EAST CAPITAL

# Annual Report

## East Capital Baltic Property Investors AB (publ)

Corporate Identity Number 556674-0923

Financial year 1 July 2018 - 30 June 2019

*The Board of Directors and the Managing Director hereby presents the Annual Report*

# Administration Report

The Board of Directors of East Capital Baltic Property Investors AB (publ) (solo "the Company"; consolidated "the Group"), Corporate Identity Number 556674-0923, domiciled in Stockholm with the address PO Box 1364, 111 93 Stockholm, hereby presents the Annual Report for the financial year 1 July 2018 – 30 June 2019.

## Information regarding the operations

The Company's operations are based in Stockholm, and comprise of investing in the East Capital Baltic Property Fund AB (556674-0915) ("the Fund"), a Swedish limited liability company with emphasis on the acquisition and management of properties in the Baltic region. The majority of property management activities are outsourced to East Capital Real Estate AS, a fully owned subsidiary of East Capital Holding AB (556584-9899), a Swedish asset management company specialized in emerging and frontier markets.

The Company holds 4,010 preference shares of series A in the East Capital Baltic Property Fund AB, which corresponds to 72.78 percent of the total number of preference shares. The Company holds 24.29 percent of the share capital and 3.47 percent of the votes.

The Company's operations are primarily governed by the shareholders' agreement which has been entered into with East Capital Real Estate AS and other shareholders concerning the administration of the Fund. Under the shareholders' agreement, the Company commits to pay shareholders' contributions to the Fund in order to execute property investments or in order to finance the day-to-day administration. The shareholders' agreement further stipulates that the original term of the Fund was seven years from 2005 with a possibility to extend the life term by up to two years. At an EGM on 20 May 2013, the shareholders approved an extension of the life term until 30 June 2016, with a possibility to extend by a further two years, one year at the time. At an EGM on 9 June 2017, consent was given to the extension of the term of the shareholders agreement of East Capital Baltic Property Fund AB for up to five years, until July 2022.

In accordance with the articles of association, the Company shall be liquidated within a period of six months if the Fund is decided to be liquidated.

The Company's reporting currency is Euro (EUR).

The Company has no employees and did not pay any salaries during the financial year, nor has any remuneration been paid to the Board of Directors.

## Financial information

The Group result for the financial year was EUR 1.4m (EUR 4.1). The result is mainly attributable to unrealised value changes of the holdings in the Fund. The unrealised value changes were EUR 1.4m in 2018/2019 and EUR 4.1m in 2017/2018.

The annual general meeting (AGM) of the Fund, held in November 2018, approved a dividend payment of EUR 2.76m in the fund, enabling a distribution of EUR 25 per share or 5% of initially-committed equity in East Capital Baltic Property Investors. The distributions were made in 4Q 2018.

In January 2019, East Capital announced a liquidity event in which investors interested in buying or selling shares in East Capital Baltic Property Investors would be matched on a best efforts basis at EUR 355/share. The liquidity event was completed in February 2019 and approximately 900 shares changed ownership.

## Significant events during the financial year

The associated company East Capital Baltic Property Fund AB is since 2007 fully invested, meaning that the Company no longer has any remaining obligations towards the Fund.

The Fund's strategic target remains to optimise the portfolio and focus on properties in Estonia. In June 2019, the management team signed a sale agreement for the sale of the Deco retail property in Klaipeda, Lithuania, for EUR 2.490m, close to the property's book value. The sale was completed after financial year-end in July 2019.

For the Estonian portfolio, the focus remains to improve rental income for the portfolio properties and on investing where needed to add value and secure and maximise the future cash flow of properties.

The average rental level for the portfolio for financial year 2018/19 was EUR 6.7 sqm/month, remaining on comparable level with previous financial year (excluding divested properties).

Portfolio vacancy in June 2019, at the financial year end, was 7%. Longer vacancy periods are only experienced in secondary locations, where the demand for commercial premises remains weak (Jõhvi Tsentraal, Kerese commercial centre, Laracija offices, Zemitana offices). In the Tammsaare office property (now rebranded to A13 office, name derived from its changed address) ca 1,400 sqm of the premises were vacated by one of the key tenants after lease maturity in April 2019, increasing the overall vacancy in the building to nearly 30% together with premises vacated last autumn. However, in July 2019, a 10-year unbreakable lease for ca 3,000 sqm was signed, covering almost all vacant areas and reducing the vacancy in the building to 5%. At the Jin offices, occupancy reached 100% at the end of the financial year, as two new leases were signed for the remaining vacant areas during 2Q 2019.

The hotels in the portfolio - GOSPA in Saaremaa, Estonia and Tallinn Seaport Hotel in Tallinn, Estonia - continue to increase their turnover, thus increasing the rent income for the landlord. In both hotels, turnover rent is calculated and paid twice during the year - in December and June. During financial year 2018/19, the turnover rent paid increased by 13% in GOSPA and 9% in Tallinn Seaport Hotel.

The Jewe shopping centre extension and upgrade project has been prepared and was started in July 2019, with a budget of ca EUR 2.0m. The grocery store in the centre, under a long-term lease agreement, will be extended by ca 500 sqm and the management team is working to increase the lease length and rents of current tenants, as well as to sign new leases for the renewed centre. This investment project is financed by fund internal cash flow, which, as communicated in the annual general meeting in November 2018, may impair the dividend capacity in the medium term.

The annual general meeting of the fund was held on 9 November 2018, where the annual report for 2017/18 was approved and the Investment Manager presented the portfolio performance update and forecast. The annual general meeting also approved a dividend payment of EUR 2.760m in the fund, enabling a distribution of EUR 25 per share or 5% of initially-committed equity in East Capital Baltic Property Investors. The distributions were made in 4Q 2018.

## Significant events after the end of the financial year

In july 2019, the sale of Deco property in Klaipeda, Lithuania, was finalized.

## Future development, risk and factors of uncertainty

Until fund term in 2022, the investment team will aim to maximize cashflow to the fund holders, while also taking the necessary steps to enhance the portfolio in its composition and quality, to allow for the best possible divestment of its holdings during this period. The active sale process of remaining Lithuanian and Latvian properties continue, targeting successful exits during the coming financial year if feasible around, or above, book values. In line with the strategic target to focus the portfolio to the strongest properties similar exit efforts will also continue for some of the Estonian properties.

The Company result mainly depend on the the future development, risks and factors of uncertainties in the Fund. The following relate to the Fund:

The Fund's long-term view on the Baltic economies and real estate market is positive. Baltic economies have strong GDP growth exceeding EU average and macro and real estate market indicators remain stable. According to Colliers International, the total volume of commercial real estate investments amounted to EUR 1.12bn in 2018 and is expected to amount close to EUR 1bn in 2019. Prime yields are largely stable with some compression expected due to tighter financing conditions. However, the Baltics remain an appealing investment target with attractive returns. Although domestic investors continue to dominate the market, new international investors continue to enter the Baltic investment market.

The Fund has hedged 78% of the loans in the portfolio and locked in current low interest rates until Fund maturity.

There are no significant environmental risks regarding the properties as there are no high environmental risk (chemical, or other environmentally sensitive production and/or handling) tenants in the portfolio.

## Proposed appropriation of profits

| | |
|---|---|
| The following profits are at the disposal of the Annual General Meeting (amount in EUR): | |
| Share premium | 32,478,368 |
| Retained earnings | 279,775 |
| Net result for the year | 1,364,659 |
| | 34,122,802 |

The Board of Directors recommends that the earnings will be distributed as follows:

| | |
|---|---|
| Dividend (80 392 common shares * 10 per share) | 803,920 |
| To be carried forward | 33,318,882 |
| Total | 34,122,802 |

In the opinion of the Board of Directors, the distribution of profits is justifiable in view of the requirements that the nature, scope and risks of the business impose on the size of equity, the company's consolidation requirements, liquidity and position in accordance with the Swedish Companies Act 17, § 3.

For information regarding the Company's results of operations and financial position, refer to the following income statement and balance sheet, with accompanying notes.

# Statement of comprehensive income

| EUR thousands | Note | 1 Jul 2018 - 30 Jun 2019 | 1 Jul 2017 - 30 Jun 2018 |
|---|---|---|---|
| Administrative expenses | 2 | -50 | -59 |
| Profit from participation in associated companies | 8 | 1,397 | 4,146 |
| **Result from operating activities** | | **1,347** | **4,087** |
| Other financial income / -expenses | 4 | 9 | 1 |
| **Profit before tax** | | **1,356** | **4,088** |
| Tax expense | 5 | 8 | 12 |
| **Profit for the year / Total Comprehensive income for the year** | | **1,364** | **4,100** |
| **Earnings per share, EUR** | 6 | | |
| -basic and diluted | | 16.97 | 51.01 |

Profit/loss for the year/total Comprehensive income is attributable to the company shareholders.

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

| EUR thousands | Note | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in associates | 8 | 34,348 | 34,961 |
| Deferred tax assets | | 87 | 84 |
| **Total non-current assets** | | **34,435** | **35,045** |
| **Current assets** | | | |
| Other receivables | | 13 | 12 |
| Cash and cash equivalents | | 1 | 1 |
| **Total current assets** | | **14** | **13** |
| **Total assets** | | **34,449** | **35,058** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholder's equity** | | | |
| Share capital | 9 | 135 | 135 |
| Shareholders' contribution | | 32,479 | 34,489 |
| Retained earnings including profit/loss for the year | | 1,643 | 279 |
| **Total shareholder's equity** | | **34,257** | **34,903** |
| **LIABILITIES** | | | |
| **Current liabilites** | | | |
| Accounts payabale - trade | | 1 | - |
| Other liabilities | | 176 | 146 |
| Accrued expenses and deferred income | | 15 | 9 |
| **Total current liabilites** | | **192** | **155** |
| **Total liabilities** | | **192** | **155** |
| **Total equity and liabilites** | | **34,449** | **35,058** |

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

# Consolidated cash flow statement

| EUR thousands | Note | 1 Jul 2018 - 30 Jun 2019 | 1 Jul 2017 - 30 Jun 2018 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit before financial items | | 1,347 | 4,087 |
| Adjustments for: | | | |
| -Revaluation of associated company | 8 | -1,397 | -4,146 |
| Increase/decrease in liabilities related to operating acrivities | | 7 | 1 |
| **Cash flow from operating activities** | | **-43** | **-58** |
| | | | |
| **Cash flow from investing activities** | | | |
| Received repayment of shareholder contribution | | 2,010 | 2,010 |
| **Cash flow from oinvesting activities** | | **2,010** | **2,010** |
| | | | |
| **Cash flows from financing activities** | | | |
| Redemption of shares | | -2,010 | -2,010 |
| Proceeds from borrowings | | 43 | 58 |
| **Cash flows from financing activities** | | **-1,967** | **-1,952** |
| | | | |
| **Net decrease in cash and cash equivalents** | | **-** | **-** |
| | | | |
| Cash and cash equivalents at the beginning of the period | | 1 | 1 |
| **Cash and cash equivalents at the end of the period** | | **1** | **1** |

Cash and cash equivalents in the Statement of Cash Flow correspond with 'Cash and cash equivalents' in the Statement of Financial position, and comprise bank balances.

# Consolidated statement of changes in equity

| EUR thousands | Share capital | Paid in capital | Retained earnings, including total comprehen-sive income | Total equity |
|---|---|---|---|---|
| **Opening equity, 1 July 2017** | **135** | **36,499** | **-3,821** | **32,813** |
| Profit for the year/Total Comprehensive income | - | - | 4,100 | 4,100 |
| Redemption of shares of series B | -28 | 28 | - | - |
| Redemption of ordinary shares | -40 | -1,970 | - | -2,010 |
| Bonus issue | 68 | -68 | - | - |
| **Closing equity, 30 June 2018** | **135** | **36,499** | **279** | **34,903** |
| | | | | |
| **Opening equity, 1 July 2018** | **135** | **36,499** | **279** | **34,903** |
| Profit for the year/Total Comprehensive income | - | - | 1,364 | 1,364 |
| Redemption of shares of series B | -28 | 28 | - | - |
| Redemption of ordinary shares | -40 | -1,970 | - | -2,010 |
| Bonus issue | 68 | -68 | - | - |
| **Closing equity, 30 June 2019** | **135** | **34,489** | **1,643** | **34,257** |

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

## Income statement - Parent Company

| EUR thousands | Note | 1 Jul 2018 - 30 Jun 2019 | 1 Jul 2017 - 30 Jun 2018 |
|---|---|---|---|
| Administrative expenses | 2 | -49 | -58 |
| Unrealised changes in value of shares in associated companies | 8 | 1,397 | 4,146 |
| **Result from operating activities** | | **1,348** | **4,088** |
| Financial income / -expenses | 4 | 9 | 1 |
| **Profit before tax** | | **1,357** | **4,089** |
| Tax expense | 5 | 8 | 12 |
| **Net profit for the year** | | **1,365** | **4,101** |

## Statement of comprehensive income - Parent Company

| EUR thousands | 1 Jul 2018 - 30 Jun 2019 | 1 Jul 2017 - 30 Jun 2018 |
|---|---|---|
| Net profit for the year | **1,365** | **4,101** |
| Other comprehensive income | - | - |
| **Total comprehensive income for the year** | **1,365** | **4,101** |

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

# Balance sheet - Parent Company

| EUR thousands | Note | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Participations in group companies | 7 | 10 | 10 |
| Participations in associated companies | 8 | 34,348 | 34,961 |
| Deferred tax assets | | 87 | 84 |
| **Total non-current assets** | | **34,445** | **35,055** |
| **Current assets** | | | |
| Other receivables | | 3 | 1 |
| Cash and cash equivalents | | - | - |
| **Total current assets** | | **3** | **1** |
| **Total assets** | | **34,448** | **35,056** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| *Restricted equity* | | | |
| Share capital, 135 392 shares | 9 | 135 | 135 |
| **Total restricted equity** | | **135** | **135** |
| *Non-restricted equity* | | | |
| Share premium reserve | | 32,479 | 34,489 |
| Retained earnings | | 279 | -3,822 |
| Profit/loss for the year | | 1,365 | 4,101 |
| **Total non-restricted equity** | | **34,123** | **34,768** |
| **Total equity** | | **34,258** | **34,903** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payabale - trade | | 1 | - |
| Other liabilities | | 174 | 144 |
| Accrued expenses and prepaid income | | 15 | 9 |
| **Total current liabilities** | | **190** | **153** |
| **Total liabilities** | | **190** | **153** |
| **Total equity and liabilities** | | **34,448** | **35,056** |
| **Pledged assets and contingent liabilities** | | **None** | **None** |

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

# Cash flow statement - Parent Company

| EUR thousands | Note | 1 Jul 2018-<br>30 Jun 2019 | 1 Jul 2017-<br>30 Jun 2018 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit for the year | | 1,348 | 4,088 |
| Adjustments for: | | | |
| -Revaluation of associated company | 8 | -1,397 | -4,146 |
| Increase/decrease in liabilities related to operating acrivities | | 6 | - |
| **Cash flow from operating activities** | | **-43** | **-58** |
| | | | |
| **Cash flow from investing activities** | | | |
| Received repayment of shareholder contribution | | 2,010 | 2,010 |
| **Cash flow from oinvesting activities** | | **2,010** | **2,010** |
| | | | |
| **Cash flows from financing activities** | | | |
| Redemption of shares | | -2,010 | -2,010 |
| Proceeds from borrowings | | 43 | 57 |
| **Cash flows from financing activities** | | **-1,967** | **-1,953** |
| | | | |
| **Net decrease in cash and cash equivalents** | | **-** | **-1** |
| | | | |
| Cash and cash equivalents at the beginning of the period | | - | 1 |
| **Cash and cash equivalents at the end of the period** | | **-** | **-** |

Cash and cash equivalents in the Cash flow Statement correspond with 'Cash and cash equivalents' in the Balance Sheet, and comprise bank balances.

# Change in equity- Parent Company

| EUR thousands | Restricted equity | Non-restricted equity | Total equity |
|---|---|---|---|
| | Share capital | Retained earnings, including net loss for the year | |
| **Opening equity, 1 July 2017** | **135** | **32,677** | **32,812** |
| Profit for the year / Total Comprehensive income | - | 4,101 | 4,101 |
| Redemption of shares of series B | -28 | 28 | - |
| Redemption of ordinary shares | -40 | -1,970 | -2,010 |
| Bonus issue | 68 | -68 | - |
| **Closing equity, 30 June 2018** | **135** | **34,768** | **34,903** |
| | | | |
| **Opening equity, 1 July 2018** | **135** | **34,768** | **34,903** |
| Profit for the year / Total Comprehensive income | - | 1,365 | 1,365 |
| Redemption of shares of series B | -28 | 28 | - |
| Redemption of ordinary shares | -40 | -1,970 | -2,010 |
| Bonus issue | 68 | -68 | - |
| **Closing equity, 30 June 2019** | **135** | **34,123** | **34,258** |

The Notes on pages 10 to 18 are an integral part of these consolidated financial statements.

# Notes to the financial statements

## Note 1 Accounting principles

### Compliance with standards and legislation

These consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) with the interpretative statements from the International Financial Reporting Interpretations Committee (IFRIC), such as have been approved by the Commission of the European Communities for application within the EU. Furthermore, the Swedish Financial Reporting Board recommendation RFR 1, Complementary accounting rules for groups, has been applied.

The Parent Company applies the same accounting principles as the Group, except in the instances presented below in the section "Parent Company's accounting principles." Discrepancies arising between the Parent Company's and the Group's principles are due to restrictions on the application of IFRS in the Parent Company as a consequence of the Swedish Annual Accounts Act and the Income Tax Act.

The annual report and the consolidated financial statements were approved for issue by the Board on 18 October 2019. The statement of comprehensive income and statement of financial position of the Group and Income Statement and Balance sheet of the Parent Company will be submitted to the shareholders' meeting for adoption 29 November 2019.

### Functional currency and presentation currency

The Parent Company's functional currency is euro (EUR), which is also the presentation currency for the Parent Company and the Group. Thus, all financial statements are presented in EUR. All amounts, unless stated otherwise, are rounded off to the nearest thousand. Note that certain figures may not total exactly due to rounding off.

### Estimates and assumptions in the financial statements

Preparation of the financial reports in accordance with IFRS requires management to make estimates and assumptions affecting application of the accounting principles and the reported amounts of assets, liabilities, revenue and expenses. Actual outcome may differ from these estimates and assumtions, and the latter is reviewed regularly. The estimations and assumptions are based on historical experience and on a number of other factors which seem to be reasonable under the prevailing conditions. The results of these estimations and assumptions are subsequently used to assess the reported values of assets and liabilities which would not otherwise be clearly apparent from other sources.

Estimations and assumptions are regularly taken under review. Changes in estimations are reported in the period in which the change is made if the change effects only this period, or in the period in which the change is made and in subsequent periods if the change affects both the period in question and future periods.

The accounting principles presented below have been consistently applied to all periods presented in the Group's financial statements, unless otherwise stated below. Furthermore, the Group's accounting policies have been consistently applied by Group companies.

### New and revised IFRS applicable to the current year

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Key features of the new standard are:

· Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

· Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

· Investment in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instruments is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

· Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

· IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

· Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently dose not address accounting for macro hedging.

IFRS 9 did not have material impact on its financial statements as at 1 July 2018 because impairment of receivables has been historically not material and cash is held in credit institutions with a high rating; therefore applying the expected loss model, including assessment of forward-looking information, did not cause material impairment losses. All the financial assets meet SPPI requirement and are held to collect, thus will continue to be measured using the amortised cost method.

**IFRS 15: Revenue from Contracts with Customers**

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

The Group does not sell goods and services under one contract, the changes have no impact on the Group's financial statements.

## New and amended standards for future application

IFRS 16 Leases supersede existing IFRSs related to the recognition of leases, such as IAS 17 Leases and IFRIC 4 Determining whether an agreement contains a lease. The Group plans to apply the standard from July 1, 2019.
No significant effect is expected for the Group's financial leasing agreements.

## CONSOLIDATED ACCOUNTS

### Subsidiary

Subsidiary is a company under the controlling influence of East Capital Baltic Property Investors AB (publ.). Controlling influence means the direct or indirect right to govern the financial and operating policies of an entity so as to obtain financial benefit. In assessing whether controlling influence exists, potential shares which convey voting rights and which can be converted or utilised without delay shall be taken into consideration. Subsidiaries are accounted for using the purchase method. In accordance with this method, an acquisition is treated as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities.

The consolidated cost is determined by an acquisition analysis at the time of the business combination. In such analysis, the cost of the business combination is established, as are the fair values of recognised identifiable assets, liabilities and contingent liabilities. The difference between the cost of the shares of the subsidiary and the fair value of the acquired assets, assumed liabilities and contingent liabilities constitute, if the difference is positive, consolidated goodwill. When the difference is negative, it is recognised directly in the Statement of Comprehensive Income. Transaction expenditure is expensed and the effects of restating liabilities related to conditional purchase prices are reported as a revenue or cost in Comprehensive Income.

The financial statement of subsidiary is consolidated from the date of the acquisition until the date when control ceases.

**Transactions eliminated on consolidation**

Intra-Group balances and any unrealised income and expenses or gains and losses from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

## Foreign currencies

**Transactions in foreign currencies**

Transactions in currencies other than EUR are translated into the functional currency using the exchange rate prevailing on the transaction date. The functional currency is the currency in the primary economic environment in which the companies operate. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing rate of exchange. Exchange rate differences arising on currency translations are recognised in comprehensive income. Non-monetary assets and liabilities are recognised at historical acquisition cost translated at the exchange rate on the transaction date. The values of non-monetary assets and liabilities reported at fair value are translated into the functional currency at the exchange rate prevailing at the date of measurement, and changes in exchange rates are subsequently recognised in the same manner as other changes in value attributable to assets or liabilities.

## Income

**Financial income and expenses**

Financial income and expenses comprise interest income from bank balances, receivables and interest-bearing securities, and interest expenses on borrowings, dividends, exchange rate differences, unrealised and realised gains on financial investments and derivative instruments used within the financial operations.

Interest income on receivables and interest expenses on liabilities are calculated applying the effective interest method. Effective interest is the amount of interest making the current value of all estimated future receipts and payments during the expected fixed-interest term equal to the reported value of the receivable or liability. Interest income includes the allocated amount of transaction costs and any discounts, premiums and other differences between the original value of the receivable and the amount to be received on maturity.

Interest expenses include the allocated amount of share issue expenses and similar direct transaction costs for loans raised. Interest is calculated based on the average weighted borrowing costs for the Group.

## Financial assets

**Accounting polices from 1 July 2018**

**Classification**

The company classifies its financial assets in the following measurement categories:
· those to be measured subsequently at fair value (either through OCI or through profit or loss), and
· those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

**Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risk and rewards of ownership. Regular purchases and sales of financial assets are recognised on the trade date, the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**Measurement**

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

**Debt instruments**

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. All Group's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses.
As at 1 July 2018 and 30 June 2019, all the Group's financial assets were classified in this category:
· cash and cash equivalents.

**Accounting polices until 30 June 2018**

**Classification of financial assets**

All financial assets are classified into the following categories:
a) Financial assets and liabilities at fair value through profit or loss
b) Held-to-maturity investments
c) Loans and receivables
Assets with fixed or determinable payments. Liquid assets, accounts receivable and receivables are included in this category.
d) Available-for-sale financial assets

**Accounting and valuation**

Financial instruments are valued and recognised in the consolidated accounts in accordance with the stipulations of IAS 39. Borrowings and investments are recognised when the transaction is executed (settlement date accounting), while derivative instruments are recognised when the agreement has been entered into (trade date accounting). A financial asset or liability is recognised in the statement of financial position when the company becomes party to the terms and conditions of the instrument. Accounts receivable are recognised in the balance sheet when the invoice has been sent. Liabilities are recognised when the counterparty has performed and a contractual obligation of payment exists, regardless of whether an invoice has been received.

A financial asset (or part thereof) is removed from the statement of financial position when the rights in the agreement are realised or expire, or when the company has transferred substantially all the risks and benefits associated with ownership. A financial liability (or part thereof) is removed from the statement of financial position when the obligation specified in the agreement is discharged or in any other manner extinguished. A financial asset or financial liability are offset and recognised with a net amount in the statement of financial position only when there is legal right to offset and when it is intended to settle the item with a net amount or to simultaneously realise the asset and settle the liability.

**Participations in associated companies in investment operations**

In accordance with IAS 39, participations in associated companies in investing operations are recognised in the consolidated accounts at fair value with changes in value reported in the statement of comprehensive income. This is based on the exemption in IAS 28, paragraph 1, and, consequently, share-based investments in which the Group has a significant influence are reported according to IAS 39.

The valuation is based on the ”International Private Equity and Venture Capital Valuation Guidelines,” which were created and published jointly by the risk capital organisations EVCA, BVCA and AFIC.

The fair value of shares in associated companies is equivalent to the Group’s share of the underlying NAV as of 30.06.2019.   Associated companies’ consolidated financial statements are prepared in accordance with IFRS.

The table below provides an analysis of the basis of measurement used by the Company to fair value its financial instruments at fair value, categorised by the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

### Cash and cash equivalents

Cash and cash equivalents include cash and immediately available bank balances. Overdraft facilities are classified among borrowings under current liabilities. Cash and bank balance are recognised at nominal value.

### Income tax

Income tax comprises current and deferred tax. Income tax is reported in the statement of comprehensive income, except when the underlying transaction, such as a Group contribution, is reported directly against equity. In such cases, associated tax effects are reported in equity. Current tax is tax which is to be paid or received regarding the current year, and adjustments of previous years' current taxes. Deferred tax is calculated according to the balance sheet method on all temporary differences between the reported and tax values of assets and liabilities, applying the tax rates which have been determined or which have been announced as per the balance sheet date. Temporary differences are not considered in goodwill arising on consolidation or in differences attributable to subsidiaries and associated companies which are not expected to be taxed within the foreseeable future. In legal entities, untaxed reserves are reported including deferred income tax liabilities.

Deferred tax assets attributable to deductible temporary differences and tax loss carry-forward are recognised only to the extent it is likely that they will be utilised and result in lower tax payments in the future. Deferred tax assets and deferred tax liabilities in the same countries are reported net.

### Fianacial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortised cost. Exceptions are financial liabilities acquired for the purpose of resale that are measured in fair value.
The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in theur net realisable value. For determining the amortised cost of non-current financial liabilities they are initially recognised at the fair value of the consideration received (less transaction costs), and subsequently interest expense is recognised on the liabilities using the effective interest rate method.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the Group dose not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date 12 months after the balance sheet date which are refinanced as non-current after balance sheet date but before the financial statements are authorised for issue, are recognised as current. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current.

A financial liability is removed from the statement of financial position when it is settled or cancelled or expires.

### Contingent liabilities

A contingent liability is recognised when there is a possible obligation which arises from past events and whose existence is confirmed by one or more uncertain future events, or when there is a commitment which is not reported as a liability or provision due to the fact that it is unlikely that an outflow of resources will be required.

### Earnings per share

Earnings per share is calculated for ordinary shares , as preferential shares are not entitled to dividends from reported profits. The pro rata right to the earnings serves as a basis for the allocation of the profit for the year . The result allocated to ordinary share is divided by the number of ordinary shares.

### Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. This implies that the net profit/loss is adjusted for transactions which do not result in receipts or payments during the period, and for any income or expenses attributable to cash flow from investing or financing activities.

### COMPANY'S ACCOUNTING PRINCIPLES

The Company applies the same accounting principles as the Group, unless otherwise specified below. The variances arising between the Company's and the Group's principles result from limitations in the possibility of applying IFRS in the Company as a result of the Swedish Annual Accounts Act (SFS 1995:1554) and the Income Tax Act.

The Company has prepared its annual report in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2, Accounting for Legal Entities, as well as the pronouncements of the Swedish Financial Reporting Board for listed companies. Application of RFR 2 stipulates that, in its preparation of the annual report for the legal entity, the Company apply all of the IFRS and interpretive statement approved by the European Union to the extent possible within the framework of the Swedish Annual Accounts Act and with consideration for the relationship between reporting and taxation. The recommendation states which exceptions from and additions to IFRS which must be undertaken.

### Subsidiaries and associated companies

Participations in subsidiaries and associated companies are recognised in the Parent Company at fair value with changes in value reported in the statement of comprehensive income.

### Financial instruments

In accordance with IFRS 9 the Parent Company´s holdings in associated companies and subsidiaries are reported at fair value through profit or loss, in accordance with the option in IAS 27.10. The valuation is based on the ”International Private Equity and Venture Capital Valuation Guidelines,” which were created and published jointly by the risk capital organisations EVCA, BVCA and AFIC.

### Important accounting estimations and assessments

**Participations in associated companies in investment operations**

In accordance with IAS 28, paragraph 1, participations in associated companies are reported at fair value in the consolidated accounts. Consequently, consolidation according to the equity method no longer takes place, and associated companies are recognised at a value that is more accurate for the Group. In the associated company, East Capital Baltic Property Fund AB (publ) (consolidated), a fair value measurement is also made regarding its primary value-impacting balance sheet item, investment properties.

**Deferred tax assets**

Deferred tax assets attributable to tax loss carry-forward are recognised only to the extent it is likely that such assets can be utilised to reduce tax payments in the future. It is management’s assessment that the Group, within the foreseeable future, will generate a fiscal surplus that will exceed the existing tax loss carry-forward. For this reason, deferred tax assets have been recognised in the full amount in the statement of financial position for both the Company and the Group.

**Taxation of unrealised increases in the value of participations in associated companies**

Participations in the associated company, East Capital Baltic Property Fund AB (publ), are considered to be shares held for business purposes. As dividends and profit from sales of shares held for business purposes are tax-free, the Group does not provide for any possible taxes on unrealised increases in the values of these participations.

## Note 2 Administrative expenses

| EUR thousands | Group | Note | 2018/2019 | 2017/2018 |
|---|---|---|---|---|
| Consulting fees | | | -26 | -33 |
| Legal fees | | | -6 | - |
| Audit fees | | 3 | -16 | -24 |
| Other expenses | | | -2 | -2 |
| **Total** | | | **-50** | **-59** |

| EUR thousands | Parent company | Note | 2018/2019 | 2017/2018 |
|---|---|---|---|---|
| Consulting fees | | | -26 | -33 |
| Legal fees | | | -6 | - |
| Audit fees | | 3 | -16 | -24 |
| Other expenses | | | -1 | -1 |
| **Total** | | | **-49** | **-58** |

## Note 3 Remuneration to auditors

| EUR thousands | Group | 2018/2019 | 2017/2018 |
|---|---|---|---|
| **Audit services** | | | |
| KPMG | | -16 | -24 |
| **Total** | | **-16** | **-24** |

| EUR thousands | Parent company | 2018/2019 | 2017/2018 |
|---|---|---|---|
| **Audit services** | | | |
| KPMG | | -16 | -24 |
| **Total** | | **-16** | **-24** |

## Note 4 Financial income and expenses

| EUR thousands | Group | 2018/2019 | 2017/2018 |
|---|---|---|---|
| Net exchange rate differences | | 9 | 1 |
| **Total** | | **9** | **1** |

| EUR thousands | Parent company | 2018/2019 | 2017/2018 |
|---|---|---|---|
| Net exchange rate differences | | 9 | 1 |
| **Total** | | **9** | **1** |

## Note 5 Income tax

| EUR thousands | Group | 2018/2019 | 2017/2018 |
|---|---|---|---|
| Current tax | | 8 | 12 |
| **Total** | | **8** | **12** |
| **Reconciliation of effective tax** | | | |
| Profit/loss before tax | | 1,357 | 4,089 |
| Tax according to current tax rate for Parent Company, 22% | | -299 | -900 |
| Tax effect on non-taxable income/non tax-deductible expense | | 307 | 912 |
| **Total income tax** | | **8** | **12** |

The weighted average tax rate was 0%.

The non-taxable income refers to increases in the value of shares in and dividends from associated companies. As these shares are shares held for business purposes, dividends and profit from sales are non-taxable income.

Effective tax rate in the Group per 30th june 2019 was 0,59 percentage (0,29).

| EUR thousands | Parent company | 2018/2019 | 2017/2018 |
|---|---|---|---|
| Current tax | | 8 | 12 |
| **Total** | | **8** | **12** |
| **Reconciliation of effective tax** | | | |
| Profit/loss before tax | | 1,357 | 4,089 |
| Ta x according to current tax rate for Parent Company, 22% | | -299 | -900 |
| Tax effect on non-taxable income/non tax-deductible expense | | 307 | 912 |
| **Total income tax** | | **8** | **12** |

The weighted average tax rate was 0%.

Effective tax rate in the Parent per 30th june 2019 was 0,59 percentage (0,29).

## Note 6 Earnings per share

| EUR | Group | 2018/2019 | 2017/2018 |
|---|---|---|---|
| **Before and after dilution - ordinary shares** | | | |
| Profit/loss attributable to the Parent Company's ordinary shareholders (Euro) | | 1,364,659 | 4,100,887 |
| Weighted average number of outstanding ordinary shares | | 80,392 | 80,392 |
| **Earnings per share before and after dilution (Euro)** | | **16.97** | **51.01** |

Series B shares do not entitle their holders any right to dividends. Consequently, all dividends go to the holders of the ordinary shares.

## Note 7 Participation in group companies

| EUR thousands | Parent company | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|---|
| **Opening book value** | | 10 | 10 |
| **Closing book value** | | **10** | **10** |

Parent company has the following subsidiaries:

| | Number of shares | Shares of equity and voting power | Book value 30 Jun 2019 | Book value 30 Jun 2018 |
|---|---|---|---|---|
| ABPF Investors AB, corp id no. 556674-0907, Stockholm, Sweden | 1,000 | 100% | 10 | 10 |
| **Total** | | | **10** | **10** |

## Note 8 Participation in associated companies

| EUR thousands Group | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| **Opening balance** | **34,961** | **32,825** |
| Received repayment of shareholder contribution | -2,010 | -2,010 |
| Unrealised changes in value | 1,397 | 4,146 |
| **Closing balance** | **34,348** | **34,961** |

| EUR thousands Parent company | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| **Opening balance** | **34,961** | **32,825** |
| Received repayment of shareholder contribution | -2,010 | -2,010 |
| Unrealised changes in value | 1,397 | 4,146 |
| **Closing balance** | **34,348** | **34,961** |

| | Number of shares | Shares of equity | Voting power | Fair value 30 Jun 2019 | Fair value 30 Jun 2018 |
|---|---|---|---|---|---|
| The group and the Parent company have the following associated companies: | | | | | |
| East Capital Baltic Property Fund AB (publ)<br>corp id no. 556674-0915, Stockholm, Sweden | 4,010 | 72.78 % | 3,5% | 34,348 | 34,961 |
| **Total** | | | | **34,348** | **34,961** |

The associated company East Capital Baltic Property Fund AB (publ), reported for the period 1 July 2018- 30 June 2019 a positive result of EUR 1.3m and as of 30 June 2019 an equity of EUR 46.6m.

The Parent Company is considered to have a significant influence over East Capital Baltic Property Fund AB (publ) and thus it is accounted for as an associated company. The significant influence is exercised through the contractual arrangements with East Capital Real Estate AS and the other shareholders of East Capital Baltic Property Fund AB (publ). In addition, the Parent Company's main business activities are related to its participation in East Capital Baltic Property Fund AB (publ).

The fair value of shares in associated companies is equivalent to the Group's share of the underlying NAV as of 30.06.2019, valuation of these assets are classified as Level 2 in the fair value hierarchy.

## Note 9 Share capital

| EUR thousands | 30 Jun 2019 | 30 Jun 2018 |
|---|---|---|
| Ordinary shares with a nominal value of EUR 1 per share | 80 | 80 |
| Series B shares with a nominal value of EUR 1 per share | 55 | 55 |
| **Share capital** | **135** | **135** |

The total number of ordinary shares amounts to 80,392 (80,392) shares with a nominal value of 1 Euro (1 Euro) per share. The number of series B shares amounts to 55,000 (55,000) shares with a nominal value of 1 Euro (1 Euro) per share.

The Annual General Meeting was held on November 2018 for approval on a share split, reduction of the share capital with redemption of shares and an increase of the share capital by way of a bonus issue. No retroactive adjustment has taken place since the redemption procedure is similar to a dividend and the number of shares remains the same before and after the transactions.

**Asset management**
According to the Board's policy, the company's financial goal is to have a good capital structure with financial stability and thereby maintain the confidence of investors, lenders and the market, at the same time as this forms a basis for the on-going development of the operations. Capital is defined as total equity. A financial goal for the Company is to return a yearly dividend yield of 4-6%.

Neither the Parent Company nor the subsidiary are under external capital requirements.

## Note 10 Financial assets and liabilities at fair value

| 2018/2019 EUR thousands | Group | Financial instruments at fair value through profit or loss | Financial liabilities at amortised cost | Total carrying amount |
|---|---|---|---|---|
| Financial investments | | 34,348 | | 34,348 |
| **Total** | | **34,348** | | **34,348** |
| Accounts payable - trade | | | 1 | 1 |
| Other liabilities | | | 176 | 176 |
| **Total** | | | **177** | **177** |

| 2017/2018 EUR thousands | Group | Financial assets through income statement | Other financial liabilities | Total carrying amount |
|---|---|---|---|---|
| Financial investments | | 34,961 | | 34,961 |
| **Total** | | **34,961** | | **34,961** |
| Other liabilities | | | 146 | 146 |
| **Total** | | | **146** | **146** |

| 2018/2019 EUR thousands | Parent company | Financial instruments at fair value through profit or loss | Financial liabilities at amortised cost | Total carrying amount |
|---|---|---|---|---|
| Financial investments | | 34,348 | | 34,348 |
| **Total** | | **34,348** | | **34,348** |
| Accounts payable - trade | | | 1 | 1 |
| Other liabilities | | | 174 | 174 |
| **Total** | | | **175** | **175** |

| 2017/2018 EUR thousands | Parent company | Financial assets through income statement | Other financial liabilities | Total carrying amount |
|---|---|---|---|---|
| Financial investments | | 34,961 | | 34,961 |
| **Total** | | **34,961** | | **34,961** |
| Other liabilities | | | 144 | 144 |
| **Total** | | | **144** | **144** |

The carrying amount is a reasonable estimate of fair value.

Here follows a summary of the main methods and assumptions used for determining the fair value of the financial instruments listed in the tables above:
The fair value of shares in associated companies is equivalent to the Group's share of the underlying NAV as of 30.06.2019.

## Note 11 Financial risks

The company is exposed to financial risk, mainly liquidity risks, interest rate risks, currency risks and credit risks. The financial policy is determined by the Board. The operative responsibility for the Group's borrowing, cash management and financial risk exposure lies with the management company East Capital Real Estate AS, a wholly owned subsidiary of East Capital Holding AB. The financial policy is reviewed by way of reporting to the Board on a regular basis.

### Liquidity risk
The Group's expenses and cash flow are primarily known and addressed in the normal budget process. Liquidity risk is deemed to be low.

### Market risk
**Interest rate risk**
Interest rate risk refers to the risk for changes in interest rates and the effects of this on the Group's borrowing costs. The Group has no interest-bearing loans, and, therefore, interest rate risk is very low.

**Currency risk**
The Group's functional and presentation currency is the Euro (EUR), which is also the denomination of almost all of the statement of financial position items and the cash flow.

Taken the above into consideration, the Group's currency risk is low as Estonia, Latvia and Lithuania use the Euro.

| Sensitivity analysis | Change in statement of financial position | |
|---|---|---|
| Amount in EUR thousands | Sweden | Total |
| Cash and bank balances as currency rate is changed +/- 1% | - | - |

**Credit risk**
As the Group does not provide any credit or grant any loans, credit risk is essentially non-existent.

## Note 12 Related party transactions

The Parent Company has a controlling influence over its subsidiary, see Note 7. Furthermore, as the Parent Company has a significant influence over East Capital Baltic Property Fund AB (publ), this is considered to be an associated company to the Parent Company and, therefore, is considered to be a related party to the Parent Company and the Group, see Note 8.

According to the management agreement between East Capital Real Estate AS, East Capital Baltic Property Fund AB (publ) and the Parent Company, East Capital Real Estate AS provides some services to the Parent Company, primarily related to the current management of excess liquidity and accounting. Compensation for these services is included in the management fee paid by East Capital Baltic Property Fund AB (publ) to East Capital Real Estate AS, in total EUR 0.6m annually. This cost is borne solely by East Capital Baltic Property Fund AB (publ).

At financial year-end, East Capital Baltic Property Fund Investors AB has outstanding receivables of EUR 0 (EUR 0) from East Capital Baltic Property Fund AB (publ).
All companies related to East Capital are considered to be related parties. No other significant transactions have been made between the group and other related parties.

No remuneration has been paid to the Board of Directors of the company during the financial year.

The Chairman of the board, Albin Rosengren is employed by East Capital (Dubai) Ltd and is a board member of the following affiliated companies: East Capital AB, East Capital Baltic Property Fund AB, (Chairman), East Capital Financials Fund AB, (Chairman), East Capital Financials Investors AB (Publ), (Chairman), East Capital (Dubai) Ltd, East Capital Asset Management S.A., East Capital Holding AB and East Capital Real Estate AS, (Chairman), Monyx Asset Management AB.
The board member, Peter Elam Håkansson, is board member of the following affiliated companies: Rytu Invest AB, (Chairman), Eastate AB, (Chairman), Cadre Invest S.A, (Chairman), East Capital Holding AB, (Chairman), East Capital Baltic Property Fund AB, East Capital AB, (Chairman), East Capital International AB (Chairman), East Capital Private Equity AB (Chairman), East Capital Asset Management S.A, East Capital Asset Management S.A Sweden brach, East Capital SICAV, East Capital (Lux) General Partner S. à r. l. and East Capital Real Estate AS, Monyx Asset Management AB (Chairman), Monyx Fund SICAV.
The board member Torbjörn Odenhagen is employed by East Capital AB and is board member of the following affiliated companies: East Capital AB, ABPF Lithuainia AB, ABPF Jeruzalemes (Lat) AB, ABPF Zemitana (Lat) AB, ABPF Investors AB, ECEFI Investors AB, East Capital Power Utilities Fund AB (Dormant) and East Capital Bering Ukraine Fund (to be dissovled in September 2019).

The Managing director is Magnus Lekander, who is employed as General Counsel by East Capital International AB. Mr Lekander holds several positions as managing director or board member in a number of companies related to East Capital or its fund products. All these positions are held pursuant to Mr Lekander's employment wihtin East Capital.

## Note 13 Significant events after the financial year

In july 2019, the sale of Deco property in Klaipeda, Lithuania, was finalized.

Stockholm, 18 October 2019

Albin Rosengren
*Chairperson of the Board*

Torbjörn Odenhagen
*Member of the Board*

Peter Elam Håkansson
*Member of the Board*

Magnus Lekander
*Managing Director*

Our audit report was presented ………………………….. 2019
KPMG AB

Mårten Asplund
*Authorised Public Accountant*