

## **Corporate Governance report**

This report is presented in accordance with the Accounting Act of the Republic of Estonia and provides an overview of the governance of EfTEN Real Estate Fund III AS and compliance of governance with the Corporate Governance Recommendations (which is confirmed by the Financial Supervision Authority as an indicative guide and approved by the Baltic stock exchange).

Starting from the listing of EfTEN Real Estate Fund III AS shares on the Nasdaq Tallinn Stock Exchange on December 1, 2017, the Fund has complied with the Corporate Governance Recommendations, unless stated otherwise in the report. Prior to the listing of the shares, the Corporate Governance Recommendations were not mandatory for the Fund, as the Fund was an investment company established as a public limited company.

### **I General meeting**

EfTEN Real Estate Fund III AS has one type of registered shares with a nominal value of EUR 10 per share. Each share gives the Fund's shareholder one vote at the general meeting. The share grants the shareholder the right to participate at the general meeting and in the distribution of profits and remaining assets upon the termination of the Fund, as well as other rights prescribed by law and the articles of association. There are no differences between shareholders that would give them different voting or other rights. None of the shareholders of EfTEN Real Estate Fund III has control over the Fund. As far as EfTEN Real Estate Fund III AS is aware, there is no shareholder agreement or other agreements between shareholders that could subsequently give control over the Fund. As at 31. December 2017, EfTEN Real Estate Fund III AS had two major shareholders: Altius Energia OÜ with an ownership interest of 14.13%, owned equally through holding companies by Arti Arakas and Frank Õim, and Järve Kaubanduskeskus OÜ with an ownership interest of 10.23%, owned through his holding company by Vello Kunman.

The Fund Management Company EfTEN Capital AS owns 2.7% of the Fund's share capital.

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

A decision of the General Meeting is adopted if more than one half of the votes represented at the meeting are in favour, unless the provisions of the law or the articles of association prescribe a greater majority requirement. 2/3 of the votes represented at the meeting need to be in favour in order to amend the articles of association, the term of the Fund and decide on liquidation or merger. 2/3 of the votes of all the shareholders need to be in favour in order to decide on the conclusion, amendment and termination of the management agreement concluded with the Fund Management Company.

A shareholder has the right to participate at the general meeting, address the general meeting with regard to items on the agenda, ask relevant questions and make proposals.

The annual General Meeting of Shareholders is called at least once a year within four months after the end of EfTEN Real Estate Fund III AS financial year. The Shareholders must be notified at least three weeks before the annual General Meeting.

An extraordinary General Meeting of shareholders is called if the Fund Management Company or the Fund's Management Board deems it necessary or if required by the Fund's Supervisory Board, auditor, Fund Management Company, the Financial Supervision Authority or the Fund's depository. In addition to other persons prescribed by the law, shareholders may also request the convening of the General Meeting, provided that their shares represent at least 1/20 of the share capital. The request to call an extraordinary General Meeting must be submitted to the Management Board in writing, indicating the reason for the call. Shareholders must be notified at least one week before the extraordinary General Meeting.

The agenda of the General Meeting, proposals of the Management and Supervisory Board, draft resolutions and other relevant materials are made available to the shareholders before the General Meeting. In 2017, all the materials related to the General Meeting were available to the shareholders until the day of the meeting at the Fund's location. The shareholders were given the opportunity to address relevant items in the agenda.

In 2017, there was one ordinary and one extraordinary General Meeting. Decisions reached at the General Meetings are described in the Management section of the Management Report. The ordinary General Meeting discussed the distribution of profits as a separate topic and a separate decision was made on the subject. General Meetings were held in Estonian. It was not possible to participate in the General Meetings electronically.

The 2017, General Meetings of Shareholders were led by EfTEN Real Estate Fund III AS Management Board member Viljar Arakas. Fund's second member of the Management Board and all members of the Supervisory Board: Arti Arakas (Chairman of the Supervisory Board), Siive Penu, Sander Rebane and Olav Miil participated in the ordinary and extraordinary General Meeting of Shareholders.

## **II Management Board**

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

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

According to the Articles of Association of EfTEN Real Estate Fund III, the Management Board consists of one to three members. The Management Board members are elected and recalled by the Supervisory Board. Since the establishment of the company, the Management Board has consisted of two members: Viljar Arakas and Tõnu Uustalu. The Chairman of The Management Board has not been elected. The member of the Management Board is appointed for a term of five years. Re-election of a Management Board member is permitted. Each member of the Management Board may represent EfTEN Real Estate Fund III AS in all legal acts.

Members of the Management Board have not entered into separate Management Board member contracts. There are no remunerations paid to the members of the Management Board and there are no decisions for the Management Board to receive any remunerations or benefits (including non-cash) in the future.

Viljar Arakas, member of the Management Board of EfTEN Real Estate III AS, is simultaneously a member of the Management Board of the Fund Management Company, with whom he has a Management Board member contract. Tõnu Uustalu, member of the Management Board of EfTEN Real Estate III AS, is simultaneously the manager of the investment department of the Fund Management Company, with whom he has an employment contract.

As regards to the management of EfTEN Real Estate Fund III AS, the Fund Management Company has established internal rules to ensure the functioning of risk management and internal controls of the Fund, as well as internal rules to organize accounting and preparation of financial statements, and, together with the management, organize a control and reporting system. Once a year, members of the Management Board submit a declaration of economic interest.

In 2017, there were no transactions between EfTEN Real Estate Fund III AS and members of the Management Board, their close relatives or related persons, except the management services provided to EfTEN Real Estate Fund III AS by the Fund Management Company. Participation in other associations or entities (besides the responsibilities of the Management Board) is disclosed in the Fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS [www.eref.ee](http://www.eref.ee) and has taken place with the consent of the Supervisory Board. The members of the Management Board do not participate simultaneously in the work of other publicly listed entities Management or Supervisory Boards.

Viljar Arakas, a member of the Management Board, owns 1.07% of the Fund's share capital and 27.4% of the Fund Management Company's share capital through a holding company and as a private individual. Tõnu Uusatalu, a member of the Management Board, owns 0.84% of the Fund's share capital and 20.55% of the Fund Management Company's share capital.

The member of the Management Board or an employee of the company does not require or accept money or other benefits for personal gain from third parties in connection with his or her work and does not give unlawful or unjustified benefits to third parties on behalf of the Fund. In 2017, the Management Board is not aware of any misconduct by the management itself or the group's employees.

The members of the Management Board are not authorized to issue and repurchase shares.

### **III Supervisory Board**

According to the articles of association of EfTEN Real Estate Fund III AS, the Supervisory Board consists of three to five members. Since the establishment of the company, the Supervisory Board has consisted of four members: Arti Arakas (Chairman of the Supervisory Board), Olav Miil, Siive Penu and Sander Rebane. Re-election of a Supervisory Board member is permitted (according to the articles of association).

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

No contracts have been concluded with members of the Supervisory Board. There are no remunerations paid to the members to the Supervisory Board and there are no decisions for the Supervisory Board to receive any remunerations or benefits (including non-cash) in the future.

According to the articles of association of EfTEN Real Estate Fund III AS, the Supervisory Board is authorized to approve a budget, appoint and recall a procurator, appoint an audit firm, approve the terms of a deposit agreement, approve a stockholder, decide on a transaction with a Management Board member, determine the terms of the transaction, decide

on legal disputes and appoint a representative of the Fund in this transaction or dispute, approve semi-annual reports, approve opening balance and annual report of a liquidation, supervise the Management Board and increase share capital within three years from the date of establishment.

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

Members of the Supervisory Board avoid conflicts of interest in their activities. A member of the Supervisory Board favours the interests of the issuer to his or her personal or third party interests. A member of the Supervisory Board does not use commercial offers, directed at the issuer, for personal gain. In 2017, EfTEN Real Estate Fund III AS is not aware of any misconduct by the Supervisory Board members. Once a year, members of the Supervisory Board submit a declaration of economic interests. In 2017, there were no transactions between EfTEN Real Estate Fund III AS and EfTEN Real Estate Fund III AS Supervisory Board members, their close relatives or related persons, except the management services provided to EfTEN Real Estate Fund III AS by the Fund Management Company. The members of the Supervisory Board do not participate simultaneously in the work of other publicly listed entities Management or Supervisory Boards. Participation in other associations or entities is disclosed in the Fund's prospectus, which is available on the website of EfTEN Real Estate Fund III AS [www.eref.ee](http://www.eref.ee).

Arti Arakas, member of the Supervisory Board, owns 7.35% of the Fund's share capital and 10.56% of the Fund Management Company's share capital through a holding company. Olav Miil owns 0.9% of the Fund's share capital and 5.55% of the Fund Management Company's share capital. Siive Penu owns 0.03% of the Fund's share capital. Siive Penu is a member of the Management Board of HTB Investeeringud OÜ, which owns 1.55% of the Fund's share capital and 5.55% of the Fund Management Company's share capital. Sander Rebane does not own any shares in the Fund or the Fund Management Company.

All members of the Supervisory Board participated in more than half of the meetings.

EfTEN Real Estate Fund III does not have an audit or remuneration committee. The functions of the audit and remuneration committee are exercised by the Supervisory Board.

#### **IV Cooperation of Management and Supervisory Board**

The Management Board and Supervisory Board work in close co-operation to best protect the interests of EfTEN Real Estate Fund III. The co-operation is, above all, based on an open exchange of views between as well as within the Management Board and the Supervisory Board. The members of the Management Board participate in the Supervisory Board meetings where the Supervisory Board reviews the financial results of the issuer or makes decisions regarding the approval of the acquisition of investment objects. Generally, members of the Management Board are also invited to Supervisory Board meetings where EfTEN Real Estate Fund III management related issues are discussed. The Management Board informs the Supervisory Board of all important management and business activity related events outside of meetings, to ensure prompt transmission of urgent and important information.

Information, where sufficient time is needed for a decision to be reached (e.g. making investment decisions, approving annual reports), is forwarded by the Management Board to the members of the Supervisory Board before the meeting takes place.

Confidentiality requirements are being applied throughout the exchange of information between the Management and Supervisory Board, which ensures control over sensitive information. On 27 November 2017, internal rules for handling internal information, keeping a list of persons that have access to sensitive information and the disclosure of that information were established.

As far as EfTEN Real Estate Fund III AS is aware, in 2017 the Management Board has not deviated from the instructions given by the Supervisory Board.

## **V Disclosure of information**

Before the listing of EfTEN Real Estate Fund III AS on Nasdaq Tallinn stock exchange, the following information was communicated to the shareholders by the Fund Management Company via the e-mail (information was sent to the e-mail address provided by the shareholders): the calculation of net asset value as at the end of the month, as well as information on the possible suspension of the calculation of net asset value, monthly fact-sheets, semi-annual and annual reports, information on investments made, changes in governing bodies of the Fund, information on violation of investment restrictions and the measures taken to overcome them, other important information that, according to management's opinion, may affect the net asset value of the Fund and immediate disclosure to the shareholders is reasonable, and the time and place of the General Meeting. Notices related to the General Meetings and the offer of shares were also published by the Fund Management Company on the company's website and in one national daily newspaper.

After the listing of shares, EfTEN Real Estate Fund III AS discloses information through Nasdaq Tallinn stock exchange information system, as prescribed by the law and the Nasdaq Tallinn stock exchange rules.

EfTEN Real Estate Fund III AS has all the documents and information, based on Corporate Governance Recommendations and stock exchange announcements, available on the company's website [www.eref.ee](http://www.eref.ee).

EfTEN Real Estate Fund III AS has disclosed on its website and in the stock exchange information system a financial calendar as a separate announcement, i.e. the information to be disclosed during the year (incl. annual report, interim reports) and the dates of the General Meetings.

In 2017, shareholder meetings and web-based seminars with investors were organized in relation with the offering of shares.

## **VI Financial reporting and auditing**

EfTEN Real Estate Fund III AS consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The annual report is audited and approved by the Supervisory Board and the annual General Meeting of Shareholders.

Since the independent auditor report for 2016 was without significant comments, the auditor did not participate in the Supervisory Board or the General meeting in 2017, where the annual report for the previous financial year was approved.

The auditor of EfTEN Real Estate Fund III AS is AS PricewaterhouseCoopers, who was appointed as the auditor of the Fund upon its establishment (06.05.2015). There is a valid contract with the auditor until the year 2019, which includes the audit of financial year 2019. The contract with the auditor specifies the auditor's duties, timetable and remuneration.

In the reporting period, the contractual auditor of EfTEN Real Estate Fund III AS provided the following additional services: translation services, offering of shares prospectus review services and other services for the execution of agreed procedures. EfTEN Real Estate Fund III AS paid auditors EUR 33 thousand in total for the services provided.

In 2017, the auditor did not inform the Supervisory Board of any material circumstances that may affect the work of the Supervisory Board and EfTEN Real Estate Fund III AS management in general. Also, the auditor did not notify the Supervisory Board of any threats to auditor's independence or professionalism.