Consolidated Annual Report 2020

EfTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2020

End of financial period: 31.12.2020

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MANAGEMENT REPORT

Comment of the fund manager

The main economic event of 2020 was not an economic event – unexpected arrival and spread of coronavirus. The virus wave that reached the Baltics in February, 2020, closed the economy and put a significant strain on the fund's cash flows but only in short term. The fund's management found temporary solutions with the tenants, which usually resulted in a temporary rent discount for 3-4 months and an equivalent extension of the lease period. The second wave of virus, which started in the fall was significantly worse in medical terms compared to the outbreak in spring, however, the companies had a much calmer attitude towards the second wave compared to the first wave. Coronavirus will definitely have an effect to fund's cash flows in the first quarter of 2021 but the positive news related to vaccine give hope that since the second quarter of 2021 we can hope for the permanent return of ordinary rhythm of life. Since the fund's portfolio does not include investments in hotels or entertainment segment the economic effect of Covid-19 to fund's cash flows was modest.

The temporary setback was mainly reflected in decrease of the fair value of fund's investment properties but European Commission's economic recovery plan, national measures of Baltic states and steps taken by European Central Bank give reason to predict that the setback in value of real estate is temporary and the real estate values will recover. This position is assured by the developments in residential real estate market in the Baltics where sales prices practically did not decrease and the effect of corona crisis was reflected in temporary, few-months long decrease in the number of transactions. Generally, the faster dynamics of residential real estate reflects in large-scale commercial real estate within delay of 3-4 quarters. As at the turn of the year, the average unleveraged net yield of the fund's underlying assets is 7.8%.

Despite the turmoil caused by coronavirus, the fund made four new investments during 2020: in February, two transactions were completed in Latvia by purchasing Piepilsetas logistics and production centre in Kekava near Riga and AirBaltic's headquarters in the territory of Riga airport. In August, 2020, the fund invested in the Rutkausko office building in Vilnius, where the Lithuanian subsidiary of IT-group ATEA, that is listed in Norwegian stock market, is a long-term anchor-tenant. In the last month of the year, the fund acquired its first care home in Tallinn, Pirita district. The care home segment in the Baltics has a very good outlook for growth and the fund plans to invest in the given segment moving forward. In 2020, total investments in new commercial buildings totalled to EUR 33.5 million.

In conclusion, the management of the fund is satisfied with the fund's performance in 2020. As at the end of the year, 99% of commercial premises are rented out.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for 2020 was EUR 10.731 million (12 months of 2019: EUR 9.512 million), which increased by 13% in a year. The Group's net rental income in 2020 totalled EUR 10.103 million (2019: 8.754 million euros), increasing by 15.4% year-on-year. The Group's net profit for the same period was EUR 3.317 million euros (2019 12 months: EUR 7.617 million). The lower net profit in 2020 is due to the revaluation of investment properties, which in turn was mainly due to a more conservative cash flow forecast.

In December 2020, Colliers International performed a regular valuation of the fund's real estate portfolio, as a result of which the value of the real estate portfolio as a whole increased by 611 thousand euros (0.4%). In 2020 as a whole, the value of the real estate portfolio decreased by a total of EUR 3.374 million euros (2.3%).

	2020	**2019**
EUR million		
Rental revenue, other fees from investment properties	10.731	9.512
Expenses related to investment properties, incl. marketing costs	-0.628	-0.758
Net rental income	**10.103**	**8.754**
Net rental income margin	*94%*	*92%*
Interest expense and interest income	-1.322	-1.183
Net rental revenue less finance costs	**8.781**	**7.571**
Management fees	-0.899	-0.702
Other revenue and expenses	-0.701	-0.629
Profit before change in the value of investment property, success fee, fair value change of the interest rate swap and income tax expense	**7.181**	**6.240**

The consolidated net rental income margin in 2020 was 94% (2019: 92%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) and marketing expense accounted for 6% (2019: 8%) of the revenue. Interest expenses have increased in 2020 due to the addition of loans taken out for the acquisition of new investment properties.

The volume of the Group's total assets as of 31.12.2020 was EUR 151.632 million (31.12.2019: EUR 132.829 million), incl. the fair value of investment properties accounted for 95% of the volume of total assets (31.12.2019: 85%).

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
EUR million					
Investment properties	144.235	113.011	102.787	88.390	73.539
Other non-current assets	0.123	0.114	0.138	0.090	0.058
Current assets, excluding cash	2.146	6.717	0.719	0.678	0.444
Net debt (cash and deposits minus short-term and long-term bank loans)	-63.834	-36.431	-48.049	-37.712	-39.545
Net asset value (NAV)	71.483	70.911	50.354	46.385	30.320
EPRA net asset value (EPRA NAV)	76.112	75.456	54.179	49.307	32.804
Net asset value (NAV) per share, in euros	16.93	16.78	15.63	14.39	12.71
EPRA net asset value (EPRA NAV) per share, in euros	18.03	17.93	16.81	15.30	13.75

The net asset value of EfTEN Real Estate Fund III AS increased by 0.4% during 2020. In May 2020, the fund paid dividends from the profit of 2019 in the total amount of EUR 2.745 million (spring 2019: EUR 3.061 million). Without the payment of dividends, the fund's NAV would have increased by 4.7% during 2020. The annual return on invested capital (ROIC) was 6.4% as a result of the 2020 financial year (2019 12 months: 17.1%).

Access to flexible financing terms helps to increase the Group's competitiveness. During 2020, the Group received bank loans in connection with the acquisition and development of new real estate investments in the total amount of EUR 5.9 million. The weighted average interest rate of the Group's loan agreements (incl. the interest rate swap agreements) at the end of December is 2.3% (31.12.2019: 1.8%) and LTV (Loan to Value) 50% (31.12.2019: 52%).

During 2020, the Group has earned free cash flow of EUR 3.747 million (2019 12 months: EUR 3.381 million). After deducting Lithuanian corporate income tax expense and calculating the estimated dividend income tax expense for Estonian and Latvian companies, EfTEN Real Estate Fund III could pay shareholders a net dividend of EUR 2.798 million (66 cents per share) from this year's profit in accordance with the established dividend policy.

Potential dividend payment calculation

	2020	2019
EUR thousand		
Operating profit	**5,129**	**10,045**
Adjustment for revaluation gains/ -losses on investment property	3,374	-3,101
Adjustment for depreciation of fixed assets	50	40
Adjustment for profit on sale of investment property	3	0
Adjustment for success fee	0	479
EBITDA	**8,556**	**7,463**
Interest expense	-1,346	-1,115
Bank loan repayments	-3,282	-2,759
Income tax expense on profit (Lithuania)	-181	-208
Free cash flow	**3,747**	**3,381**
80% of the free cash flow	2,998	2,705
Potential dividend income tax expense	-200	-160
Potential net dividend according to dividend policy	**2,798**	**2,545**
Number of shares at the end of the period	4,222,535	4,222,535
Potential net dividends according to dividend policy per share (in EUR)	**0.66**	**0.60**
Potential additional cash flow[1]	0	1,021
Dividend income tax on additional cash flows	0	-101
Potential net dividend with additional cash flow	**2,798**	**3,465**
Potential net dividend per share, in EUR	**0.66**	**0.82**

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

Key performance and liquidity ratios

12 months	31.12.2020	31.12.2019
ROE, % (net profit of the period / average equity of the period) x 100	5.4	12.7
ROA, % (net profit of the period / average assets of the period) x 100	2.6	6.4
ROIC, % (net profit of the period / average invested capital of the period) * 100[1]	6.4	17.4
EBITDA (EUR thousand)	8,556	7,463
EBITDA margin, %	79.7	78.5
EBIT (EUR thousand)	5,129	10,045
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

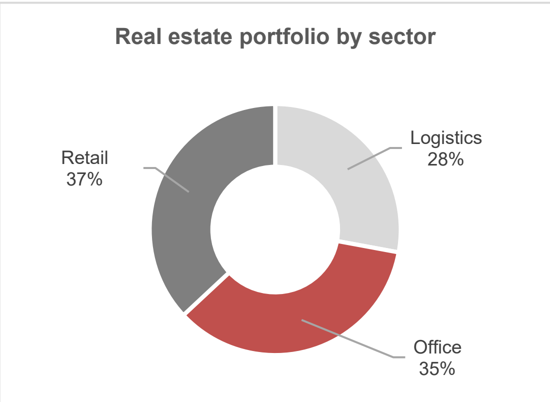
Real estate portfolio

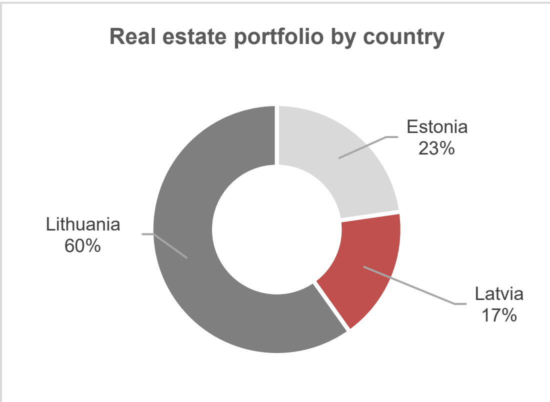
In January 2020, EfTEN Real Estate Fund III AS entered into debt purchase agreements for the acquisition of the owner of the Air Baltic main building at Riga Airport and the owner of the production and warehouse building in Piepilsetas, Kekava, near Riga. The transactions were completed in March 2020 and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements as of March 1, 2020. A total of EUR 8.873 million was paid for the subsidiaries, including EUR 3.780 million in loan receivables from former owners. The transaction price is adjusted according to the agreement for changes in the working capital of subsidiaries during the period of concluding the transaction, and it is estimated that the Group will have to pay an additional EUR 95 thousand for the acquisitions. The value of investment properties owned by subsidiaries totalled 15.800 million euros at the time of acquisition

In August 2020, EfTEN Rutkausko UAB acquired an office building in Vilnius with an acquisition cost of EUR 11.8 million. The anchor tenant of the office building is the IT company Atea UAB. The acquisition was financed with 39% of the equity, as a result of which the entire fund's last year emission of EUR 16 million has been invested to new investment properties.

In November 2020, EfTEN Real Estate Fund III AS established a 100% subsidiary EfTEN Pirita OÜ, paying EUR 2.5 thousand for the share capital of the subsidiary. In December 2020, the fund paid an additional EUR 3.1 million into the subsidiary's equity, after which the subsidiary acquired the first real estate investment fund in the new, care home segment. The acquisition cost of the real estate investment was EUR 6.2 million (incl. EUR 300 thousand that is payable if the conditions agreed between the seller and the fund's subsidiary are met) and it will be operated by Pirita Kodu OÜ. The tenant will start paying the rent from 1 April 2021 and during the start-up period the rent will gradually increase, reaching full capacity from 1 January 2022.

As of the end of December 2020, the Group has 15 (31.12.2019: 11) commercial real estate investments with a fair value of EUR 144.235 million (31.12.2019: EUR 113.011 million) and an acquisition cost of EUR 136.349 million (31.12.2019: EUR 101.746 million).





EFTEN REAL ESTATE FUND III LARGEST TENANTS as of 31.12.2020

Tenant	Share of consolidated rental income
DSV Estonia AS	9.1%
Hortes AS	6.9%
DSV Latvia SIA	6.4%
DSV Lithuania UAB	6.3%
Atea UAB	5.5%
Air Baltic Corporation AS	4.3%
RIMI Lietuva UAB	4.3%
Selver AS	3.0%
State Energy Regulatory Council Lithuania	2.7%
Fristads Kansas Production SIA	2.3%
ABC Motors AS	2.3%
Others	46.7%
Total	**100.0%**

MAIN FIGURES OF THE GROUP'S REAL ESTATE PORTFOLIO

Investment property, as of 31.12.2020	Group's ownership	Acquisition cost, € thousands	Fair value of investment property, € thousands[1]	Net leasable area	Rental revenue per annum (€ thousand)	Direct Yield[2]	Primary net yield[3]	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	12,228	13,080	16,014	1,025	7.5%	7.0%	100	6.1	1
DSV Riga	100	8,830	8,687	12,149	729	7.4%	7.6%	100	6.1	1
DSV Vilnius	100	8,504	8,860	11,687	712	7.5%	7.2%	100	6.1	1
Piepilsetas Logistics centre, Kekava	100	8,716	8,420	13,327	691	8.1%	8.4%	99	3.5	4
Total Logistics		**38,278**	**39,047**	**53,177**	**3,157**	**7.7%**	**7.5%**	**100**	**5.5**	**7**
Saules Miestas shopping centre	100	28,567	32,390	19,881	3,171	11.1%	9.8%	98	3.9	123
Hortes shopping centre, Laagr	100	3,108	3,510	3,470	269	7.5%	6.6%	100	11.7	1
Selver, Laagri	100	6,277	6,480	3,063	502	7.3%	7.1%	100	7.2	10
Hortes gardening centre, Tallinn	100	5,458	6,020	5,300	505	7.6%	6.9%	100	14.0	1
ABC Motors sales and service centre, Tallinn	100	3,023	3,120	2,149	259	8.3%	8.0%	100	8.4	1
Total retail		**46,433**	**51,520**	**33,863**	**4,706**	**9.8%**	**8.8%**	**99**	**5.9**	**136**
Ulonu office building, Vilnius	100	8,254	8,830	5,174	743	7.7%	7.2%	86	3.3	12
Evolution office building, Vilnius	100	9,819	10,610	6,172	810	6.6%	6.1%	100	4.0	45
L3 office building, Vilnius	100	8,729	9,721	6,151	787	8.9%	8.0%	100	2.5	33
airBaltic office building, Riga	100	7,100	6,800	6,217	495	7.0%	7.3%	100	5.4	1
Rutkausko office building, Vilnius	100	11,819	11,790	6,811	851	6.6%	6.6%	100	3.9	3
Total Office		**45,721**	**47,751**	**30,525**	**3,686**	**7.3%**	**7.0%**	**97**	**3.7**	**94**
Pirita Care home	100	5,917	5,917	6,045	442	7.0%	7.0%	100	10.0	1
Total Care home		**5,917**	**5,917**	**6,045**	**442**	**7.0%**	**7.0%**	**100**	**10.0**	**1**
Total real estate portfolio		**136,349**	**144,235**	**123,610**	**11,991**	**8.2%**	**7.8%**	**99**	**5.0**	**238**

[1] The fair value of the Fund's investment properties is the market price of the investment properties, which is determined on the basis of discounted cash flows. The external appraiser of the fund's real estate portfolio is Colliers International.

[2] To find the direct yield, the net rental income is divided by the sum of the acquisition cost of the investment property and the subsequent capitalized expenses.

[3] To find the primary net yield, the net rental income is divided by the market value of the investment property.

Information on shares

The net asset value of EfTEN Real Estate Fund III shares as of 31.12.2020 was 16.93 euros (31.12.2019: 16.85 euros). The net asset value of EfTEN Real Estate Fund III AS increased by 0.4% during 2020. In May 2020, the fund paid dividends from the profit of 2019 in the total amount of EUR 2.745 million (spring 2019: EUR 3.061 million). Without the payment of dividends, the fund's NAV would have increased by 4.7% during 2020. The lower increase in net asset value was due to the decline in rental income in 2020 due to the economic instability caused by Covid-19

In addition to the net asset value calculated above in accordance with the IFRS, EfTEN Real Estate Fund III AS also calculates the net asset value recommended by EPRA (European Public Real Estate Association) in order to offer the most appropriate net asset value to investors. EPRA's indicative guidance presumes a long-term economic strategy for real estate companies, so temporary differences in a situation where no sale of assets is likely to occur in the near future will obscure the transparency of the fair value of the fund's net assets. Therefore, the deferred income tax expense related to 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 according to EPRA.

€ thousands	31.12.2020	31.12.2019
Net asset value calculated in accordance with IFRS	71,483	70,911
Exclusion of deferred income tax on investment property	4,383	4,274
Exclusion of the fair value of financial instruments	246	271
EPRA net asset value	**76,112**	**75,456**
Number of shares at the balance sheet date	4,222,534	4,222,534
EPRA net asset value per share, in euros	**18.03**	**17.87**
EPRA NAV growth, in euros	0.16	1.06
Declared dividend per share, in euros	0.65	0.95
Income tax on dividends paid per share, in euros	0.06	0.04
Period earnings per share, in euros	**0.87**	**2.05**
Period earnings per share, increase	**4.9%**	**12.2%**

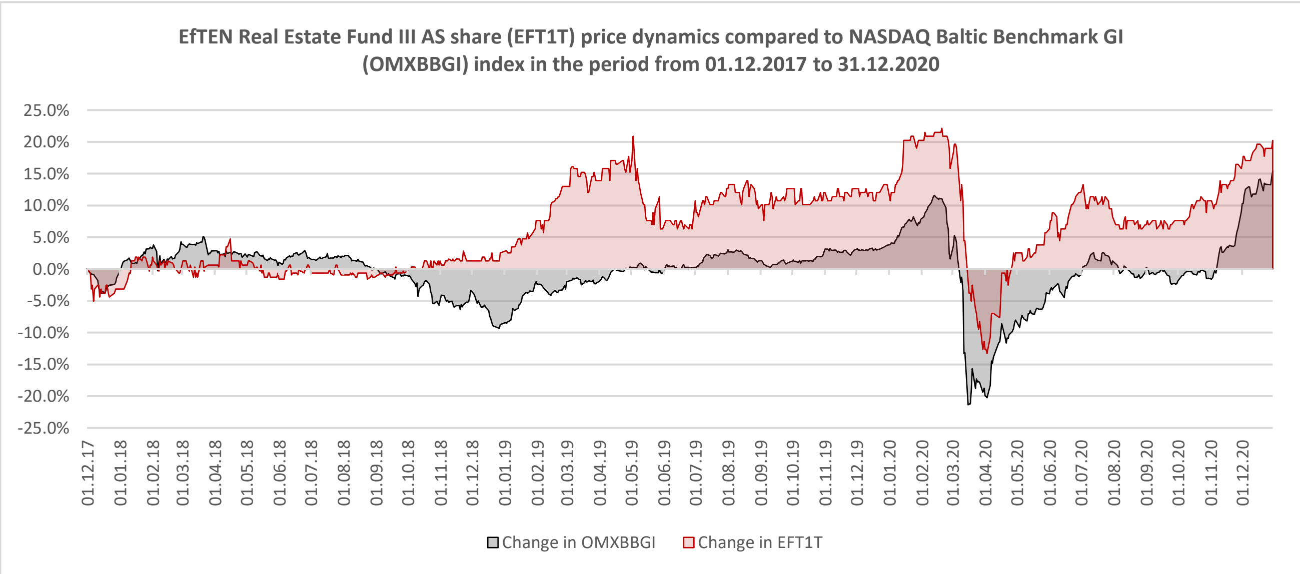
As of 31.12.2020, EfTEN Real Estate Fund III AS had 3,013 shareholders, of which 19.6% were legal entities. Legal entities owned a total of 79.7% of the total share capital of the fund. The distribution of shares is shown in the table below.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Ownership		Total ownership
	Legal entities	Private individuals		Legal entities	Private individuals		Legal entities	Private individuals	
Austria	-	1	**1**	-	1,255	**1,255**	-	0.0297%	**0.0297%**
China	-	1	**1**	-	75	**75**	-	0.0018%	**0.0018%**
Denmark	1	1	**2**	1	6	**7**	0.0000%	0.0001%	**0.0002%**
Estonia	581	2,399	**2,980**	3,358,046	849,096	**4,207,142**	79.5268%	20.1087%	**99.6355%**
Finland	1	5	**6**	172	385	**557**	0.0041%	0.0091%	**0.0132%**
Sweden	1	-	**1**	20	-	**20**	0.0005%	-	**0.0005%**
Germany	-	2	**2**	-	149	**149**	-	0.0035%	**0.0035%**
Hungary	-	1	**1**	-	80	**80**	-	0.0019%	**0.0019%**
Italy	-	1	**1**	-	75	**75**	-	0.0018%	**0.0018%**
Norway	-	2	**2**	-	161	**161**	-	0.0038%	**0.0038%**
Latvia	1	-	**1**	649	-	**649**	0.0154%	-	**0.0154%**
Lithuania	5	1	**6**	6,251	5,313	**11,564**	0.1480%	0.1258%	**0.2739%**
Netherlands	-	1	**1**	-	80	**80**	-	0.0019%	**0.0019%**
United Arab Emirates	-	1	**1**	-	68	**68**	-	0.0016%	**0.0016%**
Oman	-	1	**1**	-	81	**81**	-	0.0019%	**0.0019%**
Spain	-	1	**1**	-	80	**80**	-	0.0019%	**0.0019%**
South Africa	-	1	**1**	-	125	**125**	-	0.0030%	**0.0030%**
Switzerland	-	1	**1**	-	30	**30**	-	0.0007%	**0.0007%**
Great Britain	-	2	**2**	-	77	**77**	-	0.0018%	**0.0018%**
United States of America	1	-	**1**	260	-	**260**	0.0062%	-	**0.0062%**
Total	**591**	**2,422**	**3,013**	**3,365,399**	**857,136**	**4,222,535**	**79.70%**	**20.30%**	**100.00%**

As of 31.12.2020, EfTEN Real Estate Fund III AS has three shareholders with more than 10% ownership:

	As at 31.12.2020	
Company	**Number of shares**	**Ownership, %**
Altius Energia OÜ	602,000	14.26
Järve Kaubanduskeskus OÜ	431,992	10.23
OÜ Hoiukonto	430,211	10.19

EfTEN Real Estate Fund III share value and dividends paid (cumulative) 2018-2020



GOVERNANCE REPORT

Corporate Governance report

This report has been prepared in accordance with the principles of the Accounting Act and the Corporate Governance Code and provides an overview of the compliance of the management of EfTEN Real Estate Fund III AS with the Corporate Governance Code as at 31.12.2020.

Unless otherwise stated in this report, EfTEN Real Estate Fund III AS shall comply with good corporate governance practices (in particular, as required by law in the management of an investment company registered as a public limited company).

General meeting

Shareholders' rights

EfTEN Real Estate Fund III AS is an investment company incorporated as a public limited company with a nominal value of EUR 10 each. Each share grants one vote to the shareholder at the general meeting. The share entitles the shareholder to participate in the general meeting of shareholders and to distribute profits and assets remaining upon termination of the fund, as well as other rights provided by law and the articles of association. There are no specifications that would give shareholders different voting or other rights.

The General Meeting is the highest governing body of EfTEN Real Estate Fund III AS. The General Meeting has the authority to amend the Fund's articles of association, increase and decrease the share capital to the extent not authorized by the Supervisory board, decide to conclude, amend and terminate the management agreement concluded with the Fund Management Company, amend the policy for making payments to shareholders at the expense of the Fund, amend the Fund’s investment policy, insofar as it is not in the competence of the Supervisory Board according to the articles of association, elect members of the Supervisory Board, renew and revoke their powers and determine their remuneration policy and amount, determine the necessity of special control, approce the annual report and decide on the distribution of profits, decide on the liquidation or merger of the Fund, decide on a transaction with a Supervisory Board member, determine the terms of the transaction, decide on legal disputes and appoint a representative of the Fund in this transaction or dispute, as well as decide on other issues in the competence of the General Meeting.

Significant Shareholders

None of the shareholders of EfTEN Real Estate Fund III AS controls the fund. As far as EfTEN Real Estate Fund III AS is aware, there are no shareholder agreements or other arrangements between the shareholders that could subsequently result in control of the Fund.

As at 31.12.2020, EfTEN Real Estate Fund III AS had three significant shareholders: 1) Altius Capital OÜ - 14.26%, of which 45.24% is held by the holding company owned by Arti Arakas and 45.24% is held by the holding company owned by Frank Õim ; 2) Järve Kaubanduskeskus OÜ - 10.23%, which is 100% owned by Vello Kunman through his holding company and 3) Hoiukonto OÜ - 10.19%, of which 69.5% is held by the holding company owned by Marcel Vichmann and 30.5% is held by the holding company owned by Hanno Murrand.

Fund manager EfTEN Capital AS holds 2.07% of the fund's share capital.

Convening of the General Meeting and information to be published

Every shareholder has the right to attend the general meeting, to speak at the general meeting on the items on the agenda and to ask reasonable questions and make proposals. The annual general meeting of shareholders shall be called at least once a year within four months after the end of the financial year of EfTEN Real Estate Fund III AS. An Extraordinary General Meeting of Shareholders shall be called if deemed necessary by the Fund Manager or the Management Board of the Fund or at the request of the Fund's Supervisory Board, auditor, Fund Management Company, Financial Supervision Authority or the depositary of the Fund. In addition to other persons prescribed d by the law, shareholders whose shares represent at least 1/20 of the share capital may also request the convening of the General Meeting and the inclusion of questions on the agenda of the General Meeting. The request to call an extraordinary general meeting shall be submitted to the Management Board in writing, stating the reason for the convocation.

The shareholders will be notified of the convening of ordinary and extraordinary meetings of shareholders via Nasdaq Tallinn Stock Exchange System and the notice will also be published on the website of Real Estate Fund III AS and in a national daily newspaper at least three weeks prior to the meeting. Information related to the General Meeting is published as a stock exchange announcement and on the website in both Estonian and English. The newspaper will only publish the notice of the meeting in Estonian.

The agenda of the general meeting, the proposals of the Management and Supervisory Board, draft resolutions and other relevant materials and information are made available to the shareholders before the General Meeting together with the notice the General Meeting.

In 2020, one general meeting of shareholders was held. The time of the annual general meeting was originally scheduled for March 24, 2020, for which a notice convening the general meeting was published through the information system of the Nasdaq Tallinn Stock Exchange and on its website on March 2, 2020, and on the same day in the Postimees newspaper. The invitation was revoked on 16 March 2020 due to the spread of the coronavirus and the state of emergency established in the country.

A new notice convening the Annual General Meeting was published through the information system of the Nasdaq Tallinn Stock Exchange and on its website on May 27, 2020 and on the same day in the newspaper "Postimees".

EfTEN Real Estate Fund III AS enabled shareholders to submit questions on the topics mentioned in the agenda to the e-mail address provided in the notice, by post to the fund's address and by telephone and to view the annual report on its website and at A. Lauteri 5, Tallinn, until the date of the general meeting.

The annual general meeting of shareholders of EfTEN Real Estate Fund III AS was held on June 18, 2020 at 10:00 am in the conference center of Radisson Blu Sky Hotel on the 2nd floor at Tallinn, Rävala pst 3. The decisions made at the general meeting are published in the information system of the Nasdaq Tallinn Stock Exchange and on the website of EfTEN Real Estate Fund III AS.

Conducting the Annual General Meeting

On 18 June 2020, the Annual General Meeting was held in Estonian and was chaired by an independent person, Attorney at Law Raino Paron, who also introduced the procedure for conducting the meeting, including asking questions from the Management Board and voting on issues on the agenda. The meeting was attended by Arti Arakas, Chairman of the Supervisory Board, Olav Miil and Siive Penu, members of the Supervisory Board, and Rando Rand, Chief Auditor of PricewaterhouseCoopers AS, the auditor of the fund. Sander Rebane, a member of the Supervisory Board, was not able to participate in the general meeting due to his absence. According to the articles of association, the general meeting may adopt resolutions if shareholders holding more than half of the votes represented by shares participate in the general meeting. 75.16% of the votes represented by shares participated in the general meeting. The articles of association of EfTEN Real Estate Fund III AS did not allow for electronic monitoring or participation in the general meeting and the general meeting had to be attended in person or on the basis of an authorization. At the general meeting, a new version of the articles of association was approved, which extended and clarified the rights of shareholders by adding the possibility of electronic participation in the general meeting and adoption of resolutions without convening a meeting. The general meeting provided an overview of the fund's activities, including the commercial real estate market in general and by the fund's real estate investments. Subsequently, the annual report for 2019 was approved as separate agenda items, and separate decisions on profit distribution, amendment of the articles of association and extension of the term of the members of the Supervisory Board were adopted under separate agenda items. Shareholders were given the opportunity to ask questions about the agenda items, make proposals and ask questions. No statements or dissenting opinions were submitted at the Annual General Meeting. The general meeting complied with the requirements of law and the articles of association.

Management Board

Tasks of the Management Board

The Management Board shall monitor the Fund Management Company's Fund related activities, i.e monitor Fund Management Company's compliance with the obligations arising from the management agreement and supervise the activities of the depository as prescribed in the depository contract, as well as supervise other functions related to management and transferred tasks carried out by third parties.

The Management Board of EfTEN Real Estate Fund III AS does not manage the assets of the Fund under the current legislation, the articles of association and the management agreement.

Composition and remuneration

According to the Articles of Association of EfTEN Real Estate Fund III AS, the Management Board consists of one to three members. The members of the management board are elected and recalled by the supervisory board. Viljar Arakas and Tõnu Uustalu have been members of the Management Board since its establishment. The chairman of the board has not been elected. The term of office of a member of the Management Board is five years and re-election of a member of the Management Board is permitted. In 2020, the term of office of the members of the Management Board was extended until 6 May 2025 by a decision of the Supervisory Board. There were no other changes in the members of the Management Board. Every member of the Management Board may represent EfTEN Real Estate Fund III AS in all legal proceedings.

No separate agreements have been concluded with the members of the Management Board. No remuneration has been paid to the members of the Management Board and there are no decisions to pay any remuneration or benefits (incl. non-monetary) to the members of the Management Board in the future. Viljar Arakas, a member of the Management Board of EfTEN Real Estate Fund III AS, is at the same time a member of the Management Board of the Management Company and the Management Company has entered into an agreement with Viljar Arakas. Tõnu Uustalu, a member of the Management Board of EfTEN Real Estate Fund III AS, is also the head of the investment department of the Management Company, with whom the Management Company has entered into an employment contract.

In connection with the management of EfTEN Real Estate Fund III AS, the management company has established internal rules to ensure the functioning of the fund's risk management and internal control, as well as internal rules for organizing accounting and preparing financial statements and together with the management board. The members of the Management Board shall submit and update their declarations of financial interests at least once a year.

Conflict of interest

In 2020, no transactions took place between EfTEN Real Estate Fund III AS and the members of the Management Board, their close relatives or persons related to them, except for the provision of management services to EfTEN Real Estate Fund III AS by the management company in accordance with the management agreement. In addition to the obligations of the members of the Management Board, participation in other companies has taken place with the consent of the Supervisory Board and published in the fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS www.eref.ee. The members of the management board do not simultaneously participate in the work of the management boards or supervisory boards of other companies listed on the securities market.

As of 31.12.2020, Viljar Arakas, a member of the Management Board, owns a total of 0.34% of the share capital of the fund and 27.41% of the share capital of the management company through his holding company and as a private individual. Tõnu Uustalu, a member of the Management Board, owns 0.29% of the share capital of the fund and 20.56% of the share capital of the management company.

Neither a member of the Management Board nor an employee shall demand or receive money or other benefits from third parties in connection with his or her work for personal purposes, nor shall he or she make illegal or unreasonable benefits to third parties on behalf of the Fund. In 2020, the Management Board and, to the Management Board's knowledge, the Group's employees have not violated this principle. The members of the Management Board have not been authorized to issue and repurchase shares.

Supervisory Board

Tasks of the Supervisory Board

According to the articles of association of EfTEN Real Estate Fund III AS, the Supervisory Board is authorised to approve the budget, appoints and recall procurator, appoint an audit firm, approve the terms of a deposit agreement, approve a stockholder, decide on a transaction with a Management Board member, determine the terms of the transaction, decide on legal disputes and appoint a representative of the Fund in this transaction or dispute, approve semi-annual reports, approve opening balance and annual report of liquidation, supervise the Management Board and increase share capital within three years from the date of establishment.

The Supervisory Board’s approval is required for transactions that go beyond the normal course of business, including acquisition and termination of holdings in other companies, the establishment or termination of a subsidiary, the approval and amendment of a Fund’s operating strategy, significant changes to the Fund’s activities or involving the Fund in business activities that are not directly related to the objectives of the Fund’s current economic activity and transactions in excess of EUR 250,000.

EfTEN Real Estate Fund III AS does not have audit or remuneration committee. The functions of the audit and remuneration committee shall be performed by the Supervisory Board.

The work of the Supervisory Board is organized by the Chairman elected by the members of the Supervisory Board amongst themselves. The Supervisory Board makes decisions on Board or without convening a meeting. A resolution of the supervisory board shall be adopted if more than a half of the votes represented at the meeting are in favour, unless the legislation or the articles of association prescribe a greater majority requirement. The Chairman of the Supervisory Board has no decisive vote in the event of equal division of votes. In order to make decisions without convening a meeting, all members of the Supervisory Board must be in favour.

Composition and remuneration

According to the Articles of Association of EfTEN Real Estate Fund III AS, the Supervisory Board consists of three to five members. Since its establishment, the Supervisory Board has four members, including Arti Arakas (Chairman of the Supervisory Board), Olav Miil, Siive Penu and Sander Rebane. According to the Articles of Association, re-election of the members of the Supervisory Board (extension of authority) is permitted. At the annual general meeting held in 2020, the powers of the current members of the supervisory board were extended until 18 June 2025. There were no changes in the composition of the Supervisory Board.

No agreements have been concluded with the members of the Supervisory Board. No remuneration has been paid to the members of the Supervisory Board and there are no decisions to pay any remuneration or benefits (incl. non-monetary) to the members of the Supervisory Board in the future. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board.

Conflict of interest

The members of the supervisory board avoid conflicts of interest in their activities. A member of the supervisory board shall, in his or her activities as a member of the supervisory board, give priority to the interests of the issuer over the personal interests of third parties. A member of the supervisory board shall not use commercial offers addressed to the issuer for personal gain.

In 2020, to the knowledge of EfTEN Real Estate Fund III AS, the members of the Supervisory Board have not erred against this principle. The members of the Supervisory Board shall, inter alia, update their declaration of financial interests at least once a year.

In 2020, no transactions took place between the members of the Supervisory Board of EfTEN Real Estate Fund III AS and EfTEN Real Estate Fund III AS, their close relatives or persons related to them, except for the provision of management services to EfTEN Real Estate Fund III AS by the management company. The members of the supervisory board do not simultaneously participate in the work of the management boards or supervisory boards of other companies listed on the securities market. The activities of the members of the Supervisory Board in other associations are published in the fund's prospectus and available on the fund's website www.eref.ee.

As of 31.12.2020, Arti Arakas, a member of the Supervisory Board, owns 6.45% of the share capital of the fund and 10.56% of the share capital of the management company through the holding company, Olav Miil owns 0.77% of the share capital of the fund and 5.55% of the share capital of the management company, Siive Penu owns 0.03% of the share capital of the fund and he does not own a share in the management company. Siive Penu is a member of the management board of HTB Investeeringud OÜ, which owns 1.57% of the share capital of the fund and 5.55% of the share capital of the management company. Sander Rebane, a member of the Supervisory Board, does not own any shares in the fund or the management company.

Cooperation of Management and Supervisory Board

The Management Board and the Supervisory Board work closely together to best protect the interests of EfTEN Real Estate Fund III AS. The co-operation is primarily based on an open exchange of views both between the Management Board and the Supervisory Board and within the Management Board and the Supervisory Board. The members of the management board participate in the meetings of the supervisory board, where the supervisory board reviews the financial results of the issuer or makes decisions on the approval of transactions for the acquisition of investment objects. As a general rule, the members of the Management Board have also been invited to other meetings of the Supervisory Board where issues related to the management of EfTEN Real Estate Fund III AS are discussed. Close co-operation between the Supervisory Board and the Management Board has continued in 2020 as well.

The Management Board also notifies the Supervisory Board of significant events related to the management and activities of EfTEN Real Estate Fund III AS outside the meetings in order to ensure the transmission of information that is operatively necessary or important to the Supervisory Board.

Information that requires sufficient time to make a decision (eg making investment decisions, approving reports) shall be communicated by the management board to the members of the supervisory board before the meeting of the supervisory board.

Confidentiality requirements are applied to the entire exchange of information between the Supervisory Board and the Management Board, which ensures control over the flow of price-sensitive information, including the establishment of internal rules on 27.11.2017 for handling inside information, maintaining the list of persons with inside information and disclosing information.

As far as EfTEN Real Estate Fund III AS is aware, in 2020 the Management Board has not deviated from the instructions given by the Supervisory Board.

Disclosure of information

EfTEN Real Estate Fund III AS informs all shareholders about material matters equally, using the information system of the Tallinn Stock Exchange and its website. The website of EfTEN Real Estate Fund III AS www.eref.ee contains general information about the fund, an overview of real estate investments, information about the members of the management board and supervisory board, the main service providers; as well as stock exchange announcements, reports and other relevant information. The annual and interim reports of EfTEN Real Estate Fund III AS provide information on the fund's strategy and financial performance, as well as a report on corporate governance. Information on the composition of the Supervisory Board and the auditor, resolutions of the general meeting and other important information is published in the section of stock exchange releases. In addition, the annual reports of the Fund are available on the website of the Management Company EfTEN Capital AS at www.eften.ee.

In addition to the quarterly interim reports and the annual report, EfTEN Real Estate Fund III AS also publishes the Fund's net asset value on a monthly basis as of its registration on the Nasdaq Tallinn Stock Exchange, which is also available on the Fund's website. Before the end of each financial year, EfTEN Real Estate Fund III shall publish through the Nasdaq Tallinn stock exchange system and thereafter on its website the following financial year, showing the dates of quarterly and annual financial results and the date of the annual general meeting. Once the information has been published through the Nasdaq Tallinn Stock Exchange system, all of this information will also be available on the Fund's website. EfTEN Real Estate Fund III AS regularly communicates with its shareholders. The general meeting of shareholders shall be convened at least once a year, with a separate agenda item providing an overview of the activities of the fund and where each shareholder can ask questions to the members of the management and supervisory boards. The Management Board also meets with shareholders outside general meetings, including at conferences and meetings.

Financial reporting and auditing

Reporting

The consolidated financial statements of EfTEN Real Estate Fund III AS are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The annual report is audited and approved by the supervisory board and approved by the annual general meeting of shareholders. EfTEN Real Estate Fund III publishes its consolidated audited annual report and consolidated interim reports for the financial year, which are published through the information system of the Tallinn Stock Exchange and are publicly available on the website of the Fund and the Management Company.

Election of the auditor and audit of the financial statements

The independent auditor of EfTEN Real Estate Fund III AS is AS PricewaterhouseCoopers, who was appointed the auditor of the fund upon the establishment of the fund (06.05.2015). In accordance with the Investment Funds Act and the Articles of Association of EfTEN Real Estate Fund III AS, the right to appoint an auditor has been granted to the Supervisory Board. The contract with the auditor defines the auditor's duties, schedule and remuneration.

There is a valid contract with the auditor for the audit of the 2020 financial year. During the reporting period, the contracted auditor of EfTEN Real Estate Fund III AS, PricewaterhouseCoopers, provided translation-related services in addition to auditing the annual report. In 2020, the audit company did not provide other services. In 2020, the Group (Real Estate Fund III AS together with its subsidiaries) paid a total of 46 thousand euros to auditors for services.

In 2020, there were no events or circumstances that the auditor would have reported to the Supervisory Board that, in his opinion, could affect the work of the Supervisory Board or the management of EfTEN Real Estate Fund III AS. Nor has the auditor reported a threat to the auditor's independence or professionalism. In 2020, Rando Rand, the lead auditor of PricewaterhouseCoopers AS, participated in the annual general meeting of shareholders, where the report for the previous financial year (ie 2019) was approved.

Risk profile and risk management

EfTEN Real Estate Fund III AS is a public limited-liability investment fund (alternative investment fund) established in the Republic of Estonia with the aim of providing shareholders with an opportunity to participate in an actively managed real estate portfolio and the aim of the Fund has not changed. EfTEN Real Estate Fund III AS is not a guaranteed fund and dividend payment is not guaranteed to investors. Key information published for investors about EfTEN Real Estate Fund III AS is available on the Fund's website at www.eref.ee

In its day-to-day operations, EfTEN Real Estate Fund III AS is exposed to various risks. The Fund and the Management Company consider the risk as a potential risk that an event, activity or omission may cause loss of assets or reputation or jeopardize the effective performance of tasks / objectives. The main risks related to the activities of the fund and its subsidiaries are described in the fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS www.eref.ee.

EfTEN Real Estate Fund III AS and the management company consider risk management as a continuous process of defining, assessing, measuring and mitigating risks and as part of the management of the company's day-to-day operations. The principle is that risks must be taken in a balanced way, taking into account the internal risk management rules established by the management company, the investment and risk diversification restrictions set out in the fund's articles of association and implementing risk mitigation measures as appropriate. When investing the Fund's assets, excessive risk-taking is unacceptable and appropriate risk management measures must be applied to identify risks, assess risks, perform risk analysis and evaluate results. Thus, the risk management process includes both the risks related to the investment planned or made on behalf of the fund and the management of the fund and the management company's own operational and other risks. An independent internal auditor of the management company is also involved in the assessment of the risk management process and measures, and in addition, a compliance function functions as part of the management company's internal control. The role of risk management and internal control is to ensure that risks are recognized and addressed at all levels as part of the risk management process. The management board shall ensure that each employee and member of the management body is aware of the requirements with which he or she must comply in order to perform his or her duties and that the performance of various functions does not prevent the employee or member of the management body from acting in a reliable, fair and appropriate manner. To this end, trainings of the management company's employees are also conducted annually.

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020	2019[1] adjusted
€ thousands			
Revenue	3,4	10,731	9,512
Cost of services sold	5	-325	-329
Gross profit		**10,406**	**9,183**
Marketing costs	6	-303	-429
General and administrative expenses	7	-1,597	-1,847
Gain / loss from revaluation of investment properties	12	-3,374	3,101
Other operating income and expense		-3	37
Operating profit	**3**	**5,129**	**10,045**
Interest income		0	14
Other finance income and expense	8	-1,322	-1,197
Profit before income tax		**3,807**	**8,862**
Income tax expense	9	-490	-1,245
Net profit for the financial year[1]	**3**	**3,317**	**7,617**
Earnings per share	10		
- Basic		0.79	2.01
- Diluted		0.79	2.01

[1] In the comprehensive income statement for 2019, 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 17 to 44 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2020	31.12.2019 adjusted	01.01.2019 adjusted
€ thousands				
ASSETS				
Cash and cash equivalents	15	5,128	12,986	4,859
Short-term deposits	15	0	6,000	0
Receivables and accrued income	11	2,018	667	673
Prepaid expenses		128	51	46
Total current assets		**7,274**	**19,704**	**5,578**
Long-term receivables		18	0	24
Investment property	3,12	144,235	113,011	102,787
Property, plant and equipment		101	114	114
Intangible assets		4	0	0
Total non-current assets		**144,358**	**113,125**	**102,925**
TOTAL ASSETS		**151,632**	**132,829**	**108,503**
LIABILITIES AND EQUITY				
Borrowings	13	28,781	21,147	8,105
Derivative instruments	15	246	271	189
Payables and prepayments	14	1,995	1,132	1,019
Total current liabilities		**31,022**	**22,550**	**9,313**
Borrowings	13	43,587	34,225	44,743
Other long-term debt	14	957	609	457
Deferred income tax liability	9	4,583	4,534	3,636
Total non-current liabilities		**49,127**	**39,368**	**48,836**
Total liabilities		**80,149**	**61,918**	**58,149**
Share capital	16	42,225	42,225	32,225
Share premium	16	9,658	9,658	3,658
Statutory reserve capital		1,323	936	621
Retained earnings	17	18,277	18,092	13,850
Total equity		**71,483**	**70,911**	**50,354**
TOTAL LIABILITIES AND EQUITY		**151,632**	**132,829**	**108,503**

[1] In the statement of financial position for 2019, the deferred income tax liability 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 17 to 44 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	12 months 2020	2019[1] adjusted
€ thousands			
Net profit		**3,317**	**7,617**
Adjustments of net profit:			
Finance income and expense	8	1,322	1,183
Gains / losses on revaluation of investment property	12	3,374	-3,101
Gain / loss on sale of investment property		3	0
Depreciation and impairment losses		51	41
Income tax expense	9	490	1,245
Total adjustments with non-cash changes		**5,240**	**-632**
Cash flow from operations before changes in working capital		**8,557**	**6,985**
Change in receivables and payables related to operating activities		-525	301
Net cash flow generated from operating activities		**8,032**	**7,285**
Purchase of property, plant and equipment		-41	-41
Purchase of investment property	12	-18,798	-7,329
Change in short-term deposits		6,000	-6,000
Acquisition of subsidiaries	2	-8,615	0
Interest received		13	0
Net cash flow generated from investing activities		**-21,441**	**-13,370**
Loans received	14	13,200	6,768
Scheduled loan repayments	14	-3,282	-4,259
Interest paid		-1,363	-1,096
Issue of shares		0	16,000
Dividends paid	15	-2,745	-3,061
Income tax on dividends paid		-259	-140
Net cash flow generated from financing activities		**5,551**	**14,212**
NET CASH FLOW		**-7,858**	**8,127**
Cash and cash equivalents at the beginning of period		**12,986**	**4,859**
Change in cash and cash equivalents		-7,858	8,127
Cash and cash equivalents at the end of period	**15**	**5,128**	**12,986**

[1] In the cash flow statement for 2019, 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 17 to 44 form an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings[1]	Total
€ thousands					
Balance as at 01.01.2019	**32,225**	**3,658**	**621**	**13,990**	**50,494**
Impact of deferred income tax adjustment (Note 1)	0	0	0	-140	-140
Adjusted balance as at 01.01.2019	**32,225**	**3,658**	**621**	**13,850**	**50,354**
Issue of shares	10,000	6,000	0	0	**16,000**
Dividends paid	0	0	0	-3,061	**-3,061**
Provisions for reserve capital	0	0	315	-315	**0**
Total transactions with owner	**10,000**	**6,000**	**315**	**-3,376**	**12,939**
Net profit for the financial period	0	0	0	7,617	**7,617**
Total comprehensive income for the period	**0**	**0**	**0**	**7,617**	**7,617**
Balance as at 31.12.2019	**42,225**	**9,658**	**936**	**18,092**	**70,911**
Dividends paid	0	0	0	-2,746	**-2,746**
Provisions 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**
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**

[1] In the consolidated statement of changes in equity for 2019, the figures for retained earnings as of 01.01.2019 and 31.12.2019 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 17 to 44 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1.1 General information

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The structure of EfTEN Real Estate Fund III AS Group as at 31.12.2020 is as follows (also see Note 2):

EfTEN Real Estate Fund III AS

	SUBSIDIARIES	*Investment property:*
100%	Saulės Miestas UAB	*Saulės Miestas Shopping centre, Šiauliai*
100%	Verkių projektas UAB	*Ulonu office building, Vilnius*
100%	EfTEN Laisves UAB	*L3 office building, Vilnius*
100%	EfTEN Stasylu UAB	*DSV logistics centre, Vilnius*
100%	EfTEN Tänassilma OÜ	*DSV logistics centre, Tallinn*
100%	EfTEN Krustpils SIA	*DSV logistics centre, Riga*
100%	EfTEN Laagri OÜ	*Laagri Selver, Tallinn*
100%	EfTEN Seljaku OÜ	*Hortes gardening center, Laagri*
100%	EfTEN Tähesaju tee OÜ	*Hortese gardening center, Tallinn*
100%	EfTEN Evolution UAB	*Evolution office building, Vilnius*
100%	EfTEN Riga Airport SIA	*airBaltic office building, Riga*
100%	EfTEN Piepilsetas SIA	*Piepilsetas logistics centre, Kekava*
100%	EfTEN Rutkausko UAB	*ATEA office building, Vilnius*
100%	EfTEN Pirita OÜ	*Pirita care home, Tallinn*
100%	EfTEN Autokeskus OÜ	*ABC Motors Car Centre, Tallinn*

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

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the financial year ended 31 December 2020 were signed by the Management Board on 25 February 2021. In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board is approved by the general meeting of shareholders. These consolidated financial statements form part of the annual report approved by the shareholders and are one of the bases for deciding on the distribution of profits. Shareholders have the right not to approve the annual report prepared by the management board and approved by the supervisory board and to demand the preparation of a new report until approval by the general meeting.

1.2 Summary of significant accounting policies

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. T

he Group's financial statements are presented in thousands of euros.

The financial statements have been prepared under the historical cost convention, unless otherwise stated (for example, investment property is carried at fair value).

1.2.1 Changes in accounting policies

IAS 12.52A states that if income tax is paid on dividends rather than on profits, no income tax expense or liability is recognized until the profits are distributed (dividends are declared). In connection with the decision of the IFRS Interpretations Committee in June 2020, according to which, regardless of the article above, a deferred income tax liability for retained earnings in subsidiaries must be recognized in the consolidated financial statements, unless it is not planned to be distributed in the foreseeable future (IAS12.39-40). EfTEN Real Estate Fund III AS has a valid dividend policy, according to which 80% of the fund's consolidated cash flow is distributed annually as a (gross) dividend, therefore the Group has an obligation to recognize a deferred income tax liability on each balance sheet date in the amount resulting from applying dividend policy to distribute the annual profit. Due to the decision of the IFRS Interpretations Committee regarding the recognition of deferred income tax liability, the Group has made the following adjustments in the main financial statements of previous periods:

Adjusted consolidated condensed income statement

	12 months 2019		
	Initial	Adjusted	*Change*
€ thousands			
Operating profit	**10,045**	**10,045**	***0***
Profit before income tax	**8,862**	**8,862**	***0***
Income tax expense	-1,125	-1,245	*-120*
Total comprehensive income for the reporting period	**7,737**	**7,617**	***-120***
Earnings per share			
- Basic	2.05	2.01	*-0.04*
- Diluted	2.05	2.01	*-0.04*

Adjusted consolidated condensed statement of financial position

	31.12.2019			01.01.2019		
	Initial	Adjusted	*Change*	Initial	Adjusted	*Change*
€ thousands						
Total current assets	**19,704**	**19,704**	**0**	**5,578**	**5,578**	**0**
Total non-current asset	**113,125**	**113,125**	*0*	**102,925**	**102,925**	*0*
TOTAL ASSETS	**132,829**	**132,829**	***0***	**108,503**	**108,503**	***0***
Total current liabilitie	**22,550**	**22,550**	***0***	**9,313**	**9,313**	***0***
Deferred income tax liability	4,274	4,534	*260*	3,496	3,636	*140*
Total non-current liabilities	**39,108**	**39,368**	***260***	**48,696**	**48,836**	***140***
TOTAL LIABILITIES	**61,658**	**61,918**	***260***	**58,009**	**58,149**	***140***
Retained earnings	18,352	18,092	*-260*	13,990	13,850	*-140*
TOTAL EQUITY	**71,171**	**70,911**	***-260***	**50,494**	**50,354**	***-140***
TOTAL LIABILITIES AND EQUITY	**132,829**	**132,829**	***0***	**108,503**	**108,503**	***0***

Adjusted consolidated condensed cash flow statement

	12 kuud 2019		
	Initial	Adjusted	*Change*
€ thousands			
Net profit	**7,737**	**7,617**	***-120***
Net profit adjustments:			
Income tax expense	1,125	1,245	*120*
Other adjustments	-1,878	-1,878	*0*
Total cash flows from operating activities	**7,285**	**7,285**	***0***
Total cash flows from investing activities	**-13,370**	**-13,370**	***0***
Total cash flows from financing activities	**14,212**	**14,212**	***0***
TOTAL CASH FLOWS	**8,127**	**8,127**	***0***
Cash and cash equivalents at the beginning of the period	**4,859**	**4,859**	***0***
Change in cash and cash equivalents	8,127	8,127	*0*
Cash and cash equivalents at the end of the period	**12,986**	**12,986**	***0***

Adjusted consolidated condensed statement of equity

	31.12.2019			01.01.2019		
	Initial	Adjusted	Change	Initial	Adjusted	Change
€ thousands						
Share capital	42,225	42,225	*0*	32,225	32,225	*0*
Share premium	9,658	9,658	*0*	3,658	3,658	*0*
Statutory reserve capital	936	936	*0*	621	621	*0*
Retained earnings	18,352	**18,092**	*-260*	13,990	13,850	*-140*
Total equity	**71,171**	**70,911**	***-260***	**50,494**	**50,354**	***-140***

1.2.2 Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2020:

Amendments to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments have no significant impact on the Group's financial statements.

Definition of a business – Amendments to IFRS 3

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

The amendments have no significant impact on the Group's financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments have no significant impact on the Group's financial statements.

Standards not yet adopted

Classification of liabilities as current or non-current – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1

(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

The Group analyzes and discloses the effect of this change after its implementation.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

(effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The Group analyzes and discloses the effect of this change after its implementation.

1.2.3 Management's critical estimates and judgements

The presentation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make estimates and judgments that affect the recognition and measurement of assets and liabilities at the balance sheet date, the presentation of contingent assets and liabilities and their probability of realization; and income and expenses of the reporting periood.

Although management reviews its judgments and estimates on an ongoing basis and is based on past experience and the best available knowledge of probable future events, actual results may differ from those estimates.

The most important management decisions that affect the information presented in the financial statements concern the following areas of accounting:

Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date of preparation of the financial statements. Therefore there is a risk with the assets and liabilities presented at the balance sheet date, and the related revenue and expenses, that the estimates applied need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material restatements to the financial statements are described below.

a) Determination of the fair value of investment property

Investment property is measured at its fair value at each balance sheet date. The Group's real estate investments are valued by Colliers International Advisors OÜ. The Group's independent appraiser evaluates investment properties individually using the discounted cash flow method. All of the Group's investment properties earn (or will earn) rental income, which is why the method used best represents the fair value of the investment property from alternatives (for example, the comparative method). The cash flow projections for all properties have been updated to determine the fair value, and the discount rates and exit yields have been differentiated depending on the location of the facilities, the technical condition and the risk level of the tenants. Compared to the previous year, the discount rates of the EfTEN Real Estate Fund III real estate portfolio have not changed significantly in the valuations in 2019, still in the range of 7.9% to 8.6% (2018: the same). Exit productivity is also at the same level as a year ago (7.5% -8.0%).

Additional information on the assumptions and sensitivities used in the assessments is provided in Note 13.

b) Business combinations and acquisitions of assets

Purchases of real estate are generally treated as acquisitions of assets. According to the management, there are no business combinations if the real estate object has individual tenants, the Fund does not acquire other assets or rights in addition to the real estate object and does not hire former employees. The Fund does not acquire the business process management know-how of a real estate object, but manages all acquired objects centrally.

Investment company

The management of the Group has assessed its activities to meet the definition of an investment company and considers that EfTEN Real Estate Fund III AS does not meet the definition of an investment company as it has the characteristics of a real estate company rather than a pure investment company. Although investors in EfTEN Real Estate Fund III AS expect both capital appreciation and operating profit from their capital investment, EfTEN Real Estate Fund III also carries a significant amount of development risk in its investments, which is typical of a typical real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. For the parent company of EfTEN Real Estate Fund III AS, fair value measurement is indirect - the fair value is the value of assets held in subsidiaries, resulting in the fair value of the subsidiary not necessarily being the ultimate market price of the subsidiary. The Group also estimates its financial performance on the basis of rental income, profit margins, volume of assets and other financial indicators of the real estate business, which cannot be measured solely by the fair value of the subsidiary.

1.2.4 Summary of other accounting policies

Consolidation

The consolidated financial statements present the financial information of EfTEN Real Estate Fund III AS and its subsidiaries, consolidated on a line-by-line basis. The subsidiaries are consolidated from the date on which control is transferred to the Group, and subsidiaries are deconsolidated from the date that control ceases.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. All inter-company transactions, receivables and payables and unrealised gains and losses from transactions between the Group companies have been fully eliminated in the financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

Business combinations are accounted for in the consolidated financial statements using the acquisition method.

The cost of a business combination accounted for using the acquisition method is allocated to the fair value of assets, liabilities and contingent liabilities as at the date of acquisition. The difference between the cost of the acquisition and the fair value of acquired assets, liabilities and contingent liabilities is recognised as goodwill. If fair value exceeds cost, the difference (negative goodwill) is immediately recognised as income of the period.

Segment reporting

The Group allocates raised capital and available resources for investments in accordance with the Group's investment policy, analysing the reasonable allocation of risks by real estate sector.

In disclosing information on segments, the Group adheres to the principles of grouping used in the Group's internal accounting and reporting. Independent business segments are sub-sectors of commercial real estate, which differentiate from one another by type of rented space and have different yield rates (rental income per sqm, acquisition price of one sqm. capitalisation rates).

The Group's three business segments and geographical segments are presented in the following table:

Premises / country	Estonia	Latvia	Lithuania
Office premises	-	AirBaltic office building, Riga	Ulonu office building, Vilnius L3 office building, Vilnius Evolution office building, Vilnius Rutkausko office building, Vilnius
Logistics premises	DSV logistics centre, Tallinn	DSV logistics centre, Riga Piepilsetas logistics centre, Riga	DSV logistics centre, Vilnius
Retail premises	Laagri Selver, Tallinn Hortes gardening centre, Saue Hortes gardening centre, Tallinn ABC Motors Car Center, Tallinn	-	Saules Miestas shopping centre
Care home premises	Pirita Care home	-	-

The main indicators used by the management in making business decisions is sales revenue, net operating income (net sales less the cost of sales and marketing costs), EBITDA and operating profit. It is also important to monitor the volume of property investments by segments. The Group analyses all indicators on a monthly basis.

Investments in subsidiaries in the separate balance sheet of the parent company

In the separate balance sheet of the parent company (presented in Note 19), the investments in subsidiaries are measured at fair value. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

Revenue recognition

Revenue is income arising in the course of the Company’s ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a good or service to a customer.

The Group's revenue includes rental income, administration fees, marketing fees, and utility and administrative agency fees.

Lease income from operating leases is recognised on a straight-line basis over the lease term. If the Group agrees with the tenants during the lease-free period, the said expense is also recognised on a straight-line basis over the lease term, reducing rental income.

Administrative fees and marketing fees are recognised in the period in which the control over the services is transferred to the customer, i.e. during the service period.

Some management fees may include different service components. In this case, the Group assesses whether they give rise to a number of implementation obligations. If such different implementation obligations exist, then the total transaction fee is allocated to each obligation to execute on the basis of a separate selling price. If there is no separate selling price, it is derived from the expected cost plus margin.

The Group acts as an agent for resale of utility and administrative expenses, and therefore such income is not shown in gross amount but is offset by the related expense.

Financing component

Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money

Finance income

Interest income is recognised on an accrual basis, using the effective interest rate method. Dividend income is recognised when the right to receive payment has been established.

Cash and cash equivalents

Cash and cash equivalents are cash and short-term (up to 3 months from the moment of acquisition) high-liquidity investments that are readily convertible into a known amount of cash for up to three months from the actual transaction date and which are subject to an insignificant risk of changes in market value. Such assets are cash, demand deposits and term deposits with a maturity of up to three months.

Financial assets

(i) Classification
The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Regular purchases and sales of financial assets are recognised on the trade date, the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership

(iii) Measurement
At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. All Company's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses.

As at 31 December 2020 and 31 December 2019, all the Company's financial assets were classified in this category:
- cash and cash equivalents;
- trade receivables.

Equity instruments

The Company does not have any investments in equity instruments.

(iv) Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Derivative instruments

The risk policy of the Group specifies that company may use interest rate swaps from among derivative instruments to hedge the risks related to change in interest rates of financial liabilities. Such derivative instruments are initially recognised in the balance sheet at their fair value at the date of entering into a contract and subsequently remeasured in accordance with the change in the fair value of the instruments at the balance sheet date. A derivative instrument with a positive fair value is recognised as an asset and a derivative instrument with a negative fair value is recognised as a liability. In determining the fair value of interest rate swaps, bank quotations at the balance sheet date are used as a basis. Derivative instruments are measured at fair value through profit or loss.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Investment property

Investment property is property (land or a building or both) held or developed to earn rental income or for capital appreciation rather than for use in the production or supply of goods or services for administrative purposes. In addition, investment property includes properties, which are held over an extended period for an undetermined future use.

An investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would not have taken place). After initial recognition, investment property is measured at fair value at each balance sheet date.

The fair value of investment property reflects market conditions at the balance sheet date. The fair value of investment property is determined based on the valuation performed by qualified appraisers. In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square meter and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate, which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income.

Gains and losses arising from changes in the value of investment property are recognised in profit or loss in the period in which they arise (in other income and other expenses, respectively).

An investment property is derecognised from the balance sheet on disposition or when the property is permanently withdrawn from use and the asset is expected to generate no future economic benefits. Gains and losses arising from the derecognition of investment property are recognised in profit or loss in the period of derecognition (in other income and other expenses, respectively).

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the Group where the item has been transferred are applied. For a transfer from investment property to property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortised cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in their net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received (less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method. Interest expenses on financial liabilities are recognised on the line "finance income" and "finance costs" in the income statement on an accrual basis. Interest expenses on financing the development of assets from the start of the development period until the acceptance of completed assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset as borrowing costs.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the Group does not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date within 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue, are recognised as current. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current.

A financial liability is removed from the statement of financial position when it is settled or cancelled or expires.

Success fee liability

EfTEN Real Estate Fund III AS and EfTEN Capital AS have entered into a management contract, according to which the success fee is calculated based on the growth of the adjusted share closing prices on the stock exchange for the last two years, adjusting the closing prices of the trading day by dividends paid, income tax on dividends and minimum expected return (the minimum expected return is 10% of the closing price of the last trading day). The success fee is equal to 20% of the change in the closing price of the last trading day of the current and the previous reporting year, multiplied by the number of shares of the Fund. The costs incurred due to changes in the success fee are recognised as general expenses (see Note 7).

Provisions and contingent liabilities

Provisions are recognized in the balance sheet only when the enterprise has a legal or constructive obligation as a result of events that existed at the balance sheet date, and its fulfillment will probably require the asset to be disposed of in a reliable amount in the future.

Contingent liabilities also include liabilities arising from events occurring on the balance sheet date, the management of which, in the opinion of the management, is unlikely to materialize.

Leases

Business as a lessor

Leases, which transfer substantially all the risks and rewards incidental to ownership to the lessee. are classified as finance leases. Other leases are classified as operating leases.

Assets subject to operating leases are recognised in the lessor's balance sheet. Operating lease payments received and made are recognised as income and expenses, respectively, on a straight-line basis over the period of the lease.

Statutory reserve capital

According to the Estonian Commercial Code, the statutory reserve capital of a company has to amount to at least 10% of its share capital. Based on that, the parent company shall allocate at least 5% of the net profit to the statutory reserve capital annually. Transfers are continued until the required level has been achieved. The statutory reserve capital may not be paid out as dividends but it may be used for covering accumulated losses if there is an insufficient amount of unrestricted equity to cover the losses. The statutory reserve capital may also be used to increase equity through issuing new shares

Income tax

Subsidiaries registered in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends. The tax rate on (net) dividends is 20/80. Income tax arising from dividend distribution is expensed when dividends are declared.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80.

Due to the nature of the taxation system, a company registered in Estonia does not incur deferred income tax assets or liabilities, except for a possible deferred income tax liability from the company's investments in subsidiaries, associates and joint ventures and branches.

<u>Latvian subsidiaries</u>

In Latvia, from 1 January 2018, profits made after 2017 will be taxed at a rate of 20/80. The transitional rules of the Act allow for a reduction in the profit payable on dividends if the company has unused tax losses or certain provisions as of 31 December 2017. ˇ

As a result of the implementation of the Income Tax Act effective from 2018, there are no longer differences between the tax accounting and carrying amounts of assets and liabilities in Latvia, and therefore deferred income tax assets and liabilities to Latvian subsidiaries are not recognized. All deferred income tax assets and liabilities assumed in previous periods were derecognised in 2017 and the corresponding income tax expense / income was recognized in the income statement.

<u>Lithuanian subsidiaries</u>

The net profit of companies is taxed with a 15% income tax in Lithuania. Taxable income is calculated from the company's profit before income tax, adjusted in income tax returns by temporary or permanent income or expense adjustments under the requirements of the local income tax legislation.

For Lithuanian subsidiaries, the deferred income tax assets or liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.

<u>Recognition of deferred income tax liability in consolidated financial statements</u>

The Group's deferred income tax liability arises for companies located in countries where the profit for the financial year is taxed.

The Group's deferred income tax liability also arises from investments in Estonian and Latvian subsidiaries and associates, unless the Group can control the timing of the reversal of taxable temporary differences and their reversal is not probable in the foreseeable future. Examples of reversals of taxable temporary differences are the payment of dividends, the sale or liquidation of an investment and other transactions. As the Group controls the dividend policies of its subsidiaries, it is also able to control the timing of the reversal of temporary differences associated with that investment. If the parent has decided not to distribute the profit of the subsidiary in the foreseeable future, it does not recognize a deferred income tax liability. If the parent estimates that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured at the planned dividend payment, provided that there are sufficient funds and equity to pay the dividend at the reporting date. In measuring deferred income tax liabilities, the Group uses tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply to taxable temporary differences when they are expected to reverse.

2 *Subsidiaries*

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			31.12.2020	31.12.2019	31.12.2020	31.12.2019
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping centre Saules Miestas	16,495	16,140	100	100
Verkiu projektas UAB	Lithuania	Ulonu Office building, Vilnius	3,747	4,142	100	100
EfTEN Laisves UAB	Lithuania	L3 Office building, Vilnius	4,816	5,087	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	4,461	4,213	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	7,046	6,795	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	2,776	2,768	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,079	2,034	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	2,880	2,779	100	100
EfTEN Evolution UAB	Lithuania	Evolution Office building, Vilnius	4,593	4,511	100	100
EfTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	3,552	3,613	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors car service shop, Tallinn	1,479	1,544	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	3,509	0	100	0
EfTEN Riga Airport SIA	Latvia	airBaltic Office building, Riga	1,121	0	100	0
EfTEN Rutkausko UAB	Lithuania	Rutkausko office building, Vilnius	4,711	0	100	0
EfTEN Pirita OÜ	Estonia	Pirita care home, Tallinn	3,116	0	100	0

On 10 January 2020, EfTEN Real Estate Fund III AS entered into purchase agreements under the law of obligations 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 near Kekava, Riga. The transactions were completed on March 12 and March 13, 2020. and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements since 1 March 2020. A total of EUR 8,873 thousand was paid for the subsidiaries, including loan receivables from the former owners in the amount of EUR 3,780 thousand. As the transaction price is adjusted according to the agreement for changes in the working capital of subsidiaries in the period of concluding the transaction (from mid-January to mid-March), it is estimated that the Group will have to pay EUR 95 thousand for acquisitions. The value of investment properties owned by subsidiaries during the acquisition totalled EUR 15,800 thousand.

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

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

EfTEN Piepilsetas (previous NHC3) SIA fair value 29.02.2020

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

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

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 EUR 3,103 thousand. In December 2020, the subsidiary acquired the property of the newly completed Pirita care home, the total cost of which is 6.2 million euros. Of this cost, 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 engaged in the acquisition and rental of investment property. The shares of any subsidiary are not listed on the stock exchange.

3 *Segment reporting*

SEGMENT RESULTS

	Office		Logistics		Retail		Care home		Non-Allocated		Total	
12 months	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
€ thousands												
Revenue (Note 4), incl.	**2,971**	**2,177**	**2,880**	**2,408**	**4,864**	**4,927**	**16**	**0**	**0**	**0**	**10,731**	**9,512**
Estonia	0	0	929	1,005	1,374	997	16	0	0	0	2,319	2,002
Latvia	415	0	1,271	711	0	0	0	0	0	0	1,686	711
Lithuania	2,556	2,177	680	692	3,490	3,930	0	0	0	0	6,726	6,799
Net operating income, incl.	**2,744**	**1,945**	**2,812**	**2,408**	**4,531**	**4,401**	**16**	**0**	**0**	**0**	**10,103**	**8,754**
Estonia	0	0	922	1,005	1,358	970	16	0	0	0	2,296	1,975
Latvia	413	0	1,248	711	0	0	0	0	0	0	1,661	711
Lithuania	2,331	1,945	642	692	3,173	3,431	0	0	0	0	6,146	6,068
Operating profit, incl.	**711**	**2,078**	**2,370**	**2,273**	**2,226**	**6,316**	**16**	**0**	**-194**	**-622**	**5,129**	**10,045**
Estonia	0	0	1,031	944	731	1,751	16	0	-194	-622	1,584	2,073
Latvia	38	0	702	666	0	0	0	0	0	0	740	666
Lithuania	673	2,078	637	663	1,495	4,565	0	0	0	0	2,805	7,306
EBITDA, incl.	**2,364**	**1,735**	**2,459**	**2,167**	**3,914**	**2,909**	**16**	**0**	**-194**	**-622**	**8,559**	**6,189**
Estonia	0	0	831	914	1,173	0	16	0	-194	-622	1,826	292
Latvia	338	0	1,051	627	0	0	0	0	0	0	1,389	627
Lithuania	2,026	1,735	577	626	2,741	2,909	0	0	0	0	5,344	5,270
Operating profit											**5,129**	**10,045**
Net financial expense											-1,322	-1,183
Profit before income tax expense											**3,807**	**8,862**
Income tax expense (Note 9)											-490	-1,245
NET PROFIT FOR THE FINANCIAL PERIOD											**3,317**	**7,617**

SEGMENT ASSETS

	Office		Logistics		Retail		Care home		Total	
As at year end	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
€ thousands										
Investment property (Note 12)										
Estonia	0	0	13,080	12,880	19,130	19,520	5,917	0	38,127	32,400
Latvia	6,800	0	17,107	8,710	0	0	0	0	23,907	8,710
Lithuania	40,951	29,711	8,860	8,800	32,390	33,390	0	0	82,201	71,901
Total investment property	**47,751**	**29,711**	**39,047**	**30,390**	**51,520**	**52,910**	**5,917**	**0**	**144,235**	**113,011**
Other non-current assets									123	113
Net debt									-75,021	-48,932
Other current assets									2,146	6,719
NET ASSETS									**71,483**	**70,911**

In 2020 and 2019, the business segments did not enter into transactions with each other. The main income of the Group is derived from investment properties located in the same countries as the subsidiary that owns the investment property.

The Group's largest customers are DSV Transport AS, Hortes AS, DSV SIA and DSV Transport UAB, forming 9.3%, 6.9%, 6.4% and 6.3%, respectively of the consolidated rental income of the Group. The share of income of other tenants in the consolidated income is less than 6%.

4 Revenue

Tegevusalad	**2020**	2019
€ thousands		
Rental income from office premises	2,957	2,163
Rental income from retail premises	4,236	4,211
Rental income from warehousing and logistics premises	2,792	2,408
Rental income from care home premises	16	0
Other sales revenue	730	730
Total revenue by areas of activity (Note 3, 12)	**10,731**	**9,512**

Revenue by geographical area	**2020**	2019
€ thousands		
Estonia	2,319	2,002
Latvia	1,686	711
Lithuania	6,726	6,799
Total revenue by geographical area (Note 3, 12)	**10,731**	**9,512**

5 Cost of services sold

	2020	2019
€ thousands		
Repair and maintenance of rental premises	-23	-9
Property insurance	-8	-15
Land tax and real estate tax	-56	-78
Other administrative expenses	-74	-59
Utility costs for vacant premises	-64	-81
Depreciation of property, plant and equipment	-1	-1
Improvement costs	-7	-28
Wage costs, including taxes	-40	-21
Proportional costs of VAT	-52	-37
Total cost of services sold (Note 12)	**-325**	**-329**

6 Marketing costs

	2020	2019
€ thousands		
Commission expenses on rental premises	-56	-8
Advertising, advertising events[1]	-247	-421
Total marketing costs	**-303**	**-429**

[1]The cost of advertising and promotional events is largely comprised of the cost of shopping mall events that tenants cover as an agreed marketing fee.

7 General and administrative expenses

	2020	2019
€ thousands		
Management services (Note 18)	-899	-702
Office expenses	-35	-66
Wages and salaries, incl. taxes	-220	-257
Consulting expenses, legal expenses, accounting service, evaluation service	-249	-102
Audit costs	-46	-37
Regulator costs	-86	-118
Management company success fee	0	-479
Other general administrative expenses	-12	-46
Depreciation costs	-50	-40
Total general and administrative expenses	**-1,597**	**-1,847**

8 Financial expenses

Other financial income and expenses	**2020**	2019
€ thousands		
Interest expenses, incl.	-1,346	-1,115
Interest expense from loans	-1,243	-1,016
Interest expense from derivatives (-)/ cost reductions (+)	-103	-99
Change in fair value of interest swaps (Note 15)	24	-82
Total finance costs	**-1,322**	**-1,197**

9 Income tax

	2020	2019
€ thousands		
Deferred income tax expense on dividends[1]	-200	-259
Deferred income tax expense for Lithuanian companies	-109	-778
Lithuanian corporate income tax expense on profits	-181	-208
Total income tax expense	**-490**	**-1,245**

[1] In connection with the IFRS Interpretations Committee's decision on the recognition of deferred income tax liability in accordance with IAS12, the Group has made adjustments to the income tax expense of previous periods and the deferred income tax liability. See Note 1 for more details.

Changes in deferred income tax liabilities in 2020 and 2019 include the following changes:

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
€ thousands			
As at 31.12.2018	**3,496**	**140**	**3,636**
Change in deferred income tax liability in the income statement in 2019	778	260	1,038
Income tax paid on dividends	0	-140	-140
As at 31.12.2019	**4,274**	**260**	**4,534**
Change in deferred income tax liability in the income statement in 2020	109	200	309
Income tax paid on dividends	0	-260	-260
As at 31.12.2020	**4,383**	**200**	**4,583**

10 Earnings per share

	12 months	
Earnings per share	**2020**	2019
Net profit for the period, in EUR thousands	**3,317**	7,617
Dividends per share, in EUR	**0.65**	0.95
Weighted average number of shares over the period, in pcs	**4,222,535**	3,782,975
Earnings per share, in EUR	**0.79**	2.01

11 Receivables and accrued income

	31.12.2020	31.12.2019
€ thousands		
Receivables from customers	480	569
Alowance for doubtful accounts	-59	0
Total trade receivables	**421**	**569**
Advances and refunds of VAT	1,316	76
Other accrued income	281	22
Total accrued income	**1,597**	**98**
Total receivables and accrued income	**2,018**	**667**

12 Investment property

As of 31.12.2020, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 31.12.2020	Increase in value	Share of market value of the Fund's asset
€ thousands								
Saules Miestas shopping centre	Saules Miestas, Šiauliai	19,881	2007	08.2015	28,567	32,390	13%	21%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,504	8,860	4%	6%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,228	13,080	7%	9%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,830	8,687	-2%	6%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,729	9,721	11%	6%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,254	8,830	7%	6%
Hortes gardening centre in Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,510	13%	2%
Hortes gardening centre in Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,020	10%	4%
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,277	6,480	3%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,819	10,610	8%	7%
ABC Motors sales and service centre	Tallinn, Estonia	2,149	2002	02.2019	3,023	3,120	3%	2%
airBaltic's headquarter	Riga, Latvia	6,217	renov. 2016	03.2020	7,100	6,800	-4%	4%
Piepilsetas logistics centre	Riga, Latvia	13,327	2007	03.2020	8,716	8,420	-3%	6%
Rutkausko office building	Vilnius, Lithuania	6,811	2014	08.2020	11,819	11,790	0%	8%
Pirita care home	Tallinn, Estonia	6,045	2 020	12.2020	5,917	5,917	0%	4%
Total		**123,609**			**136,349**	**144,235**	**6%**	**95%**

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

In 2020 and 2019, the following changes have taken place in the Group's investment properties:

	Real estate investments under development	Ready real estate investments	Total real estate investments
As at 31.12.2018	**1,636**	**101,151**	**102,787**
Acquisitions and developments	3,822	3,018	**6,840**
Capitalized improvements	0	283	**283**
Reclassifications	-5,458	5,458	**0**
Gain / loss on change in fair value	0	3,101	**3,101**
As at 31.12.2019	**0**	**113,011**	**113,011**
Acquisitions and developments	0	17,736	**17,736**
Acquisitions from business combinations	0	15,800	**15,800**
Capitalized improvements	0	1,062	**1,062**
Gain / loss on change in fair value	0	-3,374	**-3,374**
As at 31.12.2020	**0**	**144,235**	**144,235**

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

As at 31 December or per year	2020	2019
Rental income from investment properties (Note 4)	10,001	8,782
Costs directly related to the management of investment properties (Note 5)	-325	-329
Outstanding amounts from the acquisition of investment property (Note 14)	1,240	0
Book value of investment properties pledged as collateral for loan liabilities	144,235	113,011

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

Payments under non-cancellable operating leases	**31.12.2020**	31.12.2019
€ thousands		
Up to 1 year	10,300	7,375
2-5 years	30,720	20,583
Over 5 years	21,735	15,032
Total	**62,755**	**42,990**

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 31.12.2020 and 31.12.2019 has been obtained using the discounted cash flow method. For the Pirita care home acquired in December 2020, the Group has recorded a transaction price close to the balance sheet date (there were no significant changes in the real estate market between the transaction date and the balance sheet date), but the transaction price is based on discounted cash flows. The following assumptions have been used to determine fair value:

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Capitalisation rate	Average rental price €/, m2
€ thousands						
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 home	5,917	Discounted cash flows	454	8.0%	7.3%	6.1
Total	**144,235**		**12,029**			

As at 31.12.2019:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Capitalisation rate	Average rental price €/, m2
€ thousands						
Office	29,711	Discounted cash flows	2,106	7.9%	7.5%-8.0%	11.7
Logistics	30,390	Discounted cash flows	2,436	8.0%-8.6%	7.8%-8.0%	6.1
Retail	52,910	Discounted cash flows	4,535	8.25%-8.5%	7.5%-8.0%	11.7
Total	**113,011**		**9,077**			

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;

- Capitalisation rate: 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 **31.12.2020** to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate		Sensitivity to discount rate and capitalisation rate			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Capitalisation rate +50bp	Capitalisation rate -50bp
€ thousands							
Office	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 home	5,917	*630*	*-630*	*-120*	*130*	*-280*	*330*
TOTAL	**144,235**	**15,877**	**-15,877**	**-2,907**	**2,943**	**-6,257**	**7,103**

As at 31.12.2019

Sector	Fair value	Sensitivity to management estimate		Sensitivity to discount rate and capitalisation rate			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Capitalisation rate +50bp	Capitalisation rate -50bp
€ thousands							
Office	29,711	*2,410*	*-2,420*	*-601*	*619*	*-1,301*	*1,479*
Logistics	30,390	*2,430*	*-2,420*	*-593*	*617*	*-1,239*	*1,417*
Retail	52,910	*4,630*	*-4,650*	*-1,060*	*1,060*	*-2,190*	*2,470*
Care home	-	-	-	-	-	-	-
TOTAL	**113,011**	**9,470**	**-9,490**	**-2,254**	**2,296**	**-4,730**	**5,366**

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 31.12.2020, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2020	Contract term	Interest rate as at 31.12.2020	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 building in Vilnius	8,860	6.2%
SEB	Latvia	5,123	4,253	29.06.21	1.55%	Mortgage - DSV building in Riga	8,687	5.9%
SEB	Estonia	7,950	6,396	29.06.21	1.55%	Mortgage - DSV building in Estonia	13,080	8.9%
SEB	Lithuania	5,620	4,583	30.09.21	1.90%	Mortgage - L3 office building in Vilnius	9,721	6.4%
SEB	Lithuania	5,200	4,002	21.12.25	2.25%	Mortgage - Ulonu office building in Vilnius	8,830	5.6%
SEB	Lithuania	5,850	5,210	30.05.23	2.00%	Mortgage - Evolution office building 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 - Selver grocery store in Laagri	6,480	4.3%
LHV	Estonia	1,800	1,695	25.02.24	2.95%	Mortgage - Selver grocery store in Laagri	3,120	2.4%
Luminor	Latvia	3,905	3,732	04.02.25	3.75%	Mortgage - airBaltic office 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 company guarantee	5,917	3.9%
Total		**80,816**	**72,463**				**144,235**	**101.4%**

Additional information on loan liabilities is also provided in Note 15 to the report

As at 31 December 2019, the Group had the following loan liabilities:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2020	Contract term	Interest rate as at 31.12.2020	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	16,500	15,141	14.08.20	1.70%	Mortgage - Saules Miestas Shopping centre	33,390	21.3%
SEB	Lithuania	5,500	4,649	29.06.21	1.55%	Mortgage - DSV building in Vilnius	8,800	6.5%
SEB	Latvia	3,323	4,491	29.06.21	1.55%	Mortgage - DSV building in Riga	12,880	6.3%
SEB	Estonia	7,950	6,757	29.06.21	1.55%	Mortgage - DSV building in Estonia	8,710	9.5%
SEB	Lithuania	5,620	4,832	30.09.21	1.90%	Mortgage - L3 office building in Vilnius	10,181	6.8%
SEB	Lithuania	5,200	4,244	21.12.20	1.75%	Mortgage - Ulonu office building in Vilnius	9,180	6.0%
SEB	Lithuania	5,850	5,437	30.05.23	2.00%	Hüpoteek - Evolution büroohoone Vilniuses	10,350	7.6%
Swedbank	Estonia	3,290	3,290	11.01.24	1.95%	Mortgage - Hortes gardening centre Tähesaju	6,180	4.6%
SEB	Estonia	1,860	1,635	05.07.22	1.82%	Mortgage - Hortes gardening centre	3,520	2.3%
Swedbank	Estonia	3,700	3,194	26.06.22	1.40%	Mortgage - Selver grocery store in Laagri	6,630	4.5%
	Estonia	1,800	1,747	25.02.24	2.95%	Mortgage - Selver grocery store in Laagri	3,190	2.5%
Kokku		**60,593**	**55,417**				**113,011**	**41.7%**

Short-term borrowings	31.12.2020	31.12.2019
€ thousands		
Recognition of the long-term portion of long-term bank loans as short-term[1]	3,501	0
Repayments of long-term bank loans in the next period[2]	25,319	21,171
Discounted contract fees for bank loans	-39	-24
Total short-term borrowings	**28,781**	**21,147**

[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. At the time of preparing the report, the Group is negotiating with the lender to change the terms of the loan agreement.

[2] Repayments of long-term bank loans in the next period as of 31.12.2020 include five group loan agreements expiring in 2021 in the total amount of EUR 22,729 thousand. Of this amount, EUR 3,100 thousand are planned to be repaid from the funds expected from the share issue to be organized in spring 2021, and the remaining loan agreements will be extended in the usual manner. All ending contract's LTVs are less than 50% and investment properties have a strong rental cash flow, which means that the Group's management estimates that there are no obstacles to extending loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

Long-term borrowings	31.12.2020	31.12.2019
€ thousands		
Total long-term borrowings (Note 15)	**72,368**	**55,372**
incl. current portion of borrowings	28,781	21,147
incl. non-current portion of borrowings, incl	43,587	34,225
Bank loans	*43,643*	*34,246*
Discounted contract fees on bank loans	*-56*	*-21*

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	31.12.2020	31.12.2019
€ thousands		
Up to 1 year	28,820	21,171
2-5 years	43,643	34,246

Cash flows of borrowings	2020	2019
€ thousands		
Balance at the beginning of period	**55,372**	**52,848**
Bank loans received through business combinations and acquisitions	7,164	0
Bank loans received	13,200	6,768
Annuity payments on bank loans	-3,282	-4,259
Change of discounted contract fees	-86	15
Balance as at the end of period	**72,368**	**55,372**

14 Payables and prepayments

Short-term payables and prepayments

	31.12.2020	31.12.2019
€ thousands		
Other payables to suppliers	173	642
Total payables to suppliers	**173**	**642**
Debts from securities transactions	95	0
Debts from the acquisition of investment property	1,240	0
Other debts	12	2
Total other debts	**1,347**	**2**

VAT	228	205
Social tax	0	7
Land tax, real estate tax	61	31
Other tax liabilities	2	0
Total tax arrears	**291**	**243**
Debts to employees	14	54
Interest payable	29	9
Tenants' security deposits	45	111
Other accrued liabilities	96	57
Total accrued liabilities	**184**	**231**
Prepayments received from buyers	0	14
Total prepayments	**0**	**14**
Total payables and prepayments	**1,995**	**1,132**

Long-term payables

	31.12.2020	31.12.2019
€ thousands		
Tenants security deposits	954	605
Other long-term debts	3	4
Total other long-term payables	**957**	**609**

For additional information on payables and prepayments, please see Note 15.

15 Financial instruments, management of financial risks

The main financial liabilities of the Group are borrowings that have been raised to finance the investment properties of the Group. The balance sheet of the Group also contains cash and short-term deposits, trade receivables, other receivables and trade payables. For additional information on the Group's finance costs, please see Note 8.

The table below indicates the division of the Group's financial assets and financial liabilities according to financial instrument type.

Carrying amounts of financial instruments

	Notes	31.12.2020	31.12.2019
€ thousands			
Financial assets - loans and receivables			
Cash and cash equivalents		5,128	12,986
Short-term deposits		0	6,000
Trade receivables	11	421	569
Total financial assets		**5,549**	**19,555**
Financial liabilities measured at amortised cost			
Borrowings	13	72,368	55,372
Trade payables	14	173	642
Tenant security deposits	14	999	716
Interest payables	14	29	9
Accrued expenses	14	110	111
Total financial liabilities measured at amortised cost		**73,679**	**56,850**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		246	271
Total financial liabilities measured at fair value		**246**	**271**
Total financial liabilities		**73,925**	**57,121**

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, taking into account 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 terms of the financing agreements are adjusted to correspond to the net cash flow of a specific real estate object, which ensures the preservation and growth of sufficient free cash of the Group even after the fulfillment of financial obligations.

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 December 2020, 71% of the Group's loan agreements are based on floating interest (margin between 1.4% and 4.5% plus 1-month, 3-month and 6-month EURIBOR) and 29% of loan agreements bear fixed interest in the range of 1.55% up to 1.9%. In turn, 28% of floating interest rate contracts are linked to an interest rate swap, where the 3-month EURIBOR is fixed at 0.35%. The 3-month EURIBOR fluctuated between -0.545% and -0.161% during 2020, i.e. the maximum change during the year was 0.384 basis points. All contracts in the loan portfolio of EfTEN Real Estate Fund III have a 0% floor 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 3-5-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 cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

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

The Group recognizes interest rate swaps with a change in profit or loss. The fair value of interest rate swaps as at 31.12.2020 was negative in the amount of EUR 246 thousand (31.12.2019: EUR 271 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 31 December 2020, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 50% (31 December 2019: 49%) and the average debt coverage ratio (DSCR) for the last 12 months was 1.9 (2019: 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 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**
€ thousands						
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**

As at 31.12.2019	Less than 1 month	Between 2 and 4 months	between 4 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousands						
Interest-bearing liabilities	232	729	20,211	34,245	0	**55,417**
Interest payments	88	261	579	879	0	**1,807**
Interest payables	9	0	0	0	0	**9**
Trade payables	642	0	0	0	0	**642**
Tenant security deposits	20	18	74	416	189	**716**
Accrued expenses	111	0	0	0	0	**111**
Total financial liabilities	**1,102**	**1,008**	**20,864**	**35,540**	**189**	**58,702**

Statement of working capital

	31.12.2020	31.12.2019
€ thousands		
Cash and cash equivalents	5,128	12,986
Receivables and accrued income (Note 11)	2,018	667
Prepaid expenses	128	51
Total current assets	**7,274**	**13,704**
Short-term portion of long-term liabilities (Note 13)	-28,781	-21,147
Short-term payables and prepayments (Note 14)	-2,241	-1,403
Total current liabilities	**-31,022**	**-22,550**
Total working capital	**-23,748**	**-8,846**

As of 31.12.2020, the working capital of the Group is negative in the amount of EUR 23,748 thousand (31.12.2019: EUR 8,846 thousand).

As of 31.12.2020, working capital is negative due to the Group's five loan agreements ending in 2021 in the total amount of EUR 22,729 thousand. Of this amount, EUR 3,100 thousand is planned to be repaid from the funds expected from the share issue to be organized in spring 2021, and the remaining loan agreements will be extended in the usual manner. LTV of all maturing loans is less than 50% and investment properties have a strong rental cash flow, which means that the Group's management believes that there are no obstacles to extending loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

In addition, as of 31.12.2020, the Group has recognized EfTEN Riga Airport SIA loan liability as a short-term, 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. At the time of preparing the report, the Group is negotiating with the lender to change the terms of the loan agreement.

As at 31 December 2019, the Group's working capital was negative due to the loan agreements of two subsidiaries Saules Miestas UAB and Verkiu projektas UAB (Ulonu office building) extended in 2020 in the total amount of EUR 19,385 thousand. The loan agreements were extended upon their maturity.

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 behavior 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:

	31.12.2020	31.12.2019
Undue	330	398
Past due, incl.	**150**	**171**
up to 30 days	*121*	*160*
30-60 days	*16*	*9*
more than 60 days	*13*	*2*
Allowance for doubtful accounts	-59	0
Total trade receivables	**421**	**569**

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

	31.12.2020	31.12.2019
€ thousands		
Cash and cash equivalents	5,128	12,986
Short-term deposits	0	6,000
Trade receivables	421	569
Total maximum credit risk	**5,549**	**19,555**

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.

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). In July 2020, EfTEN Real Estate Fund III AS paid (net) dividends to shareholders in the amount of EUR 2.745 million (2019: EUR 3.061 million). During 2020, the Group has earned free cash flow of EUR 3.747 million (2019 12 months: EUR 3.381 million). After deducting Lithuanian corporate income tax expense and calculating the estimated dividend income tax expense for Estonian and Latvian companies, EfTEN Real Estate Fund III could pay shareholders a net dividend of EUR 2.798 million (66 cents per share) from this year's profit in accordance with the established dividend policy.

Report of capitalisation

	31.12.2020	31.12.2019
€ thousands		
Short-term liabilities guaranteed with mortgage (Note 13)	28,820	21,171
Unsecured short-term liabilities (Note 14)	2,202	1,379
Total short-term liabilities	**31,022**	**22,550**
Long-term liabilities guaranteed with mortgage (Note 13)	43,643	34,246
Unsecured long-term liabilities (Note 14)	5,484	5,122
Total long-term liabilities	**49,127**	**39,368**
Share capital and share premium (Note 16)	51,883	51,883
Reserves	1,323	936
Retained earnings (Note 17)	18,277	18,092
Total shareholder's equity	**71,483**	**70,911**
Total liabilities and equity	**151,632**	**132,829**

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

Report of net debt

	31.12.2020	31.12.2019
€ thousands		
Cash (Note 12)	5,128	12,986
Short-term deposits	0	6,000
Tradable securities	0	0
Total liquid assets	**5,128**	**18,986**
The short-term portion of long-term liabilities (Note 13)	28,820	21,171
Short-term bank loans	0	0
Other current financial liabilities	0	0
Net short-term debt	**23,692**	**2,185**
Long-term bank loans (long-term portion) (Note 13)	**43,643**	34,246
Bonds issued	0	0
Other long-term loans	0	0
Total long-term debt	**43,643**	**34,246**
Total net debt	**67,335**	**36,431**

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As of 31.12.2020 and 31.12.2019, the Group does not have any assets at fair value that would belong to the Level 1 group upon finding the value. All of the Group's investment properties are carried at fair value and belong to the Level 3 group according to the valuation method (see Note 12). All of the Group's loan liabilities and derivative securities entered into to hedge interest rate risk belong to the Level 2 group.

To mitigate interest rate risk, the Group has entered into interest rate swaps, the fair value of which is obtained by discounting the cash flows of interest rate swaps so that, 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

The registered share capital of EfTEN Real Estate Fund III AS as of 31.12.2020 was EUR 42,225 thousand (31.12.2019: the same). As of 31.12.2020, the share capital consisted of 4,222,535 shares (31.12.2019: the same) with a nominal value of 10 euros (31.12.2019: the same). Without amending the articles of association, the company has the right to increase the share capital to EUR 115,411 thousand. As of 31.12.2020, contributions to the share capital have been made in the total amount of EUR 51,883 thousand (31.12.2019: the same)

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

	As at 31.12.2020	
Company	**Number of shares**	**Ownership, %**
Altius Energia OÜ	602,000	14.26%
Järve Kaubanduskeskus OÜ	431,992	10.23%
Hoiukonto OÜ	430,211	10.19%

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

	As at 31.12.2020	
Company	**Number of shares**	**Ownership, %**
Viljar Arakas, member of the Management Board	2,000	0.05%
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	12,793	0.30%
Tõnu Uustalu, member of the Management Board	12,281	0.29%
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	2,046	0.05%
Altius Capital OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	602,000	14.26%
Olav Miil, member of the Supervisory Board	32,312	0.77%
Siive Penu, member of the Supervisory Board	1,282	0.03%

17 Contingent liabilities

Contingent tax liability

	31.12.2020	31.12.2019
€ thousands		
Retained earnings	18,277	18,092
Potential income tax liability	3,655	3,618
Dividends can be paid out	14,622	14,474

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 31.12.2020 and 31.12.2019.

18 Related party transactions

EfTEN Real Estate Fund III AS considers the following as related parties:

- Management Board members and companies owned by the Management Board members of EfTEN Real Estate Fund III AS;

- Supervisory Board members and companies owned by the Supervisory Board members of EfTEN Real Estate Fund III AS;

- Employees and companies owned by the employees of EfTEN Real Estate Fund III AS;

-EfTEN Capital AS (the fund management company).

During 2020, the Group purchased management services from EfTEN Capital AS in the amount of EUR 899 thousand (2019: EUR 702 thousand) (see Note 7). In addition to periodic management services, the Group calculated a success fee for the management company in 2019 in the amount of EUR 479 thousand. No success fee was calculated for the management company for 2020.

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

As at 31 December 2020, the Group had a total of 12 employees, who were paid a total of EUR 260 thousand, including related taxes (2019: 278 thousand euros). No fees were calculated or paid to the members of the Group's Management Board or Supervisory Board during 2020 or 2019. The members of the Group's Management Board work for EfTEN Capital AS, a company providing management services to the Group, and expenses related to the activities of a member of the Management Board are included in the management services.

19 Parent company's separate financial statements

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the annual report in conjunction with IAS 27, Consolidated and Separate Financial Statements.
In the parent separate primary financial statements, disclosed in the Notes to these consolidated financial statements, investments in subsidiaries are measured at fair value.

Parent company's income statement and other comprehensive income statement:

	2020	2019
EUR thousand		
General and administrative expenses	-194	-622
Gain from subsidiaries	3,048	8,311
Finance income	208	71
Finance expense	-5	-23
Profit before income tax	**3,057**	**7,737**
Total comprehensive income for the financial period	**3,057**	**7,737**

Parent company's statement of financial position

	31.12.2020	31.12.2019
€ thousands		
ASSETS		
Cash and cash equivalents	72	8,440
Short-term deposits	0	6,000
Receivables and accrued income	2,084	377
Total current assets	**2,156**	**14,817**
Non-current assets		
Shares of subsidiaries	66,380	53,628
Long-term receivables	6,148	3,209
Total non-current assets	**72,528**	**56,837**
TOTAL ASSETS	**74,684**	**71,654**
Borrowings	3,094	0
Payables	107	482
Total short-term liabilities	**3,201**	**482**
Total liabilities	**3,201**	**482**
Share capital	42,225	42,225
Share premium	9,658	9,658
Statutory reserv capital	1,323	936
Retained earnings	18,277	18,353
Total equity	**71,483**	**71,172**
TOTAL LIABILITIES AND EQUITY	**74,684**	**71,654**

Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserv capital	Retained earnings	**Total**
€ thousands					
As at 31.12.2018	**32,225**	**3,658**	**621**	**13,991**	**50,495**
Issue of shares	10,000	6,000	315	-315	**16,000**
Payment of dividends	0	0	0	-3,061	**-3,061**
Comprehensive income for the financial period	0	0	0	7,737	**7,737**
As at 31.12.2019	**42,225**	**9,658**	**936**	**18,353**	**71,172**
Payment of dividends	0	0	0	-2,746	**-2,746**
Provisions in reserve capital	0	0	387	-387	**0**
Comprehensive income for the financial period	0	0	0	3,057	**3,057**
As at 31.12.2020	**42,225**	**9,658**	**1,323**	**18,277**	**71,483**

Adjusted unconsolidated equity of the parent company (to account for compliance with the requirements set forth in the Commercial Code) is as follows:

	31.12.2020	31.12.2019
€ thousands		
Parent company's unconsolidated equity	71,483	71,172
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-66,380	-53,628
Value of subsidiaries and joint ventures under the equity method (plus)	66,380	53,628
Total	**71,483**	**71,172**

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Initials L.L. Date 25.02.2021

Parent company's statement of cash flows

	2020	2019
EUR thousand		
Cash flows from operating activities		
Net profit	**3,057**	**7,737**
Adjustments to net profit:		
Finance income and finance costs	-203	-48
Gain/loss on the fair value adjustment of subsidiaries	-304	-5,250
Dividends received	-2,744	-3,061
Total adjustments	**-3,251**	**-8,359**
Cash flow from operations before changes in working capital	**-194**	**-622**
Change in receivables and payables related to operating activities	-485	405
Net cash generated from operating activities	**-679**	**-217**
Cash flows from investing activities		
Acquisition of subsidiaries	-16,535	-1,570
Change in short-term holdings	6,000	-6,000
Loans granted	-505	-240
Repayment of loans granted	100	0
Dividends received	2,744	3,061
Interest received	163	1
Net cash generated from investing activities	**-8,033**	**-4,748**
Cash flows from financing activities		
Loans received	3,100	2,760
Repayment of loans received	0	-2,760
Interest paid	-11	-23
Dividends paid	-2,745	-3,061
Issue of shares	0	16,000
Net cash generated from financing activities	**344**	**12,916**
NET CASH FLOW	**-8,368**	**7,951**
Cash and cash equivalents at the beginning of the period	**8,440**	**489**
Change in cash and cash equivalents	-8,368	7,951
Cash and cash equivalents at the end of the period	**72**	**8,440**

Management Board Declaration for the Consolidated Annual Report 2020

The Management Board has prepared the management report and consolidated financial statements of EfTEN Real Estate Fund III AS for the financial year ended 31 December 2020.

The Management Board confirms that the annual report and consolidated financial statements of EfTEN Real Estate Fund III AS give a true and fair view of the assets, liabilities, financial position and results of the parent company and the Group as a whole in accordance with International Financial Reporting Standards as adopted by the European Union.

/signed digitally/	/signed digitally/
___________________	___________________
Viljar Arakas	Tõnu Uustalu
Member of the Management Board	Member of the Management Board

Independent auditor's report

To the Shareholders of EfTEN Real Estate Fund III AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Real Estate Fund III AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Supervisory Board dated 25 February 2021.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

AS PricewaterhouseCoopers
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Translation note:

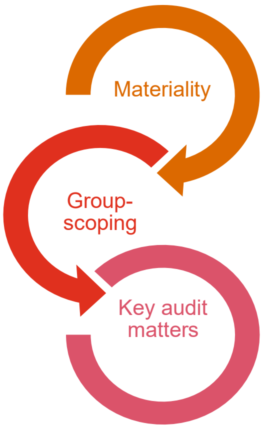
This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in in the Corporate Governance Report.

Our audit approach

Overview



Overall group audit materiality is EUR 1,500 thousand which represents approximately 1% of the Group's total assets.

The Group audit team or component auditors, under our instructions, audited the Group companies essentially covering all parts of the consolidated statements of financial position and comprehensive income.

- Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Translation note:

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Overall Group audit materiality	EUR 1,500 thousand
How we determined it	Approximately 1% of total assets
Rationale for the materiality benchmark applied	We have applied total assets as benchmark, as this is the key indicator on which the Group's value depends and that is monitored by the management board and investors

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties Addition information is disclosed in Note 1.2 "Summary of significant accounting policies" and in Note 12 "Investment property". As at 31 December 2020 the investment properties carried at fair value amounted to EUR 144 million and the revaluation gain recognised in 2020 statement of comprehensive income was EUR 3.4 million. The management uses independent appraisers to evaluate the fair values by engaging an external valuation at least twice a year for each asset. The Group measures the fair value of the investment properties using the discounted cash flow method, based on the rental rates of these properties, using the existing rental rates for properties leased out. Among other factors, the valuation of the Group's investment property portfolio is inherently subjective due to the individual nature of each investment property, its location and the expected future rental rates. In determining the fair value of investment property, the appraisers and the management take into account property specific information	Given the inherent subjectivity involved in the valuation of investment properties and the need for market knowledge and valuation expertise, we engaged PwC valuation specialists to assist us in our audit of this area. We obtained and read the valuation reports and valuation inputs for all the investment properties and assessed whether the valuation approach for each investment property was in accordance with the principles of measuring fair value under IFRS. We assessed the qualifications and expertise of the external appraisers and we found that the appraisers performed their work in accordance with the respective professional valuation standards and that they have considerable experience in the markets in which the Group operates. We compared the major assumptions such as rental rates, discount rates, capitalisation rates and vacancy rates used by the appraisers with our internally developed estimated ranges, determined via reference to published benchmarks when applicable. Where assumptions were outside the expected range or otherwise deemed unusual, or valuations demonstrated unexpected movements not consistent with general trends in the market, we undertook further investigations and challenged the appraisers and Group management by requesting additional information and explanations on inputs and

such as the current tenancy agreements and rental income. Assumptions for yields and estimated market rent used are influenced by prevailing market yields and comparable market transactions.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual investment property valuations, when aggregated, could result in a material impact, warranted specific audit focus in this area.

assumptions used. It was evident from our interaction with management and the appraisers, and from our procedures in respect of the valuation reports that close attention had been paid to each investment property's individual characteristics, such as considering the overall quality, geographic location and cash flow potential of the property as a whole. We also found that the impact of recent and significant market transactions on each individual investment property's valuation were appropriately considered when determining the assumptions used in the valuation. We saw evidence that alternative assumptions had been considered and evaluated by management and the appraisers before determining the final fair value. We concluded that the assumptions used in the valuations were supported by the available and comparable market evidence.

We also considered whether the disclosures made in note 12 to the financial statements meet the requirements set out in IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's financial statements consolidate sixteen reporting units. Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope considering the relative significance of each entity to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. Full scope statutory audits were performed for EfTEN Real Estate Fund III AS, EfTEN Tänassilma OÜ, EfTEN Laagri OÜ, EfTEN Tähesaju tee OÜ, EfTEN Autokeskus OÜ and EfTEN Seljaku OÜ by the Group audit team and for Saules Miestas UAB, EfTEN Krustpils SIA, EfTEN Riga Airport SIA and EfTEN Pielpilsetas SIA by component auditors in accordance with our instructions. For other subsidiaries the Group audit team performed full scope audit procedures on investment properties' balances and the component auditors performed full scope audit procedures on cash and bank accounts, receivables from customers, notes payable and long-term debt, tax balances and revenue transactions from rental income. For the audit procedures performed by component auditors, we determined the level of involvement we needed to have in their audits to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Other information

The Management Board is responsible for the other information. The other information comprises the management report, corporate governance report and distribution of revenue according to the Estonian Classification of Economic Activities (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The European Single Electronic Format (ESEF) reporting requirements pursuant to Commission Delegated Regulation (EU) 2018/815

The annual consolidated financial statements of the Company and the Group for the year ended 31 December 2020 has not been prepared in accordance with ESEF reporting requirements.

Appointment and period of our audit engagement

In connection to listing the shares of EfTEN Real Estate Fund III AS in Tallinn Nasdaq stock exchange on 1 December 2017, it is our fourth year as an auditor of EfTEN Real Estate Fund III AS, as a public interest entity. Our uninterrupted engagement appointment period for EfTEN Real Estate Fund III AS as a public interest entity can be up to 20 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of EfTEN Real Estate Fund III AS can be extended for up to the financial year ending 31 December 2036.

The engagement partner on the audit resulting in this independent auditor´s report is Lauri Past.

AS PricewaterhouseCoopers

Lauri Past
Certified auditor in charge, auditor's certificate no.567

Rando Rand
Auditor's certificate no.617

25 February 2021
Tallinn, Estonia

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Profit Allocation Proposal

The Management Board of EfTEN Real Estate Fund III AS proposes to the General Meeting to distribute the profit for 2020 as follows (in euros):

Retained earnings as of 31.12.2020:	EUR 18,277 thousand
Provision for statutory reserve capital:	EUR 166 thousand
Distribution of dividends:	EUR 2,798 thousand (66.3 cents per share)
Retained earnings after provisions:	EUR 15,313 thousand

/signed digitally/

Viljar Arakas

Member of the Management Board

/signed digitally/

Tõnu Uustalu

Member of the Management Board

Signatures of the members of the supervisory board to the annual report

The Supervisory Board has reviewed the Annual Report prepared by the Management Board consisting of the Management Report, the Corporate Governance Report and the Consolidated Financial Statements, the independent sworn auditor's report and the proposal for the distribution of profit to the General Meeting of Shareholders

February 25, 2021

Arti Arakas

Chairman of the Supervisory Board

Siive Penu

Member of the Supervisory Board

Sander Rebane

Member of the Supervisory Board

Olav Miil

Member of the Supervisory Board

Distribution of revenue according to the Estonian Classification of Economic Activities

	EMTAK code	2020	Sales Revenue %	Main activity
€ thousands				
Fund management	66301	0	-	yes