand. In accordance with the share acquisition agreement, the transaction price of EFTEN Riga Airport SIA and EFTEN Piepilsetas SIA was adjusted for working capital changes in the period of the transaction (mid-January to mid-March) and the Fund paid an additional EUR 95 thousand for the acquisitions of subsidiaries in Q3 2021. The total value of the investment properties owned by the subsidiaries amounts to EUR 15,800 thousand.

Fair value of EFTEN Riga Airport (formerly NHC1) SIA as at 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

Fair value of EFTEN Piepilsetas (former NHC3) SIA as at 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 7 August 2020, EFTEN Real Estate Fund III AS established a wholly owned subsidiary EFTEN Rutkausko UAB in Lithuania. The equity capital of the subsidiary, including the initial capital, was paid in EUR 4 560 thousand after the establishment. In August 2020, the subsidiary acquired an office building in Vilnius with an acquisition cost of EUR 11 819 thousand.

On 18 November 2020, EFTEN Real Estate Fund III AS established a wholly owned subsidiary EFTEN Pirita OÜ in Tallinn. The equity of the subsidiary was paid in together with the initial capital after the establishment of EUR 3 103 thousand. In December 2020, the subsidiary acquired the property of the newly completed Pirita care home with a total cost of EUR 6.2 million. Of this amount, EUR 5.9 million was paid immediately and the remaining EUR 0.3 million will be paid to the seller after the construction deficiencies have been remedied.

All subsidiaries are active in the acquisition and rental of investment properties. The shares of none of the subsidiaries are listed on a stock exchange.

3 Segment reporting

SEGMENT RESULTS

12 months	Office		Logistics		Retail		Care homes		Non-allocated		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue (note 4), incl.	3,794	2,971	3,606	2,880	5,105	4,864	416	16	0	0	12,921	10,731
Estonia	0	0	1,018	929	1,477	1,374	416	16	0	0	2,911	2,319
Latvia	498	415	1,450	1,271	0	0	0	0	0	0	1,948	1,686
Lithuania	3,296	2,556	1,138	680	3,628	3,490	0	0	0	0	8,062	6,726
Net operating income, incl.	3,674	2,744	3,571	2,812	4,756	4,531	411	16	0	0	12,412	10,103
Estonia	0	0	1,013	922	1,462	1,358	411	16	0	0	2,886	2,296
Latvia	497	413	1,421	1,248	0	0	0	0	0	0	1,918	1,661
Lithuania	3,177	2,331	1,137	642	3,294	3,173	0	0	0	0	7,608	6,146
Operating profit, incl.	5,108	711	4,549	2,370	7,155	2,226	427	16	-710	-194	16,529	5,129
Estonia	0	0	1,153	1,031	2,678	731	427	16	-710	-194	3,548	1,584
Latvia	401	38	1,500	702	0	0	0	0	0	0	1,901	740
Lithuania	4,707	673	1,896	637	4,477	1,495	0	0	0	0	11,080	2,805
EBITDA, incl.	3,228	2,364	3,116	2,459	4,154	3,914	374	16	-710	-194	10,162	8,559
Estonia	0	0	922	831	1,277	1,173	374	16	-710	-194	1,863	1,826
Latvia	401	338	1,207	1,051	0	0	0	0	0	0	1,608	1,389
Lithuania	2,827	2,026	987	577	2,877	2,741	0	0	0	0	6,691	5,344
Operating profit											16,529	5,129
Net financial expense (note 8)											-1,678	-1,322
Profit before income tax											14,851	3,807
Income tax expense (note 9)											-1,752	-490
NET PROFIT FOR THE FINANCIAL PERIOD											13,099	3,317

IV quarter	Office		Logistics		Retail		Care homes		Non-Allocated		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue, incl.	964	938	993	820	1,447	1,259	104	16	0	0	3,508	3,033
Estonia	0	0	255	253	383	367	104	16	0	0	742	636
Latvia	124	124	362	363	0	0	0	0	0	0	486	487
Lithuania	840	814	376	204	1,064	892	0	0	0	0	2,280	1,910
Net operating income, incl.	951	889	979	782	1,303	1,146	103	16	0	0	3,336	2,833
Estonia	0	0	250	253	378	363	103	16	0	0	731	632
Latvia	124	124	353	356	0	0	0	0	0	0	477	480
Lithuania	827	765	376	173	925	783	0	0	0	0	2,128	1,721
Operating profit, incl.	2,500	111	1,973	1,394	2,658	1,516	155	16	-569	-30	6,717	3,007
Estonia	0	0	458	790	1,061	706	155	16	-569	-30	1,105	1,482
Latvia	96	29	522	329	0	0	0	0	0	0	618	358
Lithuania	2,404	82	993	275	1,597	810	0	0	0	0	4,994	1,167
EBITDA, incl.	826	762	857	683	1,128	978	86	16	-569	-30	2,328	2,409
Estonia	0	0	227	230	331	317	86	16	-569	-30	75	533
Latvia	96	99	296	298	0	0	0	0	0	0	392	397
Lithuania	730	663	334	155	797	661	0	0	0	0	1,861	1,479
Operating profit											6,717	3,007
Net financial expense											-420	-355
Profit before income tax											6,297	2,652
Income tax expense											-942	-342
NET PROFIT FOR THE IV QUARTER											5,355	2,310

SEGMENT ASSETS

As at the end of the period	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	13,370	13,080	20,770	19,130	6,270	5,917	40,410	38,127
Latvia	6,800	6,800	17,440	17,107	0	0	0	0	24,240	23,907
Lithuania	43,031	40,951	19,780	8,860	34,500	32,390	0	0	97,311	82,201
Total investment property	49,831	47,751	50,590	39,047	55,270	51,520	6,270	5,917	161,961	144,235
Other non-current assets									147	123
Net debt (liabilities less cash)									-66,413	-75,021
Other current assets									1,219	2,146
NET ASSETS									96,914	71,483

There were no transactions between business segments in 2021 and 2020. The Group's main income is generated from investment properties located in the same countries as the investment property subsidiary.

The Group's largest customers are DSV Estonia AS, AQ Wiring Systems UAB, Hortes AS, DSV Latvia SIA and DSV Lithuania UAB, accounting for 7.8%, 6.2%, 5.7%, 5.5% and 5.4% of the Group's consolidated rental income, respectively. The remaining tenants account for less than 5% of consolidated revenue.

4 Revenue

Segments	2021	2020
<i>€ thousands</i>		
Rental income from office premises	3,746	2,957
Rental income from retail premises	4,413	4,236
Rental income from warehousing and logistics premises	3,550	2,792
Rental income from care home premises	416	16
Other sales revenue	796	730
Total revenue by segments of activity (note 12)	12,921	10,731

Revenue by geographical area	2021	2020
<i>€ thousands</i>		
Estonia	2,911	2,319
Latvia	1,948	1,686
Lithuania	8,062	6,726
Total revenue by geographical area (note 3)	12,921	10,731

5 Cost of services sold

Cost of services sold	2021	2020
€ thousands		
Repair and maintenance of rental premises	-34	-23
Property insurance	-5	-8
Land tax and real estate tax	-60	-56
Other administrative expenses	-64	-74
Utility costs of vacant premises	-5	-64
Depreciation of property, plant and equipment	-1	-1
Improvement costs	-1	-7
Wage costs, including taxes (note 18)	-32	-40
Proportional VAT costs	-35	-52
Impairment of doubtful receivables	-4	0
Total cost of services sold (note 12)	-241	-325

6 Marketing costs

Marketing costs	2021	2020
€ thousands		
Commission expenses on rental premises	-27	-56
Advertising, advertising events ¹	-239	-247
Corporate marketing	-2	0
Total marketing costs	-268	-303

¹ Expenditure on advertising and promotional events consists to a large extent of the costs of marketing events in shopping centres, which are covered by tenants through agreed marketing fees.

7 General and administrative expenses

General and administrative expenses	2021	2020
€ thousands		
Management services (note 18)	-1,074	-899
Office expenses	-36	-35
Wages and salaries, incl. Taxes (note 18)	-213	-220
Consulting expenses, legal expenses, accounting service, evaluation service	-185	-227
Audit costs	-60	-46
Regulator costs	-135	-86
Management fees	-537	0
Other general administrative expenses	-32	-34
Depreciation costs	-54	-50
Total administrative expense	-2,326	-1,597

8 Financial expenses

Other financial expenses	2021	2020
<i>€ thousands</i>		
Interest expenses, incl.		
Interest expense from loans	-1,804	-1,346
Interest expense from derivatives (-)/ cost reductions (+)	-1,691	-1,243
Change in fair value of interest swaps	-113	-103
	126	24
Total finance costs (note 15)	-1,678	-1,322

9 Income tax

	2021	2020
<i>€ thousands</i>		
Deferred income tax expense on dividends ¹	-240	-200
Deferred income tax expense for Lithuanian companies	-1290	-109
Lithuanian corporate income tax expense on profits	-222	-181
Total income tax expense (note 3)	-1,752	-490

¹ As a result of the IFRS Interpretations Committee's decision on the recognition of deferred tax liabilities under IAS12, the Group has made corrections to the income tax expense and deferred tax liability for prior periods.

Changes in deferred tax liability in 2021 and 2020 include the following:

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
<i>€ thousands</i>			
Balance as at 31.12.2019	4,274	260	4,534
Change in deferred income tax liability in the income statement for the year 2020	109	200	309
Income tax paid on dividends	0	-260	-260
Balance as at 31.12.2020	4,383	200	4,583
Change in deferred income tax liability in the income statement for the year 2021	1,290	240	1,530
Income tax paid on dividends	0	-168	-168
Balance as at 31.12.2021	5,673	272	5,945

10 Earnings per share

Earnings per share	IV quarter		12 months	
	2021	2020	2021	2020
Net profit for the period, <i>€ thousands</i>	5,355	2,310	13,099	3,317
Dividends per share, euros	0.55	0.65	0.55	0.65
Weighted average number of shares over the period, in pcs	5,072,535	4,222,535	4,698,909	4,222,535
Earnings per share, euros	1.06	0.55	2.79	0.79

11 Receivables and accrued income

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Receivables from customers	584	480
Allowance for doubtful accounts	-7	-59
Total trade receivables (note 15)	577	421
Advances and refunds of VAT	0	1,316
Other accrued income	299	281
Total accrued income	299	1,597
Total receivables and accrued income (note 15)	876	2,018

12 Investment properties

As of 31.12.2021, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m ²)	Year of construction	Date of acquisition	Acquisition cost	Market value as at 31.12.2021	Increase in value	Share of market value of the Fund's asset
<i>€ thousands</i>								
Saules Miestas shopping centre	Šiauliai, Lithuania	19,881	2007	08.2015	29,027	34,500	19%	20%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,504	9,380	10%	5%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,287	13,370	9%	8%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,835	8,710	-1%	5%
L3 office building	Vilnius, Lithuania	6,151	2004	10.2016	8,816	10,281	17%	6%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,280	9,080	10%	5%
Hortes gardening centre Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,680	18%	2%
Hortes gardening centre Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,480	19%	4%
Laagri Selver	Tallinn, Estonia	3,063	2017	05.2017	6,279	7,340	17%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,806	11,190	14%	6%
ABC Motors Car Centre	Tallinn, Estonia	2,149	2002	02.2019	3,259	3,270	0%	2%
airBaltic main building	Riga, Latvia	6,217	recon. 2016	03.2020	7,100	6,800	-4%	4%
Piepilsetas logistics centre	Riga, Latvia	13,327	2007	03.2020	8,751	8,730	0%	5%
Rutkauskos office building	Vilnius, Lithuania	6,811	2014	08.2020	11,819	12,480	6%	7%
Pirita Care home	Tallinn, Estonia	6,045	2020	12.2020	6,217	6,270	1%	4%
Panevėžys logistics centre	Panevėžys, Lithuania	20,125	2007	6.2021	10,011	10,400	4%	6%
Total		143,735			147,557	161,961	10%	92%

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

The following changes have occurred in the Group's investment properties in 2021 and 2020:

	Ready real estate investments	Total real estate investments
Balance as at 31.12.2019	113,011	113,011
Acquisitions	17,736	17,736
Acquisitions from related parties (note 2)	15,800	15,800
Capitalized improvements	1,062	1,062
Gain / loss on change in fair value	-3,374	-3,374
Balance as at 31.12.2020	144,235	144,235
Acquisitions	10,311	10,311
Capitalized improvements	973	973
Gain / loss on change in fair value	6,442	6,442
Balance as at 31.12.2021	161,961	161,961

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

As of 31 December, or per 12 months	2021	2020
Rental income from investment properties (note 4)	12,125	10,001
Costs directly related to the management of investment properties (note 5)	-241	-325
Amounts outstanding from the acquisition of real estate investments (note 14) ¹	0	1,240
Book value of investment properties pledged as collateral for loan liabilities	161,961	144,235

¹ As at 31.12.2020, the Group had an outstanding VAT portion of 1,240 thousand euros from the acquisition of investment properties.

The lease agreements between EFTEN Real Estate Fund III AS and the tenants comply with the terms of the operating leases. The income from these leases is distributed as follows:

Payments from open-ended operating leases	31.12.2021	31.12.2020
<i>€ thousands</i>		
Up to 1 year	11,041	10,300
2-5 years	27,776	30,720
Over 5 years	19,540	21,735
Total	58,357	62,755

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 31.12.2021 ja 31.12.2020 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 31.12.2021:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Capitalisation	Average rental price €/m ²
<i>€ thousands</i>						
Office	49,831	Discounted cash flows	3,759	8.2%-8.7%	6.8%-7.5%	10.9
Logistics	50,590	Discounted cash flows	3,978	8.2%-9.1%	7.2%-7.9%	4.5
Retail	55,270	Discounted cash flows	4,606	7.8%-9.0%	6.8%-8.0%	11.8
Care homes	6,270	Discounted cash flows	443	7.8%	6.8%	6.1
Total	161,961		12,786			

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Capitalisation	Average rental price €/m ²
<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, considering the risks associated with the object;
- Discount rate: calculated based on 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, considering 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 31.12.2021 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 rate +50bp	Exit yield rate -50bp
<i>€ thousands</i>							
Office	49,831	5,970	-5,910	-980	1,050	-2,360	2,740
Logistics	50,590	5,310	-5,360	-1,020	1,020	-2,280	2,570
Retail	55,270	6,240	-6,240	-1,100	1,120	-2,340	2,660
Care homes	6,270	660	-650	-120	130	-310	360
Total	161,961	18,180	-18,160	-3,220	3,320	-7,290	8,330

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 rate +50bp	Exit yield rate -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 the Group's investment properties (Note 15).

13 Borrowings

As at 31.12.2021, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2021	Contract term	Interest rate as at 31.12.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,616	13,422	13.08.23	2.65%	Mortgage - Saules Miestas shopping centre	34,500	13.8%
SEB	Lithuania	5,500	4,204	28.06.26	1.85%	Mortgage - DSV logistics centre	9,380	4.3%
SEB	Latvia	5,123	4,049	29.06.26	1.85%	Mortgage - DSV logistics centre	8,710	4.2%
SEB	Lithuania	5,620	4,349	27.10.26	1.90%	Mortgage - L3 office centre	10,281	4.5%
SEB	Estonia	7,950	6,098	29.06.26	1.85%	Mortgage - DSV logistics centre	13,370	6.3%
SEB	Lithuania	5,200	3,841	21.12.25	2.25%	Mortgage - Ulonu office centre	9,080	4.0%
SEB	Lithuania	5,850	4,932	30.05.23	2.00%	Mortgage - Evolution office centre	11,190	5.1%
Swedbank	Estonia	3,700	2,927	29.06.22	1.40%	Mortgage - Laagri Selver	7,340	3.0%
SEB	Estonia	1,860	1,449	05.07.22	1.82%	Mortgage - Hortes gardening centre Laagri	3,680	1.5%
Swedbank	Estonia	3,290	3,060	11.01.24	1.95%	Mortgage - Hortes gardening centre Tähesaju	6,480	3.2%
LHV	Estonia	1,800	1,624	25.02.24	2.95%	Mortgage - ABC Motors Car centre	3,270	1.7%
Swedbank	Latvia	3,201	2,827	05.02.23	2.80%	Mortgage - Piepilsetas logistics centre	8,730	2.9%
Luminor	Latvia	3,905	2,630	04.02.25	3.75%	Mortgage - airBaltic main building	6,800	2.7%
Swedbank	Estonia	3,100	3,038	28.11.25	1.95%	Mortgage - Pirita Care home, parent entity guarantee	6,270	3.1%
Šiaulių bankas	Lithuania	6,000	5,883	13.06.26	2.50%	Mortgage - Panevežys logistics centre	10,400	6.1%
SEB	Lithuania	7,300	6,844	12.08.25	2.10%	Mortgage - Rutkausko office centre	12,480	7.1%
Total		84,015	71,177				161,961	73.4%

As at 31.12.2020, the Group had the following loan commitments:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2021	Contract term	Interest rate as at 31.12.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,617	14,267	14.08.23	2.65%	Mortgage - Saules Miestas shopping centre	32,390	20.0%
SEB	Lithuania	5,500	4,397	29.06.21	1.55%	Mortgage - DSV logistics centre in Vilnius	8,860	6.2%
SEB	Latvia	5,123	4,253	29.06.21	1.55%	Mortgage - DSV logistics centre in Riga	8,687	5.9%
SEB	Estonia	7,950	6,396	29.06.21	1.55%	Mortgage - DSV logistics centre in Estonia	13,080	8.9%
SEB	Lithuania	5,620	4,583	30.09.21	1.90%	Mortgage - L3 office centre in Vilniuse	9,721	6.4%
SEB	Lithuania	5,200	4,002	21.12.25	2.25%	Mortgage - Ulonu office centre in Vilnius	8,830	5.6%
SEB	Lithuania	5,850	5,210	30.05.23	2.00%	Mortgage - Evolution office centre in Vilnius	10,610	7.3%
Swedbank	Estonia	3,290	3,191	11.01.24	1.95%	Mortgage - Hortes gardening centre Tähesaju	6,020	4.5%
SEB	Estonia	1,860	1,542	05.07.22	1.82%	Mortgage - Hortes gardening centre	3,510	2.2%
Swedbank	Estonia	3,700	3,066	26.06.22	1.40%	Mortgage - Laagri Selver	6,480	4.3%
LHV	Estonia	1,800	1,695	25.02.24	2.95%	Mortgage - Laagri Selver	3,120	2.4%
Luminor	Latvia	3,905	3,732	04.02.25	3.75%	Mortgage - airBaltic main building	6,800	5.2%
Swedbank	Latvia	3,201	3,041	05.02.23	2.80%	Mortgage - Piepilsetas logistics centre	8,420	4.3%
SEB	Lithuania	7,300	7,188	12.08.25	2.10%	Mortgage - ATEA office building	11,790	10.1%
Swedbank	Estonia	3,100	3,100	28.06.21	4.50%	-	-	4.3%
Swedbank	Estonia	2,800	2,800	28.11.25	1.95%	Mortgage - Pirita Care home, parent entity guarantee	5,917	3.9%
Total		80,816	72,463				144,235	101.4%

Short-term borrowings	31.12.2021	31.12.2020
<i>€ thousands</i>		
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	7,677	21,988
Discounted contract fees for bank loans	-32	-39
Total short-term borrowings	7,645	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 31.12.2021 include three group loan agreements expiring in the next 12 months in the amount of 4,376 thousand euros. The LTVs of the expiring loan agreements is 40% and 39%, and the Investment property has 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.

Long-term borrowings	31.12.2021	31.12.2020
<i>€ thousands</i>		
Total long-term borrowings	71,085	72,368
incl. current portion of borrowings	7,645	28,781
incl. non-current portion of borrowings, incl	63,440	43,587
<i>Bank loans</i>	<i>63,500</i>	<i>43,643</i>
<i>Discounted contract fees on bank loans</i>	<i>-60</i>	<i>-56</i>

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	31.12.2021	31.12.2020
<i>€ thousands</i>		
Up to 1 year	7,677	28,820
2-5 years	63,500	43,643
Total repayments of bank loans	71,177	72,463

Cash flows of borrowings	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	13,200
Refinancing of repaid bank loans	-4,000	0
Annuity payments on bank loans	-3,586	-3,282
Change of discounted contract fees	3	-86
Balance as at the end of period	71,085	72,368

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

14 Payables and prepayments

Short-term payables and prepayments

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Other payables to suppliers	681	173
Total payables to suppliers	681	173
Debts from securities transactions	0	95
Debts from tangible assets transactions (note 12)	0	1,240
Other debts	25	12
Total other debts	25	1,347
VAT	252	228
Land tax, real estate tax	103	61
Other tax liabilities	4	2
Total tax arrears	359	291
Debts to employees	23	14
Interest payable	40	29
Tenants' security deposits	77	45
Other accrued liabilities	144	96
Total prepayments	284	184
Total payables and prepayments	1,349	1,995

Long-term payables

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Tenants' security deposits	985	954
Other long-term debts	2	3
Total other long-term payables	987	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

	Notes	31.12.2021	31.12.2020
<i>€ thousands</i>			
Financial assets - loans and receivables			
Cash and cash equivalents		13,074	5,128
Trade receivables	11	577	421
Total financial assets		13,651	5,549
Financial liabilities measured at amortised cost			
Borrowings	13	71,085	72,368
Trade payables	14	681	173
Tenant security deposits	14	1,062	999
Interest payables	14	40	29
Accrued expenses	14	167	110
Total financial liabilities measured at amortised cost		73,035	73,679
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		121	246
Total financial liabilities measured at fair value		121	246
Total financial liabilities		73,156	73,925

The fair values of financial assets and financial liabilities carried at amortized 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 31.12.2021, 98% of the Group's loan agreements are on a floating rate basis (margin between 1.4% and 3.75% plus 1-month, 3-month and 6-month EURIBOR) and 2% of the loan agreements carry a fixed interest rate of 1.55%. In turn, 19% of the floating rate contracts are linked to an interest rate swap, with the 3-month EURIBOR fixed at 0.35%. All contracts in the loan portfolio of EFTEN Real Estate Fund III AS have a floor of 0% to protect against negative EURIBOR, i.e. in case of negative EURIBOR the loan margin on these commitments does not decrease.

Due to the current low level of interest rates and market expectations for interest rates to remain stable in the near future, hedging interest rate risk is particularly important in the long term. The Fund's management expects a possible rise in interest rates to have a more significant impact in the 3-5 year horizon.

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 121 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 its net cash flows in such a way that no more than 65% of the acquisition cost of the investment is borrowed for real estate investments and that the Group's debt coverage ratio is higher than 1.2. As at 31.12.2021, the Group's interest-bearing debt represented 44% (31.12.2020: 50%) of its investment property portfolio and the average debt coverage ratio (DSCR) for the last 12 months was 1.9 (2020: same).

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

As at 31.12.2021	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	299	899	6,478	63,501	0	71,177
Interest payments	141	420	1,060	2,976	0	4,597
Interest payables	40	0	0	0	0	40
Trade payables	681	0	0	0	0	681
Tenant security deposits	5	8	64	853	133	1,062
Accrued expenses	167	0	0	0	0	167
Total financial liabilities	1,333	1,327	7,602	67,330	133	77,724

As at 31.12.2020	Less than 1 month	Between 2 and 4 months	between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>€ thousands</i>						
Interest-bearing liabilities	299	900	24,092	47,077	0	72,368
Interest payments	146	435	931	2,555	0	4,067
Interest payables	29	0	0	0	0	29
Trade payables	173	0	0	0	0	173
Tenant security deposits	12	9	25	707	247	999
Accrued expenses	110	0	0	0	0	110
Total financial liabilities	769	1,344	25,048	50,339	247	77,746

Statement of working capital

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	13,074	5,128
Receivables and accrued income (note 11)	876	2,018
Prepaid expenses	314	128
Total current assets	14,264	7,274
Short-term portion of long-term liabilities (note 13)	-7,645	-28,781
Short-term payables and prepayments	-1,470	-2,241
Total current liabilities	-9,115	-31,022
Total working capital	5,149	-23,748

The Group's working capital as at 31.12.2021 is positive in the amount of EUR 5.149 thousand (31.12.2020: negative EUR 23,748 thousand). Working capital was negative at 31.12.2020 due to the expiry of five loan agreements of the Group maturing in 2021 for a total amount of EUR 22,729 thousand. Of these loan agreements, four have been renewed at 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:

	31.12.2021	31.12.2020
Undue	536	330
Past due, incl.	48	150
<i>up to 30 days</i>	40	121
<i>30-60 days</i>	2	16
<i>more than 60 days</i>	6	13
Allowance for doubtful accounts	-7	-59
Total trade receivables (note 11)	577	421

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

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	13,074	5,128
Trade receivables (note 11)	577	421
Total maximum credit risk	13,651	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).

The group's management estimates that the group's free cash flow will allow it to pay dividends to investors at an average of 80% of the adjusted cash flow for the calendar year (EBITDA minus interest expense minus debt repayments). In June 2021, EFTEN Real Estate Fund III AS paid (net) dividends of EUR 2.798 million to shareholders (2020: EUR 2.745 million). In 2021, the group generated a free cash flow of EUR 4.550 million (2020 12 months: EUR 3.747 million). After deducting the income tax expense of Lithuanian companies and calculating the imputed dividend income tax expense of Estonian and Latvian companies, EFTEN Real Estate Fund III AS would be able to pay net dividends of EUR 3.400 million (0.67 cents per share) to shareholders from this year's profit in accordance with the established dividend policy.

Report of capitalisation

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Short-term liabilities guaranteed with mortgage (note 13)	7,677	28,820
Unsecured short-term liabilities	1,438	2,202
Total short-term liabilities	9,115	31,022
Long-term liabilities guaranteed with mortgage (note 13)	63,500	43,643
Unsecured long-term liabilities	6,872	5,484
Total long-term liabilities	70,372	49,127
Share capital and share premium (note 16)	67,013	51,883
Reserves	1,489	1,323
Retained earnings (note 17)	28,412	18,277
Total shareholder's equity	96,914	71,483
Total liabilities and equity	176,401	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

	31.12.2021	31.12.2020
<i>€ thousands</i>		
Cash (note 12)	13,074	5,128
Total liquid assets	13,074	5,128
The short-term portion of long-term liabilities (note 13)	7,677	28,820
Net short-term debt	-5,397	23,692
Long-term bank loans (long-term portion) (note 13)	63,500	43,643
Total long-term debt	63,500	43,643
Total net debt	58,103	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 31.12.2021 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 31.12.2021 was EUR 50,725 thousand (31.12.2020: EUR 42,225 thousand). The share capital as at 31.12.2021 consisted of 5,072,535 shares (31.12.2020: 4,222,535 shares) with a nominal value of EUR 10 (31.12.2020: same). Without amending the Articles of Association, the company has the right to increase the share capital to EUR 168,901 thousand. As at 31.12.2021, a total of EUR 67,013 thousand (31.12.2020: EUR 51,883 thousand) has been paid up in share capital, see (note 15).

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

Company	As at 31.12.2021	
	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 31.12.2021	
	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

	31.12.2021	31.12.2020
€ thousands		
Retained earnings (Note 15)	28,412	18,277
Potential income tax liability	5,682	3,655
Dividends can be paid out	22,730	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 31.12.2021 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 2021, the Group purchased management services from EFTEN Capital AS in the amount of EUR 1,074 thousand (2020: EUR 899 thousand), (see note 7). In addition to the periodic management service, the Group invoiced a performance fee of EUR 537 thousand to the management company in 2021. No performance fee was invoiced to the management company for 2020.

EFTEN Real Estate Fund III AS did not purchase any other goods or services from other related parties or sell any other goods or services to related parties during 2021 and 2020.

As at 31.12.2021, the Group had a total of 11 employees, for whom the total remuneration, including related taxes, amounted to EUR 245 thousand (2020: EUR 260 thousand), (see note 5.7). No remuneration was calculated or paid to members of the Group's Management Board or Supervisory Board in 2021 or 2020. The members of the Group's Management Board are employed by EFTEN Capital AS, a company providing management services to the Group, and the expenses related to the activities of the Management Board member are included in management services.

Management Board Declaration for the Consolidated Interim Report for the IV quarter and 12 months of 2021

We hereby confirm that the consolidated interim report of EFTEN Real Estate Fund III AS for the third quarter and 12 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