

Interim report for the 2nd quarter and 1st half-year of 2022

(translation of the Estonian original)

EfTEN Real Estate Fund III AS
Commercial register number: 12864036

Beginning of financial period: 01.01.2022
End of financial period: 30.06.2022

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**EFTEN
REAL
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FUND III**

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MANAGEMENT REPORT

The fund manager's comments on the financial results of the first half-year of 2022

The first half-year of 2022 turned out to be successful for EFTEN Real Estate Fund III. The fund's revenue increased to EUR 6.988 million, i.e. 17.3% compared to the last year's first half-year. In June, the fund's independent appraiser Colliers International valued the fund's real estate portfolio, as a result of that the value of the fund's investment properties increased by 2.2% and the fund earned profit in the amount of EUR 3.702 from the revaluation.

In the first half-year, the fund purchased two new investment properties – land plots for Valkla and Ermi care homes which are planned to accommodate up to 370 customers when finished. To purchase the care homes and initial investments total of EUR 2.343 million has been spent as of June 30, 2022.

In June, 2022, the fund's subsidiary EFTEN Laagri OÜ extended its bank loan on current conditions (interest with the margin of 1.4%) for the next five years. In the following 12 months, the fund's three loans that have mortgage on Laagri Hortes, Evolution office building and Piepilsetas logistics centre will meet its' maturity dates. All investment properties that are set as collateral have strong rental cash flow and LTV is between 31% and 41%, due to which the management does not see risk related to extending the loan contracts when the maturity date arrives. Rather, given the low level of LTV, fund managers see an opportunity to increase loan amounts and pay investors a higher dividend from the funds received.

As of June 30, 2022, the fund has EUR 3.5 million uninvested capital that is planned to use for development of purchased care home land plots.

Financial overview

The consolidated revenue of EFTEN Real Estate Fund III AS for the second quarter of 2022 was EUR 3.530 million (2021 second quarter: EUR 3.088 million), increasing by 14% during the year.

The consolidated revenue of EFTEN Real Estate Fund III AS for the first half-year of 2022 was EUR 6.988 million (2021 first half-year: EUR 5.955 million), increasing by 17% compared to last year (EUR 1.033 million). The Group's net rental income of the first half-year of 2022 was EUR 6.666 million (2021: EUR 5.726 million), increasing by 17%. The Group's net profit for the same period was EUR 7.882 million (2021: EUR 5.470 million).

	First half-year	
	2022	2021
€ million		
Rental revenue, other fees from investment properties	6.988	5.955
Expenses related to investment properties, incl. marketing costs	-0.322	-0.229
Net rental income	6.666	5.726
<i>Net rental income margin</i>	95%	96%
Interest expense and interest income	-0.856	-0.905
Net rental revenue less finance costs	5.810	4.821
Management fees	-0.581	-0.499
Other revenue and expenses	-0.279	-0.371
Profit before change in the value of investment property, fair value change of the interest rate swap and income tax expense	4.950	3.951

In the first half-year of 2022, the consolidated net rental income margin was 95% (2021: 96%), thus, the expenses directly related to the management of real estate (incl. land tax, insurance, maintenance, and improvement costs) and marketing expenses accounted for 5% (2021: 4%) of revenue.

As of June 30, 2022, the volume of the Group's total assets was EUR 178.422 million (31.12.2021: EUR 176.401 million), incl. the fair value of the investment properties that accounted for 95% of the total assets (31.12.2021: 92%).

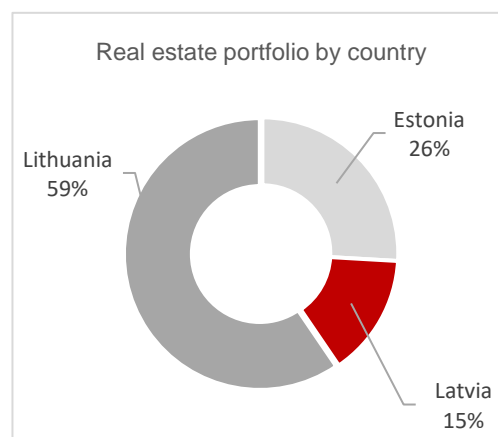
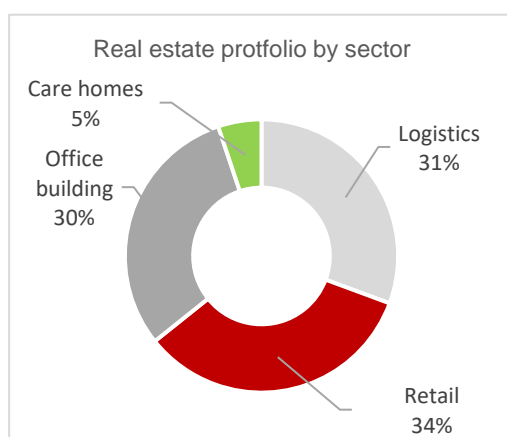
	30.06.2022	31.12.2021
€ millions		
Investment properties	168.604	161.961
Other non-current assets	0.163	0.147
Current assets, excluding cash	1.166	1.219
Net debt (cash and deposits minus short-term and long-term bank loans)	-60.891	-58.103
Net asset value (NAV)	100.738	96.914
EPRA net asset value (EPRA NAV)	107.191	102.708
Net asset value (NAV) per share, in euros	19.86	19.11
EPRA net asset value (EPRA NAV) per share, in euros	21.13	20.25

Key performance and liquidity ratios

6 months or as of June 30	2022	2021
ROE. % (net profit of the period / average equity of the period) x 100	8.0	6.8
ROA. % (net profit of the period / average assets of the period) x 100	4.4	3.4
ROIC. % (net profit of the period / average invested capital of the period) x 100 ¹	11.8	9.2
Revenue (€ thousands)	6,988	5,955
EBITDA (€ thousands)	5,829	4,884
EBITDA margin. %	83%	82%
EBIT (€ thousands)	9,508	6,876
EBIT margin. %	136%	115%
Liquidity ratio (current assets / current liabilities)	0.8	1.0
DSCR (EBITDA / (interest expenses + scheduled loan payments))	2.1	1.9

Real estate portfolio

As of the on June, 2022, the Group had 18 (31.12.2021: 16) commercial real estate investments with a fair value as of balance sheet date in the amount of EUR 168.604 million (31.12.2021: EUR 161.961 million) and acquisition cost of EUR 150.575 million (31.12.2021: EUR 147.633 million).



Main figures of the Group's real estate portfolio

Investment property as of 30.06.2022	Group's ownership	Fair value of investment properties	Net leasable area	Rental revenue per annum (€ thousand)	Occupancy, %	Average length of rental agreements	Number of tenants
DSV logistics centre, Tallinn	100	13,690	16,014	1,044	100	4.4	1
DSV logistics centre, Riga	100	8,800	12,149	739	100	4.4	1
DSV logistics centre, Vilnius	100	9,560	11,751	726	100	4.3	1
Piepilsetas logistics centre, Kekava	100	8,890	13,380	731	100	2.2	7
Ramygalos logistics centre, Panevėžys	100	10,710	20,126	814	100	14.8	1
Logistics total		51,650	73,420	4,054	100	6.1	11
Saules Miestas shopping centre, Šiauliai	100	35,380	20,011	3,166	97	4.5	128
Hortes gardening centre, Laagri	100	3,730	3,470	287	100	9.9	1
Laagri Selver, Tallinn	100	7,810	3,059	524	100	6.1	12
Hortes gardening centre, Tallinn	100	6,410	5,300	483	100	12.3	1
ABC Motors Autokeskus, Tallinn	100	3,380	2,149	294	100	6.6	1
Retail total		56,710	33,989	4,754	98	5.9	143
Ulonu office building, Vilnius	100	9,320	5,290	715	100	1.9	14
L3 office building, Vilnius	100	10,691	6,150	776	98	3.0	34
Evolution office building, Vilnius	100	11,730	6,614	875	97	3.5	26
airBaltic head office, Riga	100	6,890	6,217	504	100	3.7	1
Rutkauskos office building, Vilnius	100	12,950	6,812	886	100	8.1	3
Office total		51,581	31,083	3,756	99	4.1	78
Pirita Pansionaat, Tallinn	100	6,320	5,983	447	100	8.4	1
Valkla Sūdamekodu, Valkla	100	2,108	2,759		100	9.8	1
Tartu Sūdamekodu, Tartu	100	235			in construction		
Care homes total		8,663	8,742	447	100	8.8	2
Real estate portfolio total		168,604	147,234	13,011	99	5.6	234

In April, the fund's subsidiary EFTEN Valkla OÜ acquired real estate located in Valklaranna tee 36, Valkla. The fund plans to remodel the building from care home to general care home that could accommodate up to 250 customers in the future. Renovation work is performed in stages. The purchase price of the real estate plot was EUR 2,005 thousand and in addition, the fund's subsidiary is required to carry out investments on the amount of EUR 2,000 thousand. Purchase of the real estate plot and investments are financed by the fund's own assets.

In April, the fund's subsidiary EFTEN Ermi OÜ acquired building rights located in Ermi tn 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 Sūdamekodud 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 the first half-year of 2022, the Group earned rental revenue of EUR 6.610 million. Rental income calculated in comparative terms was EUR 6.184 million in the first half-year on 2022, which is 11% (EUR 619 thousand) more than in 2021 at the same time. In the first half-year of 2022 the Group gave discounts related to Covid-19 crisis in the amount of EUR 9 thousand (2021 first half-year: EUR 317 thousand), i.e. the increase in rental income from indexation and decrease in vacancy is EUR 311 thousand (5%, compared to 2021) in the first half-year of 2022.

Comparative rental income by segments

€ thousands	Fair value as of 30.06.2022	First half-year		Change	Change, %
		Rental income 2022	Rental income 2021		
Office	51,581	1,981	1,837	144	8%
Logistics	40,940	1,597	1,559	38	2%
Retail	56,710	2,398	1,961	437	22%
Care homes	6,320	208	208	0	0%
Total comparative assets and rental income	155,551	6,184	5,565	619	11%
Acquired assets and rental income	13,053	426	33	393	
Total real estate portfolio assets and rental income	168,604	6,610	5,598	1,012	18%

Comparative rental income by countries

€ thousands	Fair value as of 30.06.2022	First half-year		Change	Change, %
		Rental income 2022	Rental income 2021		
Estonia	41,340	1,503	1,426	77	5%
Latvia	24,580	971	948	23	2%
Lithuania	89,631	3,710	3,191	519	16%
Total comparative assets and rental income	155,551	6,184	5,565	619	11%
Acquired assets and rental income	13,053	426	33	393	
Total real estate portfolio assets and rental income	168,604	6,610	5,598	1,012	18%

EFTEN Real Estate Fund III AS's largest tenants as of 30.06.2022

Tenant	Share of total rental income
DSV Estonia AS	7.8%
Adax UAB	6.1%
Hortes AS	5.7%
DSV Latvia SIA	5.5%
DSV Lithuania, UAB	5.4%
Atea, UAB	5.0%
AIR BALTIC CORPORATION AS	4.0%
Rimi Lietuva, UAB	3.8%
Pirita Sūdamekodu OÜ	3.3%
Selver AS	2.6%
Valstybinė energetikos reguliavimo taryba	2.3%
Others	48.4%
Total	100.0%

EPRA performance indicators

EPRA performance indicators

As of the balance sheet date	30.06.2022	30.06.2021	Change
EPRA profit, € thousands	4,826	3,865	25%
EPRA earnings per share, in euros	0.95	0.90	6%
EPRA NRV (net reinstatement value), € thousands	107,191	94,330	14%
EPRA NRV per share, in euros	21.13	18.60	14%
EPRA NDV (net disposal value), € thousands	100,738	89,286	13%
EPRA NDV per share, in euros	19.86	17.60	13%
EPRA NIY (net initial yield)	7.1%	8.0%	-11%
EPRA Topped-up NIY (adjusted net initial yield)	13%	13%	-4%
EPRA cost ratio, including direct vacancy costs	13%	13%	-4%
EPRA cost ratio, excluding direct costs related to vacancy	0.6%	0.5%	15%

EPRA indicator calculations

EPRA net asset value indicators

As of 30.06.2022

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	100,738	100,738	100,738
Adjustments:			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	6,453	6,453	-
Fair value of derivatives	-13	-13	-
Net asset value	107,178	107,178	100,738
Number of fully diluted shares	5,072,535	5,072,535	5,072,535
Net asset value per unit, in euros	21.13	21.13	19.86

As of 30.06.2021

€ thousands	EPRA NRV	EPRA NTA	EPRA NDV
Net asset value calculated in accordance with IFRS	89,286	89,286	89,286
Adjustments:			
Deferred income tax liability related to the change in the fair value of investment property and tax depreciation	4,864	4,864	-
Fair value of derivatives	180	180	-
Net asset value	94,330	94,330	89,286
Number of fully diluted shares	5,072,535	5,072,535	5,072,535
Net asset value per unit, in euros	18.60	18.60	17.60

EPRA profit

€ thousands	2022	2021
Net profit (IFRS)	7,882	5,470
Adjustments:		
Change in fair value of investment property	-3,702	-2,020
Change in fair value of financial instruments	-134	-66
Deferred income tax expense related to EPRA adjustments	780	481
EPRA profit	4,826	3,865
Weighted average number of shares during the period	5,072,535	4,316,979
EPRA earnings per share, in euros	0.95	0.90

EPRA net yield

€ thousands	2022	2021
Investment property	168,604	144,762
Completed real estate investments	168,604	144,762
Annualized rental income from leases in force at the reporting date	13,011	12,592
Expenditure on investment property not covered by tenants	-1,057	-1,052
Annualized net rental income	11,954	11,540
Nominal effect of the exemption from rent exemptions or other incentives	1	41
Adjusted annualized net rental income	11,955	11,581
EPRA net initial yield (NIY)	7.1%	8.0%
EPRA adjusted net initial yield (Topped-up NIY)	7.1%	8.0%

EPRA vacancy rate

€ thousands	2022	2021
Estimated rental income from vacant premises	84	71
Estimated rental income for the entire real estate portfolio	13,304	12,986
EPRA vacancy rate	0.6%	0.5%

EPRA cost ratios

€ thousands	2022	2021
Cost of sales	-131	-139
Other sales revenue paid by tenants to cover expenses	378	357
Marketing costs	-191	-90
Operating costs	-903	-876
Total costs, including direct costs related to the vacancy	-847	-748
Direct vacancy costs	-15	-16
Total costs excluding direct costs related to the vacancy	-832	-732
Rental income (gross)	6,610	5,598
EPRA cost ratio, including direct vacancy costs	13%	13%
EPRA cost ratio, excluding direct costs related to vacancy	13%	13%

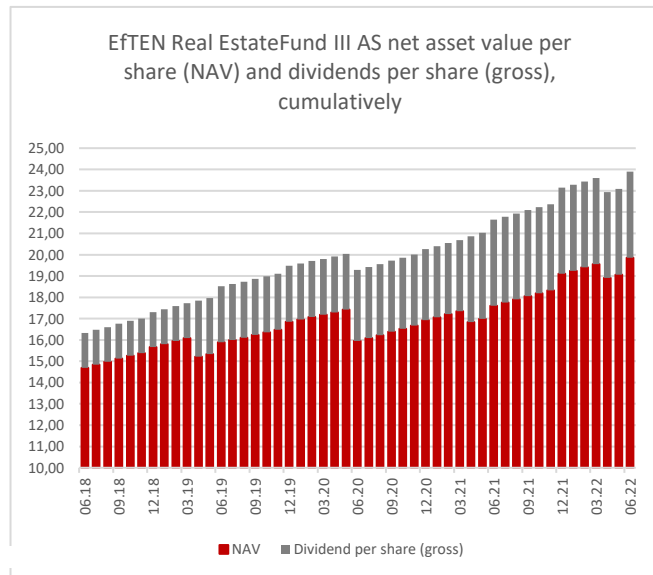
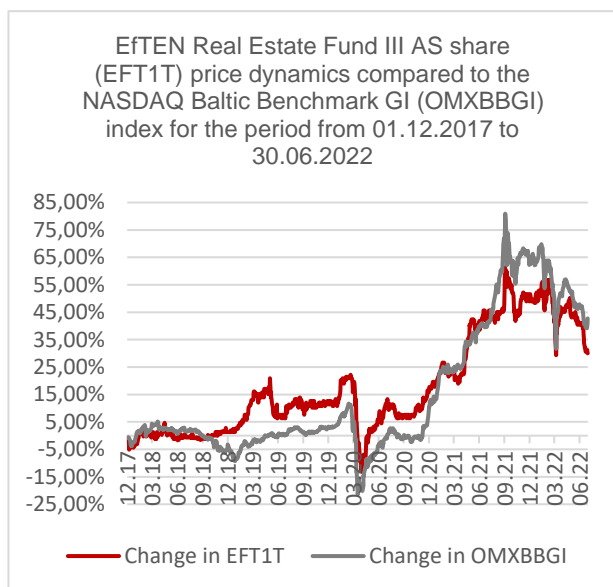
Financing

In the following 12 months, the Group's three subsidiaries' – Evolution office building, Laagri Hortes and Piepilsetas logistics centre – loan contracts will end, the balance of the loans as of 30 June, 2022, is EUR 8,916 thousand euros. The LTV of maturing loan contracts is 31%-41% and investment properties have stable strong rental cash flow, due to which the Group's management does not see risk related to extending the contracts.

The weighted average interest rate of the Group's loan agreements (incl. taking into account interest rate swap agreements) as of at the end of June is 2.2% (2021: the same) and LTV (Loan to Value) is 42% (31.12.2021: 44%). Most of the loan agreements of the fund's subsidiaries are linked to a floating interest rate and only one loan (accounting for 2% of the loan portfolio) has a fixed base interest rate. In order to hedge the risk of an increase in the interest rate of one loan agreement, an interest rate swap agreement has been entered into, which expires in 2023.

Information on shares

As of 30 June, 2022, the net asset value per share (EPRA NDV) of EFTEN Real Estate Fund III AS was 19.86 euros (31.12.2021: 19.11 euros). The net asset value per share of EFTEN Real Estate Fund III AS increased by 4.0% in the first half-year of 2022.



As of June 30, 2022, EFTEN Real Estate Fund III AS had 6,049 shareholders, of whom 16.7% were legal entities. Legal entities owned 78.65% of total fund's share capital. The distribution of shares is shown in the table below.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Ownership		Total ownership
	Legal entity	Private individual		Legal entity	Private individual		Legal entity	Private individual	
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%
Australia	-	3	3	-	19	19	-	0.0004%	0.0004%
Austria	-	1	1	-	1,255	1,255	-	0.0247%	0.0247%
Belgium	-	1	1	-	5	5	-	0.0001%	0.0001%
Denmark	1	1	2	1	25	26	-	0.0005%	0.0005%
Estonia	997	4,990	5,987	3,975,040	1,072,315	5,047,355	78.3640%	21.1396%	99.5036%
Finland	1	15	16	47	666	713	0.0009%	0.0131%	0.0141%
France	-	1	1	-	100	100	-	0.0020%	0.0020%
Germany	-	6	6	-	311	311	-	0.0061%	0.0061%
Holland	-	1	1	-	109	109	-	0.0021%	0.0021%
Ireland	-	1	1	-	20	20	-	0.0004%	0.0004%
Italy	-	1	1	-	75	75	-	0.0015%	0.0015%
Latvia	-	1	1	-	228	228	-	0.0045%	0.0045%
Lithuania	1	-	1	666	-	666	0.0131%	-	0.0131%
Malta	1	1	2	2,281	31	2,312	0.0450%	0.0006%	0.0456%
Norway	-	1	1	-	20	20	-	0.0004%	0.0004%
Oman	-	1	1	-	3	3	-	0.0001%	0.0001%
Portugal	-	1	1	-	124	124	-	0.0024%	0.0024%
South Africa	5	1	6	8,946	6,406	15,352	0.1764%	0.1263%	0.3026%
Spain	-	1	1	-	115	115	-	0.0023%	0.0023%
Sweden	1	3	4	35	83	118	0.0007%	0.0016%	0.0023%
Switzerland	-	2	2	-	82	82	-	0.0016%	0.0016%
United Arab Emirates	-	1	1	-	142	142	-	0.0028%	0.0028%
United Kingdom	-	4	4	-	678	678	-	0.0134%	0.0134%
United States	1	-	1	2,349	-	2,349	0.0463%	-	0.0463%
Total	1,008	5,041	6,049	3,989,365	1,083,170	5,072,535	78.65%	21.35%	100.00%

As of June 30, 2022, EFTEN Real Estate Fund III AS has three shareholders with more than 10% participation:

Entity	As of 30.06.2022	
	Number of shares	Ownership, %
Altius Energia OÜ	723,182	14.26
Järve Kaubanduskeskus OÜ	518,952	10.23
Hoiukonto OÜ	516,930	10.19

EFT1T share statistics	6 months	
	2022	2021
Opening price	23.1	19.0
Closing price	20.0	21.7
Minimum share price	19.5	18.8
Maximum share price	24.2	22.5
Volume of traded shares, thousands	138	144
Volume, € million	3.039	2.894
Market capitalization as at 30.06, € million	101.451	95.728
Profit per share, €	1.10	0.83
P/B (closing price / equity per share)	1.01	1.23
P/B EPRA (closing price / EPRA equity per share)	0.95	1.17

INTERIM FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousands	Notes	2nd quarter		First half-year	
		2022	2021	2022	2021
Revenue	3,4	3,530	3,088	6,988	5,955
Cost of sales	5	-71	-73	-131	-139
Gross profit		3,459	3,015	6,857	5,816
Marketing costs	6	-117	-59	-191	-90
General and administrative expenses	7	-448	-492	-903	-876
Gain / loss from revaluation of investment properties	12	3,702	2,020	3,702	2,020
Other operating income and expense		17	3	43	6
Operating profit	3	6,613	4,487	9,508	6,876
Other finance income and expense	8	-360	-418	-722	-839
Profit before income tax		6,253	4,069	8,786	6,037
Income tax expense	9	-649	-394	-904	-567
Net profit for the financial year	3	5,604	3,675	7,882	5,470
Earnings per share	10				
- Basic		1.10	0.83	1.55	1.27
- Diluted		1.10	0.83	1.55	1.27

The notes on pages 13 to 28 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2022	31.12.2021
€ thousands			
ASSETS			
Cash and cash equivalents	15	8,489	13,074
Receivables and accrued income	11	1,113	876
Prepaid expenses		53	314
Inventory		0	29
Total current assets		9,655	14,293
Long-term receivables		3	4
Investment property	3,12	168,604	161,961
Property, plant and equipment		158	140
Intangible assets		2	3
Total non-current assets		168,767	162,108
TOTAL ASSETS		178,422	176,401
LIABILITIES AND EQUITY			
Borrowings	13	11,873	7,645
Derivative instruments	15	0	121
Payables and prepayments	14	923	1,349
Total current liabilities		12,796	9,115
Borrowings	13	57,410	63,440
Other long-term debt	14	962	987
Deferred income tax liability	9	6,516	5,945
Total non-current liabilities		64,888	70,372
Total liabilities		77,684	79,487
Share capital	16	50,725	50,725
Share premium	16	16,288	16,288
Statutory reserve capital		2,149	1,489
Retained earnings	17	31,576	28,412
Total equity		100,738	96,914
TOTAL LIABILITIES AND EQUITY		178,422	176,401

The notes on pages 13 to 28 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2nd quarter		First half-year	
		2022	2021	2022	2021
€ thousands					
Net profit		5,604	3,675	7,882	5,470
Adjustments of net profit:					
Finance income and expense	8	360	418	722	839
Gains / losses on revaluation of investment property	12	-3,702	-2,020	-3,702	-2,020
Depreciation and impairment losses	7	11	14	23	28
Income tax expense	9	649	394	904	567
Total adjustments with non-cash changes		-2,682	-1,194	-2,053	-586
Cash flow from operations before changes in working capital		2,922	2,481	5,829	4,884
Change in receivables and payables related to operating activities		275	-848	-491	-1,052
Net cash flow generated from operating activities		3,197	1,633	5,338	3,832
Purchase of property, plant and equipment		-46	-20	-50	-77
Purchase of investment property	12	-2,806	-10,381	-2,941	-10,908
Interest received		0	4	0	4
Net cash flow generated from investing activities		-2,852	-10,397	-2,991	-10,981
Loans received	13	0	6,000	0	6,300
Loan repayments refinancing	13	0	-4,000	0	-4,000
Loan repayments scheduled	13	-897	-873	-1,797	-1,776
Interest paid		-443	-465	-868	-903
Issue of shares		0	15,130	0	15,130
Dividends paid	15	-4,058	-2,798	-4,058	-2,798
Income tax on dividends paid		-209	0	-209	0
Net cash flow generated from financing activities		-5,607	12,994	-6,932	11,953
NET CASH FLOW		-5,262	4,230	-4,585	4,804
Cash and cash equivalents at the beginning of period		13,751	5,702	13,074	5,128
Change in cash and cash equivalents		-5,262	4,230	-4,585	4,804
Cash and cash equivalents at the end of period	15	8,489	9,932	8,489	9,932

The notes on pages 13 to 28 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousands	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2020	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	5,470	5,470
Total comprehensive income for the period	0	0	0	5,470	5,470
Balance as at 31.12.2021	50,725	16,288	1,489	20,783	89,285
Dividends declared	50,725	16,288	1,489	28,412	96,914
Provision for reserve capital	0	0	0	-4,058	-4,058
Total transactions with owners	0	0	660	-660	0
Net profit for the financial period	0	0	660	-4,718	-4,058
Total comprehensive income for the period	0	0	0	7,882	7,882
Dividends declared	0	0	0	7,882	7,882
Balance as at 30.06.2022	50,725	16,288	2,149	31,576	100,738

Additional information on share capital is provided in Note 16.

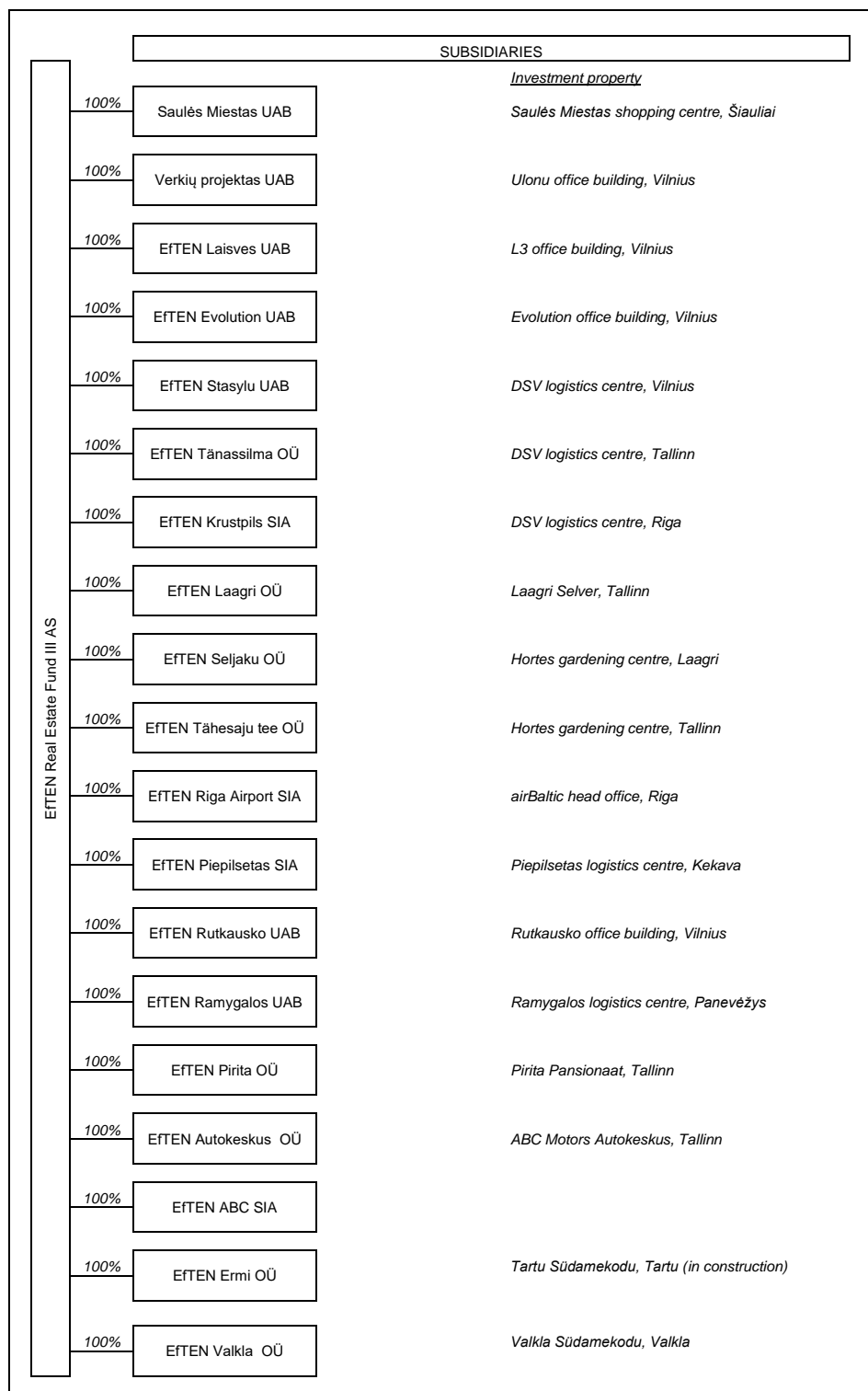
The notes on pages 13 to 28 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

The structure of EFTEN Real Estate Fund III AS Group as at 30.06.2022 is as follows (also see Note 2):



The consolidated interim financial statements of EFTEN Real Estate Fund III AS and its subsidiaries have been prepared in accordance with the International Standards as adopted by the European Union (IFRS EU). These consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting. The interim report has been prepared using the same accounting methods as in the annual report for the year ended 31.12.2021. The interim report should be read in conjunction with the Group's most recently published annual report for 2021, prepared in accordance with International Financial Reporting Standards (IFRS). In the opinion of the Management Board, the interim report of EFTEN Real Estate Fund III AS for the second quarter and the first half-year of 2022 correctly and fairly reflects the financial results of the Group in accordance with the principle of continuity. This interim report has not been audited or otherwise verified by auditors and contains only the consolidated financial statements of the Group. The reporting currency is the euro. The consolidated interim financial statements have been prepared in thousands of euros and all figures have been rounded to the nearest thousand, unless otherwise stated.

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, € thousands		Group's ownership Interest, %	
			30.06.2022	31.12.2021	30.06.2022	31.12.2021
Parent company						
EfTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Saulės Miestas shopping centre, Šiauliai	19,679	18,990	100	100
Verkiu Projektas UAB	Lithuania	Ulonu office building, Vilnius	4,363	4,326	100	100
EfTEN Laisves UAB	Lithuania	L3 office building, Vilnius	5,743	5,375	100	100
EfTEN Stasyļu UAB	Lithuania	DSV logistics centre, Vilnius	5,128	5,106	100	100
EfTEN Tānassilma OÜ	Estonia	DSV logistics centre, Tallinn	7,986	7,729	100	100
EfTEN Krustpils SIA	Latvia	DSV logistics centre, Riga	3,301	3,083	100	100
EfTEN Tāhesaju tee OÜ	Estonia	Hortes gardening centre, Tallinn	3,453	3,507	100	100
EfTEN Evolution UAB	Lithuania	Evolution office building, Vilnius	6,027	5,528	100	100
EfTEN Seljaku OÜ	Estonia	Hortes gardening centre, Laagri	2,416	2,374	100	100
EfTEN Laagri OÜ	Estonia	Laagri Selver, Tallinn	5,098	4,623	100	100
EfTEN Autokeskus OÜ	Estonia	ABC Motors Car Centre, Tallinn	1,905	1,996	100	100
EfTEN Piepilsetas SIA	Latvia	Piepilsetas logistics centre, Kekava	4,159	4,042	100	100
EfTEN Riga Airport SIA	Latvia	airBaltic main building, Riga	4,646	4,469	100	100
EfTEN Rutkauskos UAB	Lithuania	Rutkauskos office building, Vilnius	6,157	5,714	100	100
EfTEN Piritā OÜ	Estonia	Pirita Pansionaat, Tallinn	3,670	3,479	100	100
EfTEN Ramygalos UAB	Lithuania	Ramygalos logistics centre, Panevėžys	5,003	4,585	100	100
EfTEN ABC SIA	Latvia	-	3	0	100	0
EfTEN Valkla OÜ	Estonia	Valkla Sūdamekodu, Valkla	2,029	0	100	0
EfTEN Ermi OÜ	Estonia	Tartu Sūdamekodu, Tartu	240	0	100	0

In February 2022, EFTEN Real Estate Fund III established a 100% subsidiary in Latvia, EFTEN ABC SIA, paying 2.8 thousand 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 wholly-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.

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, for the first half-year

	Office		Logistics		Retail		Care homes First half- year		Non-allocated		Total	
	First half-year		First half-year		First half-year		First half- year		First half-year		First half-year	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<i>€ thousands</i>												
Revenue (note 4), incl.	1,982	1,869	2,018	1,615	2,754	2,263	234	208	0	0	6,988	5,955
Estonia	0	0	520	507	784	714	234	208	0	0	1,538	1,429
Latvia	250	249	739	722	0	0	0	0	0	0	989	971
Lithuania	1,732	1,620	759	386	1,970	1,549	0	0	0	0	4,461	3,555
Net operating income, incl.	1,932	1,794	2,000	1,602	2,503	2,125	231	205	0	0	6,666	5,726
Estonia	0	0	520	507	770	706	231	205	0	0	1,521	1,418
Latvia	249	248	721	710	0	0	0	0	0	0	970	958
Lithuania	1,683	1,546	759	385	1,733	1,419	0	0	0	0	4,175	3,350
Operating profit, incl.	3,443	1,793	2,713	1,696	3,194	3,320	235	185	-77	-118	9,508	6,876
Estonia	0	0	715	461	985	1,283	235	185	-77	-118	1,858	1,811
Latvia	287	206	830	670	0	0	0	0	0	0	1,117	876
Lithuania	3,156	1,587	1,168	565	2,209	2,037	0	0	0	0	6,533	4,189
EBITDA, incl.	1,755	1,586	1,777	1,380	2,189	1,835	185	201	-77	-118	5,829	4,884
Estonia	0	0	474	461	675	612	185	201	-77	-118	1,257	1,156
Latvia	197	206	616	604	0	0	0	0	0	0	813	810
Lithuania	1,558	1,380	687	315	1,514	1,223	0	0	0	0	3,759	2,918
Operating profit											9,508	6,876
Net financial expense (Note 8)											-722	-839
Profit before income tax											8,786	6,037
Income tax expense (Note 9)											-904	-567
NET PROFIT FOR THE REPORTING PERIOD											7,882	5,470

SEGMENT RESULTS, for the 2nd quarter

	Office		Logistics		Retail		Care homes 2nd quarter		Non-allocated		Total	
	2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<i>€ thousands</i>												
Revenue, incl.	985	951	1,024	827	1,391	1,206	130	104	0	0	3,530	3,088
Estonia	0	0	262	254	395	344	130	104	0	0	787	702
Latvia	125	124	382	364	0	0	0	0	0	0	507	488
Lithuania	860	827	380	209	996	862	0	0	0	0	2,236	1,898
Net operating income, incl.	950	918	1,017	820	1,247	1,116	128	102	0	0	3,342	2,956
Estonia	0	0	262	254	390	339	128	102	0	0	780	695
Latvia	125	124	375	357	0	0	0	0	0	0	500	481
Lithuania	825	794	380	209	857	777	0	0	0	0	2,062	1,780
Operating profit, incl.	2,544	1,019	1,842	1,005	2,113	2,466	154	82	-40	-85	6,613	4,487
Estonia	0	0	481	231	654	964	154	82	-40	-85	1,249	1,192
Latvia	188	102	536	370	0	0	0	0	0	0	724	472
Lithuania	2,356	917	825	404	1,459	1,502	0	0	0	0	4,640	2,823
EBITDA, incl.	855	812	906	689	1,097	968	104	98	-40	-85	2,922	2,482
Estonia	0	0	240	231	344	294	104	98	-40	-85	648	538
Latvia	98	102	322	304	0	0	0	0	0	0	420	406
Lithuania	757	710	344	154	753	674	0	0	0	0	1,854	1,538
Operating profit											6,613	4,487
Net financial expense											-360	-418
Profit before income tax											6,253	4,069
Income tax expense											-649	-394
NET PROFIT FOR THE REPORTING PERIOD											5,604	3,675

SEGMENT ASSETS

As of June 30	Office		Logistics		Retail		Care homes		Non-allocated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
€ thousands										
Investment property										
Estonia	0	0	13,690	13,080	21,330	19,810	8,663	6,200	43,683	39,090
Latvia	6,890	6,800	17,690	17,180	0	0	0	0	24,580	23,980
Lithuania	44,691	41,281	20,270	19,121	35,380	33,690	0	0	100,341	94,092
Total investment property (Note 12)	51,581	48,081	51,650	49,381	56,710	53,500	8,663	6,200	168,604	157,162
Other non-current assets									163	157
Net debt (liabilities less cash)									-69,195	-70,201
Other current assets									1,166	2,168
NET ASSETS									100,738	89,286

In the first half-year of 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 Group's largest customers are DSV Transport AS and AQ Wiring Systems, UAB, holding 7.8% and 6.1% of the Group's consolidated rental income, respectively. The share of income of other tenants in the consolidated income is less than 6%.

4 Revenue

Segments	First half-year	
	2022	2021
€ thousands		
Rental income from office premises (Note 12)	1,981	1,837
Rental income from retail premises (Note 12)	2,398	1,961
Rental income from logistics premises (Note 12)	1,997	1,592
Rental income from care home premises (Note 12)	234	208
Other sales revenue	378	357
Total revenue by segments of activity (Note 12)	6,988	5,955

Revenue by geographic areas	First half-year	
	2022	2021
€ thousands		
Estonia	1,538	1,429
Latvia	989	971
Lithuania	4,461	3,555
Total revenue by geographical area (Note 3)	6,988	5,955

5 Cost of services sold

Cost of services sold	First half-year	
	2022	2021
€ thousands		
Repair and maintenance of rental premises	-23	-22
Property insurance	-2	-2
Land tax and real estate tax	-15	-44
Other administrative expenses	-31	0
Utility costs of vacant premises	-8	0
Improvement costs	-6	0
Wage costs, including taxes (Note 18)	-19	-13
Proportional VAT costs	-22	-38
Other selling expenses	-5	-13
Impairment of doubtful receivables	0	-7
Total cost of services sold (Note 12)	-131	-139

6 Marketing costs

Marketing costs	First half-year	
	2022	2021
€ thousands		
Commission expenses on rental premises	-7	-16
Advertising, advertising events ¹	-184	-74
Total marketing costs	-191	-90

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

7 General and administrative expenses

General and administrative expenses	First half-year	
	2022	2021
€ thousands		
Management services (Note 18)	-581	-499
Office expenses	-22	-22
Wages and salaries, incl. Taxes (Note 18)	-110	-93
Consulting expenses, legal expenses, accounting service, evaluation service	-72	-110
Audit costs	-22	-12
Regulator costs	-54	-94
Other general administrative expenses	-19	-18
Depreciation costs	-23	-28
Total administrative expense	-903	-876

8 Other financial income and expenses

Other financial income and expenses	First half-year	
	2022	2021
€ thousands		
Interest expenses, incl.	-856	-905
Interest expense from loans	-804	-848
Interest expense from derivatives (-)/ cost reductions (+)	-52	-57
Change in fair value of interest swaps	134	66
Total other financial income and expenses (Note 15)	-722	-839

9 Income tax

	First half-year	
	2022	2021
€ thousands		
Deferred income tax expense for Lithuanian companies	-780	-481
Lithuanian corporate income tax expense on profits	-124	-86
Total income tax expense (Note 3)	-904	-567

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
€ thousands			
Balance as at 31.12.2021	5,673	272	5,945
Change in deferred income tax liability in the income statement for the first half-year of 2022	780	0	780
Income tax paid on dividends	0	-209	-209
Balance as at 30.06.2022	6,453	63	6,516

10 Earnings per share

Earnings per share	2nd quarter		6 months	
	2022	2021	2022	2021
Net profit for the period, € thousands	5,604	3,675	7,882	5,470
Dividend per share, euros	0,80	0,66	0,80	0,66
Weighted average number of shares over the period, in pc	5,072,535	4,411,424	5,072,535	4,316,979
Earnings per share, in euros	1.10	0.83	1.55	1.27

11 Receivables and accrued income

	30.06.2022	31.12.2021
€ thousands		
Receivables from customers	491	584
Allowance for doubtful accounts	-7	-7
Total trade receivables (Note 15)	484	577
Receivables from interest derivatives	13	0
Total other short term receivables	13	0
Advances and refunds of VAT	38	23
Other tax prepayments	28	0
Other accrued income	550	276
Total accrued income	616	299
Total receivables and accrued income (Note 15)	1,113	876

12 Investment properties

As of June 30, 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 31.03.2022	Increase in value	Share of market value of the Fund's asset
€ thousands								
Saules Miestas shopping centre	Saules Miestas, Lithuania	20,011	2007	08.2015	29,190	35,380	21%	20%
DSV logistics centre	Vilnius, Lithuania	11,751	2005	06.2016	8,513	9,560	12%	5%
DSV logistics centre	Tallinn, Estonia	16,014	2003	07.2016	12,366	13,690	11%	8%
DSV logistics centre	Riga, Latvia	12,149	2000	07.2016	8,837	8,800	0%	5%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,828	10,691	21%	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	3,730	19%	2%
Hortes gardening centre Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,410	17%	4%
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	9,885	11,730	19%	7%
ABC Motors car centre	Tallinn, Estonia	2,149	2002	02.2019	3,479	3,380	-3%	2%
airBaltic office building	Riga, Latvia	6,217	recon. 2016	03.2020	7,100	6,890	-3%	4%
Piepilsetas logistics centre	Kekava, Latvia	13,380	2007	03.2020	8,785	8,890	1%	5%
Rutkauskos office building	Vilnius, Lithuania	6,812	2014	08.2020	11,819	12,950	10%	7%
Pirita care home	Tallinn, Estonia	5,983	2020	12.2020	6,217	6,320	2%	4%
Ramygalos logistics centre	Panevėžys, Lithuania	20,126	2007	06.2021	10,011	10,710	7%	6%
Valkla Südamekodu	Valkla, Estonia	2,759	recon. 2022	04.2022	2,108	2,108	0%	1%
Tartu Südamekodu	Tartu, Estonia	In construction	2022-2023	04.2022	235	235	0%	0%
Total		147,234			150,575	168,604	12%	94%

In the first half-year of 2022 and 2021 the following changes occurred in the Group's investment properties:

	Investment properties in development	Finished investment properties	Total investment properties
Balance as at 01.01.2021	0	144,235	144,235
Acquisition from business combinations	0	10,311	10,311
Capitalized improvements	0	596	596
Gain/loss form the change in fair value	0	2,020	2,020
Balance as at 30.06.2021 (Note 4)	0	157,162	157,162
Balance as at 01.01.2022	0	161,961	161,961
Acquisition from business combinations	2,342	0	2,342
Capitalized improvements	0	599	599
Gain/loss form the change in fair value	0	3,702	3,702
Balance as at 30.06.2022 (Note 4)	2,342	166,262	168,604

Additional information regarding investment properties is provided in Note 3.

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

	First half-year	
As of June 30 or for the first half-year	2022	2021
Rental income from investment properties (Note 4)	6,610	5,598
Costs directly related to the management of investment properties (Note 5)	-131	-139
Book value of investment properties pledged as collateral for loan liabilities (Note 13)	166,261	157,162

Assumptions and basis for determining the fair value of investment properties

The Group's investment properties are valued by an independent appraiser. The fair value of all investment properties reported in the Group's financial statements as of 30.06.2022 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As of 30.06.2022:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/m2
€ thousands						
Office	51,581	Discounted cash flows	3,756	8.2%-8.45%	7.0%-7.8%	11.3
Logistics	51,650	Discounted cash flows	4,053	8.2%-9.3%	6.75%-7.25%	4.6
Retail	56,710	Discounted cash flows	4,754	7.8%-9.0%	6.5%-8.0%	12.0
Care homes	6,320	Discounted cash flows	447	7.8%	6.8%	6.2
Total	166,261		13,010			

As of 31.12.2021:

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

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 recognised in the Group's balance sheet as of 30.06.2022 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	Revenue +10%	Revenue 10%	
€ thousands								
Office	51,581	5,530	-5,520	-1,050	1,080	-2,480		2,870
Logistics	51,650	5,430	-5,430	-1,040	1,040	-2,350		2,640
Retail	56,710	6,440	-6,450	-1,120	1,160	-2,430		2,770
Care homes	6,320	660	-660	-130	130	-310		360
Total	166,261	18,060	-18,060	-3,340	3,410	-7,570		8,640

As of 31.12.2021:

RS 01.12.2021.

Sector	Fair value	Sensitivity to management estimate			Sensitivity to independent appraisal				
		Revenue +10%	Revenue	-10%	Discount rate +50bp	Discount rate -50bp	Revenue +10%	Revenue 10%	-
€ 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 30.06.2022, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 31.03.2022	Contract term	Interest rate as at 31.03.2022	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,616	12,989	13.08.23	2.65%	Mortgage - Saules Miestas shopping centre	35,380	12.9%
SEB	Lithuania	5,500	4,119	28.06.26	1.85%	Mortgage - DSV logistics centre	9,560	4.1%
SEB	Latvia	5,123	3,967	29.06.26	1.85%	Mortgage - DSV logistics centre	8,800	3.9%
SEB	Estonia	7,950	5,974	29.06.26	1.85%	Mortgage - DSV logistics centre	13,690	5.9%
SEB	Lithuania	5,620	4,258	27.10.26	1.90%	Mortgage L3 office building	10,691	4.2%
SEB	Lithuania	5,200	3,759	21.12.25	2.25%	Mortgage - Ulonu office building	9,320	3.7%
SEB	Lithuania	5,850	4,792	30.05.23	2.00%	Mortgage - Evolution office building	11,730	4.8%
Swedbank	Estonia	3,290	2,994	11.01.24	1.95%	Mortgage - Hortes gardening centre Tāhesaju	6,410	3.0%
SEB	Estonia	1,860	1,403	05.07.22	1.82%	Mortgage - Hortes gardening centre Laagri	3,730	1.4%
Swedbank	Estonia	3,700	2,861	29.06.27	1.40%	Mortgage - Laagri Selver	7,810	2.8%
LHV	Estonia	1,800	1,587	25.02.24	2.95%	Mortgage - ABC Motors car centre	3,380	1.6%
Luminor	Latvia	3,905	2,543	04.02.25	2.75%	Mortgage - airBaltic office building	6,890	2.5%
Swedbank	Latvia	3,201	2,721	05.02.23	2.80%	Mortgage - Piepilsetas logistics centre	8,890	2.7%
SEB	Lithuania	7,300	6,671	12.08.25	2.10%	Mortgage - Rutkauskos office building	12,950	6.6%
Šiaulių bankas	Lithuania	6,000	5,766	13.06.26	2.68%	Mortgage - Ramygalos logistics centre	10,710	5.7%
Swedbank	Estonia	3,100	2,976	28.11.25	1.95%	Mortgage - Pirita care home, parent company's guarantee	6,320	3.0%
total		84,015	69,380				166,261	68.9%

Short-term borrowings	30.06.2022	31.12.2021
€ thousands		
Repayments of long-term bank loans in the next period	11,911	7,677
Discounted contract fees for bank loans	-38	-32
Total short-term borrowings	11,873	7,645

Long-term borrowings	30.06.2022	31.12.2021
€ thousands		
Total long-term borrowings	69,283	71,085
incl. current portion of borrowings	11,873	7,645
incl. non-current portion of borrowings, incl.	57,410	63,440
Bank loans	57,469	63,500
Discounted contract fees on bank loans	-59	-60

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	30.06.2022	31.12.2021
€ thousands		
Up to 1 year	11,911	7,677
2-5 years	57,469	63,500
Total repayments of bank loans	69,380	71,177

	First half-year	
Cash flows of borrowings	2022	2021
€ thousands		
Balance at the beginning of the period	71,085	72,368
Bank loans received	0	6,300
Loan repayments for refinancing	0	-4,000
Annuity payments on bank loans	-1,797	-1,776
Change of discounted contract fees	-5	0
Balance as at the end of period	69,283	72,892

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

14 Payables and prepayments

	30.06.2022	31.12.2021
€ thousands		
Other payables to suppliers	299	681
Total payables to suppliers	299	681
Other payables	20	25
Total other payables	20	25
VAT	242	252
Corporate income tax	11	0
Land tax, real estate tax	7	103
Other tax liabilities	2	4
Total tax payables	262	359
Debts to employees	23	23
Interest payable	32	40
Tenants' security deposits	89	77
Other accrued liabilities	198	144
Total prepayments	342	284
Total payables and prepayments	923	1,349

	30.06.2022	31.12.2021
€ thousands		
Tenants' security deposits	961	985
Other long-term debts	1	2
Total other long-term payables	962	987

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

15 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

€ thousands	Notes	30.06.2022	31.12.2021
Financial assets - loans and receivables			
Cash and cash equivalents		8,489	13,074
Trade receivables	11	484	577
Total financial assets		8,973	13,651
Financial liabilities measured at amortised cost			
Borrowings	13	69,283	71,085
Trade payables	14	299	681
Tenant security deposits	14	1,050	1,062
Interest payables	14	32	40
Accrued expenses	14	221	167
Total financial liabilities measured at amortised cost		70,885	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		70,885	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 rate risk

Interest rate risk is the risk of changes in the future cash flows of financial instruments due to changes in market interest rates. A change in market interest rates mainly influences the long-term floating rate borrowings of the Group.

As of 30.06.2022, 98% of the Group's loan agreements are based on floating interest (margin between 1.4% and 3.0% plus 1-month, 3-month and 6-month EURIBOR) and 2% of the loan agreements bear fixed interest in the range of 1.55%. In turn, 19% of floating rate contracts are linked to an interest rate swap, where the 3-month EURIBOR is fixed at 0.35%. During the first half-year of 2022, 3-month EURIBOR fluctuated from -0.576% to -0.163%, i.e. the maximum change during the first half-year was 0.413 basis points. All contracts in the loan portfolio of EFTEN Real Estate Fund III AS have a 0% floor to protect against negative EURIBOR, i.e. in the event of a negative EURIBOR, the loan margin for these loan liabilities does not decrease.

Due to the long-term nature of the Group's real estate investments and long-term loan liabilities related to investments, the management of EFTEN Real Estate Fund III AS decided in 2016 to cover the risk of long-term floating interest rate increase by fixing a partial floating interest rate (3-month EURIBOR). It was decided to hedge the risk with an interest rate swap agreement, where the floating interest rate of the subsidiary's loan agreement was exchanged for a fixed interest rate. It was decided to enter into interest rate swaps subject to the following three conditions:

- (1) The investment property that secures the loan agreement that the cash flow hedge applies to is unlikely to be sold in the 10-year perspective;
- (2) The total nominal values of swaps at the time of conclusion does not exceed 50% of the total consolidated loan portfolio of EFTEN Real Estate Fund III;
- (3) The loan agreements that the cash flow hedge applies to are being extended at maturity until the expiry date of the swap agreements in order for the cashflows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

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

The Group recognizes interest rate swaps with a change in profit or loss. The fair value of interest rate swaps as at 30.06.2022 was positive in the amount of EUR 13 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.

Liquidity risk

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

- Decrease or volatility of rental income, reducing the Group's ability to generate positive net cash flows;
- Vacancy of rental property;
- Mismatch between the maturities of assets and liabilities and flexibility in changing them;
- Marketability of long-term assets;
- Volume and pace of real estate development activities;
- Financing structure.

The Group's objective is to manage net cash flows in such a way that no more than 65% of the acquisition cost of the investment property involves external debt and the Group's debt coverage ratio would be higher than 1.2. As at 30 June 2022, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 42% (31 December 2021: 44%) and the average debt coverage ratio (DSCR) for the last 12 months was 2.1 (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 30 June 2022	Less than 1 month	Between 2 and 4 months	Between 4 and 12 months	Between 2 and 5 years	Over 5 years	Total
€ thousands						
Interest-bearing liabilities	1,692	871	9,348	57,469	0	69,380
Interest payments	136	398	1,003	2,389	0	3,926
Interest payables	32	0	0	0	0	32
Trade payables	299	0	0	0	0	299
Tenant security deposits	8	0	81	813	148	1,050
Accrued expenses	221	0	0	0	0	221
Total financial liabilities	2,390	1,276	10,449	60,709	148	74,972

Statement of working capital

	30.06.2022	31.12.2021
€ thousands		
Cash and cash equivalents	8,489	13,074
Receivables and accrued income (Note 11)	1,113	876
Prepaid expenses	53	314
Total current assets	9,655	14,264
Short-term portion of long-term liabilities (Note 13)	-11,873	-7,645
Short-term payables and prepayments	-923	-1,470
Total current liabilities	-12,796	-9,115
Total working capital	-3,141	5,149

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:

	30.06.2022	31.12.2021
Undue	449	536
Past due, incl.	42	48
<i>up to 30 days</i>	33	40
<i>30-60 days</i>	2	2
<i>more than 60 days</i>	7	6
Allowance for doubtful accounts	-7	-7
Total trade receivables (Note 11)	484	577

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

	30.06.2022	31.12.2021
€ thousands		
Cash and cash equivalents	8,489	13,074
Trade receivables (Note 11)	484	577
Total maximum credit risk	8,973	13,651

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).

In the first half-year of 2022, the Group has earned free cash flow (EBITDA minus loan payments and interest expense) in the amount of EUR 3,176 thousand (2021 first half-year: EUR 2,203 thousand). All loans were serviced as usual and no payment holiday was used by the subsidiaries in the first half-year of 2022-

Statement of capitalisation

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

	30.06.2022	31.12.2021
€ thousands		
Short-term liabilities guaranteed with mortgage (Note 13)	11,911	7,677
Unsecured short-term liabilities	885	1,438
Total short-term liabilities	12,796	9,115
Long-term liabilities guaranteed with mortgage (Note 13)	57,469	63,500
Unsecured long-term liabilities	7,419	6,872
Total long-term liabilities	64,888	70,372
Share capital and share premium (Note 16)	67,013	67,013
Reserves	2,149	1,489
Retained earnings (Note 17)	31,576	28,412
Total shareholder's equity	100,738	96,914
Total liabilities and equity	178,422	176,401

Statement of net debt

	30.06.2022	31.12.2021
€ thousands		
Cash (Note 12)	8,489	13,074
Total liquid assets	8,489	13,074
The short-term portion of long-term liabilities (Note 13)	11,911	7,677
Net short-term debt	3,422	-5,397
Long-term bank loans (long-term portion) (Note 13)	57,469	63,500
Total long-term debt	57,469	63,500
Total net debt	60,891	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 30.06.2022 and 31.12.2021, 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.

6 Share capital

The registered share capital of EFTEN Real Estate Fund III AS as at 30 June 2022 was 50,725 thousand euros (31 December 2021: the same). The share capital consisted of 5,072,535 shares (31 December 2021: the same) with a nominal value of 10 euros (31 December 2021: the same). Without amending the articles of association, the company has the right to increase the share capital to 168,901 thousand euros. As of 30 June 2022, contributions to the share capital and share premium have been made in the total amount of 67,013 thousand euros (31 December 2021: the same), see (Note 15).

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

Company	As at 30.06.2022	
	Number of shares	Ownership, %
Altius Energia OÜ	723,182	14.26
Järve Kaubanduskeskus OÜ	518,952	10.23
Hoiukonto OÜ	516,930	10.19

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

Company	As at 30.06.2022	
	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

	30.06.2022	31.12.2021
€ thousands		
Retained earnings (Note 15)	31,576	28,412
Potential income tax liability	6,315	5,682
Dividends can be paid out	25,261	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 30 June 2022 and 31 December 2021.

18 Transactions with related parties

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

- Management Board members and companies owned by the Management Board members of EFTEN Real Estate Fund III AS;
- Supervisory Board members and companies owned by the Supervisory Board members of EFTEN Real Estate Fund III AS;
- Employees and companies owned by the employees of EFTEN Real Estate Fund III AS;
- EFTEN Capital AS (the fund management company).

During the first half-year of 2022, the Group purchased management services from EFTEN Capital AS in the amount of EUR 581 thousand (2021 first half-year: EUR 499 thousand) (see Note 7).

EFTEN Real Estate Fund III AS did not buy or sell other goods or services from other related parties during the first half-year of 2022 nor 2021.

As at 30 June 2022, the Group had a total of 12 employees, who were paid a total of EUR 129 thousand, including related taxes during the first half-year (2021 first half-year: EUR 106 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 first half-year of 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.

Management's declaration for Consolidated Interim Report for the first half-year of 2022

We hereby confirm that the Consolidated Interim Report for the first half-year of 2022 of EFTEN Real Estate Fund III AS gives true and fair view of the Group's assets, liabilities, financial position and includes the description of the main risks and developments of business activities and results of the companies included in a consolidation as a whole.

/signed digitally/

Viljar Arakas

Member of the Management Board

/signed digitally/

Tõnu Uustalu

Member of the Management Board