



EFTEN Real Estate Fund III

Interim report for the second quarter and 6 months of 2021

EFTEN Real Estate Fund III AS

Commercial register number: 12864036

Beginning of financial period: 01.01.2021

End of financial period: 30.06.2021

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MANAGEMENT REPORT

Comment of the fund manager Viljar Arakas:

The financial results of EFTEN Real Estate Fund III AS in the first half of 2021 have been good beyond expectations. The fund's EBITDA for the first six months of this year totals 4.89 million euros, which is 27% higher than the EBITDA for the same period of last year. By the beginning of the year, the alarmingly rapid spread of the coronavirus had severely limited business, especially in Latvia and Lithuania, and the outlook was pessimistic. In Estonia, significant movement restrictions came into force in February. Nevertheless, we were able to keep all the fund's assets running successfully - as far as restrictions allowed, and we applied very strict controls on running costs.

In terms of management, the focus in the first half of the year was primarily on our customers i.e. tenants. Customer-specific solutions were found for all kinds of business interruptions caused by the pandemic, and the occupancy rate of the fund's rental space has been very good. As at the end of June, the vacancy rate of the fund's real estate portfolio is only 0.7%. Despite the delays in payments due to the corona crisis (mainly in the Saules Miestas shopping center), the payment behavior of tenants has also been good. In connection with payment problems, we have also made agreements with tenants to defer payment, mainly until the end of August, and we have been able to keep the rotation number of tenants to a minimum.

The successful emission of shares in the first half of the year in the total amount of 15.13 million euros is also worth noticing. A total of 4,564 subscription orders were submitted in the emission and it was oversubscribed 3.6 times. The costs of emission were again minimal for investors, amounting to only about 0.4% of the issue volume. The external advisors were involved minimally by the management company to the organization of the emission and the offer was made only in Estonia.

In the first half of 2021, we made additional investments in the fund's existing portfolio, mainly in the territory of the Saules Miestas shopping center in Šiauliai, Lithuania, where the fund's subsidiary built a separate KFC fast food restaurant building. As fund managers, we are constantly looking for ways to increase the value of our existing assets through additional developments. As an additional example of such investments, we can cite the construction of a solar park on the roof of the Laagri Selver shopping center building.

In the first half of the year, we made one new investment, acquiring two industrial and warehouse buildings in Panevėžys, Lithuania, for a total of 10 million euros. The unleveraged entry yield of the transaction with a bank loan was 8.0% and the purchase price of the building per square meter was 500 euros, which is lower than the restoration value of the house. The building is leased by ADAX UAB on the basis of a 16-year lease agreement. The transaction was financed by Siaulių bankas in the amount of 6 million euros.

The successful first half of the fund allows us to look at the second half of 2021 with an optimistic look.

Financial overview

EFTEN Real Estate Fund III AS's consolidated sales revenue for the second quarter of 2021 totaled 3.088 million euros (2nd quarter of 2020: 2.422 million euros), increasing by 27.5% (0.666 million euros) compared to the previous year. Of the increase in rental income, 349 thousand euros (52%) was the rental income from the acquisition of new investments (Pirita care home, Rutkauskio office building and Ramygalos warehouse and industrial building complex). The remaining increase was mainly due to temporary rent discounts from last year's Covid-19 discount on the existing real estate portfolio (like-for-like).

EFTEN Real Estate Fund III AS's consolidated sales revenue for the first half of 2021 is 5.955 million euros (first half of 2020: 4.865 million euros), increasing by 22.4% (1.090 million euros) compared to the previous year. Rental income from investment properties acquired during the last 12 months totaled 665 thousand euros (61%).

The Group's profit before revaluations of investment properties, changes in the fair value of interest rate swaps and income tax expense in the first half of 2021 totaled 3.951 million euros (first half of 2020: 3.132 million euros), increasing by 28.3% year-on-year.

In the first half of 2021, the fund earned consolidated EBITDA of 4.9 million euros (first half of 2020: 3.8 million euros).

The consolidated net rental income margin was 96% in the first half of 2021 (first half of 2020: 94%), so expenses directly related to the management of real estate (incl. land tax, insurance, maintenance and improvement costs and marketing expense) were 4% (first half of 2020: 6%) of sales revenue.

	I half of the year	
	2021	2020
<i>EUR million</i>		
Rental revenue, other fees from investment properties	5.955	4.865
Expenses related to investment properties, incl. marketing expense	-0.229	-0.283
Net rental income	5.726	4.582
<i>Net rental income margin</i>	96%	94%
Interest expense and interest income	-0.905	-0.664
Net rental revenue less finance costs	4.821	3.918
Management fees	-0.499	-0.416
Other income and expense	-0.371	-0.356
Profit before changes in the value of investment properties, changes in the fair value of interest rate swaps and income tax expense	3.951	3.146

The volume of the Group's total assets as of 30.06.2021 was EUR 169.419 million (31.12.2020: EUR 151.632 million), incl. the fair value of investment properties accounted for 93% of the volume of total assets (31.12.2020: 95%).

	30.06.2021	31.12.2020
<i>EUR million</i>		
Investment properties	157.162	144.235
Other non-current assets	0.157	0.123
Current assets, excluding cash	2.168	2.146
Net debt (cash and deposits minus short-term and long-term bank loans)	62.960	67.240
Net asset value (NAV)	89.286	71.483
EPRA net asset value (EPRA NAV)	94.330	76.112
Net asset value (NAV) per share, in euros	17.60	16.93
EPRA net asset value (EPRA NAV) per share, in euros	18.60	18.03

During the next 12 months, the loan agreements of the two subsidiaries of the Group will mature. Most of the Group's loans are concluded with a term of 5 years, which is refinanced upon termination of the loan agreement. Over the next 12 months, 7.5 million euros, i.e. 10% of the total loan portfolio, will be refinanced from the Group's loan liabilities. As of 30.06.2021, the average interest rate of the Group's loan agreements (incl. considering interest rate swap agreements) is 2.2% (31.12.2020: 2.3%) and LTV (Loan to Value) 46% (31.12.2020: 50%).

During the first half of 2021, the Group has earned a free cash flow of 2.2 million euros (6 months of 2020: 1.7 million euros), of which the cash flow from investment properties during the last 12 months amounts to 215 thousand euros.

Key performance and liquidity ratios

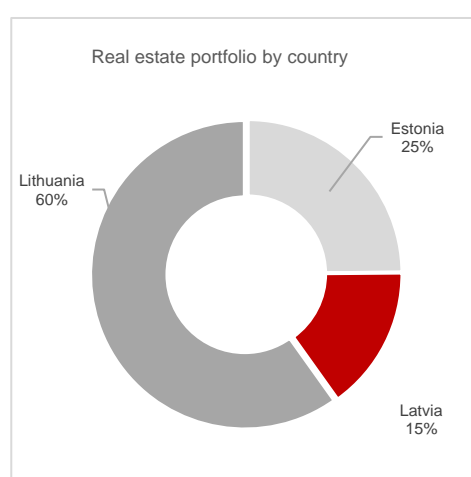
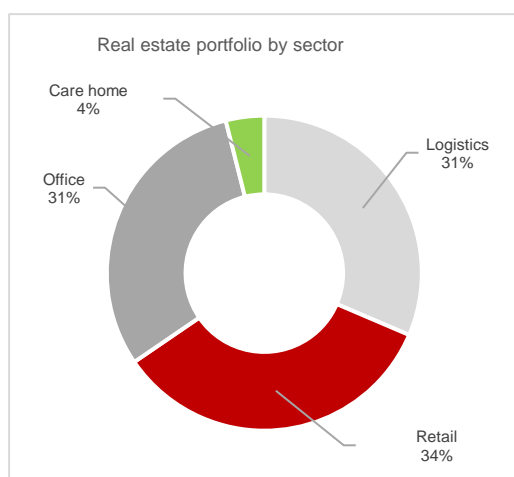
For 6 months or as of June 30	2021	2020
ROE, % (<i>net profit of the period / average equity of the period</i>) x 100	6.8	-1.5
ROA, % (<i>net profit of the period / average assets of the period</i>) x 100	3.4	-0.8
ROIC, % (<i>net profit of the period / average invested capital of the period</i>) * 100 ¹	9.2	-2.1
Revenue (EUR thousand)	5,955	4,865
EBITDA (EUR thousand)	4,884	3,834
EBITDA margin, %	82%	79%
EBIT (EUR thousand)	6,876.0	-176.0
EBIT margin, %	115%	-4%
Liquidity ratio (current assets / current liabilities)	1.0	0.2
DSCR (EBITDA/(interest expenses + scheduled loan payments))	1.9	1.8

¹ The average invested capital of the period is the paid-in share capital of EFTEN Real Estate Fund III AS's equity, and the share premium. The indicator does not show the actual investment of the funds raised as equity.

Real estate portfolio

In mid-June 2021, the Group acquired one new investment property in Panevežys, Lithuania. The cost of investment property, including transaction costs, totaled 10.011 million euros and the annual rental income is 799 thousand euros.

As of the end of June, 2021, the Group has 16 (31.12.2020: 15) commercial real estate investments with a fair value of 157.162 million euros (31.12.2020: 144.235 million euros) and an acquisition cost of 147.137 million euros (31.12.2020: 136.349 million euros) at the balance sheet date.



Main figures of the Group's real estate portfolio:

Investment property, as of 30.06.2021	Group's ownership	Fair value of investment property	Net leasable area	Rental income per year, in thousands of €	Occupancy, %	Average length of rental agreements	Number of tenants
DSV Tallinn	100	13,080	16,014	1,020	100	5.4	1
DSV Riga	100	8,680	12,149	722	100	5.4	1
DSV Vilnius	100	9,110	11,687	710	100	5.3	1
Piepilsetas logistics center, Kekava	100	8,500	13,327	642	99	2.6	6
Panevežys logistics center, Panevėžys	100	10,011	20,125	799	100	5.5	2
Total logistics		49,381	73,302	3,893	100	5.0	11
Saules Miestas shopping center	100	33,690	19,881	3,099	98	4.8	134
Hortes gardening center, Laagri	100	3,550	3,470	266	100	10.9	1
Selver, Laagri	100	6,910	3,063	498	100	6.5	10
Hortes gardening center, Tallinn	100	6,210	5,300	507	100	13.3	1
ABC Motors Autokeskus, Tallinn	100	3,140	2,149	259	100	7.6	1
Total retail		53,500	33,863	4,629	99	6.4	147
Ulonu office building, Vilnius	100	8,860	5,174	747	99	2.9	14
L3 office building, Vilnius	100	10,001	6,150	744	94	3.6	32
Evolution office building, Vilnius	100	10,620	6,172	790	100	3.2	50
airBaltic office building, Riga	100	6,800	6,217	499	100	4.7	1
Rutkausko office building, Vilnius	100	11,800	6,812	847	100	3.1	3
Total office		48,081	30,525	3,627	99	3.4	100
Pirita care home	100	6,200	6,045	443	100	9.5	1
Total care home		6,200	6,045	443	100	9.5	1
Total real estate portfolio		157,162	143,735	12,592	99	5.1	259

In June, the fund conducted its usual valuation of investment properties, during which the value of the fund's real estate portfolio increased by 1.4% (2.020 million euros). The change in value was mainly due to improved cash flow expectations in Saules Miestas and the Ulonu office building. The increase in the value of other objects was mainly due to a decrease in exit yield by half or a quarter of a percentage point.

Information on shares

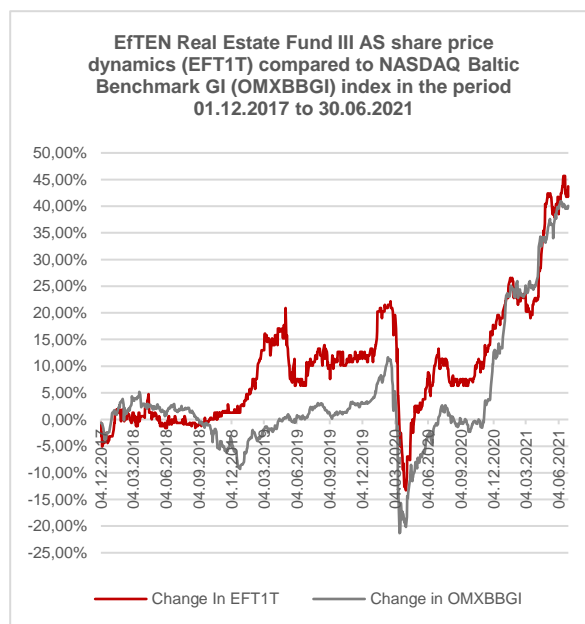
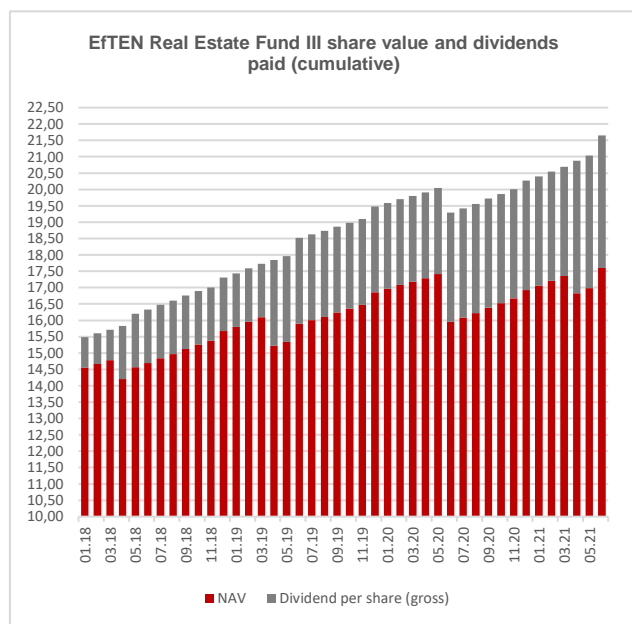
The net asset value of EFTEN Real Estate Fund III shares as of 30.06.2021 was 17.60 euros (31.12.2020: 16.93 euros). The net asset value of EFTEN Real Estate Fund III AS increased by 4.0% in the first half of 2021.

In April 2021, the general meeting of the fund decided to distribute a total of 2,798 thousand euros (66.3 eurocents per share) in net dividends from the net profit of 2020. Without the distribution of dividends, the net asset value of the fund's share would have increased by 6.7% in the first half of the year.

In June 2021, EFTEN Real Estate Fund III AS conducted a public offering of shares, as a result of which the share capital of the fund increased by 8,500 thousand euros. During the share emission payments in the amount of 15,130 thousand euros were made to the fund's share capital.

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

€ thousands	30.06.2021	31.12.2020	30.06.2020	31.12.2019
Net asset value calculated in accordance with IFRS	89,286	71,483	67,361	70,911
Exclusion of deferred income tax on investment property	4,864	4,383	4,150	4,274
Exclusion of the fair value of financial instruments	180	246	284	271
EPRA net asset value	94,330	76,112	71,795	75,456
Number of shares at the balance sheet date	5,072,535	4,222,535	4,222,535	4,222,535
EPRA net asset value per share, in euros	18.60	18.03	17.00	17.87
EPRA NAV growth, in euros	0.57		-0.93	
Declared dividend per share, in euros	0.66		0.65	
Period earnings per share, in euros	1.23		-0.28	
Period earnings per share, increase	6.8%		-1.6%	



As of 30 June 2021, EFTEN Real Estate Fund III AS had 5,769 shareholders, of which 17.9% were legal entities. Legal entities owned a total of 78.05% of the total share capital of the fund. The distribution of shares is shown in the table below.

	Shareholders, pcs		Total shareholders	Number of shares		Total shares	Ownership		Total ownership
	Legal entities	Private individuals		Legal entities	Private individuals		Legal entities	Private individuals	
Afghanistan	-	1	1	-	16	16	-	0.0003%	0.0003%
Albania	-	1	1	-	14	14	-	0.0003%	0.0003%
Algeria	-	1	1	-	317	317	-	0.0062%	0.0062%
United States of America	1	-	1	402	-	402	0.0079%	-	0.0079%
United Arab Emirates	-	1	1	-	99	99	-	0.0020%	0.0020%
Australia	-	2	2	-	21	21	-	0.0004%	0.0004%
Austria	-	1	1	-	1,255	1,255	-	0.0247%	0.0247%
Belgium	-	1	1	-	5	5	-	0.0001%	0.0001%
Estonia	1,022	4,691	5,713	3,945,967	1,102,658	5,048,625	77.7908%	21.7378%	99.5286%
China	-	1	1	-	172	172	-	0.0034%	0.0034%
Spain	-	1	1	-	85	85	-	0.0017%	0.0017%
Netherlands	-	2	2	-	154	154	-	0.0030%	0.0030%
Ireland	-	1	1	-	11	11	-	0.0002%	0.0002%
Italy	-	1	1	-	75	75	-	0.0015%	0.0015%
Lithuania	5	1	6	11,540	6,406	17,946	0.2275%	0.1263%	0.3538%
South Africa	-	1	1	-	229	229	-	0.0045%	0.0045%
Latvia	1	1	2	1,186	31	1,217	0.0234%	0.0006%	0.0240%
Malta	-	1	1	-	20	20	-	0.0004%	0.0004%
Norway	-	2	2	-	33	33	-	0.0007%	0.0007%
Oman	-	1	1	-	102	102	-	0.0020%	0.0020%
Portugal	-	1	1	-	100	100	-	0.0020%	0.0020%
Sweden	1	2	3	21	38	59	0.0004%	0.0007%	0.0012%
Germany	-	5	5	-	291	291	-	0.0057%	0.0057%
Finland	1	10	11	197	542	739	0.0039%	0.0107%	0.0146%
Great Britain	-	2	2	-	382	382	-	0.0075%	0.0075%
Switzerland	-	4	4	-	134	134	-	0.0026%	0.0026%
Denmark	1	1	2	1	31	32	-	0.0006%	0.0006%
Total	1,032	4,737	5,769	3,959,314	1,113,221	5,072,535	78.05%	21.95%	100.00%

As of 30.06.2021, EFTEN Real Estate Fund III AS has three shareholders with more than 5% ownership:

Company	As at 30.06.2021	
	Number of shares	Ownership, %
Altius Energia OÜ	723,182	14.26
Hoiukonto OÜ	516,930	10.19
Järve Kaubanduskeskus OÜ	498,952	9.84

INTERIM FINANCIAL STATEMENTS OF THE CONSOLIDATION GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousands	Notes	II quarter		I half of the year	
		2021	2020 ¹	2021	2020 ¹
Revenue	3,4	3,088	2,422	5,955	4,865
Cost of services sold	5	-73	-59	-139	-147
Gross profit		3,015	2,363	5,816	4,718
Marketing costs	6	-59	-43	-90	-136
General and administrative expenses	7	-492	-358	-876	-772
Gain / loss from revaluation of investment properties	12	2,020	-3,986	2,020	-3,986
Other operating income and expense		3	-5	6	0
Operating profit	3	4,487	-2,029	6,876	-176
Other finance income and expense	8	-418	-345	-839	-678
Profit before income tax		4,069	-2,374	6,037	-854
Income tax expense	9	-394	201	-567	49
Net profit for the financial year¹	3	3,675	-2,173	5,470	-805
Earnings per share	10				
- Basic		0.83	-0.51	1.27	-0.19
- Diluted		0.83	-0.51	1.27	-0.19

¹ In the comprehensive income statement for the first half of 2020 and the second quarter of 2020, the income tax expense has been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

The notes on pages 10 to 27 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2021	31.12.2020
<i>€ thousands</i>			
ASSETS			
Cash and cash equivalents	15	9,932	5,128
Receivables and accrued income	11	2,120	2,018
Prepaid expense		19	128
Inventory		29	0
Total current assets		12,100	7,274
Long-term receivables		4	18
Investment property	3,12	157,162	144,235
Property, plant and equipment		150	101
Intangible assets		3	4
Total non-current assets		157,319	144,358
TOTAL ASSETS		169,419	151,632
LIABILITIES AND EQUITY			
Borrowings	13	10,695	28,781
Derivative instruments	15	180	246
Payables and prepayments	14	1,102	1,995
Total current liabilities		11,977	31,022
Borrowings	13	62,197	43,587
Other long-term debt	14	1,015	957
Deferred income tax liability	9	4,944	4,583
Total non-current liabilities		68,156	49,127
Total liabilities		80,133	80,149
Share capital	16	50,725	42,225
Share premium		16,289	9,658
Statutory reserve capital		1,489	1,323
Retained earnings	17	20,783	18,277
Total equity		89,286	71,483
TOTAL LIABILITIES AND EQUITY		169,419	151,632

The notes on pages 10 to 27 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	II quarter		I half of the year	
		2021	2020 ¹	2021	2020 ¹
<i>€ thousands</i>					
Net profit		3,675	-2,173	5,470	-805
<i>Adjustments of net profit:</i>					
Finance expense	8	418	345	839	678
Gains / losses from revaluation of investment property	12	-2,020	3,986	-2,020	3,986
Depreciation and impairment losses	7	14	13	28	25
Income tax expense	9	394	-201	567	-49
Total adjustments with non-cash changes		-1,194	4,143	-586	4,640
Cash flow from operations before changes in working capital		2,481	1,970	4,884	3,835
Change in receivables and payables related to operating activities		-848	-102	-1,052	-639
Net cash flow generated from operating activities		1,633	1,868	3,832	3,196
Purchase of property, plant and equipment		-20	-15	-77	-39
Purchase of investment property	12	-10,381	-215	-10,908	-536
Change in short-term deposits		0	0	0	6,000
Acquisition of subsidiaries	2	0	0	0	-8,615
Interest received		4	0	4	13
Net cash flow generated from investing activities		-10,397	-230	-10,981	-3,177
Loans received	13	6,000	0	6,300	0
Scheduled loan repayments	13	-4,873	-803	-5,776	-1,468
Interest paid		-465	-334	-903	-617
Issue of shares	16	15,130	0	15,130	0
Dividends paid	15	-2,798	0	-2,798	0
Net cash flow generated from financing activities		12,994	-1,137	11,953	-2,085
NET CASH FLOW		4,230	501	4,804	-2,066
Cash and cash equivalents at the beginning of period		5,702	10,419	5,128	12,986
Change in cash and cash equivalents		4,230	501	4,804	-2,066
Cash and cash equivalents at the end of period	15	9,932	10,920	9,932	10,920

¹ In the consolidated cash flow statement for the first half of 2020 and the second quarter of 2020, net profit and net profit adjustments have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

The notes on pages 10 to 27 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings ¹	Total
<i>€ thousands</i>					
Balance as at 31.12.2019¹	42,225	9,658	936	18,092	70,911
Issue of shares	0	0	0	-2,745	-2,745
Provisions for reserve capital	0	0	387	-387	0
Total transactions with owners	0	0	387	-3,132	-2,745
Net profit for the financial period	0	0	0	-805	-805
Total comprehensive income for the period	0	0	0	-805	-805
Balance as at 30.06.2020¹	42,225	9,658	1,323	14,155	67,361
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 paid	0	0	0	-2,798	-2,798
Provisions 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 30.06.2021	50,725	16,288	1,489	20,783	89,286

¹ In the consolidated statement of changes in equity for 2020, the figures for retained earnings as of 31.12.2019 and 30.06.2020 have been changed due to the change in accounting policy. Additional information on changes in accounting policies is provided in Note 1.

Additional information on share capital is provided in Note 16.

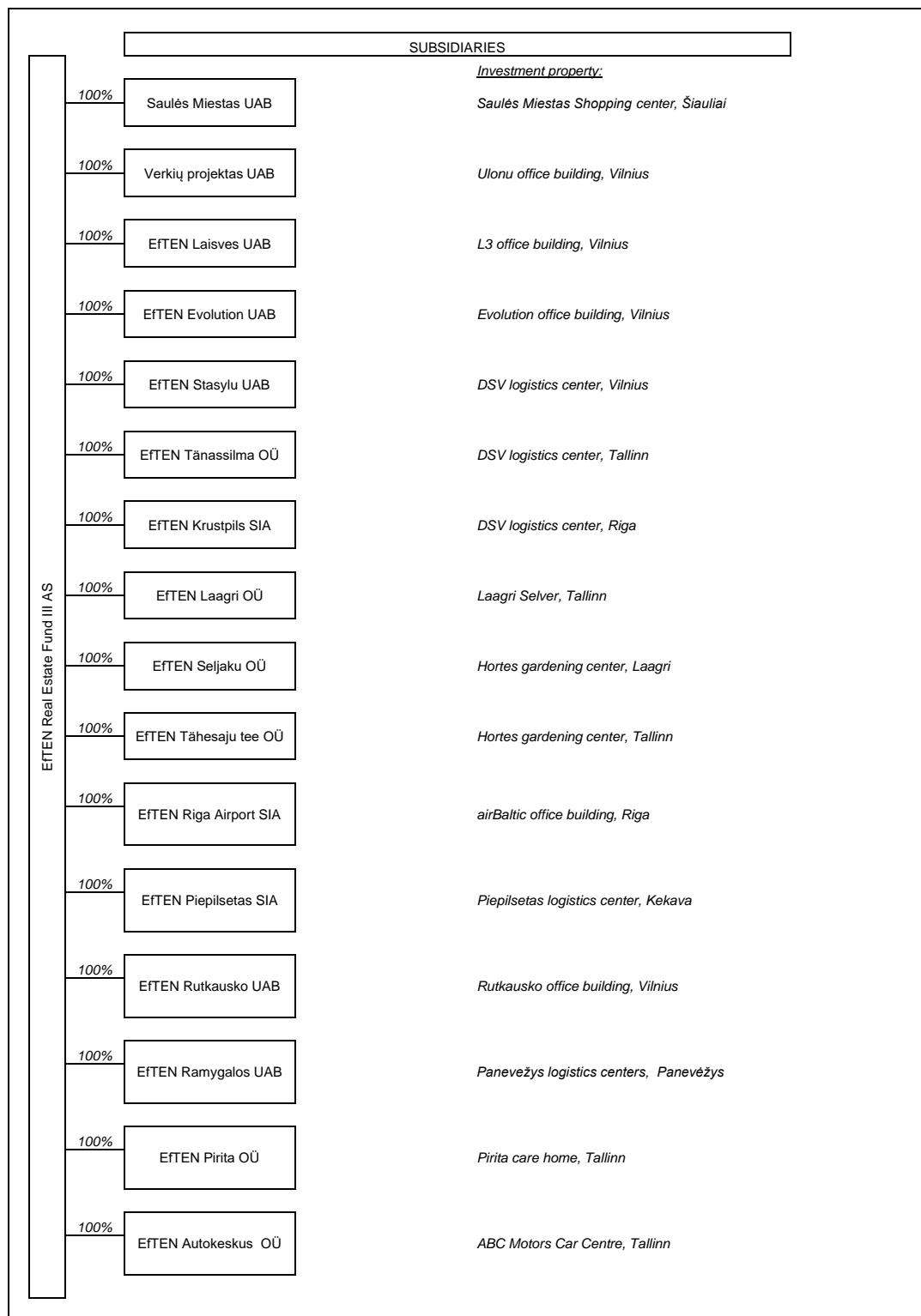
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

The structure of EFTEN Real Estate Fund III AS Group as at 30.06.2021 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 International Financial Reporting Standards as adopted by the European Union (IFRS EU). These consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting. The interim report has been prepared using the same accounting methods as in the annual report for the year ended 31.12.2020. The interim report should be read in conjunction with the Group's most recently published 2020 annual report 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 6 months of 2021 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 reviewed by auditors and contains only the consolidated financial statements of the Group. The reporting currency is the euro. The consolidated interim financial statements are presented in thousands of euros and all figures have been rounded to the nearest thousand, unless otherwise stated.

Impact of changes in accounting policies on the financial statements of the reference period, first half of 2020 and second quarter of 2020

In preparing the 2020 annual report, the Group changed the accounting policies for deferred income tax due to the change in interpretation of IAS 12.52A. As the effect of the change in accounting policies presented in the 2020 Annual Report was presented for 12 months, the table below shows the effect of deferred tax recognition separately for the comparative periods - income statement and cash flow statement for the first half of 2020 and the second quarter of 2020:

Impact on the consolidated statement of comprehensive income:

For the first half of 2020	Initial	Adjusted	Change
<i>€ in thousands</i>			
Income tax expense	-211	49	260
Total comprehensive income for the reporting period	-1,065	-805	260
Earnings per share (EUR)			
- basic	-0.25	-0.19	0.06
- diluted	-0.25	-0.19	0.06

For the second quarter of 2020	Initial	Adjusted	Change
<i>€ in thousands</i>			
Income tax expense	-59	201	260
Total comprehensive income for the reporting period	-2,433	-2,173	260
Earnings per share (EUR)			
- basic	-0.58	-0.51	0.07
- diluted	-0.58	-0.51	0.07

Impact on the consolidated statement of cash flows:

For the first half of the year	Initial	Adjusted	Change
<i>€ in thousands</i>			
Net profit	-1,065	-805	260
Adjustments to net profit (income tax expense)	1,065	805	-260
Total cash flows	-2,066	-2,066	0

2 Subsidiaries

Company name	Country of domicile	Investment property	The subsidiary's equity, EUR thousand		Group's ownership interest, %	
			30.06.2021	31.12.2020	30.06.2021	31.12.2020
Parent company						
EFTEN Real Estate Fund III AS	Estonia					
Subsidiaries						
Saules Miestas UAB	Lithuania	Shopping center Saules Miestas	17,066	16,495	100	100
Verkiu projektas UAB	Lithuania	Ulonu Office building, Vilnius	3,883	3,747	100	100
EFTEN Laisves UAB	Lithuania	L3 Office building, Vilnius	4,886	4,816	100	100
EFTEN Stasyļu UAB	Lithuania	DSV logistics center, Vilnius	4,641	4,461	100	100
EFTEN Tānassilma OÜ	Estonia	DSV logistics center, Tallinn	7,166	7,046	100	100
EFTEN Krustpils SIA	Latvia	DSV logistics center, Riga	2,838	2,776	100	100
EFTEN Tāhesaju tee OÜ	Estonia	Hortes gardening center, Tallinn	3,093	2,880	100	100
EFTEN Evolution UAB	Lithuania	Evolution Office building, Vilnius	4,834	4,593	100	100
EFTEN Seljaku OÜ	Estonia	Hortes gardening center, Laagri	2,149	2,079	100	100
EFTEN Laagri OÜ	Estonia	Selver grocery store, Laagri	4,033	3,552	100	100
EFTEN Autokeskus OÜ	Estonia	ABC Motors car service shop, Tallinn	1,521	1,479	100	100
EFTEN Piepilsetas SIA	Latvia	Piepilsetas logistics center, Kekava	3,660	3,509	100	100
EFTEN Rīga Airport SIA	Latvia	airBaltic Office building, Riga	4,342	1,121	100	100
EFTEN Rutkauskos UAB	Lithuania	Rutkauskos office building, Vilnius	4,879	4,711	100	100
EFTEN Ramygalos UAB	Lithuania	Panevėžys logistics centers, Panevėžys	4,024	0	100	0
EFTEN Pīrita OÜ	Estonia	Pīrita care home, Tallinn	3,269	3,116	100	100

In June 2021, EFTEN Real Estate Fund III AS established a wholly-owned subsidiary, EFTEN Ramygalos UAB, which, after establishment, acquired production- and warehouse buildings in Panevėžys, Lithuania. The total cost of investment property, including transaction costs, amounted to 10,011 thousand euros. The fund invested 4,036 thousand euros in the subsidiary's equity transaction prior to the transaction.

On 10 January 2020, EFTEN Real Estate Fund III AS entered into purchase agreements under the law of obligations for the acquisition of the owner of the Air Baltic main building at Riga Airport and the owner of the production and warehouse building in Piepilsetas near Kekava, Riga. The transactions were completed on March 12 and March 13, 2020, and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements since 1 March 2020. A total of EUR 8,873 thousand was paid for the subsidiaries, including loan receivables from the former owners in the amount of EUR 3,780 thousand. As the transaction price is adjusted according to the agreement for changes in the working capital of subsidiaries in the period of concluding the transaction (from mid-January to mid-March), it is estimated that the Group will have to pay EUR 100 thousand for acquisitions. The value of investment properties owned by subsidiaries during the acquisition totaled EUR 15,800 thousand.

Fair value of EFTEN Rīga Airport (formerly NHC1) SIA 29.02.2020

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

EFTEN Piepilsetas (previous NHC3) SIA fair value 29.02.2020

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

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

3 Segment reporting**SEGMENT RESULTS, for the first half of the year**

	Office		Logistics		Retail		Care home		Non-Allocated		Total	
	I half of a year		I half of a year		I half of a year		I half of a year		I half of a year		I half of a year	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue, incl.	1,869	1,208	1,615	1,326	2,263	2,331	208	0	0	0	5,955	4,865
Estonia	0	0	507	443	714	669	208	0	0	0	1,429	1,112
Latvia	249	166	722	576	0	0	0	0	0	0	971	742
Lithuania	1,620	1,042	386	307	1,549	1,662	0	0	0	0	3,555	3,011
Net operating income, incl.	1,794	1,076	1,602	1,312	2,125	2,193	205	0	0	0	5,726	4,581
Estonia	0	0	507	440	706	659	205	0	0	0	1,418	1,099
Latvia	248	165	710	566	0	0	0	0	0	0	958	731
Lithuania	1,546	911	385	306	1,419	1,534	0	0	0	0	3,350	2,751
Operating profit, incl.	1,793	-73	1,696	348	3,320	-317	185	0	-118	-134	6,876	-176
Estonia	0	0	461	35	1,283	-267	185	0	-118	-134	1,811	-366
Latvia	206	-95	670	99	0	0	0	0	0	0	876	4
Lithuania	1,587	22	565	214	2,037	-50	0	0	0	0	4,189	186
EBITDA, incl.	1,586	925	1,380	1,149	1,835	1,896	201	0	-118	-134	4,884	3,836
Estonia	0	0	461	395	612	563	201	0	-118	-134	1,156	824
Latvia	206	135	604	479	0	0	0	0	0	0	810	614
Lithuania	1,380	790	315	275	1,223	1,333	0	0	0	0	2,918	2,398
Operating profit											6,876	-176
Net financial expense											-839	-678
Profit before income tax expense											6,037	-854
Income tax expense											-567	49
NET PROFIT FOR THE FINANCIAL PERIOD											5,470	-805

SEGMENT RESULTS, For the second quarter

	Office		Logistics		Retail		Care home		Non-Allocated		Total	
	II quarter		II quarter		II quarter		II quarter		II quarter		II quarter	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>												
Revenue, incl.	951	658	827	657	1,206	1,107	104	0	0	0	3,088	2,422
Estonia	0	0	254	190	344	319	104	0	0	0	702	509
Latvia	124	166	364	335	0	0	0	0	0	0	488	501
Lithuania	827	492	209	132	862	788	0	0	0	0	1,898	1,412
Net operating income, incl.	918	610	820	652	1,116	1,057	102	0	0	0	2,956	2,319
Estonia	0	0	254	187	339	313	102	0	0	0	695	500
Latvia	124	165	357	334	0	0	0	0	0	0	481	499
Lithuania	794	445	209	131	777	744	0	0	0	0	1,780	1,320
Operating profit, incl.	1,019	-473	1,005	-243	2,466	-1,288	82	0	-85	-25	4,487	-2,029
Estonia	0	0	231	-195	964	-562	82	0	-85	-25	1,192	-782
Latvia	102	-95	370	-102	0	0	0	0	0	0	472	-197
Lithuania	917	-378	404	54	1,502	-726	0	0	0	0	2,823	-1,050
EBITDA, incl.	812	524	689	558	968	914	98	0	-85	-25	2,482	1,971
Estonia	0	0	231	165	294	268	98	0	-85	-25	538	408
Latvia	102	135	304	278	0	0	0	0	0	0	406	413
Lithuania	710	389	154	115	674	646	0	0	0	0	1,538	1,150
Operating profit											4,487	-2,029
Net financial expense											-418	-345
Profit before income tax expense											4,069	-2,374
Income tax expense											-394	201
NET PROFIT FOR THE FINANCIAL PERIOD											3,675	-2,173

SEGMENT ASSETS

As of June 30	Office		Logistics		Retail		Care home		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>€ thousands</i>										
Investment property (Note 12)										
Estonia	0	0	13,080	12,520	19,810	18,690	6,200	0	39,090	31,210
Latvia	6,800	6,870	17,180	8,647	0	0	0	0	23,980	15,517
Lithuania	41,281	29,421	19,121	17,140	33,690	32,040	0	0	94,092	78,601
Total investment property	48,081	36,291	49,381	38,307	53,500	50,730	6,200	0	157,162	125,328
Other non-current assets									157	174
Net debt (liabilities minus cash)									-70,201	-59,395
Other current assets									2,168	1,254
NET ASSETS									89,286	67,361

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

The Group's largest customers are DSV Estonia AS, AQ Wiring Systems UAB and Hortes AS, forming 7.8%, 6.2% and 6.0%, respectively of the consolidated rental income of the Group. The share of income of other tenants in the consolidated income is less than 6%.

4 Revenue

Activities	I half of the year	
	2021	2020
<i>€ thousands</i>		
Rental income from office premises	1,837	1,201
Rental income from retail premises	1,961	2,024
Rental income from warehousing and logistics premises	1,592	1,304
Rental income from care home premises	208	0
Other sales revenue	357	336
Total revenue by areas of activity (Note 12)	5,955	4,865

Revenue by geographical area	I half of the year	
	2021	2020
€ thousands		
Estonia	1,429	1,112
Latvia	971	741
Lithuania	3,555	3,012
Total revenue by geographical area (Note 3)	5,955	4,865

5 Cost of services sold

Cost of services sold	I half of the year	
	2021	2020
€ thousands		
Repair and maintenance of rental premises	-22	-61
Property insurance	-2	-4
Land tax and real estate tax	-44	-7
Wage costs, including taxes	-13	-20
Other selling expenses	-51	-55
Allowance for doubtful accounts	-7	0
Total cost of services sold (Note 12)	-139	-147

6 Marketing costs

Marketing costs	I half of the year	
	2021	2020
€ thousands		
Commission expenses on rental premises	-16	-40
Advertising, advertising events ¹	-74	-96
Total marketing costs	-90	-136

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

7 General and administrative expenses

General and administrative expenses	I half of the year	
	2021	2020
€ thousands		
Management services (Note 18)	-499	-416
Office expenses	-22	-15
Wages and salaries, incl. taxes	-93	-96
Depository expenses, share-related expenses	-94	-40
Consulting expenses, legal expenses	-40	-90
Accounting service	-55	-37
Audit costs	-12	-15
Other general administrative expenses	-33	-39
Depreciation costs	-28	-24
Total general and administrative expenses	-876	-772

8 Other financial income and expenses

Other financial income and expenses	I half of the year	
	2021	2020
<i>€ thousands</i>		
Interest expenses, incl.		
Interest expense from loans	-905	-664
Interest expense from derivatives (-)/ cost reductions (+)	-848	-615
Change in fair value of interest swaps (Note 15)	-57	-49
66		-14
Total other financial income and expenses	-839	-678

9 Income tax

	I half of the year	
	2021	2020
<i>€ thousands</i>		
Deferred income tax expense for Lithuanian companies	-481	124
Lithuanian corporate income tax expense on profits	-86	-75
Total income tax expense	-567	49

	Deferred income tax liability related to real estate investments	Deferred income tax liability in respect of dividends	Total
<i>€ thousands</i>			
As at 31.12.2020	4,383	200	4,583
Change in deferred income tax liability in the income statement in the first half of 2021	481	0	481
Income tax paid on dividends	0	-121	-121
As at 30.06.2021	4,864	79	4,943

10 Earnings per share

Earnings per share	II quarter		6 months	
	2021	2020	2021	2020
Net profit for the period, in EUR thousands	3,675	-2,173	5,470	-805
Dividends per share, in euros	0,66	0,65	0,66	0,65
Weighted average number of shares over the period, in pcs	4,411,424	4,222,535	4,316,979	4,222,535
Earnings per share, in euros	0.83	-0.51	1.27	-0.19

11 Receivables and accrued income

	30.06.2021	31.12.2020
€ thousands		
Receivables from customers	439	480
Allowance for doubtful accounts	-12	-59
Total trade receivables (Note 15)	427	421
Advances and refunds of VAT	1,067	1,316
Advances on other taxes	119	0
Other accrued income	507	281
Total accrued income	1,693	1,597
Total receivables and accrued income (Note 15)	2,120	2,018

12 Investment property

As of 30.06.2021, the Group has made investments in the following investment properties:

Name	Location	Net rental area (m2)	Year of construction	Date of acquisition	Acquisition cost	Market value at 30.06.2021	Increase in value	Share of market value of the Fund's asset
<i>€ thousands</i>								
Saules Miestas shopping center	Saules Miestas, Šiauliai	19,881	2007	08.2015	29,026	33,690	16%	20%
DSV logistics center	Vilnius, Lithuania	11,687	2005	06.2016	8,504	9,110	7%	5%
DSV logistics center	Tallinn, Estonia	16,014	2003	07.2016	12,228	13,080	7%	8%
DSV logistics center	Riga, Latvia	12,149	2000	07.2016	8,830	8,680	-2%	5%
L3 office building	Vilnius, Lithuania	6,150	2004	10.2016	8,793	10,001	14%	6%
Ulonu office building	Vilnius, Lithuania	5,174	2012	12.2015	8,279	8,860	7%	5%
Hortes gardening center in Laagri	Tallinn, Estonia	3,470	2006	05.2017	3,108	3,550	14%	2%
Hortes gardening center in Tähesaju	Tallinn, Estonia	5,300	2019	05.2018	5,458	6,210	14%	4%
Selver grocery store in Laagri	Tallinn, Estonia	3,063	2017	05.2017	6,277	6,910	10%	4%
Evolution office building	Vilnius, Lithuania	6,172	2009	05.2018	9,733	10,620	9%	6%
ABC Motors sales and service center	Tallinn, Estonia	2,149	2002	02.2019	3,032	3,140	4%	2%
airBaltic's headquarter	Riga, Latvia	6,217	recon. 2016	03.2020	7,100	6,800	-4%	4%
Piepilsetas logistics center	Riga, Latvia	13,327	2007	03.2020	8,722	8,500	-3%	5%
Rutkausko office building	Vilnius, Lithuania	6,812	2014	08.2020	11,819	11,800	0%	7%
Pirita care home	Tallinn, Estonia	6,045	2020	12.2020	6,217	6,200	0%	4%
Panevėžys logistics center	Panevėžys, Lithuania	20,125	2007	06.2021	10,011	10,011	0%	6%
Total		143,735			147,137	157,162	7%	93%

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

In the first half of 2021 and 2020, the following changes have taken place in the Group's investment properties:

	Total real estate investments
As at 01.01.2020	113,011
Acquisitions from business combinations (Note 2)	15,812
Capitalized improvements	491
Gain / loss on change in fair value	-3,986
As at 30.06.2020 (Note 4)	125,328
As at 01.01.2021	144,235
Acquisitions and developments	10,311
Capitalized improvements	596
Gain / loss on change in fair value	2,020
As at 30.06.2021 (Note 4)	157,162

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

As of June 30 or per first half of the year	I half of the year	
	2021	2020
Rental income from investment properties (Note 4)	5,598	4,529
Costs directly related to the management of investment properties (Note 5)	-139	-147
Book value of investment properties pledged as collateral for loan liabilities	157,162	125,328

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 30.06.2021 and 31.12.2020 has been obtained using the discounted cash flow method. The following assumptions have been used to determine fair value:

As at 30.06.2021:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/ m2
<i>€ thousands</i>						
Office	48,080	Discounted cash flows	3,751	8.2%	7.0%-7.8%	10.5
Logistics	49,382	Discounted cash flows	3,985	8.2%-9.1%	7.5%-7.9%	4.4
Retail	53,500	Discounted cash flows	4,704	8.2%-8.6%	7.0%-8.0%	11.7
Care home	6,200	Discounted cash flows	443	7.8%	6.8%	6.1
Total	157,162		12,883			

As at 31.12.2020:

Sector	Fair value	Evaluation method	Estimated rental income per year	Discount rate	Exit yield	Average rental price €/ m2
<i>€ thousands</i>						
Office	47,751	Discounted cash flows	3,712	7.1%-8.2%	7.0%-8.0%	10.4
Logistics	39,047	Discounted cash flows	3,156	8.0%-8.6%	7.5%-7.9%	5.6
Retail	51,520	Discounted cash flows	4,707	8.5%-8.6%	7.5%-8.0%	11.5
Care home	5,917	Discounted cash flows	454	8.0%	7.3%	6.1
Total	144,235		12,029			

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

- Rental income: prices and real growth rates resulting from existing leases are used;
- Vacancy: the actual vacancy of an investment property, taking into account the risks associated with the object;
- Discount rate: calculated on the basis of the weighted average cost of capital (WACC) related to investment property;
- Exit yield: based on the estimated level of return at the end of the expected deposit period, taking into account the foreseeable market situation and the risks associated with the object.

Fair value sensitivity analysis

The table below illustrates the sensitivity of the fair value of investment properties recognized in the Group's balance sheet as of **30.06.2021** to the most important valuation assumptions:

Sector	Fair value	Sensitivity to management estimate			Sensitivity to independent appraisal		
		Revenue +10%	Revenue -10%	Discount rate +50pp	Discount rate -50pp	Exit yield +50pp	Exit yield -50pp
<i>€ thousands</i>							
Office	48,080	5,090	-5,070	-960	1,000	-2,190	2,520
Logistics	49,382	5,300	-5,100	-1,002	998	-2,112	2,408
Retail	53,500	6,130	-6,160	-1,070	1,070	-2,270	2,550
Care home	6,200	660	-660	-130	130	-310	350
TOTAL	157,162	17,180	-16,990	-3,162	3,198	-6,882	7,828

As at 31.12.2020:

Sector	Fair value	Sensitivity to management estimate			Sensitivity to independent appraisal		
		Revenue +10%	Revenue -10%	Discount rate +50pp	Discount rate -50pp	Exit yield +50pp	Exit yield -50pp
<i>€ thousands</i>							
Office	47,751	5,040	-5,040	-970	980	-2,150	2,460
Logistics	39,047	4,147	-4,147	-777	793	-1,657	1,883
Retail	51,520	6,060	-6,060	-1,040	1,040	-2,170	2,430
Care home	5,917	630	-630	-120	130	-280	330
TOTAL	144,235	15,877	-15,877	-2,907	2,943	-6,257	7,103

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

13 Borrowings

As at 30.06.2021, the Group has the following borrowings:

Lender	Country of lender	Loan amount as per agreement	Loan balance as at 30.06.2021	Contract term	Interest rate as at 30.06.2021	Loan collateral	Value of collateral	Loan balance's share of the fund's net asset value
Swedbank	Lithuania	14,616	13,845	13.08.23	2.65%	Mortgage - Saules Miestas Shopping center	33,690	15.5%
SEB	Lithuania	5,500	4,290	28.06.26	1.85%	Mortgage - DSV building in Vilnius	9,110	4.8%
SEB	Latvia	5,123	4,132	29.06.26	1.85%	Mortgage - DSV building in Riga	8,680	4.6%
SEB	Estonia	7,950	6,223	29.06.26	1.85%	Mortgage - DSV building in Estonia	13,080	7.0%
SEB	Lithuania	5,620	4,457	27.10.21	1.90%	Mortgage - L3 office building in Vilnius	10,001	5.0%
SEB	Lithuania	5,200	3,922	21.12.25	2.25%	Mortgage - Ulonu office building in Vilnius	8,860	4.4%
SEB	Lithuania	5,850	5,072	30.05.23	2.00%	Mortgage - Evolution office building in Vilnius	10,620	5.7%
Swedbank	Estonia	3,290	3,126	11.01.24	1.95%	Mortgage - Hortes gardening center Tähesaju	6,210	3.5%
SEB	Estonia	1,860	1,496	05.07.22	1.82%	Mortgage - Hortes gardening center	3,550	1.7%
Swedbank	Estonia	3,700	2,997	29.06.22	1.40%	Mortgage - Selver grocery store in Laagri	6,910	3.4%
LHV	Estonia	1,800	1,660	25.02.24	2.95%	Mortgage - Selver grocery store in Laagri	3,140	1.9%
Luminor	Latvia	3,905	2,716	04.02.25	3.75%	Mortgage - airBaltic office building	6,800	3.0%
Swedbank	Latvia	3,201	2,934	05.02.23	2.80%	Mortgage - Piepilsetas logistics center	8,500	3.3%
SEB	Lithuania	7,300	7,017	12.08.25	2.10%	Mortgage - ATEA office building	11,800	7.9%
Šiaulių bankas	Lithuania	6,000	6,000	13.06.26	2.50%	Mortgage - Panevėžys logistics center	10,011	6.7%
Swedbank	Estonia	3,100	3,100	28.11.25	1.95%	Mortgage - Pirta care home, parent company guarantee	6,200	3.5%
Total		84,015	72,987				157,162	81.7%

Short-term borrowings	30.06.2021	31.12.2020
<i>€ thousands</i>		
Short-term borrowings	0	3,100
Recognition of the long-term portion of long-term bank loans as short-term ¹	0	3,732
Repayments of long-term bank loans in the next period ²	10,727	21,988
Discounted contract fees for bank loans	-32	-39
Total short-term borrowings	10,695	28,781

¹ As of 31.12.2020, the Group has recognized as a short-term loan liability of the subsidiary EFTEN Riga Airport SIA, the maturity date of which is 04.02.2025. The loan is recognized as short-term due to a decrease in the debt coverage ratio below the rate allowed in the special terms of the agreement. At the time of preparing the report, the Group is negotiating with the lender to change the terms of the loan agreement.

² Repayments of long-term bank loans in the next period as of 30.06.2021 include the balance of loan liabilities of two subsidiaries maturing in the next 12 months in the amount of 7,454 thousand euros. The LTV of expiring loan agreements is 43% and 45%, and investment properties have a stable strong rental cash flow, which means that the Group's management estimates that there are no obstacles to extending loan agreements and that the Group's working capital is sufficient to cover short-term liabilities.

As at 31 December 2020, the repayments of long-term loan liabilities in the next period included five group loan agreements expiring in 2021 in the total amount of 22,729 thousand euros. Four of these loan agreements have been extended as of the balance sheet date.

Long-term borrowings	30.06.2021	31.12.2020
<i>€ thousands</i>		
Total long-term borrowings	72,892	72,368
incl. current portion of borrowings	10,695	28,781
incl. non-current portion of borrowings, incl	62,197	43,587
<i>Bank loans</i>	62,260	43,643
<i>Discounted contract fees on bank loans</i>	-63	-56

Bank loans are divided as follows according to repayment date:

Repayments of bank loans by maturity	30.06.2021	31.12.2020
<i>€ thousands</i>		
Up to 1 year	10,727	28,820
2-5 years	62,260	43,643

Cash flows of borrowings	I half of the year	
	2021	2020
<i>€ thousands</i>		
Balance at the beginning of period	72,368	55,372
Bank loans received through business combinations and acquisitions	0	7,164
Bank loans received	6,300	0
Annuity payments on bank loans	-5,776	-1,468
Change of discounted contract fees	0	-39
Balance as at the end of period	72,892	61,029

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

14 Payables and prepayments

Short-term payables and prepayments

	30.06.2021	31.12.2020
€ thousands		
Other payables to suppliers	382	173
Total payables to suppliers	382	173
Debts from securities transactions	95	95
Debts from the acquisition of investment property	0	1,240
Other debts	12	12
Total other liabilities	107	1,347
VAT	241	228
Income tax on dividends	129	0
Corporate income tax	65	0
Personal income tax	1	0
Social tax	2	0
Land tax, real estate tax	25	61
Other tax liabilities	0	2
Total tax liabilities	463	291
Debts to employees	18	14
Interest payable	34	29
Tenants' security deposits	42	45
Other accrued liabilities	56	96
Total accrued liabilities	150	184
Total payables and prepayments	1,102	1,995

Long-term payables

	30.06.2021	31.12.2020
€ thousands		
Tenants security deposits	1,013	954
Other long-term debts	2	3
Total other long-term payables	1,015	957

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

15 Financial instruments, management of financial risks

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

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

Carrying amounts of financial instruments

€ thousands	Notes	30.06.2021	31.12.2020
Financial assets - loans and receivables			
Cash and cash equivalents		9,932	5,128
Trade receivables	11	427	421
Total financial assets		10,359	5,549
Financial liabilities measured at amortized cost			
Borrowings	13	72,892	72,368
Trade payables	14	382	173
Tenant security deposits	14	1,055	999
Interest payables	14	34	29
Accrued expenses	14	74	110
Total financial liabilities measured at amortized cost		74,437	73,679
Financial liabilities measured at fair value			
Derivative instruments (interest rate swaps)		180	246
Total financial liabilities measured at fair value		180	246
Total financial liabilities		74,617	73,925

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

The Group's risk management is based on the principle that risks must be taken in a balanced manner, taking into account the rules established by the Group and implementing risk mitigation measures as appropriate, which achieves the Group's stable profitability and shareholder value growth. When making new investment decisions, the solvency of future customers, the length of lease agreements, the possibility of tenant substitutability and the risks of rising interest rates are carefully assessed. The terms of the financing agreements are adjusted to correspond to the net cash flow of a specific real estate object, which ensures the preservation and growth of sufficient free cash of the Group even after the fulfillment of financial obligations.

The investment of the Group's assets is based on the risk expectations of the Group's investors, therefore excessive risk-taking is unacceptable and appropriate measures must be applied to manage the risks.

The Group considers financial risk to be the risk that arises directly from investing in real estate, including market risk, liquidity risk and credit risk, thereby reducing the company's financial strength or reducing the value of investments.

Market risk

Market risk is a risk involving change in the fair value of financial instruments due to changes in market prices. The Group's financial instruments most influenced by changes in market prices are borrowings and interest rate derivatives. The main factor influencing these financial instruments is interest rate risk.

Interest rate risk

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

As of 30 June 2021, 92% of the Group's loan agreements are based on floating interest (margin between 1.40% and 3.75% plus 1-month to 6-month EURIBOR) and 8% of loan agreements bear fixed interest in the range of 1.55% and 1.9%. In turn, 30% of floating interest rate contracts are linked to an interest rate swap, where the 3-month EURIBOR is fixed at 0.35%. All contracts in the loan portfolio of EFTEN Real Estate Fund III have a 0% floor (negative) to protect against negative EURIBOR, i.e. in case of negative EURIBOR, the loan margin on 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 cash flows of the loan agreements to coincide with the cash flows of the swap agreement settlement schedule.

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

The Group recognizes interest rate swaps with a change in profit or loss. The fair value of interest rate swaps as at 30.06.2021 was negative in the amount of EUR 180 thousand (31.12.2020: EUR 246 thousand). Additional information on determining the fair value of interest rate swaps is provided in the 'Fair value' section below.

Liquidity risk

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

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

The Group's objective is to manage net cash flows in such a way that no more than 65% of the acquisition cost of the investment property involves external debt and the Group's debt coverage ratio would be higher than 1.2. As at 30 June 2021, the share of the Group's interest-bearing debt liabilities in rental income generating investment properties was 46% (31 December 2020: 50%) and the average debt coverage ratio (DSCR) for the last 12 months was 1.9 (First half of 2020: 1.8).

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

As at 30.06.2021	Less than 1 month	Between 2 and 4 months	between 5 and 12 months	Between 2 and 5 years	Over 5 years	Total
<i>€ thousands</i>						
Interest-bearing liabilities	305	5,288	5,137	62,257	0	72,987
Interest payments	145	431	1,065	3,431	0	5,072
Interest payables	34	0	0	0	0	34
Trade payables	382	0	0	0	0	382
Tenant security deposits	0	2	40	872	141	1,055
Accrued expenses	74	0	0	0	0	74
Total financial liabilities	940	5,721	6,242	66,560	141	79,604

Statement of working capital

	30.06.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	9,932	5,128
Receivables and accrued income (Note 11)	2,120	2,018
Prepaid expenses	19	128
Inventory	29	0
Total current assets	12,100	7,274
Short-term portion of long-term liabilities (Note 13)	-10,695	-28,781
Short-term payables and prepayments (Note 14)	-1,282	-2,241
Total current liabilities	-11,977	-31,022
Total working capital	123	-23,748

As of 30.06.2021, the working capital of the Group is positive in the amount of 123 thousand euros (31.12.2020: negative 23,748 thousand euros). As of 31 December 2020, working capital was negative due to the loan agreements of the Group's five subsidiaries expiring in 2020 and during 2021 in the total amount of 34,285 thousand euros. Four of these loan agreements have been extended as of the balance sheet date (see also Note 13).

Credit risk

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

The Group's action to prevent and minimize cash flow from credit risk is to monitor and direct the customer's payment behavior on a day-to-day basis, enabling operational measures to be taken. Similarly, client contracts provide in most cases for payment of rent at the beginning of the calendar month, which gives sufficient time to monitor the payment discipline of the clients and to have sufficient liquidity in the cash accounts at the date of annuity payments on the finance contracts. 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.

An analysis of the client on this subject shall be made before the conclusion of the lease contract. If there is a risk that the lessee will become insolvent, the Group assesses each receivable individually and determines whether it is unlikely that the receivable will become receivable. In general, receivables that are overdue for more than 180 days are considered unlikely to be collected, unless the Group has a reasonable amount of receivables or has a payment schedule.

Accounts receivable are illustrated by the table below:

	30.06.2021	31.12.2020
Undue	306	330
Past due, incl.	133	150
up to 30 days	31	121
30-60 days	19	16
more than 60 days	83	13
Allowance for doubtful accounts	-12	-59
Total trade receivables (Note 11)	427	421

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

	30.06.2021	31.12.2020
<i>€ thousands</i>		
Cash and cash equivalents	9,932	5,128
Trade receivables	427	421
Total maximum credit risk	10,359	5,549

Capital management

The Group treats borrowings and equity as capital.

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

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

After making the investment, the net operating profit on any cash-generating property cannot be less than 120% of the loan annuity.

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). The adjusted cash flow for the first half of 2021 is 2,205 thousand euros (in the first half of the previous year: 1,710 thousand euros).

Report of capitalization

	30.06.2021	31.12.2020
<i>€ thousands</i>		
Short-term liabilities guaranteed with mortgage (Note 13)	10,727	28,820
Unsecured short-term liabilities	1,250	2,202
Total short-term liabilities	11,977	31,022
Long-term liabilities guaranteed with mortgage (Note 13)	62,260	43,643
Unsecured long-term liabilities	5,896	5,484
Total long-term liabilities	68,156	49,127
Share capital and share premium (Note 16)	67,014	51,883
Reserves	1,489	1,323
Retained earnings (Note 17)	20,783	18,277
Total shareholder's equity	89,286	71,483
Total liabilities and equity	169,419	151,632

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

Report of net debt

<i>€ thousands</i>	30.06.2021	31.12.2020
Cash	9,932	5,128
Total liquid assets	9,932	5,128
The short-term portion of long-term liabilities (Note 13)	10,727	28,820
Net short-term debt	795	23 692
Long-term bank loans (long-term portion) (Note 13)	62,260	43,643
Total long-term debt	62,260	43,643
Total net debt	63,055	67,335

Fair value

The valuation methods used to analyze 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 30.06.2021 and 31.12.2020, the Group does not have any assets at fair value that would belong to the Level 1 group upon finding the value. All of the Group's investment properties are carried at fair value and belong to the Level 3 group according to the valuation method (see Note 12). All of the Group's loan liabilities and derivative securities entered into to hedge interest rate risk belong to the Level 2 group.

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

16 Share capital

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

The registered share capital of EFTEN Real Estate Fund III AS as of 30 June 2021 is 50,725 thousand euros (31 December 2020: 42,225 thousand euros). The share capital consists of 5,072,535 shares (31.12.2020: 4,222,535 shares) with a nominal value of 10 euros (31.12.2020: the same). Without amending the articles of association, the company has the right to increase the share capital to 115,411 thousand euros. As of 30 June 2021, contributions to the share capital have been made in the total amount of 67,014 thousand euros (31 December 2020: 51,883 thousand euros).

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

Company	As at 30.06.2021	
	Number of shares	Participation, %
Altius Energia OÜ	723,182	14.26
Hoiukonto OÜ	516,930	10.19
Järve Kaubanduskeskus OÜ	498,952	9.84

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 30.06.2021	
	Number of shares	Participation, %
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 Capital OÜ, a company controlled by Arti Arakas, member of the Supervisory Board	723,182	14.26
Olav Miil, member of the Supervisory Board	38,933	0.77
Siive Penu, member of the Supervisory Board	1,538	0.03

17 Contingent liabilities

Contingent income tax liability

	30.06.2021	31.12.2020
€ thousands		
Retained earnings	20,783	18,277
Potential income tax liability	4,157	3,655
Possible to distribute as dividends	16,626	14,622

The maximum possible income tax liability has been calculated on the assumption that the net dividends to be distributed and the income tax expense related to their payment may not exceed the distributable profit as at 30.06.2021 and 31.12.2020.

18 Related party transactions

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

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

During the first half of 2021, the Group purchased management services from EFTEN Capital AS in the amount of 499 thousand euros (first half of 2020: 416 thousand euros) (see Note 7).

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

As of 30 June 2021, the Group had a total of 12 employees, who were paid a total of 106 thousand euros, including related taxes (Q1 2020: 116 thousand euros). No fees were calculated or paid to the members of the Group's Management Board or Supervisory Board during the first half of 2021 or 2020. The members of the Group's Management Board work for EFTEN Capital AS, a company providing management services to the Group, and expenses related to the activities of a member of the Management Board are included in the management services.

Management Board Declaration for the Consolidated interim report for the second quarter and 6 months of 2021

We hereby confirm that the consolidated interim report of EFTEN Real Estate Fund III AS for the second quarter and 6 months of 2021 provides a true and fair view of the Group's assets, liabilities, financial position and includes a description of key risks and business development and results of the companies included in the consolidation.

/signed digitally/

Viljar Arakas

Member of the Management Board

/signed digitally/

Tõnu Uustalu

Member of the Management Board