

Merger information for shareholders of EfTEN Real Estate Fund III AS regarding the merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS

On September 19, 2022, EfTEN Real Estate Fund III AS as the Acquiring Fund and EfTEN Kinnisvarafond AS as the Fund Being Acquired entered into the merger agreement for the merger of EfTEN Kinnisvarafond AS with EfTEN Real Estate Fund III AS (hereinafter the merger).

On December 5, 2022, the Financial Supervision Authority has given permission for the funds to merge.

The merger of the funds takes place under the conditions specified in said merger agreement, according to which EfTEN Kinnisvarafond AS will be merged with EfTEN Real Estate Fund III AS. As a result of the merger, EfTEN Kinnisvarafond AS will end without liquidation proceedings, and all assets and liabilities of EfTEN Kinnisvarafond AS will be transferred to EfTEN Real Estate Fund III AS. A new fund will not be established upon merger. To carry out the merger, the share capital of EfTEN Real Estate Fund III AS will be increased at the expense of the total assets of EfTEN Kinnisvarafond AS (non-monetary contribution), the value of which shall be EPRA Net Asset Value of EfTEN Kinnisvarafond AS. The financial indicators related to the merger in determining the exchange ratio of shares and increasing the share capital will be calculated on the basis of the balance sheet as of the preceding the balance sheet date of the merger, i.e., 31.12.2022. Rights and obligations arise under this merger agreement only after the merger agreement has been approved by both merging funds and the Financial Supervision Authority has given permission for the funds to merge. During the merger, the business name of EfTEN Real Estate Fund III AS will be changed, and the fund will continue to operate under the business name of EfTEN Real Estate Fund AS.

This merger information document provides additional information to the shareholders of EfTEN Real Estate Fund III AS and allows to assess the impact of the merger. For more information, please see the explanations and reasons for the merger in clause 1 below, the possible impact of the merger on shareholders in clause 2, the rights of shareholders related to the merger in clause 3, and about the process and schedule of the merger in clause 4.

1. Explanations and reasons for the merger

EfTEN Capital AS is a fund manager that manages seven real estate funds, including EfTEN Kinnisvarafond AS, founded in 2008, and EfTEN Real Estate Fund III AS, founded in 2015.

EfTEN Capital AS, the fund manager of the merging funds, and the management boards of the managed funds, having analysed the profiles of the merging funds, including the proportion of financial leverage, the business results, the basis of evaluation and service providers, decided to submit a proposal to the supervisory boards of the funds to merge the funds, and after receiving approvals, concluded the merger agreement mentioned above. The merging funds' management boards and the fund manager of the merging funds consider the broader market sentiment for real estate investments has been positive in previous years and continues to be so even at the time of signing this agreement. Although various risks are foreseen in the securities market as well as in the real estate sector in the future, real estate is considered a popular rather than an unpopular asset class from the perspective of investment. Upon the merger of the Acquiring Fund and the Fund Being Acquired, the fund will have real estate investments worth approximately 370 million euros, comprised of 35 commercial real estate investments in the Baltic states, the business volume growth of which will benefit the shareholders of both merging funds upon merger. In the opinion of the management boards of the merging funds, the supervisory boards of the merging funds and the management board of the fund manager of the merging funds the underlying assets (real estate investments) of the merging funds have performed well, even through the corona crisis over the last two years.

As a result of the merger, diversification of assets increases, incl. geographically and across business sectors, and the proportion of each individual investment will decrease as well as the risks stemming therefrom to the merging funds as well as their investors (shareholders). The vacancy rate of the premises of the Fund Being Acquired is less than 1,8% and the vacancy rate of the Acquiring Fund is of the same magnitude. The real estate investments and the strategies of both funds are compatible and at the same time complement each other.

94% of the assets of EfTEN Real Estate Fund III AS and EfTEN Kinnisvarafond AS are real estate investments (other assets are mainly free cash in accounts), which have been evaluated by the same appraiser - Colliers International, based on the same approach and the same methodology i.e., the evaluation bases are the same in both merging funds.

Both the Acquiring Fund as well as the Fund Being Acquired have been established based on an identical investment strategy – opportunistic and value-adding investment strategy – but at different times (the memorandum of association of the Acquiring Fund was entered into on 6 May 2015 when the investment period of the Fund Being Acquired had ended). The investment strategy or risk profile of the Acquiring Fund will not change upon the merger and the Acquiring Fund will continue to invest and raise capital also after the merger.

Due to a greater market capitalisation, the merger will bring along better visibility, incl. amongst foreign investors, which in turn provides a more solid foundation for increasing market liquidity and financing and developing real estate investments. Therefore, the merger will have a positive effect on the shareholders of the merging funds.

The merging funds have an identical dividend policy, according to which 80% of the free cash flow earned the previous financial year shall be paid out as dividends, and no changes are foreseen for the future with respect to that. The decision to pay the dividend is within the competence of the general meeting of shareholders, and this principle will not change due to the merger.

The merging funds have a similar structure of costs and fees, including calculating management fee of the fund manager. Upon merger, the structure of costs and fees for the shareholders of EfTEN Real Estate Fund III AS will not change. For the shareholders of the Fund Being Acquired the principle of calculating the costs and fees will change and this is declared below in clause 2.

The merging funds have the same fund manager (i.e., EfTEN Capital AS), auditor (i.e., AS PricewaterhouseCoopers), depository (i.e., AS Swedbank) and the same appraiser of the underlying assets (real estate investments) (i.e., Colliers International).

2. Possible impact of the merger on shareholders

Possible impact and risks

Both the Acquiring Fund as well as the Fund Being Acquired have been established based on an identical investment strategy – opportunistic and value-adding investment strategy that will not change upon the merger. Also, the risk profile or investment restrictions of EfTEN Real Estate Fund III AS as the Acquiring Fund, will not change. As a result of the merger, all real estate investments of EfTEN Kinnisvarafond AS will be added to the real estate investment portfolio of EfTEN Real Estate Fund III AS and diversification of assets will be increased, incl. geographically and across business sectors, and the proportion of each individual investment will decrease as well as the risks stemming therefrom to the merging funds as well as their investors (shareholders). Before the merger takes effect, there are no plans to significantly change the structure of the assets of EfTEN Kinnisvarafond AS (the investment period has ended and no new investments will be made, and there are no plans to sell the existing assets). An overview of real estate investments of EfTEN Kinnisvarafond AS can be found on the [website](#) of the Fund Manager. Each shareholder of EfTEN Real Estate Fund III AS must familiarize himself with the real estate investment portfolio of EfTEN Kinnisvarafond AS before the general meeting approving the merger and assess the suitability of the objects for his risk appetite and expectations. Due to a greater market capitalisation, the merger will bring along better visibility, incl. amongst foreign investors, which in turn provides a more solid foundation for increasing market liquidity and financing and developing real estate investments. Thus, the merger has a positive effect on the shareholders of the merging funds. The merger will not result in a possible deterioration of financial results. EfTEN Kinnisvarafond AS is a fund focused towards professional investors, the term of which, if the merger will not take place, would end in 2027, and upon which the fund would be terminated and liquidated according to the articles of association, unless the shareholders would decide otherwise (for example, to extend the fund's maturity). EfTEN Kinnisvarafond AS is a closed-ended fund, which means that its shareholders could leave the fund before the fund term only through the secondary market, i.e., off-market transactions. After the merger, the former shareholders of EfTEN Kinnisvarafond AS will have the opportunity to leave the fund through a stock exchange transaction, which may affect the share price and liquidity of EfTEN Real Estate Fund III AS. The merger takes place during a period when different events are taking place in the world (including war in Ukraine, energy crisis) that may affect the general investment environment in the Baltics, including changes in loan interest rates or lead to the expectation of an economic downturn. A significant deterioration of the investment environment may result in a significant deterioration of the fund's financial results. At the same time, important macroeconomic events will affect the funds equally, insofar as the investment region of both funds is the same, i.e. real estate investments of both funds are in Estonia, Latvia and Lithuania are included in the basic investments of both funds. The investment strategies (opportunistic and value-adding) and risk profiles of both funds have been identical,

which is why the investment portfolios of the funds have been built based on similar principles – similar asset profile, level of leverage, etc. The operational history of the funds also shows that so far both funds have reacted very similarly to the changes in the economic environment, including the effects related to the corona pandemic.

Expected results

After the merger, EfTEN Real Estate Fund III AS as the Acquiring Fund:

- the volume of real estate investments will increase, i.e., the volume of real estate investments will be over 370 million euros (before the merger as of 31.07.2022: 169 million euros);
- the volume of commercial space to be rented out will increase and will be 335,343 m² (before the merger as of 31.07.2022: 146,510 m²);
- the annual free cash flow will increase and will be approximately at 14,761 thousand euros (before the merger as of 31.07.2022: 6,300 thousand euros);
- NOI (net rental income per year) will increase and will be approximately at 28,213 thousand euros (before the merger as of 31.07.2022: 13,224 thousand euros).

Charges and fees

The structure of charges and fees of both funds is similar, and the merger does not change the structure of charges and fees of EfTEN Real Estate Fund III AS, i.e. the structure of charges and fees remains the same for the shareholders of EfTEN Real Estate Fund III AS.

According to the law, the key investor information document is not required for EfTEN Kinnisvarafond AS. In connection with the merger, the risk and reward profile of EfTEN Kinnisvarafond AS has been also evaluated and analysed, which is the same as EfTEN Real Estate Fund III AS has, and the risk and reward indicator numerically expressed is also "3". The merger will not affect the risk and reward indicator, which shows the relationship between risk and expected return when investing in a fund.

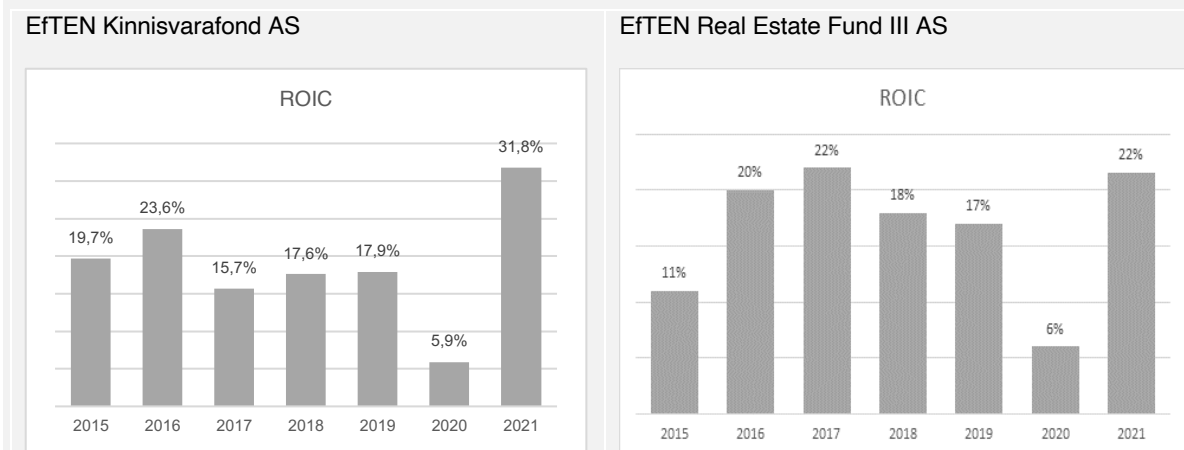
Charges	EfTEN Kinnisvarafond AS	EfTEN Real Estate Fund III AS
Management fee	0,5% of uninvested capital and 2% of the invested capital per year	2% of the invested capital per year
Ongoing charges of the fund for 2021*	0,9%	1,3%
Entry charge	0%	0%
Exit charge	0%	0%
Success fee rate and calculation principles	20% of the amount, which is the difference between the sale price of the investment object or the sum of the sales prices in the case of a consolidated sale of the investment objects to be sold and the purchase price, purchase costs and improvement costs of the corresponding investment object, or the sum of the purchase prices, purchase-related costs and improvement costs of the investment objects sold in the case of a consolidated sale, and the minimum estimated productivity of the invested capital. The minimum projected return of invested capital is 10% (ten percent) per year.	20% between the adjusted closing price on the last trading day of the reporting year and the adjusted closing price on the last trading day of the previous reporting year, multiplied by the number of shares at the end of the reporting period. The closing price is adjusted: a) the sum of dividends paid for previous periods on the exchange and the income tax on dividends per one share is added to the closing price on the last trading day of the reporting year; b) minimum rate of return for previous periods on the exchange, which is equal to 10% of the closing price on the last trading day of each previous reporting year, is deducted from the closing price.
Performance fee calculated in 2021	3,896 thousand euros	537 thousand euros

* Ongoing charges are defined as the proportion of the fund's equity as the group's parent company's charges and management fees. The ongoing charges do not include the success fee.

In the Fund Being Acquired, the performance fee paid to the management company (fee based on financial results) will be calculated until 30.11.2022, after which shares of the Fund Being Acquired will be issued to the management company at the expense of the performance fee calculated up to the said date, and the management agreement will be terminated on the day before the balance sheet date of the merger.

The calculation and payout principles of the performance fee (success fee) of the Acquiring Fund will not change in connection with the merger. During the merger, fair treatment of the shareholders who previously owned shares in the Fund Being Acquired will be ensured by determining the exchange ratio of shares according to the formula published in the merger agreement.

Past performance*



* Past performance does not constitute a promise or indication of the Fund's performance over the coming periods.

The merger does not affect the rights of shareholders of EFTEN Real Estate Fund III AS.

All reporting and disclosure requirements of EFTEN Real Estate Fund III AS remain the same and will not change. The costs related to the merger will not be paid at the expense of EFTEN Real Estate Fund III AS, EFTEN Kinnisvarafond AS or the shareholders of the merging funds. According to the law, the costs related to the merger will be paid by the management company.

The merger does not affect the shareholder's income tax principles. Please note that for shareholders who own before merger more than 10% of the shares in the Acquiring Fund or the Fund Being Acquired, and after the merger the shareholding of those shareholders in the Acquiring Fund remains below 10%, then the exception to taxation of dividends in § 50 (11) sub clause 1 of the Income Tax Act does not apply. According to § 15 (4) (11) of the Income Tax Act, income from the exchange of investment fund units or other shares during the merger of investment funds is not subject to income tax.

3. Shareholders' rights upon merger

Rights and obligations arise under the merger agreement only after the merger agreement has been approved by both merging funds. Therefore, the approval of the merger requires the actions of the shareholders of EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS - participation in the general meeting and voting in favour of the decision.

To carry out the merger, the share capital of EFTEN Real Estate Fund III AS will be increased at the expense of the total assets of EFTEN Kinnisvarafond AS (non-monetary contribution), the value of which shall be EPRA Net Asset Value of EFTEN Kinnisvarafond AS as of 31.12.2022. The reasons for applying the EPRA net asset value and the principles and formulas for its calculation are described in the merger agreement. In summary, due to the fact that the tax systems of different countries are very different (including in the Baltic States), the European Public Real Estate Association has recommended to use the EPRA net asset value, which differs from the net asset value calculated according to the International Accounting Standard (IFRS) in that, that deferred income tax liability and interest derivatives related to real estate investments are eliminated from the calculation to obtain the EPRA NAV of assets. Considering the long-term strategy of the funds, where the sale of assets is unlikely to take place in the near future and where temporary differences in financial assets or liabilities blur the transparency of the fair value of the fund's net assets, it is appropriate to use EPRA NAV on merger.

Upon the merger, the shares of the Fund Being Acquired and owned by a shareholder who has been entered in the shareholders list of the Fund Being Acquired as at the end of the business day of Nasdaq CSD on 31.12.2022, unless the general meeting of the shareholders of the Fund Being Acquired specifies otherwise, shall be exchanged with the shares of the Acquiring Fund based on the exchange ratio calculated as follows:

Exchange ratio upon merger = the Fund's Being Acquired EPRA NAV per share (in euros, precision equivalent to eight decimals) ÷ the Acquiring Fund's EPRA NAV per share (in euros, precision equivalent to eight decimals). The number of shares used for the exchange as calculated in accordance with the formula specified in the merger agreement and the increase of the share capital of the Acquiring Fund shall be determined by the resolution of the

supervisory board of the Acquiring Fund. In this respect, upon the exchanging of the shares, the supervisory board of the Acquiring Fund reserves the right to round the number of shares to the nearest integer when determining the exact number of new shares of the Acquiring Fund. The calculation of the exchange ratio will be verified by the depositary, who will prepare the respective report on it. The management company will make the report available electronically free of charge to all shareholders of the Acquiring Fund and Fund Being Acquired who are interested in the report. The corresponding request must be sent to the fund management company by e-mail to info@eften.ee.

No payments shall be made to the shareholders of the Fund Being Acquired upon exchange of shares owned by shareholders of the Fund Being Acquired with shares of the Acquiring Fund. The shares of the Acquiring Fund shall be deemed transferred to the shareholders of the Fund Being Acquired at the time of making the merger entry on the registry card of the Acquiring Fund. Upon entering the merger on the registry card of the Acquiring Fund, the shareholders of the Fund Being Acquired shall become the shareholders of the Acquiring Fund and their shares shall be exchanged with the shares of the Acquiring Fund. Outstanding amounts of EFTEN Kinnisvarafond AS, such as accruals, unpaid interest and other outstanding amounts related to investments, will be transferred to EFTEN Real Estate Fund III AS as part of the assets and liabilities of EFTEN Kinnisvarafond AS. No payments shall be made to the shareholders of the Acquiring Fund in connection with the merger. The shares of the Acquiring Fund shall grant the shareholders of the Fund Being Acquired the right to dividends from the financial year 2022.

Upon the increase of the share capital of EFTEN Real Estate Fund III AS in connection with the merger, the shareholders of EFTEN Real Estate Fund III AS will not have a right of first refusal for the acquisition of the shares. The shareholders of EFTEN Real Estate Fund III AS as well the shareholders of EFTEN Kinnisvarafond AS do not have the right to demand redemption or exchange of their shares. § 144 of the Investment Funds Act (IFA) is not applicable to this merger.

The right to demand redemption is excluded according to the § 516 subsection 4 of the IFA and the articles of association of EFTEN Real Estate Fund III AS (clause 4.12 – the fund shall not repurchase shares from the shareholders).

Additional information about the merger, including the merger agreement and other relevant documents, can be found on the management company's website www.eften.ee or on the EFTEN Real Estate Fund III AS website www.eref.ee or you can ask the management company by e-mail at info@eften.ee.

4. Terms and timetable of the merger

The merger requires the approval of the shareholders of both merging funds. Merging funds are not required to prepare a merger report or interim balance sheet. The merger shall be verified by the depositary of EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS. The balance sheet date of the merger, i.e. the time since when the transactions of the Fund Being Acquired shall be deemed to be made on account of the Acquiring Fund shall be 01.01.2023, which shall become effective upon entry in the commercial register. The value of assets of EFTEN Kinnisvarafond AS shall be determined as of the day before the balance sheet date of the merger, i.e. 31.12.2022. The merger will enter into force upon entering the merger on the registry card of the Acquiring Fund in the commercial register and the shareholders of the Fund Being Acquired shall become the shareholders of the Acquiring Fund. The shares of EFTEN Kinnisvarafond AS will be cancelled when the merger enters into force. On the effective date of the merger, EFTEN Kinnisvarafond AS will cease its activities and its assets and liabilities will be transferred to EFTEN Real Estate Fund III AS without a liquidation process.

Upon entry into force of the merger, total assets of the Fund Being Acquired, incl. rights, obligations and agreements, will be transferred to the Acquiring Fund. Immediately after the merger entry has been made on the registry card of the Acquiring Fund, the management board of the Acquiring Fund shall submit petitions for the registration of the property of the Fund Being Acquired entered into property registers as property of the Acquiring Fund where certain property is required to be registered pursuant to law.

The merging funds do not have employees. Subsidiaries of the Acquiring Fund as well as of the Fund Being Acquired have employees employed under employment contracts. The merger does not affect the employment contracts concluded with the merging funds subsidiaries' employees, which continue to remain valid under the same terms and conditions.

Upon entry of the merger on the registry card of the Acquiring Fund, the authorisations and term of office of the members of the management board and the supervisory board of the Fund Being Acquired shall be deemed expired. The members of the management board and supervisory board of the Fund Being Acquired shall not be paid any compensation in connection with the dissolution of the Fund Being Acquired as a result of the merger.

Both EFTEN Kinnisvarafond AS and EFTEN Real Estate Fund III AS have the same type of shares, which are registered in the register maintained by the registrar Nasdaq CSD (the ISIN code of EFTEN Kinnisvarafond AS is EE3100097411 and the ISIN code of EFTEN Real Estate Fund III AS is EE3100127242).

Upon entry into force of the merger, the shares of the Fund Being Acquired and owned by a shareholder who has been entered in the shareholders list of the Fund Being Acquired as at the end of the business day of Nasdaq CSD on 31.12.2022, unless the general meeting of the shareholders of the Fund Being Acquired specifies otherwise, shall be exchanged with the shares of the Acquiring Fund on the basis of the exchange ratio calculated as specified in the merger agreement (please see also clause 3 "Shareholders' rights upon merger").

The indicative timetable of the merger with more important actions:

19.09.2022	Signing of the merger agreement
On or about 23 September 2022	Approval from the depositary
On or about 05 December 2022	Authorisation from the Financial Supervision Authority and publication of a respective notice together with information on the merger addressed to shareholders
On or about 14 December 2022	General meeting of EfTEN Kinnisvarafond AS for the approval of the merger
On or about 15 December 2022	General meeting of EfTEN Real Estate Fund III AS for the approval of the merger
01.01.2023	Balance sheet date of the merger. The final balance sheet of EfTEN Kinnisvarafond AS will be prepared as at the day preceding the balance sheet date of the merger, i.e. as at 31 December 2022
On or about 13 February 2023	Resolution of the supervisory board of EfTEN Real Estate Fund III AS for the approval of the increase of share capital and number of exchanged shares calculated in accordance with the formula specified in the merger agreement
On or about 17 February 2023	Verification of the calculation of the exchange ratio and an additional report on merger conditions by the depositary
On or about 28 February 2023	General meeting of EfTEN Kinnisvarafond AS for the approval of the final balance sheet
On or about 08 March 2023	Expected effective date of the merger (entry in the commercial register of the merger and increase of share capital)
On or about 15 March 2023	Date when trading is expected to commence with the new shares on the regulated market operated by Nasdaq Tallinn AS (on the Baltic Main List of Nasdaq Tallinn Stock Exchange)

Kind regards,

Viljar Arakas
Member of the Management Board
EfTEN Capital AS