Consolidated Annual Report 2021

EfTEN Real Estate Fund III AS
Commercial register number: 12864036

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

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EfTEN REAL ESTATE FUND III

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Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100127242/reports).

MANAGEMENT REPORT

The Fund manager's comment on the year 2021 results

The year 2021 turned out to be a successful year above expectations for EfTEN Real Estate Fund III AS. Despite the two coronavirus waves that occurred during the year, EfTEN Real Estate Fund III increased both rental income and EBITDA in each commercial real estate segment, even without including the revenues from the new commercial buildings. The portfolio's commercial areas' vacancy rate remained at a record low of less than 1%. The revaluation of investment property generated a total profit of EUR 6.4 million for 2021 and the portfolio's unleveraged primary net yield was 7.3% at year-end. The fund generated total free cash flow of EUR 4.55 million in 2021, of which the total gross dividend would be EUR 3.64 million according to the fund's dividend policy. Taking into account the obligation to maintain minimum cash balances resulting from the special terms of the Fund's subsidiaries' loans and the short-term liquidity needs, the Fund's Management Board proposes to the Supervisory Board to pay dividends in excess of the dividend policy, totalling EUR 4.06 million (80 cents per share).

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

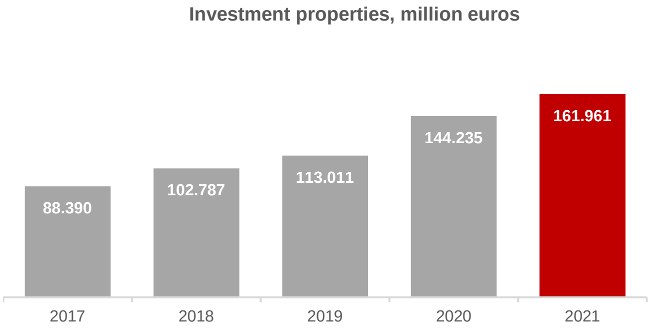
Financial overview

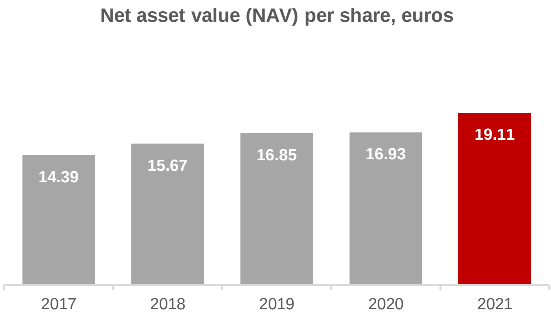
EfTEN Real Estate Fund III AS's consolidated revenue for the 12 months of 2021 amounted to EUR 12.921 million (12 months 2020: EUR 10.731 million), up 20% year-on-year. The group's net rental income for 2021 totalled to EUR 12.412 million (2020: EUR 10.103 million), increasing 23%. The Group's net profit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

	2021	2020
€ million		
Rental revenue, other fees from investment properties	12.921	10.731
Expenses related to investment properties, incl. marketing costs	-0.509	-0.628
Net rental income	**12.412**	**10.103**
Net rental income margin	*96%*	*94%*
Interest expense and interest income	-1.804	-1.346
Net rental revenue less finance costs	**10.608**	**8.757**
Management fees	-1.074	-0.899
Success fee	-0.537	0.000
Other revenue and expenses	-0.714	-0.701
Profit before change in the value of investment property, success fee, fair value change of the interest rate swap and income tax expense	**8.283**	**7.157**

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

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





	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
€ million					
Investment properties	161.961	144.235	113.011	102.787	88.390
Other non-current assets	0.147	0.123	0.114	0.138	0.090
Current assets, excluding cash	1.219	2.146	6.717	0.719	0.678
Net debt (cash and deposits minus short-term and long-term bank loans)	-58.103	-67.335	-36.431	-48.049	-37.712
Net asset value (NAV)[1],[2]	96.914	71.483	70.911	50.354	46.385
EPRA net asset value (EPRA NAV) [2]	102.708	76.112	75.456	54.179	49.307
Net asset value (NAV) per share, in euros [1,2]	19.11	16.93	16.85	15.67	14.39
EPRA net asset value (EPRA NAV) per share, in euros [2]	20.25	18.03	17.93	16.81	15.30

Key performance and liquidity ratios

12 months	31.12.2021	31.12.2020
ROE, *% (net profit of the period / average equity of the period) x 100*	15.6	5.4
ROA, *% (net profit of the period / average assets of the period) x 100*	8.0	2.6
ROIC, *% (net profit of the period / average invested capital of the period) x 100* [3]	22.0	6.4
Revenue (€ thousands)	12,921	10,731
Rental income (€ thousands)	12,125	10,001
EBITDA (€thousands)	10,163	8,556
EBITDA margin, %	79%	80%
EBIT (€ thousands)	16,529	5,129
EPRA profit (€ thousands)	7,821	6,776
Liquidity ratio (current assets / current liabilities)	1.6	0.2
DSCR (EBITDA/*(interest expenses + scheduled loan payments)*)	1.9	1.9

[1] The net asset value (NAV) of EfTEN Real Estate Fund III AS is equal to the net asset value of EPRA NRV calculated according to EPRA recommendations as of 31.12.2021 and 31.12.2020.

[2] Definitions and reviews of EPRA net assets are provided in the appendix to this report.

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

Real estate portfolio

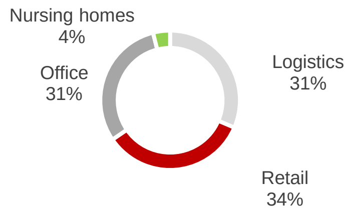
Purchases during the year 2021

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

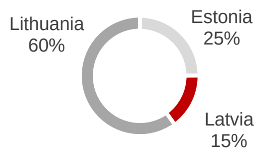
Real estate portfolio as at 31.12.2021

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

Real estate portfolio by sector



Real estate portfolio by country



Main indicators of real estate portfolio

Investment property as of 31.12.2021	Group's ownership	Acquisition cost, thousand €	Fair value of investment properties, thousand €[4]	Net leasable area	Prognosed rental revenue per annum,€ thousand	Initial yield[5]	Net initial yield (EPRA NIY)[6]	Occupancy, %	Average length of rental agreements	Number of tenants
DSV logistics centre, Tallinn	100	12,287	13,370	16,014	1,003	8.2%	7.5%	100	4.9	1
DSV logistics centre, Riga	100	8,835	8,710	12,149	668	7.6%	7.7%	100	4.9	1
DSV logistics centre, Vilnius	100	8,504	9,380	11,687	698	8.2%	7.4%	100	4.8	1
Piepilsetas logistics centre, Kekava	100	8,751	8,730	13,327	690	7.9%	7.9%	99	2.7	6
Ramygalos logistics centre, Panevėžyses	100	10,011	10,400	20,125	776	7.8%	7.5%	100	5.4	2
Total logistics		**48,388**	**50,590**	**73,302**	**3,835**	**7.9%**	**7.6%**	**100**	**4.7**	**11**
Saulės Miestas shopping centre, Šiauliai	100	29,027	34,500	19,881	2,532	8.7%	7.3%	97	4.6	143
Hortes gardening centre, Laagri	100	3,108	3,680	3,470	272	8.8%	7.4%	100	10.4	1
Laagri Selver, Tallinn	100	6,279	7,340	3,063	494	7.9%	6.7%	100	6.3	11
Hortes gardening centre, Tallinn	100	5,458	6,480	5,300	479	8.8%	7.4%	100	12.8	1
ABC Motors Car Centre, Tallinn	100	3,259	3,270	2,149	264	8.1%	8.1%	100	7.1	1
Total retail		**47,131**	**55,270**	**33,863**	**4,041**	**8.6%**	**7.3%**	**98**	**6.1**	**157**
Ulonu office building, Vilnius	100	8,280	9,080	5,174	698	8.4%	7.7%	100	2.4	14
Evolution office building, Vilnius	100	9,882	11,190	6,172	777	7.9%	6.9%	100	3.3	28
L3 office building, Vilnius	100	8,816	10,281	6,151	760	8.6%	7.4%	100	3.2	36
airBaltic head office, Riga	100	7,100	6,800	6,217	434	6.1%	6.4%	100	4.2	1
Rutkausko office building, Vilnius	100	11,819	12,480	6,811	829	7.0%	6.6%	100	8.6	3
Total office		**45,897**	**49,831**	**30,525**	**3,498**	**7.6%**	**7.0%**	**100**	**4.4**	**82**
Pirita care home, Tallinn	100	6,217	6,270	6,045	426	6.9%	6.8%	100	8.9	1
Total care homes		**6,217**	**6,270**	**6,045**	**426**	**6.9%**	**6.8%**	**100**	**8.9**	**1**
Total real estate portfolio		**147,633**	**161,961**	**143,735**	**11,800**	**8.0%**	**7.3%**	**99**	**5.2**	**251**

[4] 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.

[5] To determine the initial yield, the annualized net rental income from leases calculated at the reporting date is divided by the sum of the acquisition cost of the investment property and subsequent capitalized expenses.

[6] To find the net initial yield, the annualized net rental income for the accounting year calculated as of the reporting date is divided by the market value of the investment property.

In 2021, the Group earned a total rental income of EUR 12.165 million. Rental income calculated on a comparable basis totalled EUR 9.283 million in 2021, 7% more than in 2020. In 2021, the Group granted a total of EUR 369 thousand (2020: EUR 609 thousand) in discounts related to the Covid-19 crisis, i.e. without these discounts, the Group's rental income in 2021 would have been 2.9% higher. As at 31 December 2021, the Group's subsidiaries had current discounts for the calendar month in the amount of one thousand euros.

Comparable rental income by business segment

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

Comparable rental income by country

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

In December 2021, Colliers International conducted a regular valuation of the Fund's real estate portfolio, which resulted in an increase in the value of the real estate portfolio of 4.1% (EUR 6.442 million). The increase in the value of investment properties was mainly supported by the increase in cash flow from expected rental activities and reduced exit yield.

Changes in valuation assumptions

		Change			
31.12.2021 or per year	**Fair value**	**€ thousands**	**%**	**Annualized net rental income, %**	**Capitalization rate, percentage points**
€ thousands					
Logistics					
DSV logistics centre, Tallinn	13,370	231	1.8%	1.6%	-0.30
DSV logistics centre, Riga	8,710	18	0.2%	1.3%	0.00
DSV logistics centre, Vilnius	9,380	520	5.9%	1.5%	-0.50
Piepilsetas logistics centre, Kekava	8,730	274	3.2%	4.7%	-0.55
Ramygalos logistics centre, Panevėžyses	10,400	389	3.9%	-2.0%	-0.25
Total logistics	**50,590**	**1,432**	**2.9%**	**3.1%**	
Retail					
Saulės Miestas shopping centre, Šiauliai	34,500	1,651	5.0%	2.6%	0.00
Hortes gardening centre, Laagri	3,680	170	4.8%	7.3%	-0.20
Laagri Selver, Tallinn	7,340	858	13.2%	2.6%	-0.70
Hortes gardening centre, Tallinn	6,480	460	7.6%	-4.7%	-0.20
ABC Motors car centre, Tallinn	3,270	-87	-2.6%	10.4%	0.00
Total retail	**55,270**	**3,052**	**5.8%**	**2.4%**	
Office					
Ulonu office building, Vilnius	9,080	224	2.5%	4.2%	-0.25
Evolution office building, Vilnius	11,190	518	4.9%	-1.5%	-0.25
L3 office building, Vilnius	10,281	473	4.8%	10.8%	-0.50
airBaltic head office, Riga	6,800	0	0.0%	-5.4%	-0.15
Rutkausko office building, Vilnius	12,480	690	5.9%	0.6%	-0.35
Total office	**49,831**	**1,905**	**4.0%**	**0.2%**	
Care homes					
Pirita care home, Tallinn	6,270	53	0.9%	-1.9%	-0.48
Total real estate portfolio	**161,961**	**6,442**	**4.1%**	**1.8%**	

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Based on the results of the sensitivity analysis of the Group's real estate portfolio, the value of the portfolio would increase by 8.3 million euros with a 0.5 percentage point decrease in exit yield and decrease by 7.3 million euros if the portfolio's exit yield increased by 0.5 percentage points with all real estate investments.

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

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

EPRA performance indicators

The recommended guidelines of the European Association of Listed Real Estate Companies (EPRA) are based on the principle that the disclosures should be more comparable and transparent between real estate companies.

Although EfTEN Real Estate Fund III has been based in part on EPRA recommendations in its previous reports, this report summarizes EPRA indicators to provide a better overview.

The management of EfTEN Real Estate Fund III AS monitors the net profit adjusted for non-monetary IFRS, which reflects the performance of the Group's operating activities more accurately than the net profit calculated in accordance with IFRS. Adjusted net income in this way is based on EPRA best practice recommendations, which, unlike IFRS net income, do not include non-monetary and estimated changes in the fair value of investment property, changes in deferred tax liabilities related to investment property and changes in the fair value of derivatives.

As of this year, EfTEN Real Estate Fund III AS calculates the net asset value of EPRA on the basis of two indicators: EPRA net replacement value (EPRA NRV) and EPRA net disposal value (EPRA NDV), which replace the previously disclosed EPRA NAV figures.

EPRA performance indicators

As of the balance sheet date or per year	31.12.2021	31.12.2020	*Change*
EPRA profit, € thousands	7,821	6,776	*15%*
EPRA earnings per share, in euros	1,66	1,60	*4%*
EPRA NRV (net reinstatement value), € thousands	102,708	76,112	*35%*
EPRA NRV per share, in euros	20,25	18,03	*12%*
EPRA NDV (net disposal value), € thousands	96,917	71,483	*36%*
EPRA NDV per share, in euros	19.11	16.93	*13%*
EPRA NIY (net initial yield)	7.3%	7.5%	*-4%*
EPRA Topped-up NIY (adjusted net initial yield)	7.3%	7.7%	*-7%*
EPRA cost ratio, including direct vacancy costs	17%	15%	*12%*
EPRA cost ratio, excluding direct costs related to vacancy	17%	14%	*20%*
EPRA vacancy rate	0.2%	1.8%	*-89%*

Definitions and calculations of EPRA's recommended performance indicators are provided below:

EPRA indicator		Definition	Purpose
EPRA profit		Operating profit	A key indicator of a company's business that illustrates its ability to pay dividends
EPRA net asset value	**EPRA net reinstatement value (EPRA NRV)**	The indicator assumes that the real estate company will never sell its assets. Indicates the value required to rebuild the business.	The purpose of the indicators is to provide stakeholders with indicators of the net asset value in different scenarios. The net asset value calculated in accordance with IFRS is adjusted to calculate the indicator.
	EPRA net tangible fixed assets (EPRA NTA)	The indicator assumes that a real estate company both buys and sells its assets, which results in a certain level of deferred income tax liability.	
	EPRA net disposal value (EPRA NDV)	The indicator expresses the net asset value in a situation where a real estate company sells its assets and the deferred income tax liability, financial instruments and certain other adjustments are deducted in full.	
EPRA net initial yield (EPRA NIY)		Annualized rental income at the reporting date less administrative costs of the investment property (ownership costs) divided by the market value of the investment property plus the estimated costs of the purchaser.	Benchmark for external valuations of the real estate portfolio. The indicator should help investors evaluate the valuations of different real estate portfolios.
Adjusted EPRA net initial yield (EPRA "Topped-up' NIY		EPRA's primary net return, adjusted for the end of lease-free periods or the end of other rental incentives (such as discounts, changes in rents).	
EPRA vacancy rate		Estimated rental income from vacant premises divided by the estimated rental income from the entire real estate portfolio.	Vacancy measure based on estimated rental income.
EPRA cost ratios		Administrative and operating expenses (including and excluding expenses directly related to the vacancy) divided by gross rental income.	A key indicator that helps measure changes in a company's costs.

EPRA indicator calculations

EPRA net asset value indicators

as at 31.12.2021

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**96,914**	**96,914**	**96,917**
Adjustments: ,			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	5,673	5,673	-
Fair value of derivatives	121	121	-
Net asset value ,	**102,708**	**102,708**	**96,917**
Number of fully diluted shares	5,072,535	5,072,535	5,072,535
Net asset value per unit, in euros	**20.25**	**20.25**	**19.11**

as of 31.12.2020

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**71,483**	**71,483**	**71,483**
Adjustments: ,			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	4,383	4,383	-
Fair value of derivatives	246	246	-
Net asset value ,	**76,112**	**76,112**	**71,483**
Number of fully diluted shares	4,222,535	4,222,535	4,222,535
Net asset value per unit, in euros	**18.03**	**18.03**	**16.93**

EPRA profit

€ thousands	2021	2020
Net profit (IFRS)	**13,099**	**3,317**
Adjustments:		
Change in fair value of investment property	-6,442	3,374
Change in fair value of financial instruments	-126	-24
Deferred income tax expense related to EPRA adjustments	1,290	109
EPRA profit	**7,821**	**6,776**
Weighted average number of shares during the period	4,698,909	4,222,535
EPRA earnings per share, in euros	**1.66**	**1.60**

EPRA net yield

€ t thousands	2021	2020
Investment property ,	161,961	144,235
Completed real estate investments	**161,961**	**144,235**
Annualized rental income from leases in force at the reporting date	13,022	11,916
Expenditure on investment property not covered by tenants	-1,223	-1,117
Annualized net rental income	**11,799**	**10,799**
Nominal effect of the exemption from rent exemptions or other incentives	0	369
Adjusted annualized net rental income	**11,799**	**11,168**
EPRA net initial yield (NIY)	**7.3%**	**7.5%**
EPRA adjusted net initial yield (Topped-up NIY)	**7.3%**	**7.7%**

EPRA vacancy rate

€ thousands	2021	2020
Estimated rental income from vacant premises	26	201
Estimated rental income for the entire real estate portfolio	12,856	11,348
EPRA vacancy rate	**0.2%**	**1.8%**

EPRA cost ratios

€ thousands	2021	2020
Cost of sales	-241	-325
Other sales revenue paid by tenants to cover expenses	796	730
Marketing costs	-268	-303
Operating costs	-2,326	-1,597
Total costs, including direct costs related to the vacancy	**-2,039**	**-1,495**
Direct vacancy costs	-32	-120
Total costs excluding direct costs related to the vacancy	**-2,007**	**-1,375**
Rental income (gross)	**12,125**	**10,001**
EPRA cost ratio, including direct vacancy costs	**17%**	**15%**
EPRA cost ratio, excluding direct costs related to vacancy	**17%**	**14%**

Financing

Access to flexible financing terms helps to increase the Group's competitiveness. During 2021, the Group received bank loans related to the acquisition and development of new real estate investments in the total amount of EUR 6.3 million.

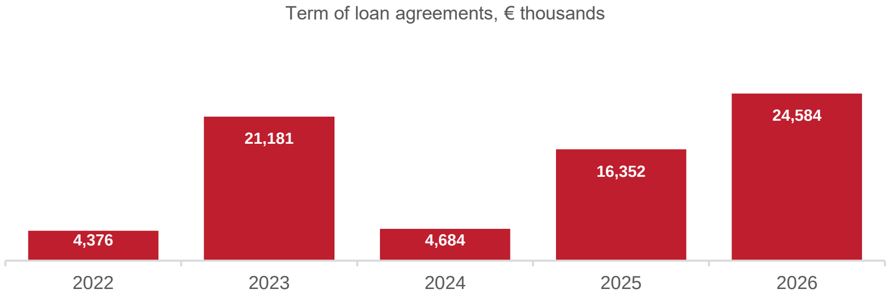
In 2021, upon maturity, the Group's subsidiaries extended four loan agreements in the total amount of 22.729 million euros. All loan agreements were extended for five years, thereby, the interest margin of one loan agreement remained the same after the extension (1.9%) and the interest rate of three loan agreements increased from 1.55% to 1.85%.

The loan in the amount of 3.1 million euros was repaid from the funds received from the share issue organized in the spring of 2021, which was taken out at the end of 2020 for the acquisition of the Pirita care home. In addition, the loan taken for the purchase of an airBaltic head office was reduced by EUR 900 thousand to bring the loan covenants into line.

In 2022, the loan agreements of the Group's two subsidiaries, Laagri Hortes and Laagri Selver, will expire in the total amount of 4,376 thousand euros. The LTV of the expiring loan agreements are 40% and 39%, and the investment properties have a stable strong rental cash flow, which means that the Group's management estimates that there will be no obstacles to extending the loan agreements.

The weighted average interest rate of the Group's loan agreements (incl. taking into account interest rate swap agreements) as of the end of December is 2.3% (31.12.2020: same) and LTV (Loan to Value) 44% (31.12.2020: 50%). Most of the loan agreements of the fund's subsidiaries are linked to a floating interest rate and only one loan (accounting for 2% of the loan portfolio) has a fixed base interest rate. In order to hedge the risk of an increase in the interest rate of one loan agreement, an interest rate swap agreement has been entered into, which expires in 2023.

As of 31.12.2021, the special terms (covenants) of all loan agreements have been met at the prescribed levels.



Information on shares

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

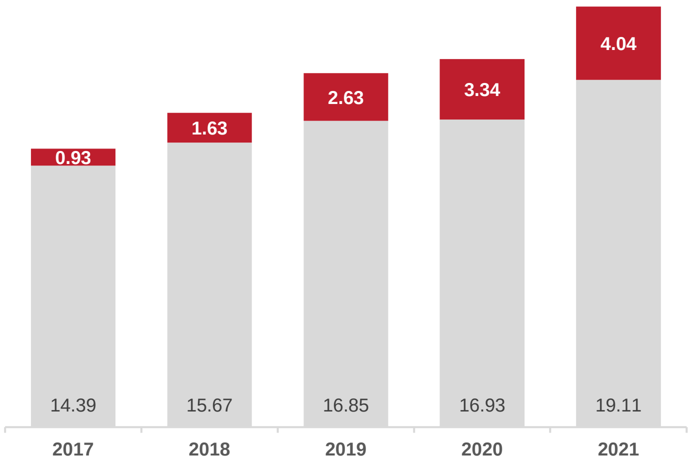
During 2021, the Group has generated a free cash flow of EUR 4.550 million (2020 12 months: EUR 3.747 million), of which the total gross dividend would be EUR 3.64 million, in line with the Fund's dividend policy. In view of the obligation to maintain minimum cash balances resulting from the special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

Calculation of the potential dividend payment

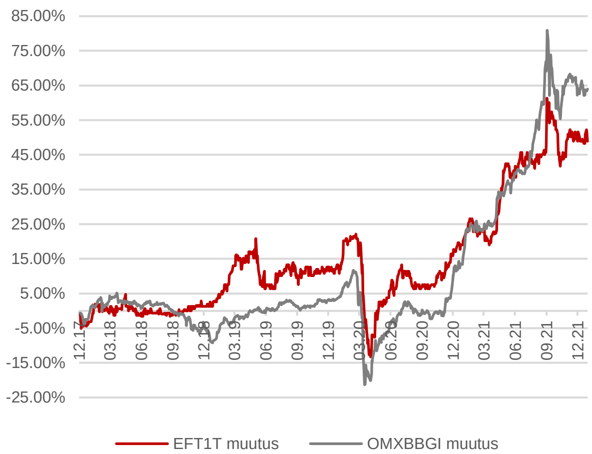
	2021	2020
€ thousands		
Operating profit	**16,529**	**5,129**
Adjustment for revaluation gains on investment property	-6,442	3,374
Adjustment for depreciation and write-downs of fixed assets	76	50
Adjustment for profit on sale of fixed assets	0	3
EBITDA	**10,163**	**8,556**
Interest expense	-1,804	-1,346
Repayments of bank loans	-3,586	-3,282
Income tax expense on profits (Lithuania)	-222	-181
Free cash flow	**4,551**	**3,747**
80% of free cash flow	3,641	2,998
Dividend tax expense	-240	-200
Potential net dividend according to dividend policy	**3,401**	**2,798**
Potential incremental cash flow[7]	700	0
Income tax expense on dividends from incremental cash flow	-42	0
Potential net dividend with incremental cash flow	**4,059**	**2,798**
Number of shares at the end of the period	5,072,535	4,222,535
Potential net dividend per share, euros	**0.80**	**0.66**

[7] Potential additional cash flows include cash accumulated in the accounts of the fund's subsidiaries at the end of the reporting period, which is not planned to be invested or held in day-to-day business operations to ensure liquidity.

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



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



As of 31 December 2021, EfTEN Real Estate Fund III AS had 5,902 shareholders, of whom 16.9% were legal entities. Legal entities owned a total of 78.5% of the total share capital of the fund. The distribution of shares is shown in the table below.

	Shareholders, number		Total shareholders	Number of shares		Total shares	Ownership		Ownership total
	Juridical entity	Private individual		Juridical entity	Private individual		Juridical entity	Private individual	
Afghanistan	-	1	**1**	-	16	**16**	-	0.0003%	**0.0003%**
Albania	-	1	**1**	-	15	**15**	-	0.0003%	**0.0003%**
Algeria	-	1	**1**	-	317	**317**	-	0.0062%	**0.0062%**
United States	1	-	**1**	271	-	**271**	0.0053%	-	**0.0053%**
United Arab Emirates	-	1	**1**	-	99	**99**	-	0.0020%	**0.0020%**
Australia	-	3	**3**	-	19	**19**	-	0.0004%	**0.0004%**
Austria	-	1	**1**	-	1,255	**1,255**	-	0.0247%	**0.0247%**
Estonia	985	4,856	**5,841**	3,968,365	1,078,428	**5,046,793**	78.2324%	21.2601%	**99.4925%**
Spain	-	1	**1**	-	110	**110**	-	0.0022%	**0.0022%**
Holland	-	1	**1**	-	109	**109**	-	0.0021%	**0.0021%**
Ireland	-	1	**1**	-	20	**20**	-	0.0004%	**0.0004%**
Italy	-	1	**1**	-	75	**75**	-	0.0015%	**0.0015%**
Lithuania	5	1	**6**	12,203	6,406	**18,609**	0.2406%	0.1263%	**0.3669%**
South Africa	-	1	**1**	-	228	**228**	-	0.0045%	**0.0045%**
Latvia	1	1	**2**	2,065	31	**2,096**	0.0407%	0.0006%	**0.0413%**
Malta	-	1	**1**	-	20	**20**	-	0.0004%	**0.0004%**
Norway	-	1	**1**	-	3	**3**	-	0.0001%	**0.0001%**
Oman	-	1	**1**	-	115	**115**	-	0.0023%	**0.0023%**
Portugal	-	1	**1**	-	100	**100**	-	0.0020%	**0.0020%**
France	-	1	**1**	-	5	**5**	-	0.0001%	**0.0001%**
Sweden	1	3	**4**	25	83	**108**	0.0005%	0.0016%	**0.0021%**
Germany	-	5	**5**	-	291	**291**	-	0.0057%	**0.0057%**
Finland	1	14	**15**	42	726	**768**	0.0008%	0.0143%	**0.0151%**
United Kingdom	-	5	**5**	-	648	**648**	-	0.0128%	**0.0128%**
Switzerland	-	3	**3**	-	429	**429**	-	0.0085%	**0.0085%**
Denmark	1	1	**2**	1	15	**16**	-	0.0003%	**0.0003%**
Total	**995**	**4,907**	**5,902**	**3,982,972**	**1,089,563**	**5,072,535**	**78.52%**	**21.48%**	**100.00%**

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

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

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100127242/reports).

	12 months	
EFT1T share statistics	**2021**	**2020**
Opening price	19.0	17.9
Closing price	22.8	18.8
Minimum share price	18.8	13.6
Maximum share price	25.6	19.3
Volume of traded shares, thousands	282	381
Volume, € million	6.026	6.280
Market capitalization as at 31.12, € million	107.135	79.384
Profit per share, €	2.79	0.79
P/B (closing price / equity per share)	1.19	1.11
P/B EPRA (closing price / EPRA equity per share)	1.13	1.04

CORPORATE GOVERNANCE REPORT

Report on good corporate governance

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 31.12.2021.

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, approve 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 31.12.2021, 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 1.72% 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 2021, the general meeting of shareholders was held on April 15, 2021 in the conference room of the Radisson Blu Hotel Olümpia II floor, Alfa 3, Tallinn, Liivalaia 33. The notice convening the Annual General Meeting was published on the Nasdaq Tallinn Stock Exchange and on the Fund's and Fund manager's web page on the 23rd of March, 2021, it was also published 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, from releasing the notice of the Annual General Meeting until the date of the meeting.

Due to corona pandemic and the goal of maintaining the health of shareholders and other participants in the general meeting, EfTEN Real Estate Fund III AS Shareholders had the opportunity to participate via authorized representative or to vote electronically on the draft resolutions on the items on the agenda of the general meeting electronically before the meeting until 16.00 on 14 April, 2021.

The decisions made at the Annual General Meeting of Shareholders are published both in the information system of the Nasdaq Tallinn Stock Exchange and on the website of EfTEN Real Estate Fund III AS. In 2021, no extraordinary general meetings of shareholders were held.

Conducting the Annual General Meeting

On April 15, 2021, the Annual General Meeting was held in Estonian and was chaired by an independent person, Attorney at Law Raino Paron. The chairman of the meeting introduced the fund's representatives participating in the meeting to the shareholders and then the procedure for holding the meeting, including the order for submitting questions and voting on the issues on the agenda. The meeting was attended by Viljar Arakas and Tõnu Uustalu, members of the Management Board, Arti Arakas, chairman of the Supervisory Board, Olav Miil and Siive Penu, members of the Supervisory Board, and Rando Rand, the auditor of the fund's auditor PricewaterhouseCoopers AS participated via weblink. Sander Rebane, a member of the Supervisory Board, did not attend the general meeting due to his absence. The registration and voting of shareholders was arranged by ARS Corporate Service OÜ. Voting results were calculated electronically. 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. 73.08% of the votes represented by shares participated in the general meeting. 12.34% of them cast their votes electronically before the meeting in accordance with the procedure published in the notice convening the general meeting. The general meeting presented an overview of the real estate market in general, the effects of the corona crisis, the circumstances of the postponement of the merger and the fund's activities by real estate investments. After that, the annual report for 2020 was approved as separate agenda items, and after separate discussions under the agenda items, private decisions were made on the distribution of profits and the increase of share capital and listing of new shares on the Nasdaq Tallinn Stock Exchange. Shareholders were given the opportunity to ask questions about the items on the agenda, make proposals and ask questions. No statements or dissenting opinions were submitted at the Annual General Meeting. The requirements of the law and the articles of association were observed at the general meeting. The shareholders could watch the meeting via video.

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 their establishment. The chairman of the board has not been elected. In 2021, there were no 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 2021, 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. Viljar Arakas, a member of the Management Board, has been a member of the Supervisory Board of Coop Pank AS, whose shares are listed on the Nasdaq Tallinn Stock Exchange since 14 April 2021. Tõnu Uustalu, a member of the Management Board, does not simultaneously participate in the management board or supervisory board of any other company listed on the securities market.

As of 31.12.2021, 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 2021, 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 of the supervisory board, who is elected by the members of the supervisory board from among themselves. The Supervisory Board makes decisions at meetings of the Supervisory Board or without convening a meeting. A resolution of the supervisory board is adopted if more than half of the members of the supervisory board have participated in the meeting, unless a larger majority is required by law or the articles of association. The chairman of the supervisory board shall not have a casting vote in the event of an equal distribution of votes. In order to take decisions without convening a meeting, the resolution must be approved by all members of the supervisory board. The tasks and organization of the Council have not changed in 2021.

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 4 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 the term of office) is permitted. There were no changes in the composition of the Supervisory Board in 2021, the powers of the members of the Supervisory Board are valid.

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 shall 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 personal or third party interests. A member of the supervisory board shall not use commercial offers addressed to the issuer for personal gain. In 2021, 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 update their declaration of financial interests at least once a year.

In 2021, there were no transactions between EfTEN Real Estate Fund III AS and members of the Supervisory Board of EfTEN Real Estate Fund III, 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 December 2021, 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 does not own a stake in the management company. Siive Penu is a member of the Management Board of HTB Investeeringud OÜ, which owns 1.3% 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 2021 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 (e.g. making investment decision, approval of the financial statements), will be shared with the supervisory board before the meeting.

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 2021 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 AS annually publishes the consolidated audited annual report and the consolidated quarterly reports during 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.

In the financial year 2021, the contractual auditor of EfTEN Real Estate Fund III AS, in addition to auditing the annual report, provided the following services to AS PricewaterhouseCoopers: translation services and other services for performing agreed-upon procedures. In 2021, the Group (EfTEN Real Estate Fund III AS together with its subsidiaries) paid a total of 60 thousand euros to auditors for services.

In 2021, 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 2021, the auditor of PricewaterhouseCoopers AS, Rando Rand, participated in the annual general meeting of shareholders, where the report of the previous financial year 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 regard risk management as an ongoing 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 manner, 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 applying risk mitigation measures as appropriate. When investing the Fund's assets, excessive risk-taking is unacceptable and appropriate measures must be applied to identify risks, assess risks, perform risk analysis and evaluate results in order to manage risks. 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's management and the management company's own operational and other risks. An independent internal auditor of the management company is also involved in the evaluation 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 the 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 for the employees of the management company are also conducted annually. In the financial year 2021, the principles and general principles of risk management have not been changed.

REMUNERATION REPORT

This report provides an overview of the principles of remuneration and remuneration of the managers of EfTEN Real Estate Fund III AS and the remuneration paid to the managers in the financial year 2021. Pursuant to the Securities Market Act, the members of the management board of a share issuer are treated as managers in this remuneration report.

The basic remuneration principles of EfTEN Real Estate Fund III AS were defined upon the establishment of the fund in 2015, according to which the remuneration paid to the members of the fund's management bodies, including members of the management board, is 0 euros. As well, the members of the fund's management bodies are not eligible for any severance nor pension payments by the fund. This is due to the difference that EfTEN Real Estate Fund III AS is not merely a share issuer but an investment fund established as a public limited company, the members of the management board of which are members of the management board of the management company managing the fund. The Fund pays a management fee to the Management Company in accordance with the principles published in the Fund's Articles of Association and the management agreement (Note 18). Viljar Arakas, Member of the Management Board of EfTEN Real Estate Fund III AS, is a member of the Management Board of EfTEN Capital AS and Tõnu Uustalu, Member of the Management Board of EfTEN Real Estate Fund III AS, is the Head of the Investments Department of EfTEN Capital AS.

In the financial year 2021, the fund did not pay a basic salary or performance fee to Tõnu Uustalu nor Viljar Arakas, i.e. the basic salary and performance fee was 0 euros. Regarding the compliance of the sum, the fund manager (EfTEN Capital AS) has established the principles of remuneration for management and employees as a part of its Code of Conduct, which originate of the general principle to ensure the motivation of the management and employees, but not to contribute to taking risks that are not in line with the risk profile and Articles of Association of the funds managed by fund manager, including EfTEN Real Estate Fund III AS. The fund manager pays monthly fixed remuneration to the members of the management board and employees of the fund manager. In order to avoid conflicts of interest, a member of the management board or an employee of the management company shall not be paid a performance fee upon making investments in the funds managed by the fund manager. This also ensures that the principles of remuneration are clear and transparent, based on the long-term objectives of the funds managed and that the legitimate interests of investors and creditors are taken into account. Compliance with the management company's remuneration policy is checked annually by the internal auditor and the remuneration policy is reviewed by the management company's supervisory board at least once a year.

As no performance fee is foreseen, it is not applicable to assess compliance with the performance criteria. It is therefore also not applicable to present an annual change in the remuneration of EfTEN Real Estate Fund III AS, the company's performance and the average full-time remuneration of the company's employees.

Viljar Arakas and Tõnu Uustalu do not have a variable remuneration as managers of EfTEN Real Estate Fund III AS and therefore it is not applicable to provide an overview of the possibility to reclaim variable remuneration. In 2021, there are no exceptions to the principles of remuneration of management.

As of 31 December 2021, Viljar Arakas, a member of the Management Board, owns a total of 17,440 shares or 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 14,753 shares or 0.29% of the share capital of the fund and 20.56% of the share capital of the management company. The fund manager owns 87,272 shares or 1.72% of the fund's share capital. Tõnu Uustalu and Viljar Arakas do not have any stock options.

The shareholders of the Fund, including Tõnu Uustalu and Viljar Arakas, have the pre-emptive right to subscribe for new shares in proportion to their existing holdings in the Fund in accordance with the Articles of Association, unless the pre-emptive right to subscribe for existing shareholders is excluded.

The remuneration principles of the fund managers are also published in the fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS www.eref.ee. In addition, the fees paid to the managers of the subsidiaries of EfTEN Real Estate Fund III AS are published in the prospectus. Neither Viljar Arakas nor Tõnu Uustalu have been paid any fees, indemnities or benefits from any company that belongs to the same group as EfTEN Real Estate Fund AS.

Remuneration of the Group's employees and the Group's sales revenue and net profit for the last five years

	2021	2020	2019	2018	2017
€ thousands					
Total remuneration calculated for the Group's employees	245	260	278	229	236
Number of employees	11	12	12	12	9
Sales revenue	12,921	10,731	9,512	8,672	7,300
Net profit	13,099	3,317	7,737	6,299	6,574

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021	2020
€ t thousands			
Revenue	3,4	12,921	10,731
Cost of sales	5	-241	-325
Gross profit		**12,680**	**10,406**
Marketing costs	6	-268	-303
General and administrative expenses	7	-2,326	-1,597
Gain / loss from revaluation of investment properties	12	6,442	-3,374
Other operating income and expense		1	-3
Operating profit	**3**	**16,529**	**5,129**
Other finance income and expense	8	-1,678	-1,322
Profit before income tax		**14,851**	**3,807**
Income tax expense	9	-1,752	-490
Net profit for the financial year		**13,099**	**3,317**
Total comprehensive income for the period	**3**	**13,099**	**3,317**
Earnings per share	10		
- Basic		2.79	0.79
- Diluted		2.79	0.79

The notes on pages 21 to 49 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

The notes on pages 21 to 49 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2021	2020
€ thousands			
Net profit		**13,099**	**3,317**
Adjustments of net profit:			
Finance income and expense	8	1,678	1,322
Gains / losses on revaluation of investment property	12	-6,442	3,377
Gain / loss on sale of investment properties	7	54	51
Profit / loss on sale of fixed assets		21	0
Income tax expense	9	1,752	490
Total adjustments with non-cash changes		**-2,937**	**5,240**
Cash flow from operations before changes in working capital		**10,162**	**8,557**
Change in receivables and payables related to operating activities		167	-525
Net cash flow generated from operating activities		**10,329**	**8,032**
Purchase of property, plant and equipment		-89	-41
Purchase of investment property	12	-11,284	-18,798
Change in short-term deposits		0	6,000
Acquisition of subsidiaries	2	-95	-8,615
Interest received		12	13
Net cash flow generated from investing activities		**-11,456**	**-21,441**
Loans received	13	6,300	13,200
Repayments of loans upon refinancing	13	-4,000	0
Scheduled loan repayments	13	-3,586	-3,282
Interest paid		-1,804	-1,363
Issue of shares	16	15,130	0
Dividends paid	15	-2,798	-2,745
Income tax on dividends paid		-169	-259
Net cash flow generated from financing activities		**9,073**	**5,551**
NET CASH FLOW		**7,946**	**-7,858**
Cash and cash equivalents at the beginning of period	**15**	**5,128**	**12,986**
Change in cash and cash equivalents		7,946	-7,858
Cash and cash equivalents at the end of period	**15**	**13,074**	**5,128**

The notes on pages 21 to 49 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
€ thousands					
Balance as at 31.12.2019	**42,225**	**9,658**	**936**	**18,092**	**70,911**
Dividends declared	0	0	0	-2,746	**-2,746**
Provision for reserve capital	0	0	387	-387	**0**
Total transactions with owners	**0**	**0**	**387**	**-3,133**	**-2,746**
Net profit for the financial period	0	0	0	3,317	**3,317**
Total comprehensive income for the period	**0**	**0**	**0**	**3,317**	**3,317**
Balance as at 31.12.2020	**42 225**	**9 658**	**1 323**	**18 277**	**71 483**
Issue of shares	8,500	6,630	0	0	**15,130**
Dividends declared	0	0	0	-2,798	**-2,798**
Provision for reserve capital	0	0	166	-166	**0**
Total transactions with owners	**8,500**	**6,630**	**166**	**-2,964**	**12,332**
Net profit for the financial period	0	0	0	13,099	**13,099**
Total comprehensive income for the period	**0**	**0**	**0**	**13,099**	**13,099**
Balance as at 31.12.2021	**50,725**	**16,288**	**1,489**	**28,412**	**96,914**

Further information on the share capital can be found in note 15 and 16.

The notes on pages 21 to 49 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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

1.1 General information

EfTEN Real Estate Fund III AS is a public closed investment fund established in 2015, the main activity of which is investments to commercial rela estate that generate cash flow in the Baltic states. The fund's investment activities follow the opportunistic and value-generating strategy. The fund is mainly directed to retail investors. EfTEN Real Estate Fund III executes commerial real estate investments in the Baltic states.

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 31.12.2021 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 Evolution UAB	*Evolution 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 centre, Laagri*
100%	EfTEN Tähesaju tee OÜ	*Hortes gardening centre, Tallinn*
100%	EfTEN Riga Airport SIA	*airBaltic main building, Riga*
100%	EfTEN Piepilsetas SIA	*Piepilsetas logistics centre, Riga*
100%	EfTEN Rutkausko UAB	*Rutkausko office building, Vilnius*
100%	EfTEN Ramygalos UAB	*Ramygalos logistics centre, Panevėžys*
100%	EfTEN Pirita OÜ	*Pirita Care home, Tallinn*
100%	EfTEN Autokeskus OÜ	*ABC Motors car centre, Tallinn*

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100127242/reports).

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

The consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the year ended 31 December 2021 have been signed by the Management Board on 25 February 2022. 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.

The 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

From 1 January 2021, the Group did not become obliged to adopt new or amended standards and interpretations related to the disclosure of financial information in the Group's areas of activity.

Adoption of New or Revised Standards and Interpretations

„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

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

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.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

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 will analyse and disclose the effect of this change after its implementation.

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..

The Group will analyse and disclose the effect of this change after its implementation.

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 analyses and discloses the effect of this change after its implementation.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies

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

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Group will analyse and disclose the effect of this change after its implementation.

Amendments to IAS 8: Definition of Accounting Estimates

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

The amendment to IAS 8 clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates.

The Group will analyse and disclose the effect of this change after its implementation.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

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

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group will analyse and disclose the effect of this change after its implementation.

1.2.2 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 period.

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 means that the method used best represents the fair value of the investment property. 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 level of risk of the tenants. Compared to the previous year, the exit yields used in the valuations of EfTEN Real Estate Fund III's real estate portfolio have slightly decreased, now in the range of 6.8% -8.0% (2020: 7.0% -8.0%). Discount rates range from 7.8% to 9.1% at the end of 2021 (2020: 7.1% to 8.6%). Additional information on the assumptions and sensitivities used in the assessments is provided in Note 12.

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 the compliance of its activities with the definition of an investment company and finds 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 purely investment company. Although the investors of EfTEN Real Estate Fund III AS also expect an increase in the value of assets and a profit from current economic activities from their capital investment, EfTEN Real Estate Fund III AS also takes a significant part of development risks in its investments, which are characteristic of a conventional real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. In the case of the parent company of EfTEN Real Estate Fund III AS, the fair value measurement is indirect - at fair value, the assets located in the subsidiaries are valued and thus the fair value of the subsidiary is obtained, which may not be the final market price of the subsidiary. The Group's economic activities are also assessed on the basis of rental income, profit margins, volume of assets and other financial indicators characterizing real estate companies, which cannot be done only on the basis of the fair value of the subsidiary.

1.2.4 Summary of other accounting policies

Consolidation

The consolidated financial statements include the financial statements of EfTEN Real Estate Fund III AS and its subsidiaries consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated 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:

	Estonia	Latvia	Lithuania
Office		airBaltic office building, Riga	Ulonu office building, Vilnius
			Evolution office building, Vilnius
			L3 office building, Vilnius
			Rutkausko office building, Vilnius
Logistics	DSV logistics centre, Tallinn	DSV logistics centre, Riga	DSV logistics centre, Vilnius
		Piepilsetas logistics centre, Kekava	Ramygalos logistics centre
Retail	Hortes gardening centre , Laagri		Saules Miestas shopping centre, Šiauliai
	Laagri Selver, Laagri		
	Hortes Tähesaju, Tallinn		
	ABC Motors car centre, Tallinn		
Care home	Pirita care home, Tallinn		

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 fulfilment 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.

Latvian subsidiaries

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.

Lithuanian subsidiaries

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.

Recognition of deferred income tax liability in consolidated financial statements

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, %	
			31.12.2021	31.12.2020	31.12.2021	31.12.2020
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Saulės Miestas shopping centre, Šiauliai	18,990	16,495	100	100
Verkiu Projektas UAB	Lithuania	Ulonu office building, Vilnius	4,326	3,747	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	5,375	4,816	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	5,106	4,461	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	7,729	7,046	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	3,083	2,776	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	3,507	2,880	100	100
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	5,528	4,593	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,374	2,079	100	100
EfTEN Laagri OÜ	Estonia	Laagri Selver, Tallinn	4,623	3,552	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors Car Centre, Tallinn	1,996	1,479	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	4,042	3,509	100	100
EfTEN Riga Airport SIA	Latvia	airBaltic main office, Riga	4,469	1,121	100	100
EfTEN Rutkausko UAB	Lithuania	Rutkausko office building, Vilnius	5,714	4,711	100	100
EfTEN Pirita OÜ	Estonia	Pirita care home, Tallinn	3,479	3,116	100	100
EfTEN Ramygalos UAB	Lithuania	Ramygalos logistics centre, Panevėžyses	4,585	0	100	0

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

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

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

	Fair value
€ 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**
Fair value of net assets	1,273
Goodwill	**0**

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

On 18 November 2020, EfTEN Real Estate Fund III AS established a wholly owned subsidiary EfTEN Pirita OÜ in Tallinn. The equity of the subsidiary was paid in together with the initial capital after the establishment of EUR 3,103 thousand. In December 2020, the subsidiary acquired the property of the newly completed Pirita care home with a total cost of EUR 6,200 thousand. Of this amount, EUR 5.9 million was paid immediately and the remaining EUR 0.3 million will be paid to the seller after the construction deficiencies have been remedied.

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

3 *Segment reporting*

SEGMENT RESULTS

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

SEGMENT ASSETS

	Office		Logistics		Retail		Care homes		Total	
As at the end of the period	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
€ thousands										
Investment property (note 12)										
Estonia	0	0	13,370	13,080	20,770	19,130	6,270	5,917	40,410	38,127
Latvia	6,800	6,800	17,440	17,107	0	0	0	0	24,240	23,907
Lithuania	43,031	40,951	19,780	8,860	34,500	32,390	0	0	97,311	82,201
Total investment property	**49,831**	**47,751**	**50,590**	**39,047**	**55,270**	**51,520**	**6,270**	**5,917**	**161,961**	**144,235**
Other non-current assets									147	123
Net debt (liabilities less cash)									-66,413	-75,021
Other current assets									1,219	2,146
NET ASSETS									**96,914**	**71,483**

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

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

4 Revenue

Segments	**2021**	2020
€ thousands		
Rental income from office premises	3,786	2,957
Rental income from retail premises	4,413	4,236
Rental income from warehousing and logistics premises	3,550	2,792
Rental income from care home premises	416	16
Other sales revenue	756	730
Total revenue by segments of activity (Notes 3 and 12)	**12,921**	**10,731**

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

5 *Cost of services sold*

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

6 *Marketing costs*

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

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

7 *General and administrative expenses*

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

8 Other financial income and expenses

Other financial income and expenses	2021	2020
€ thousands		
Interest expenses, incl.	-1,804	-1,346
Interest expense from loans	-1,691	-1,243
Interest expense from derivatives (-)/ cost reductions (+)	-113	-103
Change in fair value of interest swaps	126	24
Total other financial income and expenses (Note 15)	**-1,678**	**-1,322**

9 Income tax

	2021	2020
€ thousands		
Deferred income tax expense on dividends	-240	-200
Deferred income tax expense for Lithuanian companies	-1,290	-109
Lithuanian corporate income tax expense on profits	-222	-181
Total income tax expense (Note 3)	**-1,752**	**-490**

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

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

10 Earnings per share

	12 months	
Earnings per share	**2021**	2020
Net profit for the period, € thousands	**13,099**	3,317
Dividends per share, in euros	**0.55**	0.65
Weighted average number of shares over the period, in pcs	**4,698,909**	4,222,535
Earnings per share, in euros	**2.79**	0.79

11 Receivables and accrued income

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

12 Investment properties

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

Name	Location	Net rental area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value as at 31.12.2021	Increase in value	Share of market value of the Fund's asset
€ thousands								
Saules Miestas shopping centre	Šiauliai, Lithuania	19,881	2007	08.2015	29,027	34,500	19%	20%
DSV logistics centre	Vilnius, Lithuania	11,687	2005	06.2016	8,504	9,380	10%	5%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,287	13,370	9%	8%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,835	8,710	-1%	5%
L3 office building	Vilnius, Lithuania	6,151	2004	10.2016	8,816	10,281	17%	6%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,280	9,080	10%	5%
Hortes gardening centre Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,680	18%	2%
Hortes gardening centre Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,480	19%	4%
Laagri Selver	Tallinn, Estonia	3,063	2017	05.2017	6,279	7,340	17%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,882	11,190	14%	6%
ABC Motors car centre	Tallinn, Estonia	2,149	2002	02.2019	3,259	3,270	0%	2%
airBaltic head office	Riga, Latvia	6,217	recon. 2016	03.2020	7,100	6,800	-4%	4%
Piepilsetas logistics centre	Riga, Latvia	13,327	2007	03.2020	8,751	8,730	0%	5%
Rutkausko office building	Vilnius, Lithuania	6,811	2014	08.2020	11,819	12,480	6%	7%
Pirita care home	Tallinn, Estonia	6,045	2020	12.2020	6,217	6,270	1%	4%
Ramygalos logistics centre	Panevėžyses, Lithuania	20,125	2007	06.2021	10,011	10,400	4%	6%
Total		**143,735**			**147,633**	**161,961**	**10%**	**92%**

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

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

	Finished investment properties	**Total investment properties**
Balance as at 31.12.2019	**113,011**	**113,011**
Acquisitions and developments	17,736	**17,736**
Acquisitions from related parties	15,800	**15,800**
Capitalized improvements	1,062	**1,062**
Gain / loss on change in fair value	-3,374	**-3,374**
Balance as at 31.12.2020	**144,235**	**144,235**
Acquisitions and developments	10,311	**10,311**
Capitalized improvements	973	**973**
Gain / loss on change in fair value	6,442	**6,442**
Balance as at 31.12.2021	**161,961**	**161,961**

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

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

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

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

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

Assumptions and basis for determining the fair value of investment properties

The Group's investment properties are valued by an independent appraiser. The fair value of all investment properties reported in the Group's financial statements as of 31.12.2021 ja 31.12.2020 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 31.12.2021:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/m2
€ thousands						
Office	49,831	Discounted cash flows	3,759	8.2%-8.7%	6.8%-7.5%	10.9
Logistics	50,590	Discounted cash flows	3,978	8.2%-9.1%	7.2%-7.9%	4.5
Retail	55,270	Discounted cash flows	4,606	7.8%-9.0%	6.8%-8.0%	11.8
Care homes	6,270	Discounted cash flows	443	7.8%	6.8%	6.1
Total	**161,961**		**12,786**			

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	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 homes	5,917	Discounted cash flows	454	8.0%	7.3%	6.1
Total	**144,235**		**12,029**			

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

- Rental income: prices and real growth rates resulting from existing leases are used;
- Vacancy: the actual vacancy of an investment property, considering the risks associated with the object;
- Discount rate: calculated based on the weighted average cost of capital (WACC) related to investment property;

- Exit yield: based on the estimated level of return at the end of the expected deposit period, considering the foreseeable market situation and the risks associated with the object.

Fair value sensitivity analysis

The table below illustrates the sensitivity of the fair value of investment properties recognized in the Group's balance sheet as of 31.12.2021 to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate		Sensitivity to independent appraisal			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield rate +50bp	Exit yield rate -50bp
€ thousands							
Office	49,831	*5,970*	*-5,910*	*-980*	*1,050*	*-2,360*	*2,740*
Logistics	50,590	*5,310*	*-5,360*	*-1,020*	*1,020*	*-2,280*	*2,570*
Retail	55,270	*6,240*	*-6,240*	*-1,100*	*1,120*	*-2,340*	*2,660*
Care homes	6,270	*660*	*-650*	*-120*	*130*	*-310*	*360*
TOTAL	**161,961**	**18,180**	**-18,160**	**-3,220**	**3,320**	**-7,290**	**8,330**

As at 31.12.2020

Sector	Fair value	Sensitivity to management estimate		Sensitivity to independent appraisal			
		Revenue +10%	Revenue -10%	Discount rate +50bp	Discount rate -50bp	Exit yield rate +50bp	Exit yield rate -50bp
€ 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 homes	5,917	*630*	*-630*	*-120*	*130*	*-280*	*330*
TOTAL	**144,235**	**15,877**	**-15,877**	**-2,907**	**2,943**	**-6,257**	**7,103**

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

13 Borrowings

As at 31.12.2021, the Group has the following borrowings:

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

Šiaulių bankas	Lithuania	6,000	5,883	13.06.26	2.50%	Mortgage - Ramygalos logistics centre	10,400	6.1%
SEB	Lithuania	7,300	6,844	12.08.25	2.10%	Mortgage - Rutkausko office building	12,480	7.1%
Total		**84,015**	**71,177**				**161,961**	**73.4%**

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

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.2021	Contract term	Interest rate as at 31.12.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,617	14,267	14.08.23	2.65%	Mortgage - Saules Miestas shopping centre	32,390	20.0%
SEB	Lithuania	5,500	4,397	29.06.21	1.55%	Mortgage - DSV logistics centre	8,860	6.2%
SEB	Latvia	5,123	4,253	29.06.21	1.55%	Mortgage - DSV logistics centre	8,687	5.9%
SEB	Estonia	7,950	6,396	29.06.21	1.55%	Mortgage - DSV logistics centre	13,080	8.9%
SEB	Lithuania	5,620	4,583	30.09.21	1.90%	Mortgage L3 office building	9,721	6.4%
SEB	Lithuania	5,200	4,002	21.12.25	2.25%	Mortgage - Ulonu office building	8,830	5.6%
SEB	Lithuania	5,850	5,210	30.05.23	2.00%	Mortgage - Evolution office building	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 Laagri	3,510	2.2%
Swedbank	Estonia	3,700	3,066	26.06.22	1.40%	Mortgage - Laagri Selver	6,480	4.3%
LHV	Estonia	1,800	1,695	25.02.24	2.95%	Mortgage - ABC Motors car centre	3,120	2.4%
Luminor	Latvia	3,905	3,732	04.02.25	3.75%	Mortgage - airBaltic head office	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 - Rutkausko 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 home care, parent company's guarantee	5,917	3.9%
Total		**80,816**	**72,463**				**144,235**	**101.4%**

Short-term borrowings	**31.12.2021**	31.12.2020
€ thousands		
Short-term borrowings	0	3,100
Recognition of the long-term portion of long-term bank loans as short-term	0	3,732
Repayments of long-term bank loans in the next period	7,677	21,988
Discounted contract fees for bank loans	-32	-39
Total short-term borrowings	**7,645**	**28,781**

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

Repayments of long-term bank loans in the next period as of 31.12.2021 include three group loan agreements expiring in the next 12 months in the amount of 4,376 thousand euros. The LTVs of the expiring loan agreements is 40% and 39%, and the Investment property has a stable strong rental cash flow, which means that the Group's management estimates that there are no obstacles to extending the loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

Repayments of long-term bank loans in the next period as of 31.12.2020 included five group loan agreements terminated in 2021 in the total amount of 22,729 thousand euros. Of this amount, 3,100 thousand euros were repaid from the proceeds of the share issue organized in the spring of 2021, and the remaining loan agreements were extended in 2021 as usual. All loan agreements were extended for five years, incl. The interest margin of one loan agreement remained the same after the extension (1.9%) and the interest rate of three loan agreements increased from 1.55% to 1.85%.

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

Bank loans are divided as follows according to repayment date:

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

Cash flows of borrowings	2021	2020
€ thousands		
Balance at the beginning of period	**72,368**	**55,372**
Bank loans received through business combinations and acquisitions	0	7,164
Bank loans received	6,300	13,200
Refinancing of repaid bank loans	-4,000	0
Annuity payments on bank loans	-3,586	-3,282
Change of discounted contract fees	3	-86
Balance as at the end of period	**71,085**	**72,368**

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

14 *Payables and prepayments*

Short-term payables and prepayments

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

Long-term payables

	31.12.2021	31.12.2020
€ thousands		
Tenants' security deposits	985	954
Other long-term debts	2	3
Total other long-term payables	**987**	**957**

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

15 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

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

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

The Group's risk management is based on the principle that risks must be taken in a balanced manner, 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 fulfilment 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 31.12.2021, 98% of the Group's loan agreements are based on floating interest (margin between 1.4% and 3.75% plus 1-month, 3-month and 6-month EURIBOR) and 2% of the loan agreements bear fixed interest in the range of 1.55% . In turn, 19% of floating rate contracts are linked to an interest rate swap, where the 3-month EURIBOR is fixed at 0.35%. All contracts in the loan portfolio of EfTEN Real Estate Fund III AS have a 0% floor to protect against negative EURIBOR, i.e. in the event of a negative EURIBOR, the loan margin for these loan liabilities does not decrease.

Due to the current low level of interest rates and market expectations that interest rates will remain stable 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 increase 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 cashflows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

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

The Group recognizes interest rate swaps with a change in profit or loss. The fair value of interest rate swaps as at 31.12.2021 was negative in the amount of EUR 121 thousand (31.12.2020: EUR 246 thousand). Additional information on determining the fair value of interest rate swaps is provided in the 'Fair value' section below.

Liquidity risk

Liquidity risk arises from a potential change in financial position that would reduce the Group's ability to service its liabilities in a timely and correct manner. The Group's liquidity is primarily affected by the following factors:

- Decrease or volatility of rental income, reducing the Group's ability to generate positive net cash flows;

- Vacancy of rental property;

- Mismatch between the maturities of assets and liabilities and flexibility in changing them;

- Marketability of long-term assets;

- Volume and pace of real estate development activities;

- Financing structure.

The Group's objective is to manage 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 2021, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 44% (31 December 2020: 50%) and the average debt coverage ratio (DSCR) for the last 12 months was 1.9 (2020: same)

The Group's financing policy stipulates that loan agreements to raise borrowed capital are entered into on a long-term basis, taking into account the maximum length of leases encumbering real estate properties. The table below summarizes the timeliness of the Group's financial liabilities (undiscounted cash flows):

As at 31.12.2021	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	899	6,478	63,501	0	**71 177**
Interest payments	141	420	1,060	2,976	0	**4 597**
Interest payables	40	0	0	0	0	**40**
Trade payables	681	0	0	0	0	**681**
Tenant security deposits	5	8	64	853	133	**1 062**
Accrued expenses	167	0	0	0	0	**167**
Derivatives (interest rate swaps)	121	0	0	0	0	**121**
Total financial liabilities	**1,454**	**1,327**	**7,602**	**67,330**	**133**	**77 845**

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**
Derivatives (interest rate swaps)	246	0	0	0	0	**246**
Total financial liabilities	**1,015**	**1,344**	**25,048**	**50,339**	**247**	**77,992**

Statement of working capital

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

As of 31 December 2021, the Group's working capital is positive in the amount of EUR 5,149 thousand (31 December 2020: negative EUR 23,748 thousand). As of 31 December 2020, working capital was negative due to the termination of the Group's five loan agreements expiring in 2021 in the total amount of EUR 22,729 thousand. Four of these loan agreements have been extended as of the balance sheet date (see also Note 13) and one has been repaid.

Credit risk

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

The Group's activities to prevent and minimize the decrease in cash flows arising from credit risk are to monitor and direct the payment behaviour of customers on a daily basis, which enables the implementation of operationally necessary measures. Customer agreements also provide for the payment of rent payments at the beginning of the calendar month in most cases, which provides sufficient time to monitor customers' payment discipline and to have sufficient liquidity in cash accounts on the day of the annuity payments of financing agreements. The terms of most leases give rise to an obligation to pay a security deposit, at the expense of which the Group has the right to write off debts arising from the insolvency of the lessee. For some leases, the deposit may be replaced by a bank guarantee.

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

If it becomes apparent that there is a risk that the lessee will become insolvent, the Group assesses each receivable individually and decides to recognize the receivables as doubtful. In general, receivables that are overdue for more than 180 days are considered unlikely to be collected, unless the Group has sufficient assurance that the receivable will be received or a payment schedule has been agreed for the receivables.

Trade receivables are illustrated by the table below:

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

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

	31.12.2021	31.12.2020
€ thousands		
Cash and cash equivalents	13,074	5,128
Trade receivables (Note 11)	577	421
Total maximum credit risk	**13,651**	**5,549**

Balances and deposits in bank accounts of the Group's cash and cash equivalents and short-term deposits are divided by bank rating (Moody's long-term) as follows:

Rating	31.12.2021	31.12.2020
€ thousands		
Aa2	12,181	4,798
Baa1	708	118
Baa2	183	0
Unrated	0	212
Total	13,072	5,128

Capital management4

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

After making an investment, the EBITDA of any cash-generating property must not be less than 120% of the loan's annuity payments (including interest expense).

According to the Group's management, the Group's free cash flow allows to pay dividends to investors on average 80% of the adjusted cash flow for the calendar year (EBITDA minus interest expense minus loan payments). In June 2021, EfTEN Real Estate Fund III AS paid (net) dividends to shareholders in the amount of EUR 2.798 million (2020: EUR 2.745 million). During 2021, the Group has earned free cash flow of EUR 4.550 million (2020 12 months: EUR 3.747 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 3.4 million (67 cents per share). Considering the obligation to maintain a minimum cash balance arising from the special loan conditions of the fund's subsidiaries and the short-term liquidity needs, the Fund's Management Board proposes to pay dividends in excess of the dividend policy - a total of EUR 4.06 million (80 cents per share).

Report of capitalisation

	31.12.2021	31.12.2020
€ thousands		
Short-term liabilities guaranteed with mortgage (Note 13)	7,677	28,820
Unsecured short-term liabilities	1,438	2,202
Total short-term liabilities	**9,115**	**31,022**
Long-term liabilities guaranteed with mortgage (Note 13)	63,500	43,643
Unsecured long-term liabilities	6,872	5,484
Total long-term liabilities	**70,372**	**49,127**
Share capital and share premium (Note 16)	67,013	51,883
Reserves	1,489	1,323
Retained earnings (Note 17)	28,412	18,277
Total shareholder's equity	**96,914**	**71,483**
Total liabilities and equity	**176,401**	**151,632**

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

Report of net debt

	31.12.2021	31.12.2020
€ thousands		
Cash (Note 12)	13,074	5,128
Total liquid assets	**13,074**	**5,128**
The short-term portion of long-term liabilities (Note 13)	7,677	28,820
Net short-term debt	**-5,397**	**23,692**
Long-term bank loans (long-term portion) (Note 13)	63,500	43,643
Total long-term debt	**63,500**	**43,643**
Total net debt	**58,103**	**67,335**

Fair value

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

Level 1 – quoted prices in active markets;

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

Level 3 – unobservable inputs at the market.

As of 31.12.2021 and 31.12.2020, the Group does not have any assets at fair value that would belong to the Level 1 group upon finding the value. All of the Group's investment properties are carried at fair value and belong to the Level 3 group according to the valuation method (see Note 12). All of the Group's loan liabilities and derivative securities entered into to hedge interest rate risk belong to the Level 2 group.

To mitigate interest rate risk, the Group has entered into interest rate swaps, the fair value of which is obtained by discounting the cash flows of interest rate swaps so that, in accordance with EURIBOR market expectations, cash inflows and outflows are determined and discounted using a zero-rate. The Group uses information received from counterparty credit institutions to recognize interest rate swaps at fair value.

16 Share capital

In June 2021, EfTEN Real Estate Fund III AS conducted a public offering of shares, as a result of which the share capital of the fund increased by 8,500 thousand euros and 850,000 shares. Payments were made to the share capital of the Fund in the total amount of 15,130 thousand euros, including the share premium in the amount of 6,630 thousand euros.

In 2021, EfTEN Real Estate Fund III contributed to a statutory reserve capital of 166 thousand euros.

The registered share capital of EfTEN Real Estate Fund III AS as at 31 December 2021 was 50,725 thousand euros (31 December 2020: 42,225 thousand euros). As of 31 December 2021, the share capital consisted of 5,072,535 shares (31 December 2020: 4,222,535 shares) with a nominal value of 10 euros (31 December 2020: the same). Without amending the articles of association, the company has the right to increase the share capital to 168,901 thousand euros. As of 31 December 2021, contributions to the share capital and share premium have been made in the total amount of 67,013 thousand euros (31 December 2020: 51,883 thousand euros), see (Note 15).

List of shareholders of EfTEN Real Estate Fund III AS with more than 10% ownership:

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

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

	As at 31.12.2021	
Company	**Number of shares**	**Ownership, %**
Viljar Arakas, member of the Management Board	2,000	0.04%
Miemma Holding OÜ, a company owned by Viljar Arakas, member of the Management Board	15,440	0.30%
Tõnu Uustalu, member of the Management Board	14,753	0.29%
Meeli Leis, a close relative of Tõnu Uustalu, member of the Management Board	2,457	0.05%
Altius Energia OÜ, a company under the significant control of Arti Arakas, member of the Supervisory Board	723,182	14.26%
Olav Miil, member of the Supervisory Board	38,933	0.77%
Siive Penu, member of the Supervisory Board	1,350	0.03%

17 Contingent liabilities

Contingent tax liability

	31.12.2021	31.12.2020
€ thousands		
Retained earnings (Note 15)	28,412	18,277
Potential income tax liability	5,682	3,655
Dividends can be paid out	22,730	14,622

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 31.12.2021 and 31.12.2020.

18 Related party transactions

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

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

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

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

-EfTEN Capital AS (the fund management company).

During 2021, the Group purchased management services from EfTEN Capital AS in the amount of EUR 1.074 thousand (2020: EUR 899 thousand) (see Note 7). In addition to periodic management services, the Group calculated a success fee for the management company in 2021 in the amount of EUR 537 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 2021 or 2020.

As at 31 December 2021, the Group had a total of 11 employees, who were paid a total of EUR 245 thousand, including related taxes (2020: 260 thousand euros), (see Note 5,7). No fees were calculated or paid to the members of the Group's Management Board or Supervisory Board during 2021 or 2020. The members of the Group's Management Board work for EfTEN Capital AS, a company providing management services to the Group, and expenses related to the activities of a member of the Management Board are included in the management services.

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:

	2021	2020
€ thousands		
General and administrative expenses	-710	-194
Gain from subsidiaries	13,686	3,048
Finance income	199	208
Finance expense	-71	-5
Profit before income tax	**13,104**	**3,057**
Net profit for the year	13,104	3,057
Gross profit for the year	**13,104**	**3,057**

Parent company's statement of financial position

	31.12.2021	31.12.2020
€ thousands		
ASSETS		
Cash and cash equivalents	6,491	72
Receivables and accrued income	318	2,084
Total current assets	**6,809**	**2,156**
Non-current assets		
Shares of subsidiaries	84,926	66,380
Long-term receivables	5,726	6,148
Total non-current assets	**90,652**	**72,528**
TOTAL ASSETS	**97,461**	**74,684**
Borrowings	0	3 094
Payables	542	107
Total short-term liabilities	**542**	**3 201**
Total liabilities	**542**	**3 201**
Share capital	50,725	42,225
Share premium	16,288	9,658
Statutory reserve capital	1,489	1,323
Retained earnings	28,417	18,277
Total equity	**96,919**	**71,483**
TOTAL LIABILITIES AND EQUITY	**97,461**	**74,684**

Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
€ thousands					
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**
Issue of shares	8,500	6,630	0	0	**15,130**
Payment of dividends	0	0	0	-2,798	**-2,798**
Provisions in reserve capital	0	0	166	-166	**0**
Comprehensive income for the financial period	0	0	0	13,104	**13,104**
As at 31.12.2021	**50,725**	**16,288**	**1,489**	**28,417**	**96,919**

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

	31.12.2021	31.12.2020
€ thousands		
Parent company's unconsolidated equity	96,919	71,483
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-84,926	-66,380
Value of subsidiaries and joint ventures under the equity method (plus)	84,926	66,380
Total	**96,919**	**71,483**

Parent company's statement of cash flows

	2021	2020
€ thousands		
Cash flows from operating activities		
Net profit	**13,104**	**3,057**
Adjustments to net profit:		
Finance income and finance costs	-128	-203
Gain/loss on the fair value adjustment of subsidiaries	-10,888	-304
Dividends received	-2,798	-2,744
Total adjustments	**-13,814**	**-3,251**
Cash flow from operations before changes in working capital	**-710**	**-194**
Change in receivables and payables related to operating activities	581	-485
Net cash generated from operating activities	**-129**	**-679**
Cash flows from investing activities		
Acquisition of subsidiaries	-5,530	-16,535
Change in short-term holdings	0	6,000
Loans granted	-2,386	-505
Repayment of loans granted	2,486	100
Dividends received	2,798	2,744
Interest received	13	163
Net cash generated from investing activities	**-2,619**	**-8,033**
Cash flows from financing activities		
Loans received	0	3,100
Repayment of loans received	-3,100	0
Interest paid	-65	-11
Dividends paid	-2,798	-2,745
Issue of shares	15,130	0
Net cash generated from financing activities	**9,167**	**344**
NET CASH FLOW	**6,419**	**-8,368**
Cash and cash equivalents at the beginning of the period	**72**	**8,440**
Change in cash and cash equivalents	6,419	-8,368
Cash and cash equivalents at the end of the period	**6,491**	**72**

Management Board Declaration for the Consolidated Annual Report 2021

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 2021.

The Management Board confirms that the management report, remuneration 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.

________________	________________
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 2021, 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 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended as at 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- 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 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.

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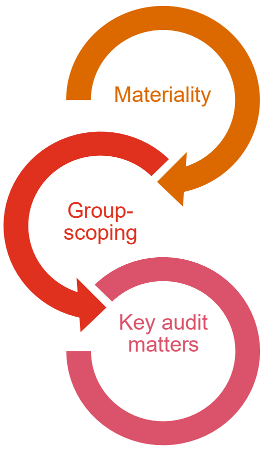
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59[1] 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 2021 to 31 December 2021 are disclosed in in the Management Report.

Our audit approach

Overview



- Overall group audit materiality is EUR 1,760 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.

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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.

Overall Group audit materiality	EUR 1,760 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 Additional information is disclosed in Note 1.2 "Summary of significant accounting policies" and in Note 12 "Investment property". As at 31 December 2021 the investment properties carried at fair value amounted to EUR 162 million and the revaluation gain recognised in 2021 statement of comprehensive income was EUR 6.4 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	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.

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 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.

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 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.

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The Group's financial statements consolidate seventeen 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, EfTEN Seljaku OÜ and EfTEN Pirita 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.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, the Remuneration 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, including the Management report.

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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act; and

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- the Remuneration Report has been prepared in accordance with Article 135^3 of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. 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.

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.

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- 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

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of EfTEN Real Estate Fund III AS for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

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Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Members of the Supervisory Board are responsible for overseeing the financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

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.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100127242/reports).

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 fifth 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.

AS PricewaterhouseCoopers

/signed/

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

/signed/

Rando Rand
Auditor’s certificate no.617

25 February 2022
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.

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Profit Allocation Proposal

The Management Board of EfTEN Real Estate Fund III AS proposes to the General Meeting to distribute the profit for 2021 as follows (in euros):

Retained earnings as of 31.12.2021	EUR 28,412 thousand
Provision for statutory reserve capital:	EUR 660 thousand
Distribution of dividends:	EUR 4,058 thousand (80 cents per share)
Retained earnings after provisions:	EUR 23,694 thousand

Viljar Arakas

Member of the Management Board

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, 2022

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Arti Arakas

Chairman of the Supervisory Board

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Siive Penu

Member of the Supervisory Board

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Sander Rebane

Member of the Supervisory Board

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Olav Miil

Member of the Supervisory Board

Distribution of revenue according to the Estonian Classification of Economic Activities

	EMTAK code	**2021**	Sales Revenue %	Main activity
€ thousands				
Fund management	66301	0	-	yes