Consolidated Annual Report 2022

EfTEN Real Estate Fund III AS
Commercial register number: 12864036

Beginning of financial period: 01.01.2022
End of financial period: 31.12.2022

Address: A. Lauteri 5, 10114 Tallinn

Email address: info@eften.ee
Website address: www.eref.ee

EFTEN REAL ESTATE FUND III

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MANAGEMENT REPORT

Fund manager's comment on the 2022 financial results

In 2022, major changes took place in the European and Baltic commercial real estate market. The rapid acceleration of the inflation rate prompted the central banks to end the so-called zero interest policy that had lasted for almost ten years. While at the beginning of 2022, the EURIBOR rate used as the basis for most loans issued in euro was negative, by the end of the year the 6-month EURIBOR rose to 2.7% and the 1-month EURIBOR to 1.9%. In the real estate sector, where investments are usually made with financial leverage, this meant a significant increase in borrowing costs and a decrease in transaction activity.

In the real estate market of the Baltic countries, the use of loan money has generally been lower compared to the so-called developed European countries. Mainly because of this, the rise in interest rates here did not immediately lead to a fall in real estate prices. In particular, the increase in interest rates was accompanied by a significant decrease in the number of real estate transactions in this region. The uncertainty and low transaction activity of the commercial real estate market in the Baltic countries will probably remain in the first half of 2023.

In December 2022, the shareholders of EfTEN Real Estate Fund III AS approved the fund's merger with EfTEN Kinnisvarafond AS (the fund being acquired), resulting in the largest commercial real estate fund in the Baltic States. The balance sheet date of the merger was 1 January 2023, and after the merger, the volume of consolidated assets of EfTEN Real Estate Fund III AS will increase more than twice. After the merger, the business name of EfTEN Real Estate Fund III AS will be EfTEN Real Estate Fund AS. At the beginning of this year, one of the important priorities of the management company is the correct completion of the legal merger of the funds.

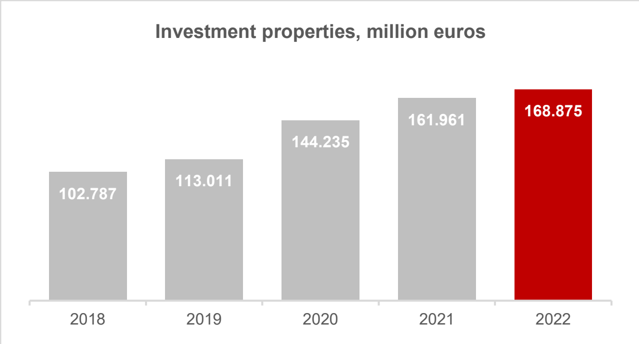
Financial overview

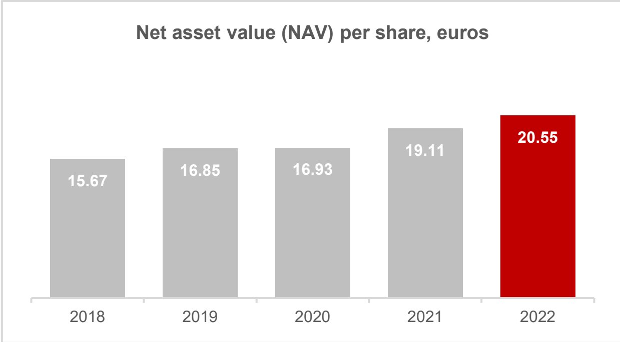
The consolidated sales revenue of EfTEN Real Estate Fund III AS for the 12 months of 2022 was 14.299 million euros (2021 12 months: 12.921 million euros), increasing by 10.7% during the year. The Group's net rental income in 2022 totalled to 13.665 million euros in 2022 (2021: 12.412 million euros), increasing by 10.1%. The Group's net profit for the same period was 11.408 million euros (2021 12 months: 13.099 million euros). The decreased net profit is related to the valuation of real estate investments, which was 3.119 million euros this year and 6.442 million euros in 2021.

	2022	2021
€ million		
Rental revenue, other fees from investment properties	14.299	12.921
Expenses related to investment properties, incl. marketing costs	-0.634	-0.509
Net rental income	**13.665**	**12.412**
Net rental income margin	*96%*	*96%*
Interest expense and interest income	-1.854	-1.804
Net rental revenue less finance costs	**11.811**	**10.608**
Management fees	-1.178	-1.074
Success fee	0.000	-0.537
Other revenue and expenses	-0.715	-0.714
Profit before change in the value of investment property, fair value change of the interest rate swap and income tax expense	**9.918**	**8.283**

Consolidated net rental income for the 12 months of 2022 margin was 96% (2021 12 months: same), so costs directly related to property management (including land tax, insurance, maintenance, and improvement costs) and marketing costs accounted for 4% (2021: same) of revenue.

The Group's total assets as at 31.12.2022 was 181.956 million euros (31.12.2021: 176.401 million euros), incl. the fair value of the investment properties that accounted for 93% of the total assets (31.12.2021: 92%).





	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018
€ millions					
Investment properties	168.875	161.961	144.235	113.011	102.787
Other non-current assets	0.179	0.147	0.123	0.114	0.138
Current assets, excluding cash	1.571	1.219	2.146	6.717	0.719
Net debt (cash and deposits minus short-term and long-term bank loans)	-56.730	-58.103	-67.335	-36.431	-48.049
Net asset value (NAV) [1,2]	104.264	96.914	71.483	70.911	50.354
EPRA net asset value (EPRA NAV) [2]	111.123	102.708	76.112	75.456	54.179
Net asset value (NAV) per share, in euros [1,2]	20.55	19.11	16.93	16.85	15.67
EPRA net asset value (EPRA NAV) per share, in euros [2]	21.91	20.25	18.03	17.93	16.81[1]

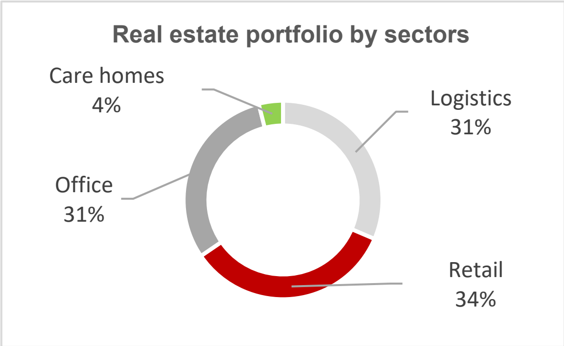
Key performance and liquidity ratios

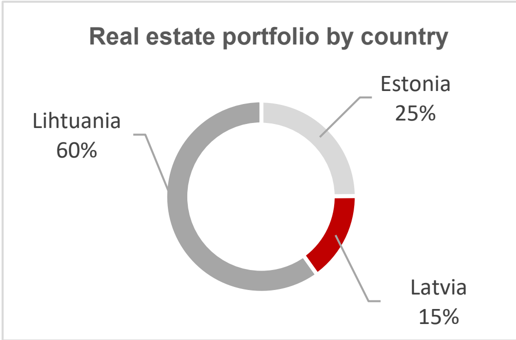
12 months	31.12.2022	31.12.2021
ROE. % (net profit of the period / average equity of the period) x 100	11.3	15.6
ROA. % (net profit of the period / average assets of the period) x 100	6.4	8.0
ROIC. % (net profit of the period / average invested capital of the period) x *100* [1]	17.0	22.0
Revenue (€ thousands)	14,299	12 921
Rent income (€ thousands)	13,489	12,165
EBITDA (€ thousands)	11,819	10,163
EBITDA margin, %	83%	79%
EBIT (€ thousands)	14,891	16,529
EPRA's profit (€ thousands)	9,354	7,821
Net dividend per net profit (net dividend / net profit for the period)	36%	21%
Liquidity ratio (current assets / current liabilities)	0.5	1.6
DSCR (EBITDA/(interest expenses + scheduled loan payments))	2.2	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 31.12.2022 and 31.12.2021.

Investment portfolio

At the end of December 2022, the Group has 18 (31.12.2021: 16) commercial investment property with a fair value as at the balance sheet date of 168.875 million euros (31.12.2021: 161.961 million euros) and an acquisition cost of 151.426 million euros (31.12.2021: 147.633 million euros).





Main indicators of the Group's investment portfolio

Investment property as of 31.12.2022	Group's owner-ship	Acquisition cost, € thousands	Fair value of investment properties, € thousands[2]	Net leasable area	Rental revenue per annum, € thousands	Direct yield[3]	Net primary production[4] (EPRA NIY)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV logistics centre, Tallinn	100	12,366	13,610	16,014	1,062	8.6%	7.8%	100	3.9	1
DSV logistics centre, Riga	100	8,837	8,830	12,149	745	8.4%	8.4%	100	3.9	1
DSV logistics centre, Vilnius	100	8,519	9,470	11,751	732	8.6%	7.7%	100	3.8	1
Piepilsetas logistics centre, Kekava	100	8,789	8,730	13,380	751	8.5%	8.6%	100	1.7	7
Ramygalos logistics centre, Panevežys	100	10,011	10,660	20,126	826	8.3%	7.7%	100	14.3	1
Logistics total		**48,522**	**51,300**	**73,420**	**4,116**	**8.5%**	**8.0%**	**100**	**5.5**	**11**
Saules Miestas shopping centre, Šiauliai	100	29,308	36,280	20,282	3,267	11.1%	9.0%	99	4.8	131
Hortes gardening centre, Laagri	100	3,138	3,720	3,470	294	9.4%	7.9%	100	9.4	1
Laagri Selver, Tallinn	100	6,279	7,810	3,059	514	8.2%	6.6%	100	5.5	11
Hortes gardening centre. Tallinn	100	5,458	5,600	5,300	428	7.8%	7.6%	100	14.8	1
ABC Motors Car Centre, Tallinn	100	3,479	3,410	2,149	300	8.6%	8.8%	100	6.1	1
Retail total		**47,662**	**56,820**	**34,260**	**4,803**	**10.1%**	**8.5%**	**99**	**6.1**	**145**
Ulonu office building, Vilnius	100	8,327	9,320	5,290	717	8.6%	7.7%	100	2.7	13
L3 office building, Vilnius	100	10,005	11,780	6,614	903	9.0%	7.7%	95	2.6	26
Evolution office building, Vilnius	100	8,836	10,771	6,150	787	8.9%	7.3%	100	3.2	34
airBaltic head office, Riga	100	7,112	6,920	6,217	530	7.5%	7.7%	100	3.2	1
Rutkausko office building, Vilnius	100	11,819	13,010	6,812	914	7.7%	7.0%	100	7.6	3
Office total		**46,099**	**51,801**	**31,083**	**3,851**	**8.4%**	**7.4%**	**100**	**4.0**	**77**
Pirita care home, Tallinn	100	6,217	6,320	5,983	363	5.8%	5.7%	100	7.9	1
Valkla Südamekodu, Valkla	100	2,692	2,400	2,759	268	10.0%	11.2%	100	9.3	1
Tartu Südamekodu, Tartu	100	234	234				in development			
Care homes total		**9,143**	**8,954**	**8,742**	**631**	**6.9%**	**7.0%**	**100**	**8.3**	**2**
Real estate portfolio total		**151,426**	**168,875**	**147,505**	**13,401**	**8.8%**	**7.9%**	**100**	**5.4**	**235**

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

[3] In order to find the direct yield, the annualized net rental income of the leases calculated as of the reporting date is divided by the sum of the acquisition cost of the real estate investment and subsequent capitalized costs.

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

In April, the Fund's subsidiary EfTEN Ermi OÜ acquired building rights located in Ermi 13, Tila village, Tartu parish in Tartu County. The Fund plans to develop a care home for minimum of 120 customers on the land plot used based on the building rights. The building rights' maturity date is 50 years, which is possible to extend up to 99 years in agreement with the landowner. After developing a care home in the land plot, it will be leased to Südamekodud AS based on a long-term lease contract. The purchase price of the building rights was EUR 233 thousand. Purchase of the building rights and investments are financed by the Fund's own assets.

In June 2021, EfTEN Real Estate Fund III AS established a 100% owned subsidiary EfTEN Ramygalos UAB, which after its establishment acquired production and warehouse buildings located in Panevežys, Lithuania. The total cost of the real estate investment, including transaction costs, reached 10,011 thousand euros. The Fund invested 4,036 thousand euros in the equity capital of the subsidiary before the transaction.

In 2022, the Group earned a total rental income of 13.489 million euros. The rental income calculated on a comparable basis was a total of 12.588 million euros in 2022, which is a 7% increase compared to 2021.

Like-for-like rental income by segments

€ thousands	Fair value as of 31.12.2022	Rental income 2022	Rental income 2021	Change	Change, %
Office	51,801	3,982	3,785	197	5%
Logistics	40,640	3,207	3,117	90	3%
Retail	56,820	4,983	4,413	570	13%
Care homes	6,320	416	416	0	0%
Total comparable assets and rental income	**155,581**	**12,588**	**11,731**	**857**	7%
Acquired assets and rental income	13,294	901	434	467	
Total investment portfolio assets and rental income	**168,875**	**13,489**	**12,165**	**1,324**	11%

Like-for-like rental income by countries

€ thousands	Fair value as of 31.12.2022	Rental income 2022	Rental income 2021	Change	Change, %
Estonia	40,470	2,960	2,896	64	2%
Latvia	13,820	1,956	1,897	59	3%
Lithuania	101,291	7,672	6,938	734	11%
Total comparable assets and rental income	**155,581**	**12,588**	**11,731**	**857**	7%
Acquired assets and rental income	13,294	901	434	467	
Total investment portfolio assets and rental income	**168,875**	**13,489**	**12,165**	**1,324**	11%

EfTEN Real Estate Fund III AS's largest tenants as of 31.12.2022

Tenant	Share of total rental income
DSV Estonia AS	7.8%
Adax UAB	6.0%
DSV Latvia SIA	5.5%
DSV Lithuania, UAB	5.4%
Hortes AS	5.4%
Atea, UAB	4.9%
AIR BALTIC CORPORATION AS	4.2%
Rimi Lietuva, UAB	3.8%
Südamekodud AS	3.3%
Selver AS	2.7%
Valstybinė energetikos reguliavimo taryba	2.3%
Others	48.5%

EfTEN Real Estate Fund III AS regularly evaluates investment property twice a year - in June and December. In connection with the planned merger with EfTEN Kinnisvarafond AS, in addition to the usual valuation, Colliers International carried out investment property valuation as of 30.11.2022. As of 31.12.2022, the fair value of the Fund's investment portfolio is 168,875 thousand euros. In 2022, the value of the Fund's investments increased by 1.9% as a result of revaluations, and the Fund received a total profit of 3,119 thousand euros from fair value changes. The value of investment property increased mainly as a result of expected higher rental cash flow supported by inflation. Due to the increase in EURIBOR and investors' income expectations, the discount rates used to calculate the present value of cash flows in valuations increased in 2022 in almost all investment objects.

Changes in valuation assumptions

31.12.2022 or per year	Fair value	Acquisitions 2022	Fair value change	%	Annualized net rental income, %	Capitalization rate, percentage points	Discount rate, percentage points
€ thousands							
Logistics							
DSV logistics centre, Tallinn	13,610	79	161	1.2%	1.8%	-0.10	0.00
DSV logistics centre, Riga	8,830	2	118	1.4%	9.9%	0.00	0.50
DSV logistics centre, Vilnius	9,470	15	75	0.8%	1.6%	0.00	0.60
Piepilsetas logistics centre, Kekava	8,730	39	-39	-0.4%	4.6%	0.00	0.85
Ramygalos logistics centre, Panevežys	10,660	0	260	2.5%	3.2%	0.00	0.00
Total logistics	**51,300**	**135**	**575**	**1.1%**	**4.0%**		
Retail							
Saulės Miestas shopping centre, Šiauliai	36,280	281	1,499	4.3%	10.8%	0.00	0.60
Hortes gardening centre, Laagri	3,720	30	10	0.3%	2.3%	0.00	0.20
Laagri Selver, Tallinn	7,810	0	470	6.4%	-1.2%	-0.30	0.00
Hortes gardening centre, Tallinn	5,600	0	-880	-13.6%	-13.5%	0.00	0.20
ABC Motors Car Centre, Tallinn	3,410	220	-80	-2.3%	5.9%	0.00	0.20
Total retail	**56,820**	**531**	**1,019**	**1.8%**	**5.6%**		
Office							
Ulonu office building, Vilnius	9,320	47	193	2.1%	-13.7%	0.00	0.60
Evolution office building, Vilnius	11,780	124	466	4.1%	4.8%	0.00	0.60
L3 office building, Vilnius	10,771	20	470	4.6%	-6.2%	0.00	0.60
airBaltic head office, Riga	6,920	12	108	1.6%	17.6%	0.00	-0.95
Rutkausko office building, Vilnius	13,010	0	530	4.2%	5.8%	0.00	0.60
Total office	**51,801**	**203**	**1,767**	**3.5%**	**0.5%**		
Care homes							
Pirita care home, Tallinn	6,320	0	50	0.8%	-19.8%	0.00	0.20
Tartu Südamekodu, Tartu	2,400	2,692	-292	-10.8%	*no comparative information		
Total care homes	**8,720**	**2,692**	**-242**	**-2.7%**	**31.4%**		
Total investment property portfolio	**168,641**	**3,561**	**3,119**	**1.9%**	**4.5%**		

EPRA performance indicators

The recommended guidelines of the European Public Real Estate Association (EPRA) are based on the principle that the disclosed indicators must be more comparable and transparent between investment property companies.

Although in its previous reports EfTEN Real Estate Fund III has partially based its performance metrics on EPRA's recommendations, in this report EPRA's indicators have been consolidated to ensure a better overview.

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

Starting this year, EfTEN Real Estate Fund III AS calculates EPRA's net worth based on two metrics: EPRA's net recovery value (EPRA NRV) and EPRA's net disposal value (EPRA NDV), which replace the previously disclosed EPRA NAV indicators.

EPRA performance indicators

As of the balance sheet date or for the year	31.12.2022	31.12.2021	*Change*
EPRA profit, € thousands	9,354	7,821	*20%*
EPRA profit per share, in euros	1.84	1.66	*11%*
EPRA NRV (net reinstatement value), € thousands	111,123	102,708	*8%*
EPRA NRV per share, in euros	21.91	20.25	*8%*
EPRA NDV (net disposal value), € thousands	104,264	96,914	*8%*
EPRA NDV per share, in euros	20.55	19.11	*8%*
EPRA NIY (primary net income)	7.3%	7.3%	*0%*
EPRA Topped-up NIY (adjusted primary net income)	7.8%	7.3%	*6%*
EPRA cost ratio, including direct vacancy costs	13%	17%	*-25%*
EPRA cost ratio, excluding direct costs related to vacancy	13%	17%	*-24%*
EPRA vacancy ratio	0.5%	0.2%	*131%*

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 property investing 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 property investing 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 property investing 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 investment property portfolio. The indicator should help investors evaluate the valuations of different Adjusted EPRA net initial yield 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 investment property 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 of 31.12.2022

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**104,264**	**104,264**	**104,264**
Adjustments:			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	6,912	6,912	-
Fair value of derivatives	-53	-53	-
Net asset value	**111,123**	**111,123**	**104,264**
Number of fully diluted shares	5,072,535	5,072,535	5,072,535
Net asset value per unit, in euros	**21.91**	**21.91**	**20.55**

As of 31.12.2021

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	**96,914**	**96,914**	**96,914**
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	-
ERPA Net asset value	**102,708**	**102,708**	**96,914**
Number of fully diluted shares	5,072,535	5,072,535	5,072,535
ERPA Net asset value per unit, in euros	**20.25**	**20.25**	**19.11**

EPRA profit

€ thousands		2022	2021
Net profit (IFRS)		**11,408**	**13,099**
Adjustments:			
	Change in fair value of investment property	-3,119	-6,442
	Change in fair value of financial instruments	-174	-126
	Deferred income tax expense related to EPRA adjustments	1,239	1,290
EPRA profit		**9,354**	**7,821**
Weighted average number of shares during the period		5,072,535	4,698,909
EPRA earnings per share, in euros		**1.84**	**1.66**

EPRA net yield

€ thousands	2022	2021
Investment property	168,875	161,961
Finished investment property	**168,875**	**161,961**
Annualized rental income from leases in force at the reporting date	13 401	13,022
Costs related to investment property not covered by tenants	-1 071	-1,223
Annualized net rental income	**12 330**	**11,799**
Nominal impact of the end of rent exemptions or other rental incentives	766	0
Adjusted annualized net rental income	**13,096**	**11,799**
EPRA initial net yield (NIY)	**7.3%**	**7.3%**
EPRA adjusted initial net yield (Topped-up NIY)	**7.8%**	**7.3%**

EPRA vacancy rate

€ thousands	2022	2021
Estimated rental income from vacant premises	63	26
Estimated rental income for the entire real estate portfolio	13,556	12,856
EPRA vacancy rate	**0.5%**	**0.2%**

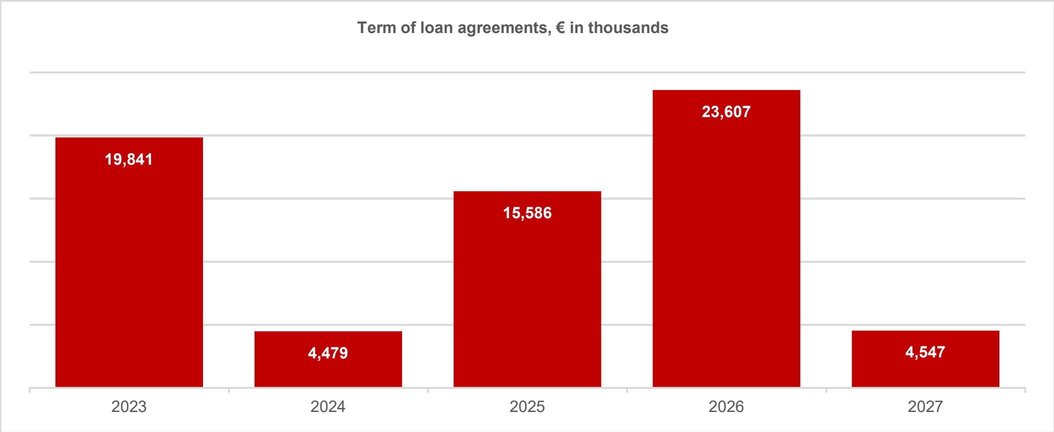
EPRA cost ratios

€ thousands	2022	2021
Cost of sales	-267	-241
Other sales revenue paid by tenants to cover expenses	810	756
Marketing costs	-367	-268
Operating costs	-1,916	-2,326
Total costs, including direct costs related to the vacancy	**-1 740**	**-2,079**
Direct vacancy costs	-25	-32
Total costs excluding direct costs related to the vacancy	**-1,715**	**-2,047**
Rental income (gross)	**13,489**	**12,165**
EPRA cost ratio, including direct vacancy costs	**13%**	**17%**
EPRA cost ratio, excluding direct costs related to vacancy	**13%**	**17%**

Financing

In the next 12 months, the loan agreements of the Group's three subsidiaries - Evolution office building, Saules Miestas shopping centre and Piepilsetas logistics centre - will expire, the balance of which is 19,841 thousand euros as of 31.12.2022. The LTV of the expiring loan agreements is 30%-40%, and investment properties have a stable and strong rental cash flow, therefore, according to the group's management, there are no obstacles in extending the loan agreements.

The weighted average interest rate of the group's loan agreements (including taking into account interest rate swap agreements) due to the increase in EURIBOR is 3.7% (31.12.2021: 2.3%) and LTV (Loan to Value) 40% (31.12.2021: 44%) as of the end of December). All loan agreements of the Fund's subsidiaries are linked to a floating interest rate. In order to mitigate the risk of an increase in the interest rate of one loan agreement, an interest rate swap agreement has been concluded, where the Euribor is fixed at 0.35%. The swap agreement expires in 2023, and its fair value is 53 thousand euros as of 31.12.2022.



Share information

The net value of the share of EfTEN Real Estate Fund III AS as of 31.12.2022 was 20.55 euros (31.12.2021: 19.11 euros). The net value of EfTEN Real Estate Fund III AS shares increased by 7.5% during 2022. In May 2022, the Fund paid dividends from the profit of 2021 in the total amount of 4.058 million euros (in June 2021: 2.798 million euros). Without the payment of dividends, the net value of the Fund's shares would have increased by 12.0% during 2022.

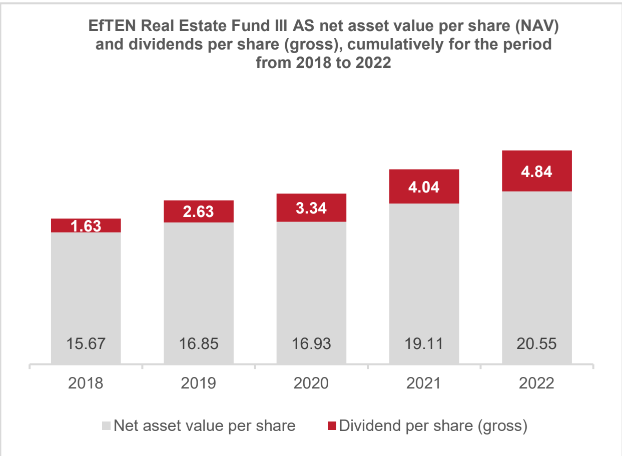
During 2022, the Group has earned a free cash flow of 6.182 million euros (12 months 2021: 4.550 million euros), of which, according to the Fund's dividend policy, the total amount of net dividends would be 4.638 million euros (2021: 3.401 million euros). Taking into account the obligation to keep a minimum cash balance resulting from the special conditions of the loan of the fund's subsidiaries and the short-term need for liquidity, as well as the possibility of increasing the loan amount by 1 million euros due to the current loan agreement of the Fund's subsidiary EfTEN Laagri OÜ, the Fund's board proposes to the council to pay dividends for 2022 more than the dividend policy stipulates - in total 5.438 million euros.

In connection with the merger of EfTEN Real Estate Fund III AS (the acquiring fund) and EfTEN Kinnisvarafond AS (the fund being acquired), in addition to the dividends of EfTEN Real Estate Fund III AS, the free cash flow of EfTEN Kinnisvarafond AS will also be paid out of the Fund in the spring of 2023. Insofar as EfTEN Real Estate Fund III AS makes a share issue for the shareholders of EfTEN Kinnisvarafond AS in accordance with the share exchange ratio and the number of EfTEN Real Estate Fund III AS shares increases as a result of the issue, the exact net dividend per share will be announced through the stock exchange system in March 2023.

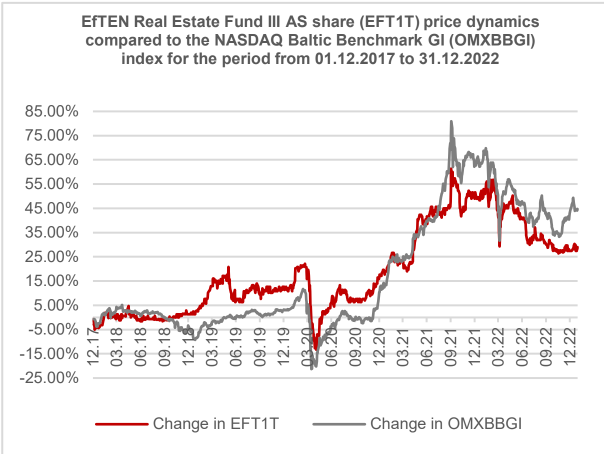
Calculation of the potential dividend payment

	2022	2021
€ thousands		
Operating profit	**14,891**	**16,529**
Adjustment for valuation gains on investment property	-3,119	-6,442
Adjustment for depreciation and write-downs of fixed assets	47	76
EBITDA	**11,819**	**10,163**
Interest expense	-1,854	-1,804
Repayments of bank loans	-3,493	-3,586
Income tax expense on profits (Lithuania)	-290	-222
Free cash flow	**6,182**	**4,551**
80% of free cash flow	4,946	3,641
Gross dividend adjustment	-34	0
Dividend tax expense	-274	-240
Potential net dividend according to dividend policy	**4,638**	**3,401**
Potential incremental cash flow[1]	1,000	700
Income tax charge on dividends from incremental cash flow	-200	-42
Potential net dividend with incremental cash flow	**5,438**	**4,059**
Number of shares at the end of the period	5,072,535	5,072,535
Potential net dividend per share, euros	**1.07**	**0.80**[2]

As of 31.12.2022, EfTEN Real Estate Fund III AS had 6,172 shareholders, of whom 16.8% were legal entities. Legal entities owned a total of 76.9% of the entire share capital of the fund. The distribution of shares is given in the table below.



EfTEN Real Estate Fund III AS net asset value per share (NAV) and dividends per share (gross), cumulatively for the period from 2018 to 2022



EfTEN Real Estate Fund III AS share (EFT1T) price dynamics compared to the NASDAQ Baltic Benchmark GI (OMXBBGI) index for the period from 01.12.2017 to 31.12.2022

[2] 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.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Ownership		Total ownership
	Legal entities	Private individuals		Legal entities	Private individuals		Legal entities	Private individuals	
Afghanistan	-	1	**1**	-	16	**16**	-	0.0003%	**0.0003%**
Albania	-	1	**1**	-	15	**15**	-	0.0003%	**0.0003%**
Algeria	-	1	**1**	-	327	**327**	-	0.0064%	**0.0064%**
United states	1	1	**2**	19,000	531	**19,531**	0.3746%	0.0105%	**0.3850%**
United Arab Emirates	-	1	**1**	-	142	**142**	-	0.0028%	**0.0028%**
Australia	-	4	**4**	-	24	**24**	-	0.0005%	**0.0005%**
Austria	-	1	**1**	-	1,255	**1,255**	-	0.0247%	**0.0247%**
Belgium	-	1	**1**	-	5	**5**	-	0.0001%	**0.0001%**
Estonia	1,027	5,082	**6,109**	3,872,815	1,159,037	**5,031,852**	76.3487%	22.8493%	**99.1980%**
Spain	-	1	**1**	-	120	**120**	-	0.0024%	**0.0024%**
Holland	-	1	**1**	-	109	**109**	-	0.0021%	**0.0021%**
Ireland	-	1	**1**	-	27	**27**	-	0.0005%	**0.0005%**
Italy	-	1	**1**	-	75	**75**	-	0.0015%	**0.0015%**
Cyprus	-	1	**1**	-	666	**666**	-	0.0131%	**0.0131%**
Lithuania	5	1	**6**	7,730	6,406	**14,136**	0.1524%	0.1263%	**0.2787%**
Latvia	1	1	**2**	2,120	31	**2,151**	0.0418%	0.0006%	**0.0424%**
Malta	-	1	**1**	-	20	**20**	-	0.0004%	**0.0004%**
Norway	-	1	**1**	-	5	**5**	-	0.0001%	**0.0001%**
Portugal	-	1	**1**	-	100	**100**	-	0.0020%	**0.0020%**
Sweden	1	3	**4**	25	83	**108**	0.0005%	0.0016%	**0.0021%**
Germany	-	7	**7**	-	332	**332**	-	0.0065%	**0.0065%**
Finland	1	15	**16**	42	676	**718**	0.0008%	0.0133%	**0.0142%**
United Kingdom	-	4	**4**	-	693	**693**	-	0.0137%	**0.0137%**
Switzerland	-	2	**2**	-	82	**82**	-	0.0016%	**0.0016%**
Denmark	1	1	**2**	1	25	**26**	0.0000%	0.0005%	**0.0005%**
Total	**1,037**	**5,135**	**6,172**	**3,901,733**	**1,170,802**	**5,072,535**	**76.92%**	**23.08%**	**100.00%**

As of 31.12.2022, EfTEN Real Estate Fund III AS has three shareholders with more than 10% stake:

	As of 31.12.2022	
Company	**Number of shares**	**Ownership, %**
Altius Capital OÜ	723,182	14.26%
Järve Kaubanduskeskus OÜ	518,952	10.23%
Hoiukonto OÜ	516,930	10.19%

EFT1T share statistics	**2022**	**2021**
Opening price	23.1	19.0
Closing price	19.65	22.8
Minimum share price	19.2	18.8
Maximum share price	24.2	25.6
Volume of traded shares, thousands	262	282
Volume, € million	5,501	6,026
Market capitalization as at 31.12, € million	99,929	107,135
Profit per share, €	2.25	2.79
P/B (closing price / equity per share)	0.96	1.19
P/B EPRA (closing price / EPRA equity per share)	0.90	1.13

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 31.12.2022.

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 has control over the Fund. As far as EfTEN Real Estate Fund III AS is aware, there are no shareholder agreements or other agreements signed between the shareholders that could later give control over the Fund.

As of 31.12.2022, EfTEN Real Estate Fund III AS had three significant shareholders: 1) Altius Capital OÜ - 14.26%, of which 45.24% is owned by the holding company Arti Arakas and 45.24% is owned by the holding company Frank Õim; 2) Järve Kaubanduskeskus OÜ - 10.23%, 100% owned by Vello Kunman through its holding company and 3) Hoiukonto OÜ - 10.19%, 69.5% owned by Marcel Vichmann through its holding companies and 30.5% in Hanno Murrand.

The Fund manager, EfTEN Capital AS, owns 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 the reporting year, the regular general meeting of shareholders was held on 14.04.2022 in Radisson Collection Hotel II floor conference centre hall named "Tallinn" at Tallinn, Rävala 3. The notice of convening the regular general meeting of shareholders was published on 21.03.2022 and as a repeat notification on 22.03.2022 in the newspaper "Postimees". The notice of convening the meeting was also published on 21.03.2022 through the information system of the Nasdaq Tallinn stock exchange as a stock exchange announcement and on the Fund's website www.eref.ee. EfTEN Real Estate Fund III AS allowed shareholders to ask questions about the topics mentioned in the agenda both at the e-mail address provided in the notice, by mail at the fund's address and by phone, and to view the annual report on its website and at its location at A. Lauteri 5, Tallinn, from the publication of the notice of the general meeting until the day of the general meeting.

Shareholders had the opportunity to participate in the general meeting through an authorized representative or vote on draft resolutions before the general meeting electronically and watch the general meeting via video transmission. The shareholders had the right to vote on the draft decisions prepared on the items on the agenda of the general meeting electronically before the meeting until 16.00 on 13.04.2022.

The decisions made at the regular general meeting of shareholders have been published both in the information system of the Nasdaq Tallinn stock exchange and on the website of EfTEN Real Estate Fund III AS. One extraordinary general meeting of shareholders was also held during the reporting year: 15.12.2022 Radisson Collection Hotel II floor conference centre hall named "Tallinn" at Tallinn, Rävala 3. The notice of convening the extraordinary general meeting of shareholders was published on 23.11.2022 in the newspaper "Postimees" and on the same day also through the information system of the Nasdaq Tallinn stock exchange as a stock exchange announcement and on the Fund's website. EfTEN Real Estate Fund III AS allowed the shareholders to ask questions about the topics mentioned in the agenda of the extraordinary general meeting both at the e-mail address provided in the notice, by mail at the fund's address and by phone, and to consult the documents related to the general meeting on its website and at its location at A. Lauteri 5, Tallinn, starting from the general meeting. from the publication of the notice until the day of the general meeting. Shareholders had the opportunity to participate in the extraordinary general meeting through an authorized representative or to vote on draft resolutions before the general meeting electronically. It was not possible to watch the extraordinary general meeting via video transmission. The shareholders had the right to vote electronically on the draft resolutions prepared for the items on the agenda of the extraordinary general meeting before the meeting until 13.12.2022. until 16:00.

Conducting a regular general meeting of shareholders

On 14.04.2022 the regular general meeting was held in Estonian and was chaired by attorney-at-law Raino Paron. The chairman of the meeting introduced the shareholders to the representatives of the fund participating in the meeting and then the procedure for conducting the meeting, including the organization of asking questions and voting on the issues on the agenda. The meeting was attended by members of the board of the fund Viljar Arakas and Tõnu Uustalu, chairman of the council Arti Arakas, members of the council Olav Miil, Sander Rebane and Siive Penu and Rando Rand, chief auditor of the fund's auditor PricewaterhouseCoopers AS. The registration and voting of shareholders were organized by ARS Corporate Service OÜ. Voting results were counted electronically. According to the articles of association, the general meeting can adopt decisions if shareholders holding more than half of the votes represented by shares participate in the general meeting. Shareholders were represented at the general meeting, which constituted 69.11% of the votes represented by shares. A part of them, 1.25% of all votes assigned by shares, cast their votes electronically before the meeting took place, in accordance with the procedure published in the notice convening the general meeting. An overview of the fund's activities was presented at the general meeting, which was an informative item on the agenda. Then, the financial year report 2021 with the remuneration report was approved as separate items on the agenda, and under separate items on the agenda, separate decisions on the distribution of profit and the approval of remuneration principles were adopted. Shareholders were guaranteed the opportunity to ask questions about agenda items, make proposals and ask questions. Statements and dissenting opinions were not presented at the regular general meeting. The general meeting was held in accordance with the requirements of the law and the articles of association. Shareholders could watch the meeting via video transmission.

Conducting the Annual General Meeting

15.12.2022. The extraordinary general meeting was held in Estonian and was chaired by attorney-at-law Raino Paron. The chairman of the meeting introduced to the shareholders the representatives of the fund participating in the meeting and then the procedure for conducting the meeting, including the organization of asking questions and voting on the issues on the agenda. The meeting was attended by members of the foundation's board Viljar Arakas and Tõnu Uustalu, chairman of the council Arti Arakas, members of the council Olav Miil and Siive Penu. Council member Sander Rebane did not participate in the extraordinary general meeting due to his absence. The registration and voting of shareholders were organized by ARS Corporate Service OÜ. Voting results were counted electronically. According to the articles of association, the general meeting can adopt decisions if shareholders holding more than half of the votes represented by shares participate in the general meeting. Shareholders were represented at the general meeting, which constituted 54.16% of the votes represented by shares. A part of them, 0.35% of all votes assigned by shares, cast their votes electronically before the meeting took place, in accordance with the procedure published in the notice convening the general meeting. An overview of the fund's activities was presented at the general meeting, which was an informative item on the agenda. Then, as separate items on the agenda, (i) the terms of the replacement ratio of the merger between EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS and the conditions for determining the value of the shares used as the basis for determining the replacement ratio were approved, (ii) the 19.09.2022 EfTEN Real Estate Fund III AS and The merger agreement concluded between EfTEN Kinnisvarafond AS and in accordance with clause 6.5 of the merger agreement, the date of fixing the list of shareholders of the merged fund was set as 31.01.2023. a, (iii) approve the new business name EfTEN Real Estate Fund AS and the related new revision of the articles of association, and (iv) the Fund's supervisory board was given the right to decide to increase the Fund's share capital in accordance with the principles set out in the merger agreement signed on 19.09.2022 during the 4-month period following the general meeting and to submit an application for all for the listing and trading of newly issued fund shares in the main list of the Nasdaq Tallinn Stock Exchange; the fund's council and board were also authorized to perform all necessary actions related to the increase of the share capital and to conclude contracts.

Shareholders were guaranteed the opportunity to ask questions about agenda items, make proposals and ask questions. Statements and dissenting opinions were not presented at the regular general meeting. The general meeting was held in accordance with the requirements of the law and the articles of association. Shareholders could watch the meeting via video transmission.

Management Board

Tasks of the Management Board

The board supervises the activities of the management company related to the fund to the extent and in the manner prescribed in the management agreement, i.e. supervises the fulfilment of the obligations of the management company arising from the management agreement and supervises the operations of the depository to the extent and in the manner prescribed in the depository agreement, as well as the performance of other tasks related to the management of the fund and delegated by third parties.

The board of EfTEN Real Estate Fund III AS does not manage the fund's assets to the extent resulting from valid legislation, articles of association and management agreement.

During the reporting year, there were no changes in the duties and competence of the board.

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 2022, 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 2022, there were no transactions between EfTEN Real Estate Fund III AS and the members of the board, their relatives or persons related to them, except for the provision of management services by the management company to EfTEN Real Estate Fund III AS according to the management agreement, and on 19.09.2022 EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS entering into a merger agreement. In addition to the duties of the board members, participation in other associations has taken place with the consent of the council and published in the fund's prospectus, which is available on the fund's website www.eref.ee. Board member Viljar Arakas is a member of the council of Coop Pank AS, whose shares are listed on the Nasdaq Tallinn stock exchange, from 14.04.2021. Board member Tõnu Uustalu does not simultaneously participate in the work of the board or council of any other publicly listed company on the securities market.

As of 31.12.2022, board member Viljar Arakas owns a total of 0.34% of the Fund's share capital and 27.41% of the Fund management company's share capital through his holding company and as a private individual. Board member Tõnu Uustalu owns 0.29% of the Fund's share capital and 20.56% of the Fund management company's share capital.

The management company owns 1.72% of the fund's share capital.

Neither the board member nor the employee shall demand or accept money or other benefits from third parties for personal purposes in connection with their work, nor shall they make illegal or unjustified favours to third parties on behalf of the fund. In 2022, neither the management board nor, as far as the management board is aware, the employees of the group have gone astray against the mentioned principle.

Board members are not authorized to issue and buy back 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 council is organized by the chairman of the council, who is elected by the members of the council from among themselves. The council makes decisions at council meetings or without convening a meeting. The decision of the Council is adopted if more than half of the members of the Council who participated in the meeting are in favor of it, unless the legislation or the statutes stipulate a higher majority requirement. The Chairman of the Council does not have a casting vote in case of an equal division of votes. In order to adopt decisions, without convening a meeting, all members of the council must agree to the decision.

The Council's tasks and work organization were not changed during the reporting year.

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

Council members avoid conflicts of interest in their activities. In his activities as a member of the Supervisory Board, the member of the Supervisory Board prefers the issuer's interests to personal or third-party interests. The council member does not use commercial offers aimed at the issuer for his personal interests. In 2022, as far as EfTEN Real Estate Fund III AS is aware, the members of the Council have not gone astray against the said principle. Among other things, the members of the council update their declaration of economic interests at least once a year.

In 2022, no transactions took place between EfTEN Real Estate Fund III AS and members of the Supervisory Board of EfTEN Real Estate Fund III AS, their relatives or persons related to them, except for the provision of management services by the management company to EfTEN Real Estate Fund III AS in accordance with the management agreement, and 19.09.2022 Conclusion of merger agreement between EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS. Council members do not simultaneously participate in the work of the boards or councils of other publicly listed companies on the securities market. The activities of the council members in other associations are published in the fund's prospectus and available on the Fund's website www.eref.ee.

As of 31.12.2022, Council member Arti Arakas owns through the holding company 6.45% of the fund's share capital and 10.56% of the Fund management company's share capital, Olav Miil owns 0.77% of the fund's share capital and 5.55% of the fund management company's share capital, Siive Penu owns 0, 03% of the fund's share capital and he does not own a share in the management company. Siive Penu is a member of the board of the company HTB Investeeringud OÜ, which owns 1.3% of the fund's share capital and 5.55% of the fund management company's share capital. Council member Sander Rebane does not own shares of the Fund or the management company.

Cooperation of Management and Supervisory Board

The board and the council cooperate closely with the aim of best protecting the interests of EfTEN Real Estate Fund III AS. Cooperation is primarily based on an open exchange of opinions between the board and the council as well as within the board and the council. At the same time, the members of the management board participate in the meetings of the council, where the council reviews the economic results of the issuer or makes decisions on the approval of transactions for the acquisition of investment objects. As a general rule, board members are also invited to other meetings of the board, where issues related to the management of EfTEN Real Estate Fund III AS are discussed. Close cooperation between the council and the board has continued in 2022. The management board also informs the council of important events related to the management and operations of EfTEN Real Estate Fund III AS outside of the meetings to ensure that operationally necessary or important information is delivered to the council. Information that requires sufficient time to make a decision (e.g., making investment decisions, approving reports) is communicated by the board to the members of the council before the council meeting.

Confidentiality requirements are applied to all information exchange between the council and the management board, which ensure control over the flow of price-sensitive information in particular, including internal rules for handling inside information, keeping a list of persons with inside information and disclosing information. As far as EfTEN Real Estate Fund III AS is aware, in 2022, neither the board nor the management company has deviated from the instructions given by the council in managing the fund.

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 PricewaterhouseCoopers AS, which was appointed as the auditor of the fund when the fund was established.

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 is given to the Supervisory Board. The auditor's duties, schedule and remuneration are defined in the contract signed with the auditor. In the 2022 financial year, AS PricewaterhouseCoopers, the contractual auditor of EfTEN Real Estate Fund III AS, provided the following services in addition to auditing the annual report: translation services and other services for the execution of agreed procedures.

In 2022, the group (Real Estate Fund III AS together with its subsidiaries) paid the auditors a total of 73 thousand euros for their services.

In 2022, there were no events or circumstances that the auditor would have informed the council about, which in his opinion could affect the work of the council or the management of EfTEN Real Estate Fund III AS. Nor has the auditor reported a threat to the auditor's independence or the professionalism of his work.

In 2022, Rando Rand, chief auditor of the auditor PricewaterhouseCoopers AS, participated in the regular 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 2022, the principles and general principles of risk management have not been changed.

REMUNERATION REPORT

This report provides an overview of the principles of remuneration of managers of EfTEN Real Estate Fund III AS and the determination of work-related benefits, as well as the fees paid to managers in the 2022 financial year. In this remuneration report, the members of the board of the stock issuer are treated as directors in accordance with the Securities Market Act.

The basic remuneration principles of EfTEN Real Estate Fund III AS were defined when the fund was founded in 2015, according to which no fees are paid to the members of the fund's management bodies, including members of the board. Also, severance and retirement benefits or other benefits are not assigned to the members of the fund's management bodies at the expense of the fund. These principles were not changed during the reporting year. The mentioned basic principles based on the difference, as a result of which EfTEN Real Estate Fund III AS is not just an issuer of shares, but an investment fund established as a joint-stock company, the members of the board of which are members of the executive management of the management company managing the fund. The fund pays a management fee to the fund manager in accordance with the principles published in the fund's articles of association and the management agreement. EfTEN Real Estate Fund III AS board member Viljar Arakas is a management board member and EfTEN Real Estate Fund III AS board member Tõnu Uustalu is the manager of the investment department of the management company.

In the financial year 2022, 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 2022, there are no exceptions to the principles of remuneration of management.

As of 31.12.2022, board member Viljar Arakas owns a total of 17,440 fund shares through his holding company and as a private individual, or 0.34% of the fund's share capital and 27.41% of the fund management company's share capital. Board member Tõnu Uustalu owns 14,753 shares or 0.29% of the fund's share capital and 20.56% of the fund management company's share capital. The fund management company owns 87,272 shares, or 1.72% of the fund's share capital. Tõnu Uustalu and Viljar Arakas do not have stock options. The shareholdings of the board members in the reporting year have not changed compared to the previous financial year.

The shareholders of the fund, including Tõnu Uustalu and Viljar Arakas, in accordance with the articles of association, when increasing the fund's share capital and issuing new shares, have the right to subscribe for new shares, analogously to other shareholders of the fund, in proportion to their existing participation in the fund, except in cases where the right to subscribe for existing shareholders is excluded by the decision of the general meeting of the fund.

The remuneration principles of the fund's managers are also published in the fund's prospectus, which is available on the EfTEN Real Estate Fund III AS website at www.eref.ee. In addition, the prospectus also publishes the fees paid to the managers of EfTEN Real Estate Fund III AS's subsidiaries. At the same time, neither Viljar Arakas nor Tõnu Uustalu have been paid any fees, compensations or incentives from any company belonging to the same group as EfTEN Real Estate Fund III AS.

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

	2022	2021	2020	2019	2018
€ thousands					
Total remuneration calculated for the Group's employees	267	245	260	278	229
Number of employees	10	11	12	12	12
Sales revenue	14,299	12,921	10,731	9,512	8,672
Net profit	11,408	13,099	3,317	7,737	6,299

FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2022	2021
€ thousands			
Revenue	3,4	14,299	12,921
Cost of services sold	5	-267	-241
Gross profit		**14,032**	**12,680**
Marketing costs	6	-367	-268
General and administrative expenses	7	-1,916	-2,326
Gain / loss from valuation of investment properties	12	3,119	6,442
Other operating income and expense		23	1
Operating profit	**3**	**14,891**	**16,529**
Other finance income and expense	8	-1,680	-1,678
Profit before income tax		**13,211**	**14,851**
Income tax expense	9	-1,803	-1,752
Net profit for the financial year		**11,408**	**13,099**
Total comprehensive income for the period	**3**	**11,408**	**13,099**
Earnings per share	10		
- basic		2.25	2.79
- diluted		2.25	2.79

The notes on pages 22 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2022	31.12.2021
€ thousands			
ASSETS			
Cash and cash equivalents	15	11,331	13,074
Receivables and accrued income	11	1,522	876
Prepaid expenses		49	314
Inventory		0	29
Total current assets		**12,902**	**14,293**
Long-term receivables		61	4
Investment property	3,12	168,875	161,961
Property. plant and equipment		116	140
Intangible assets		2	3
Total non-current assets		**169,054**	**162,108**
TOTAL ASSETS		**181,956**	**176,401**
LIABILITIES AND EQUITY			
Borrowings	13	22,058	7,645
Derivative instruments	15	0	121
Payables and prepayments	14	1,461	1,349
Total current liabilities		**23,519**	**9,115**
Borrowings	13	45,917	63,440
Other long-term debt	14	1,008	987
Deferred income tax liability	9	7,248	5,945
Total non-current liabilities		**54,173**	**70,372**
Total liabilities		**77,692**	**79,487**
Share capital	16	50,725	50,725
Share premium	16	16,288	16,288
Statutory reserve capital	16	2,149	1,489
Retained earnings	17	35,102	28,412
Total equity		**104,264**	**96,914**
TOTAL LIABILITIES AND EQUITY		**181,956**	**176,401**

The notes on pages 22 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2022	2021
€ thousands			
Net profit		**11,408**	**13,099**
Adjustments of net profit:			
Finance income and expense	8	1,680	1,678
Gains / losses on valuation of investment property	12	-3,119	-6,442
Depreciation and impairment losses	5,7	47	54
Profit / loss from disposal of property, plant and equipment		0	21
Income tax expense	9	1,803	1,752
Total adjustments with non-cash changes		**411**	**-2,937**
Cash flows from operations before changes in working capital		**11,819**	**10,162**
Change in receivables and payables related to operating activities		-775	167
Total cash flows from operating activities		**11,044**	**10,329**
Purchase of property, plant and equipment		-32	-89
Purchase of investment property	12	-3,526	-11,284
Purchase of subsidiaries	2	0	-95
Acquisition of other investments		-86	0
Interest received		0	12
Total cash flows from investing activities		**-3,644**	**-11,456**
Loans received	13	377	6,300
Loan repayments refinancing	13	0	-4,000
Loan repayments scheduled	13	-3,493	-3,586
Interest paid		-1,760	-1,804
Issue of shares		0	15,130
Dividends paid	15	-4,058	-2,798
Income tax on dividends paid		-209	-169
Total cash flows from financing activities		**-9,143**	**9,073**
TOTAL CASH FLOW		**-1,743**	**7,946**
Cash and cash equivalents at the beginning of period		**13,074**	**5,128**
Change in cash and cash equivalents		-1,743	7,946
Cash and cash equivalents at the end of period	**15**	**11,331**	**13,074**

The notes on pages 22 to 50 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 31.12.2020	**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**
Dividends declared	0	0	0	-4,058	**-4,058**
Provision for reserve capital	0	0	660	-660	**0**
Total transactions with owners	**0**	**0**	**660**	**-4,718**	**-4,058**
Net profit for the financial period	0	0	0	11,408	**11,408**
Total comprehensive income for the period	**0**	**0**	**0**	**11,408**	**11,408**
Balance as at 31.12.2022	**50,725**	**16,288**	**2,149**	**35,102**	**104,264**

Additional information on share capital is provided in Note 15 and 16.

The notes on pages 22 to 50 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 real 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 AS executes commercial real estate investments in the Baltic states.

The structure of EfTEN Real Estate Fund III AS Group as at 31.12.2022 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, Riia*
100%	EfTEN Piepilsetas SIA	*Piepilsetas logistics centre, Kekava*
100%	EfTEN Rutkausko UAB	*Rutkausko office building, Vilnius*
100%	EfTEN Ramygalos UAB	*Ramygalos logistics centre, Panevežys*
100%	EfTEN Pirita OÜ	*Pirita Care Home, Tallinn*
100%	EfTEN Autokeskus OÜ	*ABC Motors Car Centre, Tallinn*
100%	EfTEN ABC SIA	
100%	EfTEN Ermi OÜ	*Tartu Südamekodu, Tartu (in development)*
100%	EfTEN Valkla OÜ	*Valkla Südamekodu, Valkla*

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 consolidated financial statements of EfTEN Real Estate Fund III AS and its subsidiaries for the year ended 31 December 2022 have been signed by the Management Board on 27 February 2023. 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 Application of new or revised standards and interpretations

From January 1, 2022, the following new or revised standards and interpretations became mandatory for the Group:

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 property, plant or equipment 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 has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet 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 above-mentioned changes did not have a significant impact on the Group's financial statements.

The standards will come into force in the following reporting periods.

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

(effective for annual periods beginning on or after 1 January 2021, deferred to 1 January 2023)

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 impact of the said change after implementation.

Amendments to IAS 8: Definition of Accounting Estimates

(effective for annual periods beginning on or after 1 January 2023)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Group will analyse and disclose the impact of the said change after 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)

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 impact of the said change after implementation.

Standards not yet adopted

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 2024)

These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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 impact of the said change after its implementation in the event that the merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS fails legally.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

The group will analyse and disclose the impact of the said change after its implementation in the event that the merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS fails legally.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

The group will analyse and disclose the impact of the said change after its implementation in the event that the merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS fails legally.

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 6.5% -8.0% (2021: 6.8% -8.0%). Discount rates range from 7.8% to 9.6% at the end of 2022 (2021: 7.8% to 9.1%). 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 investment property 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, Panevežys
Retail	Hortes gardening centre, Laagri		Saules Miestas shopping centre, Šiauliai
	Laagri Selver, Tallinn		
	Hortes gardening centre, Tallinn		
	ABC Motors Autokeskus, Tallinn		
Care homes	Pirita care home, Tallinn		
	Tartu Südamekodu, Tartu		
	Valkla Südamekodu, Valkla		

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 investment property 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.

(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.

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.

Equity instruments

The Company does not have any investments in equity instruments.

As at 31 December 2022 and 31 December 2021, all the Company's financial assets were classified in this category:

- cash and cash equivalents;
- trade receivables.

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

<u>Subsidiaries registered in Estonia</u>

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

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

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

<u>Latvian subsidiaries</u>

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

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

<u>Lithuanian subsidiaries</u>

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

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

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

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

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

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, € thousands		Group's ownership Interest, %	
			31.12.2022	31.12.2021	31.12.2022	31.12.2021
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Saulės Miestas shopping centre, Šiauliai	21,601	18,990	100	100
Verkiu Projektas UAB	Lithuania	Ulonu office building, Vilnius	4,612	4,326	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	6,062	5,375	100	100
EfTEN Stasylu UAB	Lithuania	DSV logistics centre, Vilnius	5,278	5,106	100	100
EfTEN Tänassilma OÜ	Estonia	DSV logistics centre, Tallinn	8,249	7,729	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	3,516	3,083	100	100
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	2,724	3,507	100	100
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	6,249	5,528	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,504	2,374	100	100
EfTEN Laagri OÜ	Estonia	Laagri Selver, Tallinn	5,257	4,623	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors Car Centre, Tallinn	2,017	1,996	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	4,216	4,042	100	100
EfTEN Riga Airport SIA	Latvia	airBaltic main building, Riga	4,796	4,469	100	100
EfTEN Rutkausko UAB	Lithuania	Rutkausko office building, Vilnius	6,464	5,714	100	100
EfTEN Pirita OÜ	Estonia	Pirita care home, Tallinn	3,779	3,479	100	100
EfTEN Ramygalos UAB	Lithuania	Ramygalos logistics centre, Panevežys	5,188	4,585	100	100
EfTEN ABC SIA	Latvia	-	3	0	100	0
EfTEN Valkla OÜ	Estonia	Valkla Südamekodu, Valkla	1,784	0	100	0
EfTEN Ermi OÜ	Estonia	Tartu Südamekodu, Tartu	237	0	100	0

In February 2022, EfTEN Real Estate Fund III established a 100% subsidiary in Latvia, EfTEN ABC SIA, paying 2,800 euros for the share capital of the subsidiary. The transaction did not succeed and thus, at the moment there are no plans to purchase an investment property to the founded subsidiary.

In March 2022, the Fund established two 100% owned subsidiaries to acquire two care homes in Valkla and Tartu County - EfTEN Valkla OÜ and EfTEN Ermi OÜ, respectively. Upon the establishment of subsidiaries, the Fund paid 2,500 euros for the share capital of both companies. The subsidiaries acquired real estate plots in the amount of EUR 2,244 thousand to develop care homes shortly after the establishment.

In June 2021, EfTEN Real Estate Fund III AS established a 100% owned subsidiary EfTEN Ramygalos UAB, which after its establishment acquired production and warehouse buildings located in Panevežys, Lithuania. The total cost of the real estate investment, including transaction costs, reached 10,011 thousand euros. The Fund invested 4,036 thousand euros in the equity capital of the subsidiary before the transaction.

All subsidiaries are engaged in the acquisition and leasing of investment property. The shares of any subsidiary are not listed on the stock exchange.

3 Segment reporting

SEGMENT RESULTS

12 months	Office 2022	Office 2021	Logistics 2022	Logistics 2021	Retail 2022	Retail 2021	Care homes 2022	Care homes 2021	Non-allocated 2022	Non-allocated 2021	Total 2022	Total 2021
€ thousands												
Revenue (note 4), incl.	**4,015**	**3,794**	**4,072**	**3,606**	**5,694**	**5,105**	**518**	**416**	**0**	**0**	**14,299**	**12,921**
Estonia	0	0	1,049	1,018	1,532	1,477	518	416	0	0	3,099	2,911
Latvia	499	498	1,502	1,450	0	0	0	0	0	0	2,001	1,948
Lithuania	3,516	3,296	1,521	1,138	4,162	3,628	0	0	0	0	9,199	8,062
Net operating income, incl.	**3,914**	**3,674**	**4,030**	**3,571**	**5,209**	**4,756**	**512**	**411**	**0**	**0**	**13,665**	**12,412**
Estonia	0	0	1,049	1,013	1,512	1,462	512	411	0	0	3,073	2,886
Latvia	497	497	1,460	1,421	0	0	0	0	0	0	1,957	1,918
Lithuania	3,417	3,177	1,521	1,137	3,697	3,294	0	0	0	0	8,635	7,608
Operating profit, incl.	**5,220**	**5,108**	**4,142**	**4,549**	**5,516**	**7,155**	**165**	**427**	**-152**	**-710**	**14,891**	**16,529**
Estonia	0	0	1,118	1,153	842	2,678	165	427	-152	-710	1,973	3,548
Latvia	497	401	1,324	1,500	0	0	0	0	0	0	1,821	1,901
Lithuania	4,723	4,707	1,700	1,896	4,674	4,477	0	0	0	0	11,097	11,080
EBITDA, incl.	**3,455**	**3,228**	**3,567**	**3,116**	**4,541**	**4,155**	**408**	**374**	**-152**	**-710**	**11,819**	**10,163**
Estonia	0	0	957	922	1,321	1,277	408	374	-152	-710	2,534	1,863
Latvia	389	401	1,245	1,207	0	0	0	0	0	0	1,634	1,608
Lithuania	3,066	2,827	1,365	987	3,220	2,878	0	0	0	0	7,651	6,692
Operating profit											**14,891**	**16,529**
Net financial expense (Note 8)											-1,680	-1,678
Profit before income tax											**13,211**	**14,851**
Income tax expense (Note 9)											-1,803	-1,752
NET PROFIT FOR THE REPORTING PERIOD											**11,408**	**13,099**

SEGMENT ASSETS

As of the end of the year	Office 2022	Office 2021	Logistics 2022	Logistics 2021	Retail 2022	Retail 2021	Care homes 2022	Care homes 2021	Total 2022	Total 2021
€ thousands										
Investment property										
Estonia	0	0	13,610	13,370	20,540	20,770	8,954	6,270	43,104	40,410
Latvia	6,920	6,800	17,560	17,440	0	0	0	0	24,480	24,240
Lithuania	44,881	43,031	20,130	19,780	36,280	34,500	0	0	101,291	97,311
Total investment property (Note 12)	**51,801**	**49,831**	**51,300**	**50,590**	**56,820**	**55,270**	**8,954**	**6,270**	**168,875**	**161,961**
Other non-current assets									179	147
Net debt (liabilities less cash)									-66,361	-66,413
Other current assets									1,571	1,219
NET ASSETS									**104,264**	**96,914**

As of the end of 2022, the Group has two ongoing development projects in the nursing home segment - Valkla Südamekodu and Tartu Südamekodu in Estonia. The fair value of the ongoing development project as of 31.12.2022 was 2,634 thousand euros. The completion date of the Valkla Südamekodu project is in the spring of 2023, and the Tartu Südamekodu are currently in the planning stage.

In 2022 and 2021, the business segments did not make any transactions with each other. The main income of the Group is derived from investment properties located in the same countries as the subsidiary that owns the investment property.

The largest customers of the Group are DSV Estonia AS, Adax UAB, DSV Latvia SIA, DSV Lithuania UAB and Hortes AS, having respectively 7.8%, 6.0%, 5.5%, 5.4% and 5.4% of the group's consolidated rental income. The share of the income of the other tenants in the consolidated income is less than 5%.

4 Revenue

Segments	2022	2021
€ thousands		
Rental income from office premises (Note 12)	3,981	3,786
Rental income from retail premises (Note 12)	4,983	4,413
Rental income from logistics premises (Note 12)	4,007	3,550
Rental income from care home premises (Note 12)	518	416
Other sales revenue	810	756
Total revenue by segments of activity (Note 3)	**14,299**	**12,921**

Revenue by geographic areas	2022	2021
€ thousands		
Estonia	3,099	2,911
Latvia	2,001	1,948
Lithuania	9,199	8,062
Total revenue by geographical area (Note 3)	**14,299**	**12,921**

5 Cost of services sold

Cost of services sold	2022	2021
€ thousands		
Repair and maintenance of rental premises	-48	-34
Property insurance	-5	-5
Land tax and property tax	-28	-60
Other costs of administrative activities	-10	-64
Utility costs of vacant premises	0	-5
Depreciation	-2	-1
Improvement costs	-13	-1
Wage costs, including taxes (Note 18)	-39	-32
Proportional costs of VAT	-42	-35
Other selling expenses	-80	0
Allowance for doubtful accounts	0	-4
Total cost of services sold (Note 12)	**-267**	**-241**

6 Marketing costs

Marketing costs	2022	2021
€ thousands		
Commission expenses on rental premises	-25	-27
Advertising, advertising events[1]	-342	-239
Corporate marketing	0	-2
Total marketing costs	**-367**	**-268**

[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 administrative expenses

General administrative expenses	2022	2021
€ thousands		
Management services (Note 18)	-1,178	-1,074
Office expenses	-41	-36
Wages and salaries, incl. Taxes (Note 18)	-228	-213
Consulting expenses, legal expenses, accounting service	-207	-185
Audit costs	-73	-60
Regulator costs	-112	-135
Management fees	0	-537
Other general administrative expenses	-32	-32
Depreciation	-45	-54
Total general administrative expenses	**-1,916**	**-2,326**

8 Other financial income and expenses

Other financial income and expenses	2022	2021
€ thousands		
Interest expenses, incl.	-1,854	-1,804
Interest expenses from loans	-1,809	-1,691
Interest expense from derivatives (-)/ cost reductions (+)	-45	-113
Change in fair value of interest swaps	174	126
Total other financial income and expenses (Note 3, 15)	**-1,680**	**-1,678**

9 Income tax

	2022	2021
€ thousands		
Deferred income tax expense on dividends	-274	-240
Lithuanian corporate deferred income tax expense	-1,239	-1,290
Lithuanian corporate income tax expense on profits	-290	-222
Total income tax expense (Note 3)	**-1,803**	**-1,752**

Changes in deferred income tax liability in 2022 and 2021 include the following changes:

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
€ thousands			
Balance as at 31.12.2020	**4,383**	**200**	**4,583**
Change in deferred income tax liability in the income statement in 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**
Change in deferred income tax liability in the income statement in 2022	1,239	273	1,512
Income tax paid on dividends	0	-209	-209
Balance as at 31.12.2021	**6,912**	**336**	**7,248**

10 Earnings per share

Earnings per share	**2022**	**2021**
Net profit for the period, *€ thousands*	11,408	13,099
Dividend per share, euros	0.80	0.55
Weighted average number of shares over the period, in pc	5,072,535	4,698,909
Earnings per share, euros	2.25	2.79

11 Receivables and accrued income

	31.12.2022	**31.12.2021**
€ thousands		
Receivables from customers	765	584
Allowance for doubtful accounts	-6	-7
Total receivables from customers **(Note 15)**	**759**	**577**
Other short-term receivables		
Receivables from interest derivatives	53	0
Other short-term receivables	27	0
Total other short-term receivables	**80**	**0**
Accrued income		
Advances and refunds of VAT	111	0
Other accrued income	572	299
Total accrued income	**683**	**299**
Total receivables and accrued income (Note 15)	**1,522**	**876**

12 Investment properties

As of 31.12.2022 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 31.12.2022	Increase in value	Share of market value of the Fund's asset
€ thousands								
Saules Miestas shopping centre	Saules Miestas, Lithuania	20,282	2007	08.2015	29,308	36,280	24%	20%
DSV logistics centre	Vilnius, Lithuania	11,751	2005	06.2016	8,519	9,470	11%	5%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,366	13,610	10%	7%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,837	8,830	0%	5%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,836	10,771	22%	6%
Ulonu office building	Vilnius, Lithuania	5,290	2012	12.2015	8,327	9,320	12%	5%
Hortes gardening centre Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,138	3,720	19%	2%
Hortes gardening centre Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	5,600	3%	3%
Laagri Selver	Tallinn, Estonia	3,059	2017	05.2017	6,279	7,810	24%	4%
Evolution office building	Vilnius, Lithuania	6,614	2009	05.2018	10,005	11,780	18%	6%
ABC Motors car centre	Tallinn, Estonia	2,149	2002	02.2019	3,479	3,410	-2%	2%
airBaltic office building	Riga, Latvia	6,217	renov. 2016	03.2020	7,112	6,920	-3%	4%
Piepilsetas logistics centre	Kekava, Latvia	13,380	2007	03.2020	8,789	8,730	-1%	5%
Rutkausko office building	Vilnius, Lithuania	6,812	2014	08.2020	11,819	13,010	10%	7%
Pirita care home	Tallinn, Estonia	5,983	2020	12.2020	6,217	6,320	2%	3%
Ramygalos logistics centre	Panevežys Lithuania	20,126	2007	06.2021	10,011	10,660	6%	6%
Valkla Südamekodu	Valkla, Estonia	2,759	renov. 2022	04.2022	2,692	2,400	-11%	1%
Tartu Südamekodu	Tartu, Estonia	in development	2022-2023	04.2022	234	234	0%	0%
Total		**147,505**			**151,426**	**168,875**	**12%**	**93%**

Additional information on investment properties is provided in Note 3 'Segment reporting'.

The following changes have occurred in the Group's investment properties in 2022 and 2021:

	Investment property under development	Ready investment property	**Total investment property**
Balance as at 31.12.2020	**0**	**144,235**	**144,235**
Acquisition from business combinations	0	10,311	10,311
Capitalized improvements	0	973	973
Gain/loss form the change in fair value	0	6,442	6,442
Balance as at 31.12.2021	**0**	**161,961**	**161,961**
Acquisitions and developments	2,926	0	2,926
Capitalized improvements	0	869	869
Gain/loss form the change in fair value	-292	3,411	3,119
Balance as at 31.12.2022	**2,634**	**166,241**	**168,875**

The Group's income statement and balance sheet reflect, among other things, the following income and expenses and balances related to investment properties:

As of December 31, or for the year	**2022**	2021
Rental income from investment properties (note 4)	13,489	12,165
Costs directly related to the management of investment properties (note 5)	-267	-241
Outstanding amounts from the acquisition of investment properties (note 14) [1]	268	0
Book value of investment properties pledged as collateral for loan liabilities	168,641	161,961

[1] As of 31.12.2022, the Group had outstanding payments to vendors for the construction of the Valkla Südamekodu from the acquisition of investment property in the amount of 268 thousand euros.

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

Payments from perpetual operating leases	31.12.2022	31.12.2021
€ thousands		
Up-to 1 year	12,184	11,041
2-5 years	28,791	27,776
More than 5 years	21,847	19,540
Total	**62,822**	**58,357**

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 property reflected in the Group's reports as of 31.12.2022 and 31.12.2021 has been obtained using the discounted cash flow method. The following assumptions have been used in finding the fair value:

As of 31.12.2022:

Sector	Fair value	Valuation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/m2
€ thousands						
Office	51,801	Discounted cash flows	3,851	8.8%	6.75%-7.5%	11.5
Logistics	51,300	Discounted cash flows	4,116	8.2%-9.6%	7.1%-7.9%	4.7
Retail	56,820	Discounted cash flows	4,803	7.8%-9.6%	6.5%-8.0%	12.2
Care homes	8,954	Discounted cash flows	631	8.0%-9.0%	6.8%-8.0%	5.0
Total	**168,875**		**13,401**			

As of 31.12.2021:

Sector	Fair value	Valuation 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**			

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 31.12.2022** 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	51,801	*5,630*	*-5,640*	*-1,040*	*1,040*	*-2,500*	*2,870*
Logistics	51,300	*5,380*	*-5,370*	*-1,010*	*1,010*	*-2,300*	*2,640*
Retail	56,820	*6,390*	*-6,410*	*-1,130*	*1,130*	*-2,420*	*2,760*
Care homes	8,954	*980*	*-1,040*	*-220*	*220*	*-460*	*470*
Total	**168,875**	**18,380**	**-18,460**	**-3,400**	**3,400**	**-7,680**	**8,740**

As at 31.12.2021

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**

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

13 Borrowings

As at 31.12.2022, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.22	Contract term	Interest rate as at 31.12.22	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,616	12,554	13.08.23	4.79%	Mortgage - Saules Miestas shopping centre	36,280	12.0%
SEB	Lithuania	5,500	4,047	28.06.26	3.04%	Mortgage - DSV logistics centre	9,470	3.9%
SEB	Latvia	5,123	3,884	29.06.26	3.98%	Mortgage - DSV logistics centre	8,830	3.7%
SEB	Lithuania	5,620	4,181	27.10.26	3.09%	Mortgage L3 office building	10,771	4.0%
SEB	Estonia	7,950	5,849	29.06.26	3.08%	Mortgage- DSV logistics centre	13,610	5.6%
SEB	Lithuania	5,200	3,690	21.12.25	3.44%	Mortgage - Ulonu office building	9,320	3.5%
SEB	Lithuania	5,850	4,673	30.05.23	3.95%	Mortgage - Evolution office building	11,780	4.5%
Swedbank	Estonia	3,833	2,814	29.06.27	3.30%	Mortgage - Laagri Selver	7,810	2.7%
SEB	Estonia	1,860	1,356	05.07.27	2.24%	Mortgage - Hortes gardening centre Laagri	3,720	1.3%
Swedbank	Estonia	3,290	2,928	11.01.24	3.56%	Mortgage - Hortes gardening centre Tähesaju	5,600	2.8%
LHV	Estonia	1,800	1,551	25.02.24	3.88%	Mortgage - ABC Motors car centre	3,410	1.5%
Swedbank	Latvia	4,000	2,614	05.02.23	5.21%	Mortgage - Piepilsetas logistics centre	8,730	2.5%
Luminor	Latvia	3,905	2,457	04.02.25	4.39%	Mortgage - airBaltic office building	6,920	2.4%
Swedbank	Estonia	3,100	2,914	28.11.25	3.85%	Mortgage - Pirita care home, parent company's guarantee	6,320	2.8%
Swedbank	Estonia	2,250	377	25.09.27	3.85%	Mortgage - Valklaranna tee 36	2,400	0.4%
Šiaulių bankas	Lithuania	6,000	5,646	13.06.26	5.02%	Mortgage - Ramygalos logistics centre	10,660	5.4%
SEB	Lithuania	7,300	6,526	12.08.25	2.76%	Mortgage - Rutkausko office building	13,010	6.3%
Total		**87,197**	**68,061**				**168,641**	**65.3%**

As at 31.12.2021, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.12.21	Contract term	Interest rate as at 31.12.21	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 office building	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%**

Short-term borrowings	31.12.2022	31.12.2021
€ thousands		
Repayments of long-term bank loans in the next period[2]	22,093	7,677
Discounted contract fees for bank loans	-35	-32
Total short-term borrowings	**22,058**	**7,645**

[2] Repayments of long-term bank loans in the next period as of 31.12.2022 include the balance of the loan obligations of three subsidiaries expiring within the next 12 months in the amount of 19,841 thousand euros. The LTV of the expiring loan agreements is in the 30-40% range, and the investment property have a stable, strong rental cash flow, so according to the Group's management, there will be no obstacles to the extension of the loan agreements.

Repayments of long-term bank loans in the next period as of 31.12.2021 include two remaining loan obligations ending within the next 12 months in the amount of 4,376 thousand euros. The LTV of the expiring loan agreements is 40% and 39%, and the investment property have a stable and strong rental cash flow, therefore, according to the group's management, there are no obstacles in extending the loan agreements, and the group's working capital is sufficient to cover short-term liabilities.

Long-term borrowings	31.12.2022	31.12.2021
€ thousands		
Total long-term borrowings	67,975	71,085
incl. current portion of borrowings	22,058	7,645
incl. non-current portion of borrowings, incl.	45,917	63,440
Bank loans	45,968	63,500
Discounted contract fees on borrowings	-51	-60

Borrowings are divided as follows according to repayment date:

Repayments of borrowings by maturity	31.12.2022	31.12.2021
€ thousands		
Up to 1 year	22,093	7,677
2-5 years	45,968	63,500
Total repayments of borrowings	**68,061**	**71,177**

Cash flows from borrowings	2022	2021
€ thousands		
Balance at the beginning of the period	71,085	72,368
Bank loans received	377	6,300
Loan repayments for refinancing	0	-4,000
Annuity payments on bank loans	-3,493	-3,586
Change of discounted contract fees	6	3
Balance as at the end of period	**67,975**	**71,085**

Additional information on borrowings is also provided in Note 15.

14 Payables and prepayments

Short-term payables and prepayments

	31.12.2022	31.12.2021
€ thousands		
Other payables to suppliers (note 12)	268	0
Other payables to suppliers	228	681
Total payables to suppliers	496	681
Other payables	4	25
Total other payables	4	25
VAT	272	252
Income tax on dividends	62	0
Land tax, property tax	64	103
Other tax liabilities	5	4
Total tax payables	403	359
Payables to employees	27	23
Interest payables	123	40
Tenants' security deposits	82	77
Other accrued liabilities	326	144
Total prepayments	558	284
Total payables and prepayments	**1,461**	**1,349**

Long-term payables

	31.12.2022	31.12.2021
€ thousands		
Tenants' security deposits	1,008	985
Other long-term payables	0	2
Total other long-term payables	**1,008**	**987**

For additional information on payables, 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	31.12.2022	31.12.2021
€ thousands			
Financial assets – loans and receivables			
Cash and cash equivalents		11,331	13,074
Trade receivables	11	759	577
Total financial assets		**12,090**	**13,651**
Financial liabilities measured at amortised cost			
Borrowings	13	67,975	71,085
Trade payables	14	496	681
Tenant security deposits	14	1,090	1,062
Interest payables	14	123	40
Accrued expenses	14	353	167
Total financial liabilities measured at amortised cost		**70,037**	**73,035**
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		0	121
Total financial liabilities measured at fair value		**0**	**121**
Total financial liabilities		**70,037**	**73,156**

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 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.

The rapid acceleration of the inflation rate in 2022 prompted central banks to end the so-called zero interest policy that had lasted for almost ten years. While at the beginning of 2022, the EURIBOR rate used as the basis for most loans issued in euro was negative, by the end of the year the 6-month EURIBOR rose to 2.7% and the 1-month EURIBOR to 1.9%. All of the Group's investment property have been made with financial leverage, which is why the increase in interest rates also had an impact on the interest costs and cash flows of the Group's loans.

As of 31.12.2022, 100% of the Group's loan agreements have been concluded on a floating interest basis (margin between 1.4% and 2.95% plus 1-month, 3-month and 6-month EURIBOR). In turn, 18% of the contracts concluded on the basis of floating interest are related to the interest rate swap contract, where the 3-month EURIBOR is fixed at the level of 0.35%. All contracts in the loan portfolio of EfTEN Real Estate Fund III AS have a 0% limit (floor) set to protect against negative EURIBOR, i.e. in case of negative EURIBOR, the loan margin for these loan obligations does not decrease.

Due to the long-term nature of the Group's real estate investments and long-term borrowings 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 he 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 3-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 31.12.2022 was positive in the amount of EUR 53 thousand (31.12.2021: negative EUR 121 thousand). Additional information on determining the fair value of interest rate swaps is provided in the 'Fair value' section below.

The continued appreciation of EURIBOR has a negative impact on the Group's net profit and cash flows. The table below shows the effect of the change in interest rates on the Group's pre-tax profit and cash flow by EURIBOR levels (EURIBOR 2.0% - 4.0%), taking into account loan balances as of 31.12.2022.

EURIBOR RATE	**Impact on pre-tax profits and cash flows per year**
€ thousands	
EURIBOR 2.0%	-227
EURIBOR 2.5%	-567
EURIBOR 3.0%	-907
EURIBOR 3.5%	-1,248
EURIBOR 4.0%	-1,588

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 of December 31, 2022, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 40% (31.12.2021: 44%) and the average debt coverage ratio (DSCR) for the last 12 months was 2.2 (2021: 1.9).

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 31.12.2022	Less than 1 month	Between 2 and 4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ thousands						
Interest-bearing liabilities	371	3,453	18,266	45,971	0	**68,061**
Interest payments	226	655	1,337	3,365	0	**5,583**
Interest payables	123	0	0	0	0	**123**
Trade payables	496	0	0	0	0	**496**
Tenant security deposits	2	16	64	836	172	**1,090**
Accrued expenses	353	0	0	0	0	**353**
Total financial liabilities	**1,571**	**4,124**	**19,667**	**50,172**	**172**	**75,706**

As at 31.12.2021	Less than 1 month	Between 2 and 4 months	Between 5 and 12 months	Between 2 and 5 years	Over 5 years	**Total**
€ 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**

Statement of working capital

	31.12.2022	31.12.2021
€ thousands		
Cash and cash equivalents	11,331	13,074
Receivables and accrued income (Note 11)	1,522	876
Prepaid expenses	49	314
Total current assets	**12,902**	**14,264**
	,	,
Short-term portion of long-term liabilities (Note 13)	-22,058	-7,645
Short-term payables and prepayments	-1,461	-1,470
Total current liabilities	**-23,519**	**-9,115**
Total working capital	**-10,617**	**5,149**

As at 31.12.2022 the Group's working capital is negative, i.e. current liabilities exceed current assets by EUR 10,617 thousand (31.12.2021: positive 5,149). The working capital is negative in connection with three loan agreements ending in 12 months, in total 19,841 thousand.

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:

	31.12.2022	31.12.2021
Not due	717	536
Past due, incl.	**48**	**48**
Up to 30 days	*33*	*40*
30-60 days	*6*	*2*
More than 60 days	*9*	*6*
Allowance for doubtful accounts	-6	-7
Total trade receivables (Note 11)	**759**	**577**

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

	31.12.2022	31.12.2021
€ thousands		
Cash and cash equivalents	11,331	13,074
Trade receivables (Note 11)	759	577
Total maximum credit risk	**12,090**	**13,651**

Bank account balances and deposits reflected in the group's cash and cash equivalents and short-term deposits are divided by banks according to ratings (Moody's long-term) as follows:

Rating	**31.12.2022**	**31.12.2021**
€ thousands		
Aa2	10,436	12,181
Baa1	478	708
Baa2	413	183
No rating	0	0
Total	**11,327**	**13,072**

Capital management

The Group treats borrowings and equity as capital.

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

The Group 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 and Lithuanian corporate income tax expense). During 2022, the group has earned a free cash flow of 6.182 million euros (2021 12 months: 4.550 million euros), of which, according to the Fund's dividend policy, the total amount of net dividends would be 4.638 million euros (2021: 3.401 million euros). Taking into account the obligation to keep a minimum cash balance resulting from the special conditions of the loan of the fund's subsidiaries and the short-term need for liquidity, as well as the possibility of increasing the loan amount by 1 million euros due to the current loan agreement of the Fund's subsidiary EfTEN Laagri OÜ, the Fund's board proposes to the council to pay dividends for 2022 more than the dividend policy stipulates - in total 5.438 million euros.

Statement of capitalization

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

	31.12.2022	31.12.2021
€ thousands		
Short-term liabilities guaranteed with mortgage (Note 13)	22,093	7,677
Unsecured short-term liabilities	1,426	1,438
Total short-term liabilities	**23,519**	**9,115**
Long-term liabilities guaranteed with mortgage (Note 13)	45,968	63,500
Unsecured long-term liabilities	8,205	6,872
Total long-term liabilities	**54,173**	**70,372**
Share capital and share premium (Note 16)	67,013	67,013
Reserves	2,149	1,489
Retained earnings (Note 17)	35,102	28,412
Total shareholder's equity	**104,264**	**96,914**
Total liabilities and equity	**181,956**	**176,401**

Statement of net debt

	31.12.2022	31.12.2021
€ thousands		
Cash	11,331	13,074
Total liquid assets	**11,331**	**13,074**
The short-term portion of long-term liabilities (Note 13)	22,093	7,677
Net short-term debt	**10,762**	**-5,397**
Long-term bank loans (long-term portion) (Note 13)	**45,968**	63,500
Total long-term debt	**45,968**	**63,500**
Total net debt	**56,730**	**58,103**

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 31.12.2022 and 31.12.2022 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 and statutory reserve capital

The registered share capital of EfTEN Real Estate Fund III AS as at 31.12.2022 was EUR 50,725 thousand (31.12.2021: same). As of 31.12.2022 the share capital consisted of 5,072,535 shares (31.12.2021: same) with a nominal value of 10 euros (31.12.2021: the Without amending the articles of association, the company has the right to increase the share capital to EUR 168,901 thousand. As of 31.12.2022 contributions to the share capital and share premium have been made in the total amount of EUR 67,013 thousand (31.12.2021: same), see (Note 15).

As of 31.12.2022, EfTEN Real Estate Fund III AS has allocated 2,149 thousand euros from undistributed profit as statutory reserve capital (31.12.2021: 1,489 thousand euros).

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

	As at 31.12.2022	
Company	**Number of shares**	**Ownership, %**
Altius Capital 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 31.12.2022	
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

	31.12.2022	31.12.2021
€ thousands		
Retained earnings (Note 15)	35,102	28,412
Potential income tax liability	7,020	5,682
Dividends can be paid out	28,082	22,730

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 31.12.2022 and 31.12.2021.

18 Related party transactions

EfTEN Real Estate Fund III AS considers as related parties:

- EfTEN Real Estate Fund III AS board members and companies owned by board members;
- members of the Supervisory Board of EfTEN Real Estate Fund III AS and companies belonging to the mentioned persons;
- employees of EfTEN Real Estate Fund III AS and companies owned by employees;
- EfTEN Capital AS (Fund management company).

During the year of 2022, the Group purchased management services from EfTEN Capital AS in the amount of EUR 1,178 thousand (2021:1,074 thousand) (see Note 7).

EfTEN Real Estate Fund III AS did not purchase or sell other goods or services from other related parties during the 2022 nor 2021.

As of 31.12.2022, the Group had a total of 10 employees, who were paid a total of EUR 267 thousand (2021: EUR 245 thousand), (see Note 5,7). No fees were calculated or paid to the members of the Group's Management Board or Supervisory Board during the 2022 nor 2021. 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 Events after the balance sheet date

EfTEN Real Estate Fund III AS and EfTEN Kinnisvarafond AS signed a merger agreement on 19.09.2022, according to which EfTEN Kinnisvarafond AS (the fund being acquired) will merge with EfTEN Real Estate Fund III AS (the acquiring fund) without liquidation proceedings. The balance sheet date of the merger is 1 January 2023, i.e. from this day on, all assets, liabilities, income and expenses of EfTEN Kinnisvarafond AS will be reflected in the financial statements of EfTEN Real Estate Fund III.

The expected impact of the merger on the assets, liabilities and equity of EfTEN Real Estate Fund III is shown in the table below:

	EfTEN Real Estate Fund III AS	EfTEN Kinnisvarafond AS[1]	Transactions upon merger	Merged company 01.01.2023
€ thousands				
Cash and cash equivalents	11,331	11,621	0	22,952
Other current assets	1,571	462	0	2,033
Total current assets	**12,902**	**12,083**	**0**	**24,985**
Investment property	168,875	196,292	0	365,167
Associates	0	2,577	0	2,577
Other non-current assets	179	84	0	263
Total non-current assets	**169,054**	**198,953**	**0**	**368,007**
TOTAL ASSETS	**181,956**	**211,036**	**0**	**392,992**
Short-term borrowings	22,058	26,875	0	48,933
Other short-term liabilities	1,461	831	0	2,292
Total short-term liabilities	**23,519**	**27,706**	**0**	**51,225**
Long-term borrowings	45,917	55,528	0	101,445
Deferred income tax liability	7,248	1,101	0	8,349
Other long-term liabilities	1,008	795	0	1,803
Total long-term liabilities	**54,173**	**57,424**	**0**	**111,597**
TOTAL LIABILITIES	**77,692**	**85,130**	**0**	**162,822**
Share capital and share premium	67,013	54,154	71,752	192,919
Statutory reserve capital	2,149	4,734	-4,734	2,149
Retained earnings	35,102	67,018	-67,018	35,102
Total equity	**104,264**	**125,906**	**0**	**230,170**
TOTAL LIABILITIES AND EQUITY	**181,956**	**211,036**	**0**	**392,992**

[1] The indicators of EfTEN Kinnisvarafond AS include assets, liabilities and equity found according to EPRA's net worth calculations. EfTEN Kinnisvarafond AS EPRA's equity capital has eliminated the deferred income tax liability related to changes in the value of investment property and tax differences in the amount of 690 thousand euros, which would only be realized on the sale of investment property.

20 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:

	2022	2021
€ thousands		
General and administrative expenses	-152	-710
Gain from subsidiaries	11,409	13,686
Finance income	152	199
Finance expense	0	-71
Profit before income tax	**11,409**	**13,104**
Net profit for the year	**11,409**	**13,104**
Other comprehensive income for the year	**11,409**	**13,104**

Parent company's statement of financial position

	31.12.2022	31.12.2021
€ thousands		
ASSETS		
Current assets		
Cash and cash equivalents	3,446	6,491
Receivables and accrued income	1,118	318
Total current assets	**4,564**	**6,809**
Non-current assets		
Shares of subsidiaries	94,536	84,926
Long-term receivables	5,178	5,726
Total non-current assets	**99,714**	**90,652**
TOTAL ASSETS	**104,278**	**97,461**
Borrowings	8	542
Total short-term liabilities	**8**	**542**
Total liabilities	**8**	**542**
Share capital	50,725	50,725
Share premium	16,288	16,288
Statutory reserve capital	2,149	1,489
Retained earnings	35,108	28,417
Total equity	**104,270**	**96,919**
TOTAL LIABILITIES AND EQUITY	**104,278**	**97,461**

Parent company's separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
€ thousands					
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**
Comprehensive income for the period	0	0	0	13,104	**13,104**
Balance as at 31.12.2021	**50,725**	**16,288**	**1,489**	**28,417**	**96,919**
Dividends declared	0	0	0	-4,058	**-4,058**
Provision for reserve capital	0	0	660	-660	**0**
Comprehensive income for the period	0	0	0	11,409	**11,409**
Balance as at 31.12.2022	**50,725**	**16,288**	**2,149**	**35,108**	**104,270**

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

	31.12.2022	31.12.2021
€ thousands		
Parent company's unconsolidated equity	104,270	96,919
Carrying amount of subsidiaries and joint ventures in the separate balance sheet of the parent company (minus)	-94,536	-84,926
Value of subsidiaries and joint ventures under the equity method (plus)	94,536	84,926
Total	**104,270**	**96,919**

Parent company’s statement of cash flows

	2022	2021
€ thousands		
Cash flows from operating activities		
Net profit	**11,409**	**13,104**
Adjustments of net profit:		
Interest income and expense	-152	-128
Gains / losses on revaluation of investment property	-7,352	-10,888
Dividends received	-4,058	-2,798
Total adjustments	**-11,562**	**-13,814**
Cash flows from operations before changes in working capital	**-153**	**-710**
Change in receivables and payables related to operating activities	-554	581
Total cash flows from operating activities	**-707**	**-129**
Cash flows from investing activities		
Purchase of subsidiaries	-2,258	-5,530
Loans granted	-106	-2,386
Repayment of loans granted	25	2,486
Dividends received	4,058	2,798
Interest received	1	13
Total cash flows from investing activities	**1,720**	**-2,619**
Cash flows from financing activities		
Repayment of loans received	0	-3,100
Interest paid	0	-65
Dividends paid	-4,058	-2,798
Issue of shares	0	15,130
Total cash flows from financing activities	**-4,058**	**9,167**
TOTAL CASH FLOWS	**-3,045**	**6,419**
Cash and cash equivalents at the beginning of period	**6,491**	**72**
Change in cash and cash equivalents	-3,045	6,419
Cash and cash equivalents at the end of period	**3,446**	**6,491**

Management Board Declaration for the Consolidated Annual Report 2022

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 2022.

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.

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

Independent auditor's report

To the Shareholders of EfTEN Real Estate Fund III AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EfTEN Real Estate Fund III AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2022, 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 Group´s Supervisory Board dated 27 February 2023.

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 2022;
- the consolidated statement of financial position as at 31 December 2022;
- 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.

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.

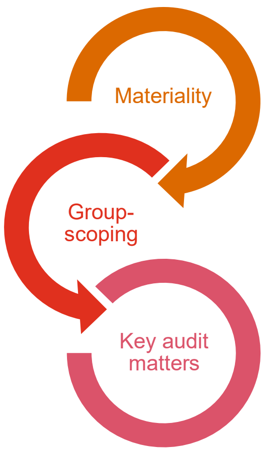
This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100127242/reports).

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 2022 to 31 December 2022 are disclosed in in the Management Report.

Our audit approach

Overview



- Overall group audit materiality is EUR 1.8 million 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.

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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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 1.8 million
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 2022 the investment properties carried at fair value amounted to EUR 169 million and the revaluation gain recognised in 2022 in the statement of comprehensive income was EUR 3.1 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.

The Group's financial statements consolidate twenty 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, EfTEN Pirita OÜ and EfTEN Valkla 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 significant 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

Translation note:

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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.

- 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 based our agreement 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 2022 (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 those charged with governance

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.

Those charged with governance 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).

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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.

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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 sixth 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 digitally/

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

/signed digitally/

Rando Rand
Auditor's certificate no.617

27 February 2023
Tallinn, Estonia

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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, Renumeration Report and the Consolidated Financial Statements, and the independent auditor's report to the General Meeting of Shareholders.

February 27, 2023

/signed digitally/

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Arti Arakas

Chairman of the Supervisory Board

/signed digitally/

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Siive Penu

Member of the Supervisory Board

/signed digitally/

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Sander Rebane

Member of the Supervisory Board

/signed digitally/

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Olav Miil

Member of the Supervisory Board

Distribution of revenue according to the Estonian Classification of Economic Activities

	EMTAK code	2022	Sales revenue %	Main activity
€ thousands				
Fund management	66301	0	-	yes