



Tallinn Seaport Hotel is showing good
turnovers in its second year of
operations. In June 2016, the hotel
paid a turnover rent above
expectations.

Macro overview

GDP in Estonia increased by 1.7% in 1Q 2016 compared to 1Q 2015, driven mostly by increased value added in wholesale and retail trade. GDP in Latvia increased by 2.1% y-o-y in Q1, mainly driven by growth in manufacturing and trade activities. The GDP growth in Lithuania was 2.3% y-o-y in 1Q 2016, with the fastest growth recorded in financial and insurance activities.

Unemployment remains low in Estonia, with recorded unemployment of 6.5% in 1Q 2016. The unemployment rate increased slightly, by 0.5%, in Latvia and decreased by the same amount in Lithuania, reaching 10.3% and 8.3% respectively.

In 1Q 2016, inflation (HICP) in Estonia stood at 0.3%, compared with 0.1% in 4Q 2015. In Latvia it fell to -0.5% in 1Q 2016 from 0.1% in 4Q 2015. And in Lithuania inflation rose to 0.7%, from -0.4% in 4Q 2015.

The Economic Sentiment Indicator (ESI) stood at 99.7 in Estonia in May 2016. Economic sentiment in Latvia improved to 104.3 points in May 2016, from 102.7 points in February, driven by the increase in sentiment in construction, services and retail trade. Contrary to Estonia and Latvia, the ESI decreased in Lithuania. The development from 105.0 points to 104.1 points comes on decreased confidence in the industry, retail, construction and consumer sectors.

Key economic figures 1Q 2016	Estonia, %	Latvia, %	Lithuania, %
GDP growth	1.7	2.1	2.3
Unemployment	6.5	10.3	8.3
Inflation (HICP)	0.3	-0.5	0.7

Property market

Development on the Tallinn office market remains active, with a total area of approx 122,700 sqm under construction as of June 2016. Although so far the supply has been absorbed, there are signs of possible market saturation and oversupply. Asking for a rental rate corresponding to the location and quality of the premises remains one of the main competitive advantages. IT companies continue to be the most active on the leasing market, followed by wholesale and retail trade companies.

On the Riga office market, the built-to-suit AirBaltic central office building (GLA 6,200 sqm) and Tele2 office building (GLA 1,700 sqm) were commissioned in 2Q 2016, while four office properties with total GLA of 27,000 sqm remained under construction. The total take-up of Q2 was 5,100 sqm, driven by healthcare, finance and IT companies. Rental rates remained at 1Q 2016 levels, while total office market vacancy decreased to 4.7%, compared to 5.6% in the previous quarter.

The Vilnius office market is preparing for the new supply of 96,700 sqm forecasted to enter the market in 2H 2016. As a result of expected supply pressure, rental rates in both Class A and Class B1 business centres have already started to decrease. The overall vacancy level decreased to 2.8% in 2Q 2016, still indicating a high demand for office space. International companies continue to show the greatest demand - Danske Bank Group Services Lithuania signed a pre-lease agreement with S7 BC for 12,000 sqm.

The retail market remains active in Estonia. The Decora Maja DIY shopping centre, with a total area of 14,150 sqm, was opened in May 2016, resulting in growing competition in the sector after this new player entered the market in Tallinn. A few smaller shopping centre development projects were also completed in the Tallinn region in Q2 - the Kärberi shopping centre (5,500 sqm) in the Lasnamäe city district, with Selver and MyFitness as anchor tenants, and the Pärnamäe centre (2,600 sqm), with Rimi as anchor tenant.

The Riga retail market remained largely stable throughout 2Q 2016, with rental rates remaining at Q1 level. Vacancy rates remained close to zero in the most successful shopping centres, although total vacancy experienced a notable increase, from 2.5% in 1Q 2016 to 4.9% in 2Q 2016, driven by the closing of the Prisma hypermarket (GLA 9,000 sqm) in the Domina shopping centre. The reconstruction of vacant premises is planned to start in July. Additionally, British retailer NEXT left the premises in Domina and SPICE SCs. At the same time, Dormeo opened the largest store in the Baltics, with total area of 600 sqm in Spice Home, and sportswear brand 4F continued to expand by opening two more stores in Riga, in the Origo and Riga Plaza shopping centres.

On the Vilnius retail market, the second stage of Nordika SC (20,100 sqm) was completed, with Senukai (17,000 sqm) as an anchor tenant. And similarly, the final completion of the second stage of Domus Pro SC added 2,200 sqm to the retail stock. German grocery chain Lidl, a new market player, opened 15 stores in Lithuania and is planning to invest an additional EUR 60m in further development on the back of successful openings. Vacancy levels on the market decreased by 0.3%, while rental rates remained stable.

The industrial segment remains active in Tallinn and its suburbs in terms of new developments, with a total area of approximately 117,500 sqm under construction as of June 2016. In Q2, the Karia cold storage warehouse in Jüri Industrial Park and the expansion of the Nordnet logistics warehouse building in Tallinn were completed, and construction work on the new Favor office and industrial building (13,522 sqm) in Loovälja started. Demand for industrial and warehouse space remains strong, with prospective clients looking for premises of ca 20,000 - 30,000 sqm in size. At the same time, as supply is expected to increase on account of premises that will be vacated by the relocation of large tenants, we can also see downward pressure on rental rates and/or more flexible lease contract conditions.

No new industrial objects were commissioned in the Riga region during 2Q 2016. However, 27,200 sqm of warehouse space remains under construction, of which the second stage of Baltic

Market tendencies 2Q 2016	Estonia Retail Office		Latvia Retail Office		Lithuania Retail Office	
Construction	→	→	→	→	→↑	→↑
Supply	→↑	→	→	→↑	↑	→
Demand	→↓	→	→	→	→↑	→
Rental rate	→	→	→	→	→	→↓
Vacancy	→↑	→	→↑	→↓	→↓	→↑
Yield	→	→↓	→	→↓	→	→
Total investment volume	→↓		→		→	

Cargo Solutions, with GLA 15,000 sqm, is the largest. Additionally, approx 108,000 sqm of leasable area is in the planning stage. In Q2, the market experienced an increase in vacancy to 6.2%, which occurred on account of tenant relocation or decreases in business activity. Rental rates remained at 1Q 2016 levels, with a stable outlook for Q3.

Vilnius industrial supply amounts to 532,000 sqm, with four industrial projects under construction (29,700 sqm) expected to be completed by 1H 2017 at the latest. Most of the projects under construction are built-to-suit as this sector enjoys the highest demand in the market. A slight growth in rental rates and minor decrease in vacancy were observed in 2Q 2016.

Total known investment volume in Estonia for the period Jan-May 2016 amounted to EUR 180m. The most notable deals in 2Q 2016 included the sales of a newly-constructed Decora Maja DIY store in Mustamäe and a Rimi supermarket in the Põhja-Tallinn city district. Demand for industrial and logistics properties remained considerably high, with several notable deals closed in Q2. Prime yields remain under pressure, as supply of assets remains scarce. By mid-2016, prime office yield had compressed by 15-25 bps. As a result of compressing yields, some investors have turned their interest towards properties in other Estonian cities (for example Tartu, Võru), where capitalisation rates and expected return on equity are higher than in the capital city Tallinn.

The total investment volume of ca EUR 9m in Latvia in 2Q 2016 remains at the level for the same period of one year before. The largest deals were mainly driven by the office sector, and included the sale of the central office building of AirBaltic for approx. EUR 6m. Additionally, Riga Plaza SC's sale process was initiated in Q2, to be completed in 2H 2016. Prime retail yields remained at 1Q 2016 levels, while a slight yield compression was seen in the office and industrial segments.

The investment activity in Lithuania remained quite intense during 2Q 2016, with transactions focusing on development: the frozen residential complex Arfa was acquired by Irec Baltic, an old hospital complex (16,500 sqm) was transacted to Vastint, while Lords LB acquired a 0.63 ha land plot in the central part of the city with plans to develop a new, high-class business centre. The industrial sector was not left far behind, as Capital Mill acquired the Dobrovoile Logistics Centre second stage, and also the full complex. Green Hotel commenced the acquisition of 100% shares in Baltijos Parkai, which owns two hotels: Park Inn Vilnius North and Park Inn Klaipeda; the investor however still needs approval from the competition council.

Portfolio activities

The average rental level for the financial year 2015/16 concluded at the EUR 7.0/sqm level, comparable with the previous financial year. Individual rent indexing has been modest due to negative CPI.

Half-year turnover rents were paid at the Gospa and Tallinn Seaport properties in June 2016. The turnover rents of +30% and +46% respectively on top of minimum rent were more than budgeted, as both hotels posted turnover above expectations.

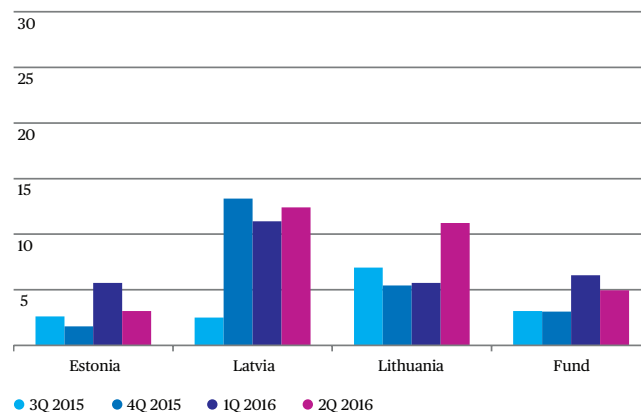
The portfolio vacancy at quarter and financial year end was 5%. In the Keresse retail centre in Narva, vacancy peaked after the Selver grocery store closed in February 2016. However, a lease

with Rimi was signed shortly after, and a smaller concept Rimi grocery store will be opened in the centre in August 2016. The rest of former Selver areas will be divided into smaller retail units, with current tenants Humana store and Benu pharmacy also relocating to new areas. In both Duntess office in Riga and Jin office in Vilnius, the current vacancy arose after agreement termination by a larger tenant, and the management team is working to restore full occupancy.

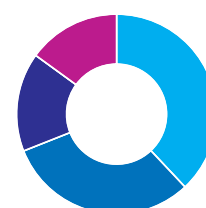
A portfolio valuation was completed in June, at the end of the financial year, with a EUR 1.45m, or 1.4%, increase in total portfolio value. The value of Estonian and Latvian properties increased by 1.1% and 5.3% respectively, while the value of Lithuanian properties decreased by a slight 0.8%.

The target remains to actively divest properties, individually or as a portfolio, as and when market timing allows. There are currently several early stage processes ongoing for individual or portfolio exits. Should these sale processes be unsuccessful in achieving a price close to net asset value, the board will consider asking for shareholder approval to transform the fund into a permanent vehicle and to seek a listing on a public exchange. In this consideration, it will be important to analyse the expected liquidity of the listing venue and the expected listing price.

Portfolio vacancy rate by rental value (%)



Sector Allocation
(% of property value)



Office	38
Retail	31
Hotel	16
Logistics	15

Country Allocation
(% of property value)



Estonia	76
Latvia	13
Lithuania	12

EAST CAPITAL

Baltic Property Fund
Quarterly Report
April - June 2016

In June 2016, loan agreement extensions were signed for three properties in the fund, with loan terms matched with the fund term. Additionally, amortisation will be stopped in four properties for the coming financial year and significantly reduced compared to previous years thereafter. This will enhance the free cash flow in the fund, already improved from operational activities (improved tenant mix, decreased vacancies and sustainable rental incomes). These efforts will approximately double free cash flow and enable a sustainable dividend from operations of approximately 6-8% of net asset value.

An extraordinary dividend of approximately EUR 45 per share is expected to be paid during Q3 or early 4Q 2016, corresponding to the Nurmenuku sales proceeds (property sold in October 2015).

Financial overview

The net asset value of East Capital Baltic Property Investors AB (publ.) was EUR 412.16 as of 30 June 2016, representing a 4.07% increase for the quarter and 13.85% increase year-to-date for financial year 2015/16 (compared to EUR 362.03 on 30 June 2015).

The rental income for the period July 2015 - June 2016 was EUR 9.9m, a slight decrease of 1% compared to the previous financial year, due to the sale of Nurmenuku shopping centre. Rental revenue excluding divested properties increased by 2% y-o-y. Operating profit for the financial year 2015/16 was EUR 7.7m (EUR 6.3m excluding property revaluation), remaining on a comparable level with the previous financial year.

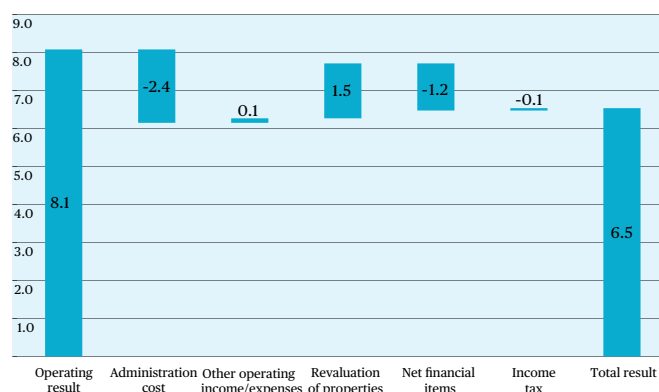
Interest costs totalled EUR 1.7m for the financial year and have decreased by 12% compared to the same period last year, benefitting from negative floating rates on the market. Net profit for the financial year 2015/16 amounts to EUR 6.5m (EUR 5.0m if excluding property revaluation).

The investment properties as of 30 June 2016 totalled EUR 104.9m, after a positive portfolio revaluation of EUR 1.45m. The fund had EUR 70.8m in bank loans, representing a loan-to-value of 67%.

After the sale of the Nurmenuku property, the fund has EUR 9.9m of cash and cash equivalents as of 30 June 2016 (of which approx. EUR 1.5m is reserved for outstanding accounts payable and accrued current liabilities). As stated above, the fund intends to distribute the net proceeds from the Nurmenuku transaction to investors during Q3 or early 4Q 2016, depending on the completion of fund legal restructuring process.

In Estonia, corporate income tax is only paid upon exit of a property (or properties) and distribution to shareholders, hence no corporate income tax has been paid in Estonia so far, nor been reflected in net asset value. Should the current Estonian properties be sold at current book value and proceeds distributed to investors, the estimated corporate income tax is EUR 2.1m, or approximately 4.6% of net asset value as of 30 June 2016.

Result contribution (YTD, EURm)



Properties in the portfolio

Property	Type	Location	GLA (m ²)
Estonia			84,357
Jõhvi Tsentraal	Retail & office	Jõhvi	8,445
Jewe Retail & Furniture Centre	Retail	Jõhvi	11,887
Kerese Commercial Centre	Retail & office	Narva	5,311
Papiniidu Commercial Centre	Retail & office	Pärnu	17,267
Tammsaare Business Park	Office	Tallinn	8,771
Go Spa Hotel	Hotel	Kuressaare	6,610
Tallinn Seaport Hotel	Hotel	Tallinn	4,225
Tanassilma	Logistics	Tallinn	13,348
Favor Industrial Facility	Industrial	Maardu	8,493
Favor Industrial Facility	Industrial	Maardu	8,493
Latvia			11,784
Zemitana Centrs	Office	Riga	4,539
Dundes Nami	Office	Riga	7,245
Lithuania			14,924
Laracija Office	Office & retail	Klaipeda	6,964
Deco Furniture and Interior Centre	Retail	Klaipeda	4,355
Jin Centre	Office	Vilnius	3,605
All properties			111,065

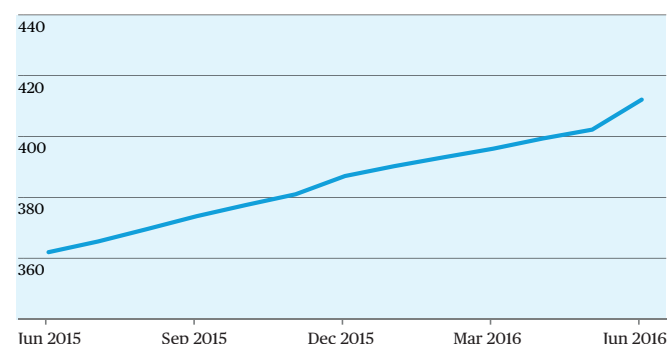
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Net Asset Value 12m rolling (EUR)

East Capital Baltic Property Fund Investors AB (30.06.2016)

NAV (EUR)	% 1 month	% 3 months	% YTD*	% 12 months	% Since inception
412.16	2.45	4.07	13.85	13.85	-17.57



* 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

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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	1.75% on net asset value
Structure	Closed-end fund structured as a Swedish limited liability company. The fund is prolonged until 2017.
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
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Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2015 - Jun 2016	Jul 2014 - Jun 2015
Revenue	9,926	10,048
Direct expenses	-1,848	-1,732
Gross profit	8,078	8,316
Administrative expenses	-1,932	-1,820
Other operating income/expenses	115	0
Unrealised changes in value of investment properties	1,450	-3,749
Operating profit/loss	7,711	2,747
Interest income and similar profit/loss items	459	396
Interest expenses and similar profit/loss items	-1,703	-1,929
Profit/loss before income tax	6,467	1,214
Income tax	-63	147
NET PROFIT/LOSS FOR THE YEAR/ TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,404	1,361
Earnings per share - Ordinary shares	1 162,24	247,06

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

	Jul 2015 - Jun 2016	Jul 2014 - Jun 2015
Earnings per share - Ordinary shares	52,34	8,95

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

	30 Jun 2016	30 Jun 2015
ASSETS		
<i>Non-current assets</i>		
Investments properties	104,940	109,900
Other receivables	0	12
Equipment	7	10
Total non-current assets	104,947	109,922
<i>Current assets</i>		
Accounts receivable - trade	644	611
Other receivables	122	154
Accrued income and prepaid expenses	83	72
Cash and cash equivalents	9,906	4,191
Total current assets	10,755	5,028
TOTAL ASSETS	115,702	114,950
EQUITY AND LIABILITIES		
Equity		
Share capital	17	17
Other paid-in capital	49,915	49,915
Retained earnings	-14,519	-15,880
Profit/loss for the period	6,404	1,361
TOTAL EQUITY	41,817	35,413
Liabilities		
<i>Non-current liabilities</i>		
Interest-bearing liabilities	38,950	41,509
Derivatives	0	426
Other liabilities	440	523
Deferred tax liabilities	807	761
Total non-current liabilities	40,197	43,219
<i>Current liabilities</i>		
Interest-bearing liabilities	31,834	34,615
Accounts payable - trade	1,055	722
Derivatives	277	308
Other liabilities	56	326
Current tax liabilities	74	107
Accrued expenses and deferred income	392	240
Total current liabilities	33,688	36,318
TOTAL EQUITY AND LIABILITIES	115,702	114,950

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 2014	17	49,915	-15,880	34,052
Total comprehensive income			1,361	1,361
BALANCE AT 30 JUNE 2015	17	49,915	-14,519	35,413
Balance at 30 June 2015	17	49,915	-14,519	35,413
Total Comprehensive Income			6,404	6,404
BALANCE AT 30 JUNE 2016	17	49,915	-8,115	41,817
Reconciliation to Net Asset value				
Consolidated Equity above				41,817
Revaluation of property values to loan values				3,551
Interest swap not in NAV balance, net of tax				277
NET ASSET VALUE AT 30 JUNE 2016				45,645

Disclosure for segments - July 2015 - June 2016 - geographical areas in EUR'000

	Estonia	Latvia	Lithuania	Unallocated	Group
Total gross income	7,069	1,460	1,397	0	9,926
Income from sales	7,069	1,460	1,397	0	9,926
Depreciation of tangible fixed assets	0	-2	0	0	-2
Operating profit/loss	7,150	1,149	699	-1,287	7,711
Net financial income/expenses					-1,244
Profit/loss before tax					6,467
Income tax					-63
PROFIT/LOSS FOR THE PERIOD					6,404
Assets	89,281	13,474	12,687	260	115,702
- where of Investment properties	79,450	13,250	12,240	0	104,940
Liabilities	44,685	17,502	10,868	830	74,496

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

	Jul 2015 - Jun 2016	Jul 2014 - Jun 2015
<i>Cash flows from operating activities</i>		
Operating profit/loss for the period	7,711	2,747
Depreciation	2	2
Other non-cash items	-1,450	3,749
Interest received	2	2
Interest paid	-1,703	-1,934
Income tax paid	-96	96
Cash flows from current operations before changes in working capital	4,466	4,662
Increase (-)/decrease (+) in accounts receivables	-33	49
Increase (-)/decrease (+) in other current receivables	33	-1
Increase (+)/decrease (-) in accounts payable	333	-1,324
Increase (+)/decrease (-) in other current op. liabilities	-155	-416
Cash flows from operating activities	4,644	2,970
<i>Cash flows from investing activities</i>		
Investments in investment properties	0	-1,109
Proceeds from sale of properties	4,611	0
Cash flows from investment activities	4,611	-1,109
<i>Cash flows from financing activities</i>		
Repayment of borrowings	-8,040	-3,453
Received loans	4,501	2,121
Cash flows from financing activities	-3,539	-1,332
Cash flow for the year	5,716	529
Cash and cash equivalents at beginning of the year	4,190	3,661
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9,906	4,190

Fund Summary

	Jun 30, 2016 EUR '000	Jun 30, 2016 % Committed Capital	Jun 30, 2015 EUR '000	Jun 30, 2015 % Committed Capital
CAPITAL COMMITTED	55,094	100	55,094	100
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	108,491		114,046	
Other assets	10,761		5,049	
Liabilities	-73,607		-78,803	
TOTAL NET ASSET VALUE	45,645		40,292	

Important Notice

Full information on East Capital's funds, such as the prospectus and financial reports can be obtained free of charge from East Capital, from our local representatives and are available on East Capital's website. Every effort has been made to ensure the accuracy of the information in this document but it may be based on unaudited or unverified figures or sources. Availability of East Capital's funds may be limited or restricted in some countries. Detailed information about where the funds are registered for distribution and what types of distribution are permitted can be obtained at East Capital. The information herein is only directed at those investors located where this information may be distributed, and is not intended for any use which would be contrary to local law or regulation. Investment in funds always involves some kind of risk. Fund units may go up or down in value up and may be affected by changes in exchange rates. Investors may not get back the amount invested. East Capital's Private Equity and Real Estate Funds (Special Fund Products) are directed at institutions and other professional investors. The Special Fund Products are not UCITS-regulated funds and as a result are not adapted for retail investors in the same way as East Capital's Public Equity Funds.