

CORPORATE GOVERNANCE REPORT

Report on good corporate governance

This report has been prepared in accordance with the principles of the Accounting Act and the Corporate Governance Code and provides an overview of the compliance of the management of EFTEN Real Estate Fund III AS with the Corporate Governance Code as at 31.12.2022.

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

General meeting

Shareholders' rights

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

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

Significant Shareholders

None of the shareholders of EFTEN Real Estate Fund III AS has control over the Fund. As far as EFTEN Real Estate Fund III AS is aware, there are no shareholder agreements or other agreements signed between the shareholders that could later give control over the Fund.

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

The Fund manager, EFTEN Capital AS, owns 1.72% of the Fund's share capital.

Convening of the General Meeting and information to be published

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

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

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

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

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

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

Conducting a regular general meeting of shareholders

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

Conducting the Annual General Meeting

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

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

Management Board

Tasks of the Management Board

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

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

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

Composition and remuneration

According to the Articles of Association of EFTEN Real Estate Fund III AS, the Management Board consists of one to three members. The members of the management board are elected and recalled by the supervisory board. Viljar Arakas and Tõnu Uustalu have been members of the Management Board since their establishment. The chairman of the board has not been elected. In 2022, there were no changes in the members of the Management Board. Every member of the Management Board may represent EFTEN Real Estate Fund III AS in all legal proceedings.

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

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

Conflict of interest

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

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

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

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

Board members are not authorized to issue and buy back shares.

Supervisory Board

Tasks of the Supervisory Board

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

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

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

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

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

Composition and remuneration

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

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

Conflict of interest

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

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

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

Cooperation of Management and Supervisory Board

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

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

Disclosure of information

EFTEN Real Estate Fund III AS informs all shareholders about material matters equally, using the information system of the Tallinn Stock Exchange and its website. The website of EFTEN Real Estate Fund III AS www.eref.ee contains general information about the fund, an overview of real estate investments, information about the members of the management board and supervisory board, the main service providers; as well as stock exchange announcements, reports and other relevant information. The annual and interim reports of EFTEN Real Estate Fund III AS provide information on the fund's strategy and financial performance, as well as a report on corporate governance. Information on the composition of the Supervisory Board and the auditor, resolutions of the general meeting and other important

information is published in the section of stock exchange releases. In addition, the annual reports of the Fund are available on the website of the Management Company EFTEN Capital AS at www.eften.ee.

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

Financial reporting and auditing

Reporting

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

Election of the auditor and audit of the financial statements

The independent auditor of EFTEN Real Estate Fund III AS is PricewaterhouseCoopers AS, which was appointed as the auditor of the fund when the fund was established.

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

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

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

In 2022, Rando Rand, chief auditor of the auditor PricewaterhouseCoopers AS, participated in the regular general meeting of shareholders, where the report of the previous financial year was approved.

Risk profile and risk management

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

In its day-to-day operations, EFTEN Real Estate Fund III AS is exposed to various risks. The Fund and the Management Company consider the risk as a potential risk that an event, activity or omission may cause loss of assets or reputation or jeopardize the effective performance of tasks / objectives. The main risks related to the activities of the fund and its subsidiaries are described in the fund's prospectus, which is available on the website of EFTEN Real Estate Fund III AS www.eref.ee.

EFTEN Real Estate Fund III AS and the management company regard risk management as an ongoing process of defining, assessing, measuring and mitigating risks and as part of the management of the company's day-to-day operations. The principle is that risks must be taken in a balanced manner, taking into account the internal risk management rules established by the management company, the investment and risk diversification restrictions set out in the fund's articles of association and applying risk mitigation measures as appropriate. When investing the Fund's assets, excessive risk-taking is unacceptable and appropriate measures must be applied to identify risks, assess risks, perform risk analysis and evaluate results in order to manage risks. Thus, the risk management process includes both the risks related to the investment planned or made on behalf of the fund and the management of the fund's management and the management company's own operational and other risks. An independent internal auditor of the management company is also involved in the evaluation of the risk management process and measures, and in addition, a compliance function functions as part of the management company's internal control. The role of risk management and internal control is to ensure that risks are recognized and addressed at all levels as part of the risk management process. The management board shall ensure that each employee and member of the management body is aware of the requirements with which he or she must comply in order to perform his or her duties and that the performance of the various functions does not prevent the employee or member of the management body from acting in a reliable, fair and appropriate manner. To this end, trainings for the employees of the management company are also conducted annually. In the financial year 2022, the principles and general principles of risk management have not been changed.