EAST CAPITAL

Baltic Property Fund Quarterly Report

April – June 2020

Quarterly comment

The Baltic countries have been successful in containing the spread of the COVID-19 disease, governments lifted the emergency restrictions in May-June and businesses have reopened. On an aggregated level, East Capital Baltic Property Fund's rental income in 2Q 2020 decreased by 15% compared to 1Q 2020. As the rental income in most properties has been restored, the fund's income in Q3 and Q4 is expected to return to previous levels and in 2020 to be no more than 10% less than the year before.

Retail centres Jewe Keskus and Jõhvi Tsentraal as well as retail units in Kerese commercial centre were reopened in May 2020, after being closed for 1,5 months. Rental income has mostly been restored in these properties, with some increase in vacancy witnessed in Jõhvi Tsentraal retail centre.

The office and industrial properties in the portfolio continued their operations quite unaffected during Q2 and are expected to remain so going forward. In the Metal industrial property, a new lease has been signed in June 2020 for ca 2,500 sqm of vacant warehouse area, with rent commencing from September 2020.

Gospa hotel in Saaremaa was reopened on May 29th, with immediate high demand from domestic visitors. In June 2020, the hotel sales reached 85% of last year's level and in July 2020, the hotel sales were only 6% less compared to July 2019. A turnover based rent fee has been agreed with the hotel operator for 2020. Tallinn Seaport Hotel, mostly focused on tourists arriving by ferry from Finland and Sweden, reopened mid-June in conjunction with restored ferry traffic with Finland. However, its turnover is expected to recover slower as the number of tourists is remarkably lower than previously and the ferry traffic with Sweden is still not restored. The hotel continues to pay its contractual rent fee, nevertheless currently no turnover based addition is expected at year-end.

The fund's cash flow, almost restored to its previous levels, is further strengthened by the amortization holiday until the end of September for the syndicated loan covering the Estonian properties and one Lithuanian property.

Financial overview

The Net Asset Value (NAV) of East Capital Baltic Property Investors AB was EUR 384.98 as of 30 June 2020. The NAV decreased by 7.15% during the financial year 2019/20, compared to 30 June 2019. The NAV was most impacted by the annual external revaluation of properties at year-end in June 2020, which resulted in a EUR 4.04m decrease in the fair value of the property portfolio compared to previous external revaluation in June 2019.

The revaluation was highly affected by the current global pandemic. The property portfolio has been quite resilient during the state of emergency in force in the Baltic countries from mid-March to mid-May, and vacancy in the properties has not significantly increased. Also, any short-term discounts and / or rent postponements during this period have ended. Despite that, the valuators have included reserves for vacancy increase, discounts and credit losses to secure against the uncertainties in the market. The valuators also remain conservative regarding the recovery of the turnover for the hotel properties in the portfolio.

The decrease in NAV at year-end was also affected by the capital expenditure for the reconstruction of Jewe Keskus shopping centre as well as smaller investments in Aiandi 13 office, both projects which were communicated at the Annual General Meeting in November 2019. The investment works totalled EUR 2.7m and as required by accounting standards, they were included in income statement at year-end once all works completed.

Jewe Keskus shopping centre in Jõhvi, Estonia, was fully refurbished during July-December 2019 to strengthen the position of the shopping centre in the local market. The shopping centre, incorporating the regional bus station, is a focal point in the city, but needed modernization considering the competition from a new shopping centre being built in the city. During the reconstruction, all retail areas were renewed including the Selver grocery store under a 10-year unbreakable lease. Considering the new leases and lease renewals with existing tenants, the average lease term in the shopping centre was increased from 4.8 years to 6.3 years.

The rental income for the fund in the financial year 2019/20 was EUR 6.9m, a ca 9% decrease compared to the previous financial year (excluding divested properties). The rental income was impaired in several properties during 2Q 2020 due to the state of emergency. In addition, some loss of rents occurred from short-term vacancies in Aiandi 13 office and Metal industrial properties (previous occupancy levels now restored) and during Jewe Keskus shopping centre reconstruction.

The net profit for the financial year concluded at EUR -3.1m, however excluding property revaluations and one-off investment works, the net profit increases to EUR 3.5m.

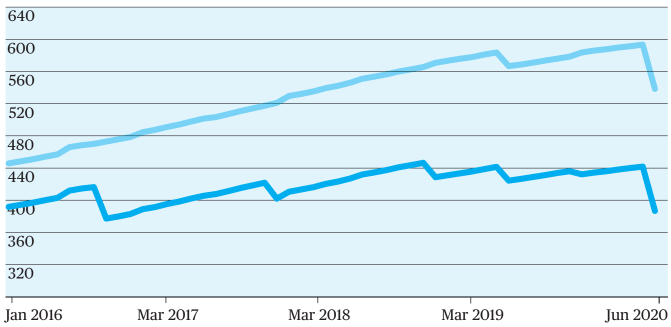
Including the property fair values from the external revaluation in June 2020, the fund's property portfolio stands at EUR 86.3m, and the loan to value ratio is 52%.

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months	% YTD*	% Since inception*
384.98	-11.75	-7.15	9.60

*Performance adjusted with dividend payments.



Fund Summary

	30 Jun, 2020 EUR '000	30 Jun, 2019 EUR '000
Fair value of portfolio	86,320	90,360
Other assets	3,968	8,926
Liabilities	-47,509	-52,076
TOTAL NET ASSET VALUE	**42,779**	**47,210**
Net Asset Value East Capital Baltic Property Investors AB	384.98	425.39

Financials

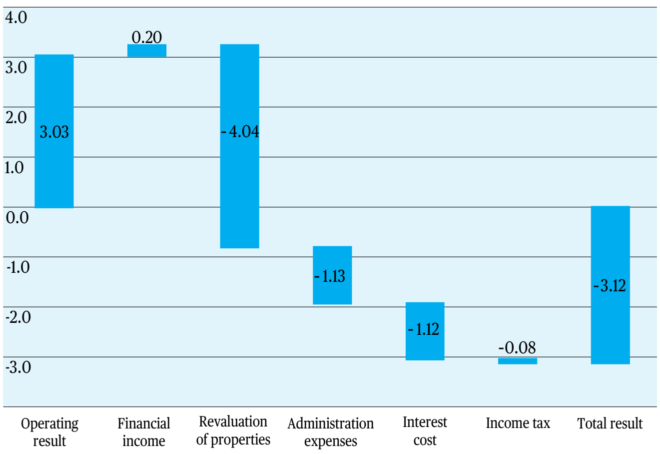
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2019 - Jun 2020	Jul 2018 - Jun 2019
Revenue	6,899	7,806
Direct expenses	-3,866	-1,072
Gross profit	**3,033**	**6,734**
Administrative expenses	-1,125	-1,442
Unrealised changes in value of investment properties	-4,040	-2,078
Operating profit/loss	**-2,132**	**3,214**
Interest income	-	-
Interest expenses	-1,117	-1,210
Fair value adjustment of interest rate swap	204	-582
Profit/loss before income tax	**-3,045**	**1,422**
Income tax	-77	-82
NET PROFIT FOR THE YEAR	**-3,122**	**1,340**
Earnings per share - Ordinary shares	**-566,64**	**242,91**

Statement of Comprehensive Income of East Capital Baltic Property Investors AB (publ), unaudited for the period in EUR'000

	Jul 2019 - Jun 2020	Jul 2018 - Jun 2019
Earnings per share - Ordinary shares	-30,46	16,98

Result contribution (YTD financial year 2019/20, EURm)



Statement of Financial Position of East Capital Baltic Property Fund AB, unaudited in EUR'000

	30 Jun 2020	30 Jun 2019
ASSETS		
Non-current assets		
Investments properties	86,320	90,360
Other long-term assets	17	-
Equipment	9	52
Total non-current assets	**86,346**	**90,412**
Current assets		
Assets held for sale	-	2,490
Account receivables - trade	369	578
Other receivables	489	177
Accrued income and prepaid expenses	59	131
Cash and cash equivalents	3,025	5,498
Total current assets	**3,942**	**8,874**
TOTAL ASSETS	**90,288**	**99,286**
EQUITY AND LIABILITIES		
Equity		
Share capital	17	17
Other paid-in capital	38,217	39,322
Retained earnings	7,242	5,902
Profit/loss for the period	-3,122	1,340
TOTAL EQUITY	**42,354**	**46,581**
Liabilities		
Non-current liabilities		
Interest-bearing liabilities	37,805	36,599
Derivatives	215	422
Other liabilities	684	634
Deferred tax liabilities	699	776
Total non-current liabilities	**39,403**	**38,431**
Current liabilities		
Interest-bearing liabilities	6,922	12,807
Accounts payable - trade	955	913
Derivatives	210	207
Other liabilities	189	73
Accrued expenses and deferred income	255	274
Total current liabilities	**8,531**	**14,274**
TOTAL EQUITY AND LIABILITIES	**90,288**	**99,286**

Contact

For additional information regarding the East Capital Baltic Property Fund, please contact:

funds@eastcapital.com
Tel: +46 8 505 88 505

Baltic economies in the light of current crisis

Due to quick response from the governments, the spread of the COVID-19 disease in the Baltic countries remained quite limited. Governments started to gradually remove the limitations, imposed in mid-March, from the beginning of May, including re-opening of shopping centres, cafes and restaurants and gyms. Spas and cinemas could be opened from the beginning of June. The borders between all three Baltic countries were opened for free travel on May 15th, followed bv Poland, Finland, and other EU countries in June. Most of the hotels also reopened their doors starting from the beginning of June.

In 1Q 2020, the GDP fell by 0.7% in Estonia compared to 1Q 2019 (largest decrease in energy and manufacturing sectors) and by 1.5% in Latvia (most sharp decrease in transport, accommodation, and food service activities). The GDP grew by +2.4% in Lithuania in Q1, with fastest growth in construction and agriculture sectors. The economic impact of the quarantine measures and COVID-19 outbreak will fall mostly into Q2, with sectors such as accommodation, food, transport, and entertainment to be most affected. The Central Banks predict the annual change of GDP to be up to -10% in 2020.

In May, the highest registered unemployment rate of the country's working age population was recorded in Lithuania (11.8%), the lowest - in Estonia (7.8%), while in Latvia 8.4%, compared to Q1 unemployment numbers between 7.4% - 5.0%. All Baltic governments provided support measures, to prevent a steeper growth in unemployment rate. The Central Banks currently expect 2020 unemployment rate to remain around 10%.

Baltic real estate market overview

Investment market

Investment activity in all Baltic countries was low in 2Q 2020. Deals have been put on hold due to uncertainties in the market, as well as travel restrictions for inspecting properties. The most notable deals in Q2 included the acquisition of the SEB Estonian HQ by East Capital for EUR 45.75m from Partners Group and Northern Horizon and the sale of Park Town BC (stage II) in Vilnius EUR 51.7m.

Prime yields are mostly unchanged, due to the lack of transactional evidence. The yield development going forward will depend on the economic and investment climate, affecting the dynamics between vendors and investors. Some upward pressure is expected on retail yields and other properties affected most from the crisis, while office, logistics and grocery retail segment remain less impacted.

Higher investment activity is expected in the coming quarters, as some vendors might be more concessionary with price negotiations and investors are looking for opportunities that reward the current risk. However, broader recovery is expected in 2021, tracking the economy and sentiments of market participants.

Office segment

Office is probably one of least impacted real estate segments so far, however the rent rates started to come under downward pressure as a result of the COVID-19 outbreak and a changing balance between supply and demand for office space (new supply, lowered demand and growing vacancy). After two months of remote working, majority of companies started to return to their offices from mid-May, but still home office is partially used, and some large corporations limit the number of employees in the office at the same time, and others are leasing additional short-term office space to provide needed distancing.

Ongoing new office construction projects continue as planned. In Tallinn, 10 projects with 77,650 sqm are under construction in June 2020, and in Vilnius the development volume amounts to a GLA of 259,700 sqm. Development activity in Riga is more tranquil, however Capitalica and Lords have started preparation works for their new office projects. New leases negotiation positions have turned in favor of tenants, considering the supply added to the market after completion of several new office projects in Q2 with tenants at the same time postponing their relocation and expansion plans. Overall, the extensive development pipeline of new business centres in Vilnius as well as in Tallinn suggests a vacancy increase, especially in the Class B segment and some hidden vacancy might emerge in the post-pandemic markets (as some tenants would like to decrease or sublease their premises).

Retail segment

Retail segment is trying to recover from the severe shock to the sector caused by the COVID-19 outbreak. After an annual increase in the turnover of retail trade enterprises by 5% in 1Q 2020, retail turnovers fell sharply in Q2, since the shopping centres, except for essential stores, were closed from April to mid-May by government regulations in Estonia and Lithuania. Despite the shopping centres remaining open during weekdays in Latvia, retailers suffered a decrease of up to 70% in turnover.

Most of the limitations for shopping centres were removed by mid-May and most retailers reopened their stores once allowed to. The footfall and retailers' turnovers started to recover quite quickly, reaching almost last year's level already in June. Previously planned expansions plans are still being realized, for example Burger King opened four restaurants in Tallinn and announced first opening in Lithuania in Akropolis SC in 2HY 2020. Grocery chains continue to defend their market share, especially in Estonia, where Lidl is expected to enter the market soon.

Generally, some pandemic habits will remain, and overall importance of e-commerce will continue to increase. The longer-term impact of pandemic can probably be assessed in the fall 2020, however the footfall and turnover recovery in June is encouraging. Market participants are at the same time also preparing and insuring against the potential second wave of COVID-19, for example retailers are trying to negotiate only a turnover-based rent in such situations.

Industrial segment

Logistics segment has remained quite robust in the current environment, closely connected to rapid growth of e-commerce. Very few industrial tenants were directly affected by the crisis and government restrictions. However, the sector can still have some lead time from the other sectors and the crisis can extend to logistics segment later during 2020.

Development of new logistics projects continue as planned, for example in Tallinn 19 projects were completed during Q2 and further 10 building permissions issued during the quarter, indicating strong pipeline and readiness of developers. In Lithuania, construction pipeline includes 57,000 sqm of area and demand is mostly expected from e-commerce related tenants. The market activity and development pipeline in Latvia remains more limited and built-to-suit type development is expected to become more common.