

Quarterly comment

The rental revenue for East Capital Baltic Property Fund for the financial year 2022/23 amounted to EUR 4.6m and is on a similar level versus the financial year 2021/22 (comparable portfolio adjusted for divested properties). The average rent across the portfolio for the financial year 2022/23 was EUR 6.6/sqm/mo.

The vacancy level for the fund portfolio stands at 10% at the financial year end in June 2023. Occupancy has improved in Jõhvi Tsentraal property as centre's redevelopment has contributed to finding new tenants. Vacancy has increased slightly in the other two Eastern-Estonia properties, Aiandi 13 office and Zemitana office. The vacancy levels for the rest properties remain flat compared to the financial year 2021/22.

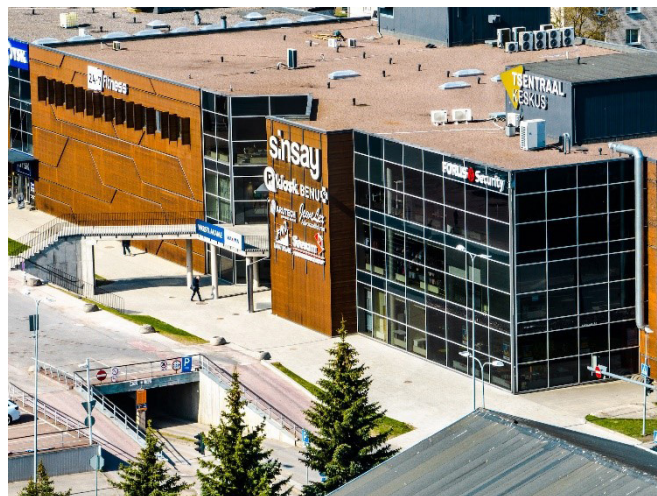
The occupancy rate and hotel turnover of the Tallinn Seaport Hotel are continuously showing a growth. In the financial year 2022/23 the total hotel turnover was 1.4 times higher compared to a year ago and on a comparable level with the pre-Covid financial year 2018/19. The average occupancy in financial year 2022/23 was 71% compared to 58% a year ago.

In Tånassilma warehouse/industrial property, rental agreements with the two tenants Makita and ELP Logistics will mature in August and December 2023 accordingly. The management team is actively working with tenant substitution and negotiating with potential new tenant(s) for Makita property and working with the potential prolongation of ELP Logistics rental agreement.

Jõhvi Tsentraal redevelopment project that has been ongoing for the past few years is coming close to completion. Majority of the inside areas and the façade are renovated. The renovation works of Jõhvi central square are currently ongoing and expected to be completed by autumn 2023. New Maxima grocery store was opened on May 11th 2023 and since the opening, the centre's attendance has increased significantly.

The bank loan from SEB Latvia for Zemitana office centre in Riga, is now refinanced by SEB Estonia and Swedbank Estonia and included in the syndicated loan covering the Estonian portfolio. The management team is simultaneously working on potential divestment of the property.

In April 2023, the Fund paid out a dividend in the total amount of EUR 0.9m, equal to EUR 13.44 per share, from Jin office sale proceeds and operational profits.



New façade of Jõhvi Tsentraal. Photo by Arvo Juhkov

Sector Allocation

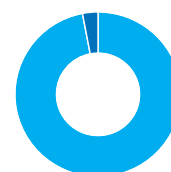
(% of gross property values)



| | |
|------------------------|----|
| ● Office | 34 |
| ● Retail | 30 |
| ● Industrial/Logistics | 24 |
| ● Hotel | 12 |

Country Allocation

(% of gross property values)



| | |
|-----------|----|
| ● Estonia | 97 |
| ● Latvia | 3 |

Financial overview

The Net Asset Value of East Capital Baltic Property Investors AB was EUR 332.11 as of 30 June 2023, decreasing by 10.74% during the quarter and 3.48% for the financial year 2022/2023. The operational Net Asset Value increase, excluding the negative revaluation change and the investment cost, amounts to 1.19% for 2Q 2023.

At financial year end in June 2023, an external portfolio reappraisal for the property portfolio was carried out, resulting in EUR 1.1m decrease in the fair value of the Fund's properties (equivalent to -1.9%) compared to the previous external revaluation in June 2022. The fair value decrease was mostly caused by the changed market conditions leading to higher discount rates and exit yields, which could not be fully offset with rental growth. The valuation assumptions also included more reserves for operational costs and capital investments across the portfolio. In some properties, valuation was also negatively affected by the short lease term for key tenants (e.g. Tännassilma industrial property).

The decrease in NAV was also affected by the investment works of the Jõhvi Tsentraal commercial center, as the costs carried out during the year were reflected in the Fund's income statement as of financial year-end. The investment works totaled EUR 3.29m during the 2022/23 financial year. In the external reappraisal, the Jõhvi Tsentraal property value increased by 16% y-o-y, however, the full extent of the upgrade project is yet to be reflected in the property value once all new premises are operational.

The fund's rental income for the financial year 2022/2023 was EUR 4.6m. The rental income y-o-y increased the most in Tallinn Seaport Hotel as hotel turnover has recovered and higher turnover rent has been invoiced.

The Fund's direct expenses include the above-mentioned Jõhvi Tsentraal redevelopment cost of EUR 3.29m. Excluding this cost, the operational gross profit amounts to EUR 3.86m.

The fund's net profit concluded at EUR -2.98m. The net profit includes the revaluation loss of EUR 1.10m. The net profit also includes income tax costs paid on dividend distribution EUR 0.5m.

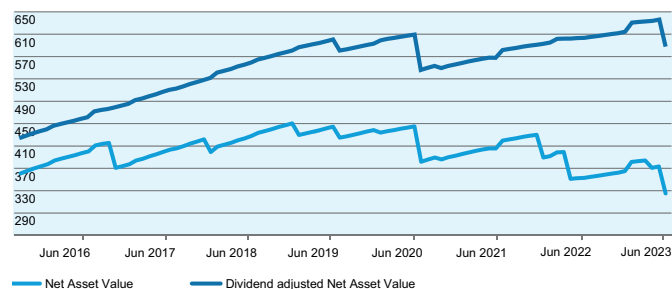
The fund's portfolio value stands at EUR 56.31m following the annual reappraisals in June 2023. The loan-to-value of the EPF Neli syndicate loan is 47% as of 30 June 2023, considering only Estonian properties as collaterals as per the loan agreement.

Net Asset Value 30 June 2023

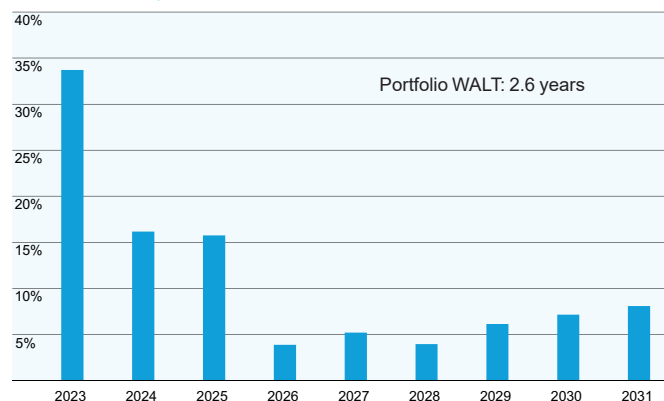
East Capital Baltic Property Investors AB SE0011788439

| NAV (EUR) | % 3 months* | % YTD* | % Since inception* |
|-----------|-------------|--------|--------------------|
| 332.11 | -10.74 | -3.48 | +18.71 |

*including dividend payments



Lease maturity



Fund Summary

| | 30 Jun 2023 | 30 Jun 2022 |
|---|---------------|---------------|
| | EUR '000 | EUR '000 |
| Fair value of portfolio | 56,312 | 57,414 |
| Other assets | 2,341 | 10,850 |
| Liabilities | -26,737 | -28,399 |
| TOTAL NET ASSET VALUE | 31,916 | 39,865 |
| Net Asset Value East Capital Baltic Property Investors AB | 332.11 | 358.02 |

Financials

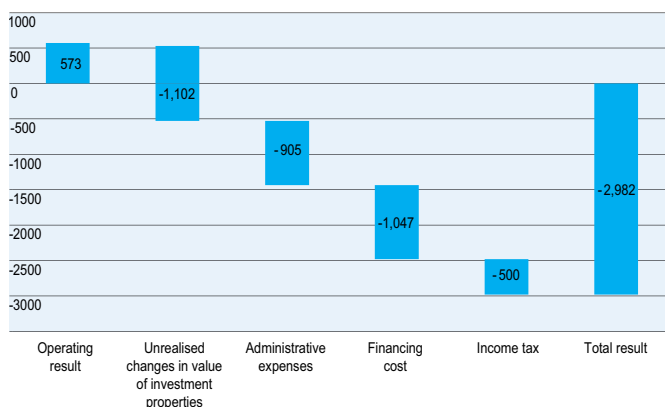
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

| | Jul 2022 - Jun 2023 | Jul 2021 - Jun 2022 |
|--|------------------------|------------------------|
| Revenue | 4,602 | 5,452 |
| Direct expenses | -4,029 | -1,708 |
| Gross profit | 573 | 3,744 |
| Administrative expenses | -905 | -1,106 |
| Other operating income/expenses | - | 475 |
| Unrealised changes in value of investment properties | -1,102 | 616 |
| Operating profit/loss | -1,434 | 3,729 |
| Interest income | 4 | 251 |
| Interest expenses | -1,051 | -842 |
| Profit/loss before income tax | -2,481 | 3,138 |
| Income tax | -500 | -367 |
| NET PROFIT FOR THE YEAR | -2,982 | 2,771 |
| Earnings per share - Ordinary shares | -541,20 | 502,88 |

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

| | Jul 2022 - Jun 2023 | Jul 2021 - Jun 2022 |
|--------------------------------------|------------------------|------------------------|
| Earnings per share - Ordinary shares | -27,22 | 20,72 |

Result contribution (financial year 2022/23, EUR'000)



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

| | 30 Jun 2023 | 30 Jun 2022 |
|-------------------------------------|---------------|---------------|
| ASSETS | | |
| <i>Non-current assets</i> | | |
| Investments properties | 56,312 | 57,414 |
| Other long-term assets | 1 | 6 |
| Equipment | 5 | 5 |
| Total non-current assets | 56,318 | 57,425 |
| <i>Current assets</i> | | |
| Assets held for sale | 235 | 285 |
| Other receivables | 313 | 315 |
| Accrued income and prepaid expenses | 93 | 45 |
| Cash and cash equivalents | 1,694 | 10,194 |
| Total current assets | 2,335 | 10,839 |
| TOTAL ASSETS | 58,653 | 68,264 |

EQUITY AND LIABILITIES

| | | |
|----------------------------|---------------|---------------|
| <i>Equity</i> | | |
| Share capital | 17 | 17 |
| Other paid-in capital | 23,860 | 28,828 |
| Retained earnings | 11,021 | 8,249 |
| Profit/loss for the period | -2,982 | 2,771 |
| TOTAL EQUITY | 31,916 | 39,865 |

Liabilities

| | | |
|--------------------------------|--------|--------|
| <i>Non-current liabilities</i> | | |
| Interest-bearing liabilities | 24,404 | 23,487 |
| Other liabilities | 498 | 579 |
| Total non-current liabilities | 24,902 | 24,066 |

Current liabilities

| | | |
|--------------------------------------|---------------|---------------|
| Interest-bearing liabilities | 1,039 | 3,014 |
| Accounts payable - trade | 305 | 476 |
| Derivatives | - | 5 |
| Other liabilities | 181 | 586 |
| Accrued expenses and deferred income | 310 | 252 |
| Total current liabilities | 1,835 | 4,333 |
| TOTAL EQUITY AND LIABILITIES | 58,653 | 68,264 |

Contact

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Economic overview

In 1Q 2023 GDP (in real terms) of Estonia fell by 3.2% y-o-y (mainly due to dampening effect of information and communication, transportation and storage, financial and insurance activities) and by 2.5% y-o-y in Lithuania (driven by decrease of manufacturing, wholesale and retail trade, transportation and storage). The GDP of Latvia grew by 0.8% y-o-y in Q1 2023, driven by increase in accommodation and food services industry, information and communication and construction.

Average annual inflation in May 2023 has declined from 25.2% in August 2022 to 11.3% in Estonia, from 22.0% in September 2022 to 12.3% in Latvia and from 22.5% in September 2022 to 10.7% in Lithuania. Inflation is expected to continue falling.

In 1Q 2023 the average monthly gross earnings grew by 13.3% y-o-y in Estonia and Lithuania and 12.3% in Latvia. In May 2023, the highest registered unemployment rate of the country's working age population was recorded in Lithuania (8.3%) and Estonia (7.4%), the lowest – in Latvia (5.5%).

Real estate market



Investment market

2Q 2023 continued to remain expectedly calm in Estonia with total known HY1 investment volume reaching only EUR 64m and local capital being behind more than 90% of invested volume. The YTD volume decreased by 65% from the corresponding period last year. In May 2023, Tallinn MP OÜ signed an agreement for the acquisition of the L'Embitu (125 rooms) and L'Ermitage (122 rooms) hotels in Tallinn and will operate them under the Mövenpick and ibis Styles brands belonging to Accor group. Yields continue to remain under an upward pressure with an estimated growth reaching 0.25-0.5 pp in 2Q 2023, still experiencing a lack of market evidence.

In 2Q 2023, investment volume in Latvia reached EUR 55m, which is better result than achieved in Q1 but still below typical market figures (-60% y-o-y in HY1 2023). Previously active residential and industrial developers have not made any acquisitions in Q2. Notable deals included the sale of the 5* hotel Pullman Riga Old Town, followed by two mixed-use property transactions – the acquisition of the U30 stock-office by East Capital for EUR 5.2 million from Hepsor, and the sale of the Ulbrokas 42G property to Capitalica. Although there are no prime transactions to use as market evidence, prime yields are being adjusted based on financing costs and market sentiment.

Despite initially uncertain outlook and unfavourable forecasts, Lithuanian investment market demonstrated resilience and attracted notable investment activity, especially in the office and entertainment segments, with total investment volume reaching approx. EUR 122m in 2Q 2023. The most noteworthy transaction was the acquisition of the Duetto I&II BC (GBA 17,388 sqm) by East Capital from Baltic Horizon for EUR 37m, followed by the purchase of the 31/1 Plaza BC by Grinvest from SNS for EUR 12m. The prevailing interest rates and market sentiment during Q2 led to an increase in yields across all segments.

Office segment

Development in Tallinn office market remains still active with total GLA reaching 126,000 sqm under construction in June 2023. Lower quality office premises start to underperform and as a result, there is a growing number of refurbishment projects. Tenants prefer lease renewal rather than relocation to new premises. Tenants continue to (re)evaluate their workspace needs and seek for flexibility as well as shorter lease terms or various incentives in case of longer lease terms. Total vacancy increased slightly, fluctuating around 9% and seeing some increase above the 7% level in A class buildings.

In Riga, 11,790 sqm of leasable office area was added to the market in Q2. With Baltic Re starting with the Daugavas Skats project, 145,740 sqm of office space remain under construction in Riga. Around 60% of the projects under construction are planned to be delivered by year-end and current tenant profile includes mainly existing companies that are searching for newer, energy-efficient premises. As a result, vacancy in older office stock is increasing. However, some tenants are reluctant to relocate if landlord is ready to invest into renovation. Rent rates in A and B1 class buildings have slightly increased.

Vilnius office market saw the start of construction of Hero BC (30,000 sqm) in CBD and completion of the BC K22 (4,200 sqm) in 2Q 2023. The market saw a healthy level of demand with total take-up activity reaching ca 17,700 sqm, indicating ongoing interest in securing office premises in CBD. Demand from the medical sector for modern office premises in Vilnius has increased. Rents remained stable, while vacancy witnessed a decline in A class and even more in B1 class buildings, indicating an increased demand for affordable office premises.

Retail segment

Refurbishments in Tallinn retail market continues – Viru Keskus celebrated the completion of its large-scale renovation, including opening of the first Arket store in Baltics, Kristiine Centre opened a Lido restaurant, Lasnamäe Centrum started a EUR 2m refurbishment and Solaris is starting a refurbishment of its ground floor. Development activity is seen and further expected to continue in Tallinn metro area with highly anticipated opening of Kurna Retail Park in August and expected start of construction on new Keila Centre. Grocery segment starts to adjust with intensified competition, seeing closure of (nonprofitable) stores across the country.

Development activity in Riga remains low, with Preses Nams retail part and DEPO big-box under construction. Grocery chains remained active in Q2 with Lidl opening two stores and Rimi opening one store. Demand for street retail remains low, while SCs are witnessing several new openings - SC Olimpia welcomed Tradehouse and Miniso, both are new market entries. SC Spice Home introduced a new MyFitness club and welcomed Miele's first SC location, while Wellners debuted in SC Sky&More and Saga. Tenants are willing to pay a slightly higher turnover rent percentage for reduced base rent rates and aim for rent indexation caps to a minimum of 2-3% and maximum of 5-7%.

Vilnius Retail Park Una, developed by VPH, successfully completed its new retail concept during the Q2 2023. Mada SC announced plans for reconstruction, while E1 NT, developer, unveiled plans for a new shopping and leisure entertainment project called Kalnenai SC. Demand for retail premises was mostly driven by various service-oriented businesses such as massage salons, medical clinics, family clinics, beauty clinics and sports clubs. Rent rates remained stable, while vacancy in traditional shopping centres remained low and decreased by 0.15% to 2.2%.

Industrial segment

The industrial segment remains active in Tallinn region with a total area of 185,000 sqm (27 projects) under construction in June 2023. 2Q 2023 saw the start of construction work on new Solina production facility (14,000 sqm) developed by Kapitel in Gate Tallinn, while Exmet started development of its new warehouse-production facility (9,900 sqm) in Maardu. Stock-office projects development has somewhat eased with total volume under construction reaching only 26,500 sqm (7 projects). Rents for newly built premises remain stable despite signs of decreasing construction costs by up to one-third from its peak.

In Q2 2023, two large scale projects were commissioned in Riga region: VGP Park Tiraines (28,000 sqm; B-t-S project) in Riga and third and the last stage of Rumbula Logistics Park developed by Sirin Development (25,000 sqm; speculative project). 51,000 sqm of additional space is forecasted to be delivered in 2023. Demand remains high for smaller premises and premises with specific solutions. Due to lack of new projects, rents are slightly increasing with prime level varying in the range of EUR 4.5 to 5.5/sqm. Vacancy increased due to new projects entering the market and is expected to increase in the following quarters due to relocation to new premises.

Vilnius industrial market witnessed growth in development projects, including Maxima LC (46,000 sqm). VPH started with a development of a "Vikingu verslo slenis" stock office (13,000 sqm). Overall, Q2 saw a take-up of approx. 14,000 sqm, demand was primarily driven by grocery retailers and logistics companies. Vacancies remained very low, although upwards trend is expected and rent rates remained stable, but expected to trend upwards. However, as a result of low vacancy, landlords may adjust rental levels slightly up for newer premises to capitalize on the high demand and limited supply.

Important notice

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