





## Macro overview

GDP growth in Estonia accelerated in 2Q 2017 to 5.7% y-o-y, driven mostly by increased value added in construction. GDP growth was similarly strong in Latvia and Lithuania, increasing by 4.0% y-o-y in both countries in 1Q 2017. The growth in Latvia was mostly supported by growth in the manufacturing, construction and trade sectors; and in Lithuania, in information and communication, professional, scientific, administrative and support service activities.

In 2Q 2017, the highest unemployment rate among the potential labour force aged 15-74, was recorded in Latvia (8.6%), while in Estonia and in Lithuania, the figure stood at 7.0%.

Q2 inflation (HICP) in Estonia was 3.4%, compared to 3.1% in 1Q 2017. In Latvia, inflation fell slightly to 3.0%, from 3.1% the quarter before, and in Lithuania it rose to 3.4%, from 3.0% in the same period.

From May to August 2017, the Economic Sentiment Indicator (ESI) improved in all Baltic countries. In Estonia, the ESI improved by 1.4 points, to 106.7 points, driven by improved sentiment in construction and services, and among consumers. In Latvia, the ESI for the same period also improved by 1.4 points, to 107.3, as the consumer and industry sectors were more optimistic. In Lithuania, the ESI improved by 3.6 points, to 109.9 points, driven by the improvement in sentiment in industry and construction and among consumers.

Key economic figures 2Q 2017	Estonia, %	Latvia, %	Lithuania, %
GDP growth	5.7	4.0	4.0
Unemployment	7.0	8.6	7.0
Inflation (HICP)	3.4	3.0	3.4

## Property market

Development on the Tallinn office market remains active, with 17 office projects with a total leasable area of approximately 98,675 sqm under construction in September 2017. Take-up activity is still driven by the relocation of companies from the information and communication sector. During Q3, state-owned railroad company Eesti Raudtee announced that it will move to a new 3,000 sqm office premises, developed by PLKV Invest in the Telliskivi Quarter (redevelopment project) in 2HY 2018. Rental rates remained stable, while vacancy is fluctuating around the 7% level, decreasing in Class A buildings and increasing in lower quality classes, due to the relocation of tenants from older premises.

In 3Q 2017, nine office projects with nearly 114,000 sqm of total office leasable space, were in the active construction stage in Riga, of which the New Hanza City (GLA 32,600 sqm), the Z-Towers (24,000 sqm), stage III of the Europa Business Centre (15,200 sqm) and the Business Garden Riga project in Marupe, with estimated GLA of 14,000 sqm, are the largest. The total volume of office take-up reached 6,400 sqm in Q3, with a lease agreement signed by Latvian Shipping Company for its new office premises in the Place Eleven office building being among the largest deals. Premises most in demand range from 200 to 1,400 sqm (400 sqm on average). Rental rates remained stable compared to the previous quarter, while vacancy decreased due to an active leasing market.

Green Hall II BC (GLA 7,330 sqm), Narbuto 5 BC (4,620 sqm) and stage I of the S7 BC (11,770 sqm) were commissioned in Vilnius

CBD in 3Q 2017, while 115,000 sqm of office space remains under construction at the end of Q3. The leasing market remained active, with for example Danske Bank signing a pre-lease agreement for the entire stage III of the S7 BC (15,000 sqm), following the occupation of the entire stage I of the same business centre. Rental rates remained unchanged, while vacancy experienced a decrease in both Class A and Class B business centres.

In 3Q 2017, the Tallinn retail development market remained stable. In September 2017, Porto Franco concluded a contract with the consortium of NOBE and Kontek Int for designing and carrying out the concrete works of the development project. Shopping centres continue to make changes in their tenant mixes - two new cosmetics stores opened in Ülemiste SC, a new MAX&Co store opened in Viru Centre, while Rocca al Mare signed a pre-lease agreement with LPP Estonia for the re-opening of three (Reserved, Cropp and House) and the opening of two new stores (Sinsay and Mohito) in the centre. Additionally, Suitsupply opened its first store in the Rotermann Quarter in Tallinn CBD.

In 3Q 2017, construction work on the expansion of SC Origo (GLA 17,000 sqm for retail and 9,500 sqm for office functions) and the expansion of SC Alfa (GLA 19,000 sqm of retail space) commenced in Riga. Rents remained unchanged compared to the previous quarter, while vacancy decreased slightly after the surge in Q2 due to the closure of three Prisma hypermarkets in Riga. Negotiations with new prospective tenants are taking place to occupy the vacated premises. Meanwhile, discount grocery chain Lidl announced plans to enter the Latvian market.

The Vilnius retail market remained rather stable in 3Q 2017, with only the Depo DIY store under construction in the capital city. VPH announced plans to develop a retail building with a total area of 5,800 sqm next to IKEA and Nordika SC, while Ogmios Group plans a large four-storey SC development in the Pilaite district. On the other hand, the closure of Hyper Norfa was announced in the same district, confirming strong competition in the grocery market. Rental rates fluctuated within a similar range compared to the previous quarter and vacancy remained at a low level.

The industrial development segment remains active in the Tallinn region, with a total area of ca 103,000 sqm under construction in September 2017, including the start of construction work on the new Omniva logistics centre (more than 14,000 sqm) and phase III of Smarten Logistics. Leasing activity is largely driven by the production and manufacturing sectors, followed by wholesale and retail companies and transportation companies. Rent rates in Q3 remained stable compared to the previous quarter, while vacancy continued to move downward.

Market tendencies 3Q 2017	Estonia Retail Office		Latvia Retail Office		Lithuania Retail Office	
Construction	→	→	→ ↗	→ ↗	→	→
Supply	→	→	→	→	→	→ ↗
Demand	→	→	→	→	→	→
Rental rate	→	→	→	→	→	→
Vacancy	→	→	→ ↘	→ ↘	→	→ ↘
Yield	→	→ ↘	→	→	→	→
Total investment volume	→		→ ↗		→	

Ca 47,200 sqm of industrial space was under construction in the Riga region at the end of 3Q 2017, with 146,000 sqm of warehouse and industrial space in the pipeline (of which half is on a built-to-suit basis). Completion of two new projects is expected during Q4, while the remaining three are expected to be commissioned during 2018. Demand remains high, driven by logistics and distribution companies, and thus resulting in vacancy decreases. The total industrial take-up during Q3 accounted for GLA of 16,000 sqm, with smaller warehouse space of about 1,000 sqm most in demand. Rental rates remained unchanged compared to the previous quarter, while the total vacancy experienced a slight decrease, reaching 3.9%.

Two speculative developments -stage I of Liepkalnio Industrial Park (GBA 16,180 sqm) and Arvydo Paslaugos warehouse (6,470 sqm) - were commissioned in Vilnius in 3Q 2017. Supported by positive export dynamics and industrial production growth, companies engaged in logistics are showing strong demand for industrial premises. In Q3, rent rates remained stable and vacancy decreased. However, the latter is expected to increase in 4Q 2017 due to new supply of ca 23,700 entering the market.

Total known investment volume without development projects amounted to EUR 70m in 3Q 2017. The most notable deals during the quarter included the sale of the newly-constructed Veerenni Health Center to an international investor managed by Zenith Capital, the acquisition of the Eesti Krediidipank HQ by Colonna, the sale of the PK Ilmarine hotel in Tallinn harbour area by Pro Kapital Grupp and the sale of two hotels in Tallinn old town. Additionally, East Capital finalised the acquisition of the Nehatu logistics park for EUR 54m from logistics and industrial park developer, VGP. Prime yields remained stable, although slightly compressed in the office segment.

The investment market in Latvia remained tranquil in 3Q 2017, with investment volume of EUR 20m. The transaction pace in Latvia may slow down in short term due to uncertainties arising from the tax law change from January 2018. However, once implemented, these changes can potentially improve market activity. Nevertheless, the initiated acquisition of several properties is expected to be finalised in 4Q 2017-1Q 2018. Prime yields remained stable compared to the previous quarter, although a slight compression might be experienced by the end of 2017.

The investment market in Lithuania was largely driven by the retail segment, which amounted to more than half of total transaction volume in 3Q 2017, although Lords LB did sign an agreement to acquire GO9 SC from East Capital. EFTEN Capital acquired two Class A logistics buildings in Kaunas from Genesta and Ogmios Group purchased the Apranga logistics centre in Vilnius. So investments in industrial properties accounted for one third of total volume. Prime yields remained stable compared to the previous quarter.

## Portfolio activities

The properties in East Capital Baltic Property Fund (the Fund) continue their stable operations. The average rent for the portfolio of the Fund remained stable, at EUR 6.6/sqm/month for first quarter of financial year 2017/18.

Economic vacancy at the end of the quarter was 7.7% for the portfolio, affected by the increase in vacancy at the Metal property

in Estonia. After the lease matured with its long-term single tenant at the end of June 2017, a new lease with another industrial tenant was signed and has commenced for 25% of the complex. Negotiations are also ongoing to lease out most of the remaining area in the complex.

As reported previously, at an extra general meeting held on 9 June 2017, consent was given for an extension of the fund term up until July 2022.

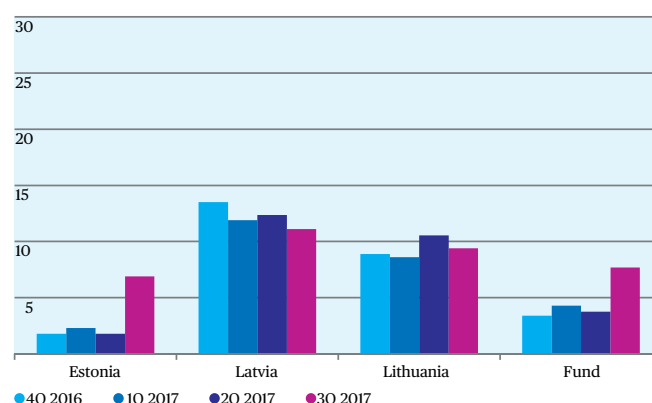
The Fund's annual general meeting took place on 9 November 2017, where the management team presented the results of the financial year 2016/17 and the goals for the next financial year, as well as the strategy for the new extended term of the Fund.

Building on the strong and stable free cash flow from the properties in the Fund, the annual general meeting 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.

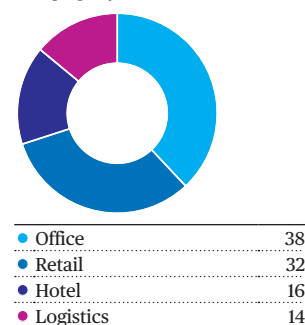
The management team is active in extending the maturities of the loan portfolio to match the new extended fund term. Three loans have been extended until June 2022, and the interest margin has been fixed at a level below 2%. Indication has been given on the prolongation of another two loans in the portfolio at improved conditions. The remaining loans will also be renegotiated before current maturities in 2018.

Mandates have been, or are in the process of being, given to advisors to divest the Latvian and Lithuanian properties in the Fund.

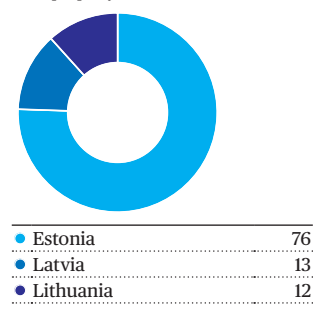
Portfolio vacancy rate by rental value (%)



Sector Allocation  
(% of property value)



Country Allocation  
(% of property value)



## Financial overview

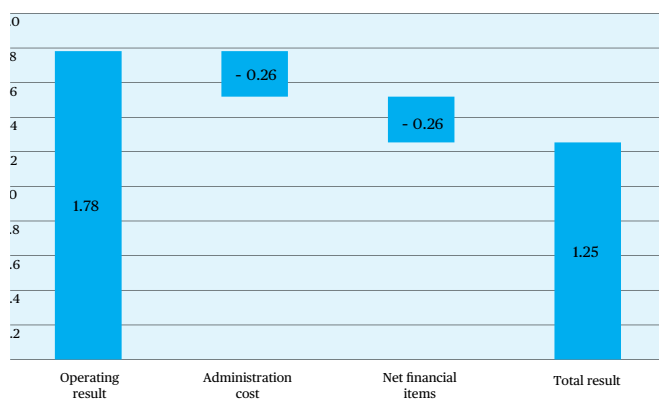
The net asset value of East Capital Baltic Property Investors AB (publ.) was EUR 418.90 as of 30 September 2017, an increase of 2.81% for the period July - September 2017.

The rental income for the first quarter of financial year 2017/18 was EUR 2.2m, compared to EUR 2.3m a year ago. The slight decrease is also mostly related to less rental income from the Metal industrial property in Estonia. Owing to lower direct and administrative expenses, the operating profit concluded at EUR 1.5m, compared to EUR 1.2m for the same period a year ago. Interest costs totalled EUR 0.3m during the period July - September 2017, decreasing by 27% compared to the same period last year. The net profit for the quarter concluded at EUR 1.25m.

The investment properties as of 30 September 2017 totalled EUR 105.1m, and the bank loan balance of EUR 67.7m represents a loan-to-value of 64%. Excluding the Dantes property, where loan-to-value is above 100%, the portfolio loan-to-value is 57%.

The Fund has EUR 6.8m of cash and cash equivalents as of 30 September 2017, of which EUR 2.76m will be paid out as dividend during 4Q 2017.

Result contribution (Q1 financial year 2017/18)



## Properties in the portfolio

Property	Type	Location	GLA (m²)
<b>Estonia</b>			<b>84,482</b>
Jõhvi Tsentraal	Retail & office	Jõhvi	8,800
Jewe Retail & Furniture Centre	Retail	Jõhvi	11,887
Kerese Commercial Centre	Retail & office	Narva	5,067
Papiniidu Commercial Centre	Retail & office	Pärnu	17,280
Tammsaare Business Park	Office	Tallinn	8,771
Go Spa Hotel	Hotel	Kuressaare	6,610
Tallinn Seaport Hotel	Hotel	Tallinn	4,225
Tanassilma	Logistics	Tallinn	13,349
Metal Industrial Facility	Industrial	Maardu	8,493
<b>Latvia</b>			<b>11,784</b>
Zemitana Centrs	Office	Riga	4,539
Dantes Nami	Office	Riga	7,224
<b>Lithuania</b>			<b>14,922</b>
Laracija Office	Office & retail	Klaipeda	6,964
Deco Furniture and Interior Centre	Retail	Klaipeda	4,355
Jin Centre	Office	Vilnius	3,603
<b>All properties</b>			<b>111,167</b>

# EAST CAPITAL

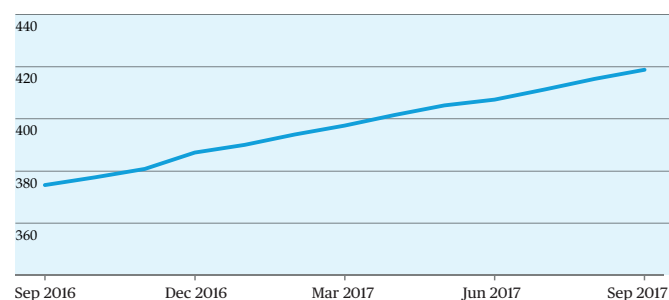
Baltic Property Fund  
Quarterly Report  
July– September 2017

## Net Asset Value 12m rolling (EUR)

### East Capital Baltic Property Fund Investors AB (30.09.2017)

NAV (EUR)	% 1 month*	% YTD*	% 12 months*	% Since start*
418.90	0.86	2.81	11.81	4.38

\* All dividend-adjusted performance, financial year July 1 - June 30



### NAV

Indicative NAV is published on East Capital's website on the 15th day of every month. For more information please refer to [www.eastcapital.com](http://www.eastcapital.com)

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## Fund overview

Investment profile	Value added/opportunistic
Manager	East Capital Baltics AS, a company fully owned by East Capital (Domicile: Estonia)
Auditor	KPMG
Fund size	EUR 55.1m. The fund is closed for further subscriptions
Launch date	July 7, 2005
ISIN	SE0001467572
Management fee	1.25% on net asset value from July 1st 2017
Structure	Closed-end fund structured as a Swedish limited liability company. The fund is prolonged until July 2022.
Redemption	No
Liquidity	Limited. An investment in the fund shall be regarded as a long-term investment. OTC trading of the shares of Investor Consortium is facilitated by Pareto Securities AB.

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

	Jul 2017 - Sep 2017	Jul 2016 - Sep 2016
Revenue	2,173	2,292
Direct expenses	-392	-777
Gross profit	1,781	1,515
Administrative expenses	-263	-308
Operating profit/loss	1,518	1,207
Interest income and similar profit/loss items	1	96
Interest expenses and similar profit/loss items	-265	-365
Profit/loss before income tax	1,254	938
NET PROFIT/LOSS FOR THE YEAR/ TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,254	938
Earnings per share - Ordinary shares	227,52	170,16

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

	Jul 2017 - Sep 2017	Jul 2016 - Sep 2016
Earnings per share - Ordinary shares	11,44	8,35

Baltic Property Fund  
Quarterly Report  
July– September 2017

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

	30 Sep 2017	30 Sep 2016
<b>ASSETS</b>		
<i>Non-current assets</i>		
Investments properties	105,149	104,940
Other long-term assets	-	220
Equipment	16	6
<b>Total non-current assets</b>	<b>105,165</b>	<b>105,166</b>
<i>Current assets</i>		
Accounts receivable - trade	436	361
Other receivables	441	178
Accrued income and prepaid expenses	84	88
Cash and cash equivalents	6,807	4,787
<b>Total current assets</b>	<b>7,768</b>	<b>5,414</b>
<b>TOTAL ASSETS</b>	<b>112,933</b>	<b>110,580</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	17	17
Other paid-in capital	44,846	44,846
Retained earnings	-3,015	-8,115
Profit/loss for the period	1,254	938
<b>TOTAL EQUITY</b>	<b>43,102</b>	<b>37,686</b>
<b>Liabilities</b>		
<i>Non-current liabilities</i>		
Interest-bearing liabilities	16,449	38,820
Other liabilities	478	446
Deferred tax liabilities	895	807
<b>Total non-current liabilities</b>	<b>17,822</b>	<b>40,073</b>
<i>Current liabilities</i>		
Interest-bearing liabilities	51,245	31,198
Accounts payable - trade	257	1,049
Derivatives	-	182
Other liabilities	30	30
Current tax liabilities	67	-
Accrued expenses and deferred income	410	362
<b>Total current liabilities</b>	<b>52,009</b>	<b>32,821</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>112,933</b>	<b>110,580</b>

Baltic Property Fund  
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## Consolidated Statement of Change in Equity of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Share capital	Other paid in capital	Retained earnings incl. profit/loss for the period	Total equity
Balance at 30 June 2016	17	49,915	-8,115	41,817
Repayment of shareholders contribution		-5,069	0	-5,069
Total comprehensive income			938	938
BALANCE AT 30 SEPTEMBER 2016	17	44,846	-7,177	37,686
Balance at 30 June 2017	17	44,846	-3,015	41,848
Total Comprehensive Income			1,254	1,254
BALANCE AT 30 SEPTEMBER 2017	17	44,846	-1,761	43,102
Reconciliation to Net Asset value				
Consolidated Equity above				43,102
Revaluation of property values to loan values				3,288
Other year-end adjustments				-
NET ASSET VALUE AT 30 SEPTEMBER 2017				46,390

## Disclosure for segments - July 2017 - September 2017 - geographical areas in EUR'000

	Estonia	Latvia	Lithuania	Unallocated	Group
Total gross income	1,486	359	328	0	2,173
Income from sales	1,486	359	328	0	2,173
Depreciation of tangible fixed assets	0	0	-1	0	-1
Operating profit/loss	1,245	158	166	-51	1,518
Net financial income/expenses					-264
Profit/loss before tax					1,254
Income tax					0
PROFIT/LOSS FOR THE PERIOD					1,254
Assets	86,082	13,765	12,702	384	112,933
- where of Investment properties	79,420	13,459	12,270	0	105,149
Liabilities	42,550	16,938	10,323	20	69,831



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## Consolidated Cash Flow Statement of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2017 - Sep 2017	Jul 2016 - Sep 2016
<i>Cash flows from operating activities</i>		
Operating profit/loss for the period	1,518	1,207
Depreciation	1	-
Interest received	0	1
Interest paid	-265	-365
Income tax paid	-	-74
<b>Cash flows from current operations before changes in working capital</b>	<b>1,255</b>	<b>769</b>
Increase (-)/decrease (+) in accounts receivables	159	283
Increase (-)/decrease (+) in other current receivables	26	-61
Increase (+)/decrease (-) in accounts payable	57	-6
Increase (+)/decrease (-) in other current op. liabilities	-6	-49
<b>Cash flows from operating activities</b>	<b>1,491</b>	<b>936</b>
<i>Cash flows from investing activities</i>		
Investment on fixed assets	0	-220
<b>Cash flows from investment activities</b>	<b>0</b>	<b>-220</b>
<i>Cash flows from financing activities</i>		
Repayment of borrowings	-671	-766
Repayment of shareholders contribution	0	-5,069
<b>Cash flows from financing activities</b>	<b>-671</b>	<b>-5,835</b>
<b>Cash flow for the year</b>	<b>820</b>	<b>-5,119</b>
Cash and cash equivalents at beginning of the year	5,987	9,906
Exchange rate differences in cash and cash equivalents	0	
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>6,807</b>	<b>4,787</b>

## Fund Summary

	30 Sep, 2017 EUR '000	30 Sep, 2017 % Committed Capital	30 Sep, 2016 EUR '000	30 Sep, 2016 % Committed Capital
<b>CAPITAL COMMITTED</b>	<b>55,094</b>	<b>100</b>	<b>55,094</b>	<b>100</b>
Capital contributed	55,094	100	55,094	100
Total remaining available for drawdown	0	0	0	0
Potential draw downs for next reporting period	-	0	-	0
Fair value of portfolio	108,437		108,711	
Other assets	7,784		5,374	
Liabilities	-69,831		-72,666	
<b>TOTAL NET ASSET VALUE</b>	<b>46,390</b>		<b>41,419</b>	

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## Important Notice

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