

# CORPORATE GOVERNANCE REPORT

## Report on good corporate governance

This report has been prepared in accordance with the principles of the Accounting Act and the Corporate Governance Code and provides an overview of the compliance of the management of EFTEN Real Estate Fund III AS with the Corporate Governance Code as at 31.12.2021.

Unless otherwise stated in this report, EFTEN Real Estate Fund III AS shall comply with good corporate governance practices (in particular, as required by law in the management of an investment company registered as a public limited company).

### General meeting

#### Shareholders' rights

EFTEN Real Estate Fund III AS is an investment company incorporated as a public limited company with a nominal value of EUR 10 each. Each share grants one vote to the shareholder at the general meeting. The share entitles the shareholder to participate in the general meeting of shareholders and to distribute profits and assets remaining upon termination of the fund, as well as other rights provided by law and the articles of association. There are no specifications that would give shareholders different voting or other rights.

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

#### Significant Shareholders

None of the shareholders of EFTEN Real Estate Fund III AS controls the fund. As far as EFTEN Real Estate Fund III AS is aware, there are no shareholder agreements or other arrangements between the shareholders that could subsequently result in control of the Fund.

As at 31.12.2021, EFTEN Real Estate Fund III AS had three significant shareholders: 1) Altius Capital OÜ - 14.26%, of which 45.24% is held by the holding company owned by Arti Arakas and 45.24% is held by the holding company owned by Frank Öim; 2) Järve Kaubanduskeskus OÜ - 10.23%, which is 100% owned by Vello Kunman through his holding company and 3) Hoiukonto OÜ - 10.19%, of which 69.5% is held by the holding company owned by Marcel Vichmann and 30.5% is held by the holding company owned by Hanno Murrand.

Fund manager EFTEN Capital AS holds 1.72% of the fund's share capital.

#### Convening of the General Meeting and information to be published

Every shareholder has the right to attend the general meeting, to speak at the general meeting on the items on the agenda and to ask reasonable questions and make proposals. The annual general meeting of shareholders shall be called at least once a year within four months after the end of the financial year of EFTEN Real Estate Fund III AS. An Extraordinary General Meeting of Shareholders shall be called if deemed necessary by the Fund Manager or the Management Board of the Fund or at the request of the Fund's Supervisory Board, auditor, Fund Management Company, Financial Supervision Authority or the depositary of the Fund. In addition to other persons prescribed by the law, shareholders whose shares represent at least 1/20 of the share capital may also request the convening of the General Meeting and the inclusion of questions on the agenda of the General Meeting. The request to call an extraordinary general meeting shall be submitted to the Management Board in writing, stating the reason for the convocation.

The shareholders will be notified of the convening of ordinary and extraordinary meetings of shareholders via Nasdaq Tallinn Stock Exchange System and the notice will also be published on the website of Real Estate Fund III AS and in a national daily newspaper at least three weeks prior to the meeting. Information related to the General Meeting is published as a stock exchange announcement and on the website in both Estonian and English. The newspaper will only publish the notice of the meeting in Estonian.

The agenda of the general meeting, the proposals of the Management and Supervisory Board, draft resolutions and other relevant materials and information are made available to the shareholders before the General Meeting together with the notice the General Meeting.

In 2021, the general meeting of shareholders was held on April 15, 2021 in the conference room of the Radisson Blu Hotel Olümpia II floor, Alfa 3, Tallinn, Liivalaia 33. The notice convening the Annual General Meeting was published on the Nasdaq Tallinn Stock Exchange and on the Fund's and Fund manager's web page on the 23<sup>rd</sup> of March, 2021, it was also published on the same day in the newspaper "Postimees".

EFTEN Real Estate Fund III AS enabled shareholders to submit questions on the topics mentioned in the agenda to the e-mail address provided in the notice, by post to the fund's address and by telephone and to view the annual report on its website and at A. Lauteri 5, Tallinn, from releasing the notice of the Annual General Meeting until the date of the meeting.

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

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

### **Conducting the Annual General Meeting**

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

### **Management Board**

#### **Tasks of the Management Board**

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

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

#### **Composition and remuneration**

According to the Articles of Association of EFTEN Real Estate Fund III AS, the Management Board consists of one to three members. The members of the management board are elected and recalled by the supervisory board. Viljar Arakas and Tõnu Uustalu have been members of the Management Board since their establishment. The chairman of the board has not been elected. In 2021, there were no changes in the members of the Management Board. Every member of the Management Board may represent EFTEN Real Estate Fund III AS in all legal proceedings.

No separate agreements have been concluded with the members of the Management Board. No remuneration has been paid to the members of the Management Board and there are no decisions to pay any remuneration or benefits (incl. non-monetary) to the members of the Management Board in the future. Viljar Arakas, a member of the Management Board of EFTEN Real Estate Fund III AS, is at the same time a member of the Management Board of the Management Company and the Management Company has entered into an agreement with Viljar Arakas. Tõnu Uustalu, a member of the Management Board of EFTEN Real Estate Fund III AS, is also the head of the investment department of the Management Company, with whom the Management Company has entered into an employment contract.

In connection with the management of EFTEN Real Estate Fund III AS, the management company has established internal rules to ensure the functioning of the fund's risk management and internal control, as well as internal rules for organizing accounting and preparing financial statements and together with the management board. The members of the Management Board shall submit and update their declarations of financial interests at least once a year.

#### **Conflict of interest**

In 2021, no transactions took place between EFTEN Real Estate Fund III AS and the members of the Management Board, their close relatives or persons related to them, except for the provision of management services to EFTEN Real Estate Fund III AS by the management company in accordance with the management agreement. In addition to the obligations of the members of the Management Board, participation in other companies has taken place with the consent of the Supervisory Board and published in the fund's prospectus, which is available on the website of EFTEN Real Estate Fund III AS [www.eref.ee](http://www.eref.ee). Viljar Arakas, a member of the Management Board, has been a member of the Supervisory Board of Coop Pank AS, whose shares are listed on the Nasdaq Tallinn Stock Exchange since 14 April 2021. Tõnu Uustalu, a member of the Management Board, does not simultaneously participate in the management board or supervisory board of any other company listed on the securities market.

As of 31.12.2021, Viljar Arakas, a member of the Management Board, owns a total of 0.34% of the share capital of the fund and 27.41% of the share capital of the management company through his holding company and as a private individual. Tõnu Uustalu, a member of the Management Board, owns 0.29% of the share capital of the fund and 20.56% of the share capital of the management company.

Neither a member of the Management Board nor an employee shall demand or receive money or other benefits from third parties in connection with his or her work for personal purposes, nor shall he or she make illegal or unreasonable benefits to third parties on behalf of the Fund. In 2021, the Management Board and,

to the Management Board's knowledge, the Group's employees have not violated this principle. The members of the Management Board have not been authorized to issue and repurchase shares.

## **Supervisory Board**

### **Tasks of the Supervisory Board**

According to the articles of association of EFTEN Real Estate Fund III AS, the Supervisory Board is authorised to approve the budget, appoints and recall procurator, appoint an audit firm, approve the terms of a deposit agreement, approve a stockholder, decide on a transaction with a Management Board member, determine the terms of the transaction, decide on legal disputes and appoint a representative of the Fund in this transaction or dispute, approve semi-annual reports, approve opening balance and annual report of liquidation, supervise the Management Board and increase share capital within three years from the date of establishment.

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

EFTEN Real Estate Fund III AS does not have audit or remuneration committee. The functions of the audit and remuneration committee shall be performed by the Supervisory Board.

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

### **Composition and remuneration**

According to the Articles of Association of EFTEN Real Estate Fund III AS, the Supervisory Board consists of three to five members. Since its establishment, the Supervisory Board has 4 members, including Arti Arakas (Chairman of the Supervisory Board), Olav Miil, Siive Penu and Sander Rebane. According to the Articles of Association, re-election of the members of the Supervisory Board (extension of the term of office) is permitted. There were no changes in the composition of the Supervisory Board in 2021, the powers of the members of the Supervisory Board are valid.

No agreements have been concluded with the members of the Supervisory Board. No remuneration has been paid to the members of the Supervisory Board and there are no decisions to pay any remuneration or benefits (incl. non-monetary) to the members of the Supervisory Board in the future. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board.

### **Conflict of interest**

The members of the supervisory board shall avoid conflicts of interest in their activities. A member of the supervisory board shall, in his or her activities as a member of the supervisory board, give priority to the interests of the issuer over personal or third party interests. A member of the supervisory board shall not use commercial offers addressed to the issuer for personal gain. In 2021, to the knowledge of EFTEN Real Estate Fund III AS, the members of the Supervisory Board have not erred against this principle. The members of the Supervisory Board update their declaration of financial interests at least once a year.

In 2021, there were no transactions between EFTEN Real Estate Fund III AS and members of the Supervisory Board of EFTEN Real Estate Fund III, their close relatives or persons related to them, except for the provision of management services to EFTEN Real Estate Fund III AS by the Management Company. The members of the supervisory board do not simultaneously participate in the work of the management boards or supervisory boards of other companies listed on the securities market. The activities of the members of the Supervisory Board in other associations are published in the fund's prospectus and available on the fund's website [www.eref.ee](http://www.eref.ee).

As of 31 December 2021, Arti Arakas, a member of the Supervisory Board, owns 6.45% of the share capital of the fund and 10.56% of the share capital of the management company through the holding company, Olav Miil owns 0.77% of the share capital of the fund and 5.55% of the share capital of the management company. Siive Penu owns 0.03% of the share capital of the fund and does not own a stake in the management company. Siive Penu is a member of the Management Board of HTB Investeeringud OÜ, which owns 1.3% of the share capital of the fund and 5.55% of the share capital of the management company. Sander Rebane, a member of the Supervisory Board, does not own any shares in the fund or the management company.

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

The Management Board and the Supervisory Board work closely together to best protect the interests of EFTEN Real Estate Fund III AS. The co-operation is primarily based on an open exchange of views both between the Management Board and the Supervisory Board and within the Management Board and the Supervisory Board. The members of the management board participate in the meetings of the supervisory board, where the supervisory board reviews the financial results of the issuer or makes decisions on the approval of transactions for the acquisition of investment objects. As a general rule, the members of the Management Board have also been invited to other meetings of the Supervisory Board where issues related to the management of EFTEN Real Estate Fund III AS are discussed. Close co-operation between the Supervisory Board and the Management Board has continued in 2021 as well.

The Management Board also notifies the Supervisory Board of significant events related to the management and activities of EFTEN Real Estate Fund III AS outside the meetings in order to ensure the transmission of information that is operatively necessary or important to the Supervisory Board.

Information that requires sufficient time to make a decision (e.g. making investment decision, approval of the financial statements), will be shared with the supervisory board before the meeting.

Confidentiality requirements are applied to the entire exchange of information between the Supervisory Board and the Management Board, which ensures control over the flow of price-sensitive information, including the establishment of internal rules on 27.11.2017 for handling inside information, maintaining the list of persons with inside information and disclosing information.

As far as EFTEN Real Estate Fund III AS is aware, in 2021 the Management Board has not deviated from the instructions given by the Supervisory Board.

#### **Disclosure of information**

EFTEN Real Estate Fund III AS informs all shareholders about material matters equally, using the information system of the Tallinn Stock Exchange and its website. The website of EFTEN Real Estate Fund III AS [www.eref.ee](http://www.eref.ee) contains general information about the fund, an overview of real estate investments, information about the members of the management board and supervisory board, the main service providers; as well as stock exchange announcements, reports and other relevant information. The annual and interim reports of EFTEN Real Estate Fund III AS provide information on the fund's strategy and financial performance, as well as a report on corporate governance. Information on the composition of the Supervisory Board and the auditor, resolutions of the general meeting and other important information is published in the section of stock exchange releases. In addition, the annual reports of the Fund are available on the website of the Management Company EFTEN Capital AS at [www.eften.ee](http://www.eften.ee).

In addition to the quarterly interim reports and the annual report, EFTEN Real Estate Fund III AS also publishes the Fund's net asset value on a monthly basis as of its registration on the Nasdaq Tallinn Stock Exchange, which is also available on the Fund's website. Before the end of each financial year, EFTEN Real Estate Fund III shall publish through the Nasdaq Tallinn stock exchange system and thereafter on its website the following financial year, showing the dates of quarterly and annual financial results and the date of the annual general meeting. Once the information has been published through the Nasdaq Tallinn Stock Exchange system, all of this information will also be available on the Fund's website. EFTEN Real Estate Fund III AS regularly communicates with its shareholders. The general meeting of shareholders shall be convened at least once a year, with a separate agenda item providing an overview of the activities of the fund and where each shareholder can ask questions to the members of the management and supervisory boards. The Management Board also meets with shareholders outside general meetings, including at conferences and meetings.

#### **Financial reporting and auditing**

##### **Reporting**

The consolidated financial statements of EFTEN Real Estate Fund III AS are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The annual report is audited and approved by the supervisory board and approved by the annual general meeting of shareholders. EFTEN Real Estate Fund III AS annually publishes the consolidated audited annual report and the consolidated quarterly reports during the financial year, which are published through the information system of the Tallinn Stock Exchange and are publicly available on the website of the fund and the management company.

##### **Election of the auditor and audit of the financial statements**

The independent auditor of EFTEN Real Estate Fund III AS is AS PricewaterhouseCoopers, who was appointed the auditor of the fund upon the establishment of the fund (06.05.2015). In accordance with the Investment Funds Act and the Articles of Association of EFTEN Real Estate Fund III AS, the right to appoint an auditor has been granted to the Supervisory Board. The contract with the auditor defines the auditor's duties, schedule and remuneration.

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

In 2021, there were no events or circumstances that the auditor would have reported to the Supervisory Board that, in his opinion, could affect the work of the Supervisory Board or the management of EFTEN Real Estate Fund III AS. Nor has the auditor reported a threat to the auditor's independence or professionalism. In 2021, the auditor of PricewaterhouseCoopers AS, Rando Rand, participated in the annual general meeting of shareholders, where the report of the previous financial year was approved.

#### **Risk profile and risk management**

EFTEN Real Estate Fund III AS is a public limited-liability investment fund (alternative investment fund) established in the Republic of Estonia with the aim of providing shareholders with an opportunity to participate in an actively managed real estate portfolio and the aim of the Fund has not changed. EFTEN Real Estate Fund III AS is not a guaranteed fund and dividend payment is not guaranteed to investors. Key information published for investors about EFTEN Real Estate Fund III AS is available on the Fund's website at [www.eref.ee](http://www.eref.ee)

In its day-to-day operations, EFTEN Real Estate Fund III AS is exposed to various risks. The Fund and the Management Company consider the risk as a potential risk that an event, activity or omission may cause loss of assets or reputation or jeopardize the effective performance of tasks / objectives. The main risks related

to the activities of the fund and its subsidiaries are described in the fund's prospectus, which is available on the website of EFTEN Real Estate Fund III AS [www.eref.ee](http://www.eref.ee).

EFTEN Real Estate Fund III AS and the management company regard risk management as an ongoing process of defining, assessing, measuring and mitigating risks and as part of the management of the company's day-to-day operations. The principle is that risks must be taken in a balanced manner, taking into account the internal risk management rules established by the management company, the investment and risk diversification restrictions set out in the fund's articles of association and applying risk mitigation measures as appropriate. When investing the Fund's assets, excessive risk-taking is unacceptable and appropriate measures must be applied to identify risks, assess risks, perform risk analysis and evaluate results in order to manage risks. Thus, the risk management process includes both the risks related to the investment planned or made on behalf of the fund and the management of the fund's management and the management company's own operational and other risks. An independent internal auditor of the management company is also involved in the evaluation of the risk management process and measures, and in addition, a compliance function functions as part of the management company's internal control. The role of risk management and internal control is to ensure that risks are recognized and addressed at all levels as part of the risk management process. The management board shall ensure that each employee and member of the management body is aware of the requirements with which he or she must comply in order to perform his or her duties and that the performance of the various functions does not prevent the employee or member of the management body from acting in a reliable, fair and appropriate manner. To this end, trainings for the employees of the management company are also conducted annually. In the financial year 2021, the principles and general principles of risk management have not been changed.