ANNUAL REPORT

2019

BALTIC
HORIZON

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Management report

Consolidated financial statements

GENERAL INFORMATION ABOUT THE FUND

Baltic Horizon Fund

Baltic Horizon Fund (the "Fund" or the "Group") is a regulated closed-end contractual investment fund registered in Estonia on 23 May 2016. Northern Horizon Capital AS is the Management Company (AIFM) of the Fund. Both the Fund and the Management Company are supervised by the Estonian Financial Supervision Authority.

The Fund is a public fund with no particular lifetime (evergreen). Units of the Fund are made available to the public in accordance with the Fund Rules and applicable laws. The Fund is currently dual-listed on the Fund List of the Nasdaq Tallinn Stock Exchange and the Nasdaq Stockholm Alternative Investment Funds market.

Baltic Horizon Fund was merged with Baltic Opportunity Fund ("BOF") on 30 June 2016. Baltic Horizon was the remaining entity which took over 5 assets of BOF and its investor base.

Investment strategy

The Fund's primary focus is to invest directly in commercial real estate located in Estonia, Latvia and Lithuania with a particular focus on the capitals - Tallinn, Riga and Vilnius.

The Fund's focus is on established cash flow generating properties with potential to add value through active management within the retail, office, leisure and logistics segments in strategic locations and strong tenants or a quality tenant mix and long leases. Up to 20% of the Fund's assets may be allocated to investments of a more opportunistic nature such as forward funding development projects and undeveloped land purchases.

The Fund aims to use a 50% long-term leverage strategy. At no point in time may the Fund's leverage exceed 65%.

The Fund aims to grow through making attractive investments for its investors while diversifying its risks geographically, across real estate segments, tenants and debt providers.

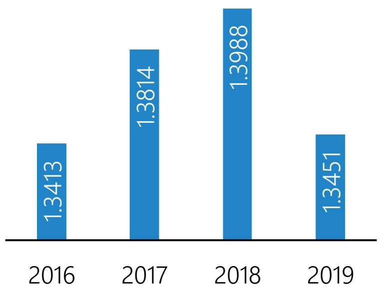
Key information

Fund name	Baltic Horizon Fund
Management Company	Northern Horizon Capital AS
Financial year	1 January – 31 December
Address of the Fund	Tornimäe 2 Tallinn 10145, Estonia
Type of fund	Contractual public closed-ended real estate fund
Style of fund	Core / Core plus
Market segment	Retail / Offices / Leisure
Life time / Investment stage	Evergreen
Stock exchanges	Nasdaq Tallinn Nasdaq Stockholm
Depositary	Swedbank AS
Auditor of the Fund	KPMG Baltics OÜ
Fund Manager	Tarmo Karotam
Management Board of the Management Company	Tarmo Karotam (Chairman) Aušra Stankevičienė Algirdas Vaitiekūnas

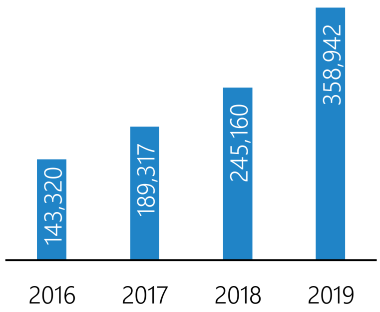
KEY FIGURES

IFRS NAV per unit	Portfolio fair value	Dividends per unit for 2019 results
EUR 1.3451	EUR 358.9 million	EUR 0.106
31.12.2018: EUR 1.3988	31.12.2018: EUR 245.1 million	2018: EUR 0.102
EPRA NAV per unit	**Direct property yield**	**Total shareholder return[1]**
EUR 1.4333	6.6%	10.3%
31.12.2018: EUR 1.5101	2018: 6.8%	2018: 6.9%
Net rental income	**Average occupancy**	**LTV**
EUR 19.2 million	97.5%	57.3%
2018: EUR 14.8 million	2018: 98.0%	31.12.2018: 57.3%

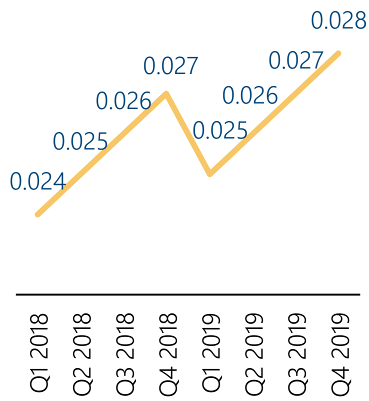
IFRS NAV per unit (EUR)



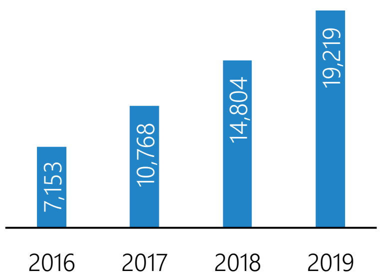
Portfolio value (EUR '000)



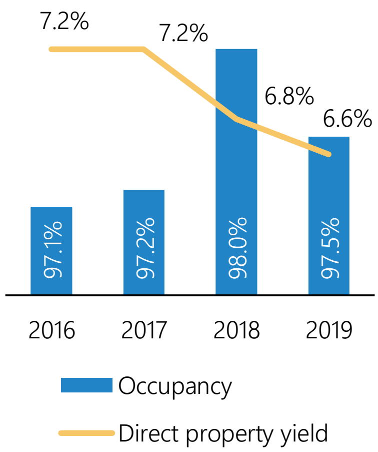
Dividends (EUR per unit)



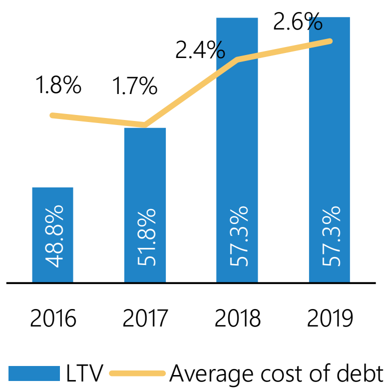
Net rental income (EUR '000)



Occupancy and property yield (%)



LTV and average cost of debt (%)



1. Total shareholder return for a given year is equivalent to the growth in value of a unit price on the Nasdaq Tallinn Stock Exchange over a year, assuming that dividends distributed are reinvested to purchase additional units.

Key earnings figures

EUR '000	2019	2018	Change (%)
Rental income	20,776	15,860	31.0%
Net rental income	19,219	14,804	29.8%
Net rental income margin (%)[1]	92.5%	93.3%	-
Valuation gains (losses) on investment properties	(2,064)	2,014	(202.5%)
EBITDA	13,930	14,079	(1.1%)
Profit for the period	8,791	9,990	(12.0%)
Earnings per unit (EUR)	0.09	0.13	(30.1%)
Generated net cash flow (GNCF)[2]	10,996	8,683	26.6%

1. Net rental income as a % of rental income.
2. Generated net cash flow is calculated based on net rental income less administrative expenses, less external interest expenses, less CAPEX expenditure. Listing related expenses and acquisition related expenses are added back in GNCF calculation.

Key financial position figures

EUR '000	31.12.2019	31.12.2018	Change (%)
Investment properties in use	356,575	245,160	45.4%
Investment property under construction	2,367	-	-
Total assets	371,734	260,878	42.5%
Total equity	152,518	109,805	38.9%
Equity ratio (%)	41.0%	42.1%	-
Interest bearing loans and borrowings	206,132	140,507	46.7%
Total liabilities	219,216	151,073	45.1%
IFRS NAV per unit (EUR)	1.3451	1.3988	(3.8%)
LTV (%)	57.3%	57.3%	-
Average cost of debt (%)	2.6%	2.4%	-
Weighted average duration of debt (years)	3.1	4.0	(22.5%)

Key property portfolio figures

EUR '000	2019	2018	Change (%)
Fair value of portfolio	358,942	245,160	46.4%
Properties[1]	16	13	23.1%
Net leasable area (sq. m.)	153,350	113,934	34.6%
Direct property yield (%)	6.6%	6.8%	-
Net initial yield (%)	6.3%	6.5%	-
Occupancy (%)[2]	97.5%	98.0%	-
Average rent (EUR per sq. m.)	13.1	11.8	11.0%
Weighted average unexpired lease term to expiry (years)[3]	3.94	5.21	(24.4%)

1. Properties includes 15 established cash flow properties and Meraki development project.
2. Effective occupancy rate including rental guarantee.
3. Weighted average unexpired lease term to expiry is based on the number of years of unexpired lease term, as from the reporting date, weighted by the total annual income of each contract.

Key unit figures

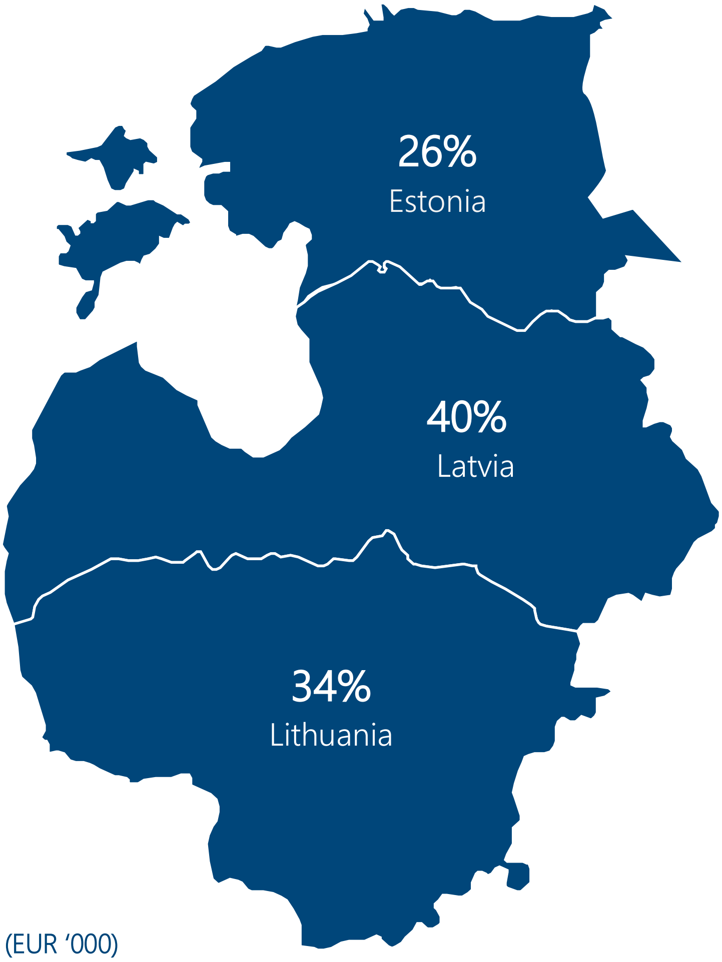
EUR '000	31.12.2019	31.12.2018	Change (%)
Number of units outstanding (units)	113,387,525	78,496,831[1]	44.4%
Weighted average number of units outstanding (units)	96,718,348	78,764,895[1]	22.8%
Closing unit price (EUR)	1.3279	1.3000	2.1%
Closing unit price (SEK)	14.00	13.45	4.1%
Market capitalisation (EUR)[2]	151,232,586	102,680,258	47.3%
Dividends per unit (EUR per unit)[3]	0.106	0.102	3.9%
Gross dividend yield (%)[4]	8.0%	7.8%	-

1. The number of units excludes 255,969 units acquired by the Fund as part of the unit buy-back program.
2. Based on the closing prices and split between units on the Nasdaq Tallinn and the Nasdaq Stockholm Stock Exchanges.
3. Distributions to unitholders for 2019 Fund results.
4. Gross dividend yield is based on the closing market price of the unit as at the end of the year (2019: closing market price of the unit as of 31 December 2019).

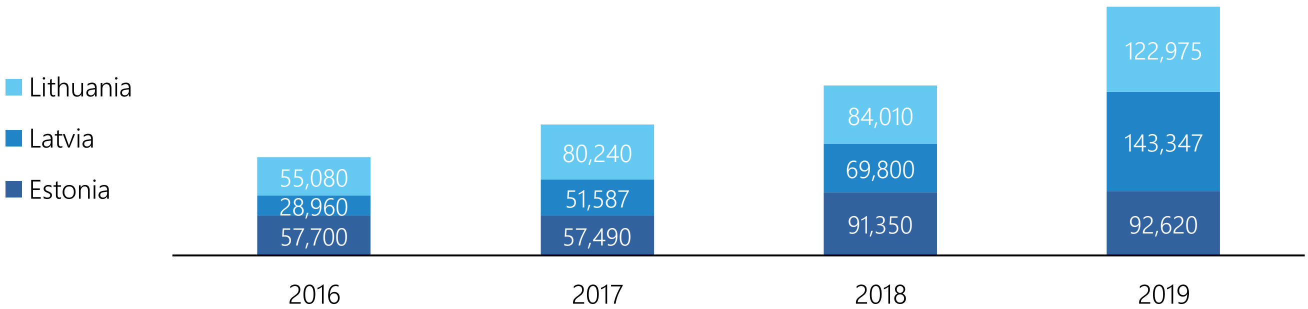
Key EPRA figures

EUR '000	2019	2018	Change (%)
EPRA Earnings	11,254	8,711	29.2%
EPRA Earnings per unit	0.12	0.11	9.1%
EPRA NAV	162,514	118,541	37.1%
EPRA NAV per unit	1.4333	1.5101	(5.1%)
EPRA NNNAV	160,380	116,149	38.1%
EPRA NNNAV per unit	1.4144	1.4797	(4.4%)
EPRA Net initial yield	6.7%	6.8%	-
EPRA Topped-up NIY	6.7%	6.8%	-
EPRA Vacancy rate	2.2%	1.6%	-
EPRA Cost ratio	23.1%	24.4%	-

PORTFOLIO KEY FIGURES



Portfolio value development (EUR '000)



Vilnius, Lithuania

Number of properties	6
Investment portfolio fair value (EUR '000)	122,975
Net leasable area (sq. m.)	60,744
Direct property yield (%)	7.2%
Occupancy rate (%)	98.3%

Tallinn, Estonia

Number of properties	5
Investment portfolio fair value (EUR '000)	92,620
Net leasable area (sq. m.)	43,367
Direct property yield (%)	5.9%
Occupancy rate (%)	97.2%

Riga, Latvia

Number of properties	5
Investment portfolio fair value (EUR '000)	143,347
Net leasable area (sq. m.)	49,239
Direct property yield (%)	6.6%
Occupancy rate (%)	98.3%

Total Baltic Horizon Fund portfolio

Number of properties	16
Investment portfolio fair value (EUR '000)	358,942
Net leasable area (sq. m.)	153,350
Direct property yield (%)	6.6%
Occupancy rate (%)	98.0%

SIGNIFICANT EVENTS IN 2019

Q1 2019

On 1 February 2019, Northern Horizon Capital AS registered the cancellation of 255,969 Baltic Horizon Fund units.

On 28 February 2019, the Fund closed the acquisition of the newly constructed Duetto II office building in Vilnius, Lithuania. The purchase price was approx. EUR 18.3 million.

On 14 March 2019, the Fund distributed EUR 2.12 million to investors (EUR 0.027 per unit).

Q2 2019

On 12 April 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 20.5 million was raised through the transaction.

On 30 April 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 4.1 million was raised through the transaction.

On 8 May 2019, the Fund completed a subsequent subscription for its 5-year unsecured notes (hereafter "bonds") for the amount of EUR 10 million. The bond bears a fixed rate coupon of 4.25% payable quarterly.

On 14 May 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 0.8 million was raised through the transaction.

On 7 June 2019, the Fund distributed EUR 2.45 million to investors (EUR 0.025 per unit).

On 13 June 2019, the Fund acquired 100% of the shares in Tampere Invest SIA, which owns the Galerija Centrs Shopping Centre located in Riga, Latvia. The agreed property purchase price was EUR 75 million.

Q3 2019

On 15 July 2019, the Fund announced the issue of new units in a private placement. Gross proceeds of the issue amounted to EUR 4 million and were used to finance the acquisition of the Galerija Centrs Shopping Centre.

On 21 August 2019, the Fund distributed EUR 2.62 million to investors (EUR 0.026 per unit).

Q4 2019

On 2 October 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 16.5 million was raised through the transaction.

On 14 October 2019, the Fund closed the acquisition of the North Star Business Centre. The purchase price was EUR 20.7 million.

On 1 November 2019, the Fund distributed EUR 3.06 million to investors (EUR 0.027 per unit).

ECONOMIC OVERVIEW

Overall, all three Baltic economies remain well balanced, show little signs of overheating, and are well-positioned to meet external shocks. The Baltic countries are experiencing a remarkably smooth and steady business cycle and have been interestingly resilient in the face of the global manufacturing slowdown.

Over the last decade, the Baltic economies have achieved significant success in the field of the digital economy. On the back of the expanding ICT/start-up sector, it is possible to raise the value-added of other branches, including industry. Companies' digitisation and more active introduction of new technologies would also further increase the share of export of services, which is the direction where all advanced economies are moving.

According to Swedbank, the growth of the Estonian economy has been broad-based and remains well balanced. Some slowdown can be noted in the construction sector where after very strong years there are fewer new projects on the table. It is expected that the current account will be in surplus for the next few years, public finances will remain strong, and households will be able to save as well as consume. However, the robust economic growth in recent years has increased demand for labour and has considerably tightened the labour market. As unemployment is exceptionally low in Estonia, employers have been actively hiring from abroad and the share of foreign labour is the highest in construction, agriculture, and manufacturing. The hiring of foreign labour has both boosted economic growth and slowed wage growth. The Bank of Estonia has set its growth forecast for 2019 to 3.4%, forecasting also that the economy will slow down slightly in the coming years. Unemployment, meanwhile, is forecast to have been record low at 3.9%.

Latvia's economic growth slumped to 1.1% in Q4 2019. The downturn chiefly reflected faltering activity in the all-important manufacturing sector. Growth momentum is set to strengthen in 2020, spearheaded by upbeat domestic demand. This will be chiefly thanks to robust private consumption growth underpinned by a tight labour market, rising wages and low inflation. Sturdy consumer demand coupled with healthy investment activity growth should more than offset a likely downturn on the external front, bringing the GDP growth to 2.8% in 2020 and 2.7% in 2021.

On a yearly basis, GDP for Lithuania rose by 3.8%. This was the strongest GDP growth since Q4 2018. Positive contributions came from manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, transport and storage, accommodation and catering, professional, scientific, technical, administrative and service activities. Private consumption and investment are expected to stay the main engines of growth. Strong wage growth of approx. 10% with a lower personal income tax rate and a positive turn in net migration will support disposable income and should lead to robust private consumption growth in 2020. Consumer confidence is currently at its highest level since 2013, providing further impetus to household spending. The use of EU funds is projected to increase further in the next two years. At the same time, increasing uncertainty at the global level could curb companies' enthusiasm and restrain their investment activities. Moreover, external factors are likely to take their toll on export growth this year.

Inflation in the Baltics is forecasted to fall from 3-4% in the recent years to 2-2.5% in 2020 and beyond. Inflation will be driven primarily by rising labour costs, a fall in energy prices, the reduction of excise duties on alcohol and similar factors.

According to Colliers, take-up activity in the Tallinn office market is mainly driven by IT and high-tech ICT companies, followed by the professional, scientific, and technical services sectors. The supply of office premises has considerably grown in central business district (CBD) due to the completion of several new projects including the landmark Maakri 19/21 office tower occupied by lawyers, auditors, notaries and financial sector companies. During the period, the average vacancy grew slightly, rising to 7% in A class buildings. However, in B1 class vacancy remained slightly below 6% indicating a good absorption ratio for new office premises. The upper margins of asking rents continue to climb. This is due to increasing construction costs and strong demand from the back-office sector. A class rents stood between EUR 14.0-16.8 per sq. m. per month and B1 rents between EUR 9.5-14.0 per sq. m. per month.

In Riga, the commissioning of new office space is gradually increasing but overall the construction of new developments is insufficient and therefore the Riga office stock remains out of date. According to Colliers, more than 60% of the stock is older than 10 years and in need of repair works. Considering the current development pipeline, the situation will improve only if the majority of the announced projects are completed. Due to a lack of modern office space, the take-up numbers have been sluggish with the largest contribution coming from IT and professional service companies. In addition, the lack of professional office space allows landlords to have a strong position in the leasing market.

In Vilnius, A class premises located in the CBD have continued dominating the pipeline in 2019 but in 2020 the proportion of new A and B class premises will even out. The annual office take-up has exceeded 60,000 sq. m. for years, reaching a record-high 75,000 - 80,000 sq. m. in 2017 and 2018. It is also forecasted that take-up in 2019 will reach a whopping 90,000 sq. m. The expansion of existing tenants and continued entrance of new tenants such as Yara prove Vilnius to be a growing and attractive business destination.

It is interesting to note that by the end of 2018, total speculative modern office stock in each Baltic capital city reached around 750,000 sq. m. Per capita however the figures are 1.7 sq. m. for Tallinn, 1.3 sq. m. for Vilnius and only 1.1 sq. m. for Riga. This explains why the take-up has been exceptionally strong in Vilnius as the office market is organically growing. Compared to 2009 when the total speculative modern office stock in Vilnius was the smallest of the three Baltic capitals, in 2019 Vilnius became the largest office market in the Baltics.

Rent rates for retail in all three countries remained relatively stable. T1 Shopping centre with its approx. 55,000 sq. m. leasable area is struggling with vacancies and attracting a sufficient number of regular visitors. Overall, upper end rents are under downward pressure and large destination shopping centres continue to work hard to keep attracting visitors. It is also apparent that Tallinn will not see any future developments in retail for several years, except perhaps a few mixed-use lifestyle developments in the very heart of the city. After the opening of Akropole in Q1 2019 and the expansion of Gallerija Azur and Domina, the Riga retail market experienced some redistribution of footfall and tenant profitability in 2019. On the other hand, an increase in purchasing power, a decrease in unemployment and steady inflation have had a positive impact on retail market growth. The Vilnius retail market was driven mainly by DIY store developments however no new shopping centre developments were commissioned or started. The wellness segment seems to be in the growth phase with a new chain of health clubs being opened and the city saw the opening of the first Decathlon store. Overall vacancy in major shopping centres remains below 2% while rent rates remain relatively stable.

The Baltic countries continue to attract real estate investors due to their investment returns which are higher than in the Western European or Scandinavian countries. In 2019, average yields for prime retail and office assets in the Baltic capitals stabilised due to an expected increase in the cost of bank financing and remained, with a few exceptions, around 6.5% with some upward pressures from more expensive bank financing. Secondary properties are producing yields of around 7.5%. Local Baltic, Nordic and Eastern European investors are still the key players. The square-meter prices of commercial buildings are still 3-4 times less than those seen in the Nordic capitals.

At the beginning of 2020 new Coronavirus (Covid-19) has started spreading all over the world and the virus has had an impact on the businesses and economies, including in the Baltics. The virus outbreak is considered to be a non-adjusting subsequent event for Baltic Horizon Fund's 2019 annual report. As the situation is uncertain and developing fast then the Fund management team at this point does not consider it to be practical to give a quantitative analysis of the potential impact of the virus outbreak. The impact of the virus on the Fund will be taken into account in 2020 financial statements.

PROPERTY REPORT

Portfolio and market overview

The diversified property portfolio of Baltic Horizon Fund consists of 15 cash flow generating properties and one property under development in the Baltic capitals. High occupancy is supported by the expectations that the Baltic economic growth is largely driven by domestic consumption, strong export prospects and transition to a more value added phase. Baltic Horizon believes it has established a portfolio of strong retail and office assets with well-known and long-term tenants including local commercial leaders, governmental tenants, nearshoring shared service centres and the Baltic headquarters of leading international companies. The Baltic countries are also moving towards housing more and more Baltic and international fintech companies, which enjoy the ease of doing business in the Baltics but also the relatively low operating costs and tech savvy productive workforce.

In regard to the retail sector, the Fund management team remains cautious as the supply of new shopping centres in all Baltic capitals is increasing and together with the change brought by online shopping, the scene is challenging but also interesting. In this reshuffling of footfall among the Baltic shopping centres, there will be winners and losers but in this moment of fluster there could arise some attractive acquisition opportunities. The management team of Baltic Horizon divides the retail assets into three categories: small neighbourhood centres with food stores such as SKY, Pirita and Domus PRO, CBD shopping centres such as Europa, Galerija Centrs and Postimaja/CC Plaza and large-scale destination shopping centres which the Fund has not acquired. There has been a reason why the Fund has preferred neighbourhood and CBD centres and that is their believed higher resilience to the expected turbulence in the Baltic retail scene. Today, many large destination shopping centre owners are struggling with how to attract the customer to the destination whereas other type of retail centres continue to have their immediate catchment present. Convenience, multi-functionalism and innovative retail concepts will be the catch words of retail in the Baltics as well as globally. If Baltic Horizon Fund is to consider any more retail investments, they are very likely to be in prime locations in the hearts of the Baltic capitals.

In the Baltic retail sector during 2019, rents for small spaces remained stable in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The average rental range of retail assets in the Fund's portfolio was EUR 9.3-22.6 per sq. m. per month, therefore well in line with average market brackets. Top rent levels are charged in CBD shopping centres Europa, Galerija Centrs and Postimaja.

During the period, Baltic capital city office rents stood in the bracket of EUR 14.0-16.8 per sq. m. per month for class A premises and EUR 9.5-14.0 sq. m. for modern class B offices. In the Baltic Horizon portfolio, the average monthly rental level in Lincona was approx. EUR 10.1 per sq. m., in Duetto I approx. EUR 11.8 per sq. m., in Upmalas Biroji EUR 12.9 per sq. m. and in LNK office approx. EUR 12.1 per sq. m., therefore also well in line with average market brackets. The average monthly rental level in the newly acquired office buildings Duetto II and North Star was approx. EUR 13.1 per sq. m. and approx. EUR 12.1 per sq. m. respectively. Overall the rental levels depend highly on the competitiveness of the buildings' locations, layout and level of surcharges. When comparing the three capitals, competition is the highest in Tallinn whereas in Riga, due to lack of new supply, landlords' negotiating positions are the strongest.

Economic conditions in the euro area are expected to remain favourable for the years ahead due to many reasons. In September 2019, the European Central Bank announced a new stimulus package in an attempt to boost growth in the eurozone. It has cut its deposit rate - charged on commercial bank deposits at the ECB - to a new all-time low of minus 0.5% from previous minus 0.4%. This is expected to encourage banks to lend to consumers and businesses. The ECB has restarted its quantitative easing programme and will start buying EUR 20 billion of bonds each month from the start of November.

In addition, countries like the Baltic States that have sufficient fiscal space to take advantage of the situation and invest in their production capabilities for the long haul are expected to do so in the coming years. Thirdly, a resilient labour market is expected to lead to further wage growth, which will support household income and spending.

Acquisitions

Galerija Centrs

On 13 June 2019, the Fund closed a transaction with Linstow AS and acquired 100% of the shares in Tampere Invest SIA, which owns the Galerija Centrs Shopping Centre located in Riga, Latvia. The agreed property purchase price was EUR 75 million, which corresponds to an entry yield of approx. 6.7%. As part of the transaction, the seller agreed to subscribe for Fund units for the amount of EUR 4 million. On 15 July 2019, the Fund announced the issue of new units in a private placement to Linstow AS in relation to the acquisition of the Galerija Centrs Shopping Centre. In total, net equity of EUR 4 million was raised through the transaction.

The Galerija Centrs property is located on Audeju Street 16 in Riga Old Town, next to the National Opera. As a block of Old Town, the 5-floor property complex consists of two buildings connected with a glass roofed arcade. Originally opened as Army Department Store in 1938, the high street retail centre was last refurbished in 2006 with an added extension. The anchor tenants include H&M, RIMI, Massimo Dutti, Douglas, Lindex, Esprit, Gant, Marc O'Polo, Max Mara Weekend and others. The fifth floor houses a healthcare centre, a beauty salon and a fitness club.

Galerija Centrs	
Acquisition price (EUR '000)	75,000
Construction/Renovation year	1939/2006
Sector	Retail
Net leasable area (sq. m.)	20,022
Entry yield (%)	6.7%

Duetto II

On 27 February 2019, the Fund closed the acquisition of the newly constructed Duetto II office building in Vilnius from UAB YIT Lietuva, part of the Finnish YIT Corporation. The purchase price was approx. EUR 18.3 million, which corresponds to an entry yield of approx. 7.1%. The sales-purchase agreement for the property was signed in December 2018 with the intent to close the transaction once construction is fully complete and tenants move in. The largest tenants in the property are Vilnius heating network company, Sweco and Rimi Lietuva.

The Duetto II property is located on 6 Spaudos street, Vilnius, next to the Duetto I property already owned by the Fund. The property has an A class in energy efficiency and a BREEAM certification. YIT Lietuva, the seller of the property, has granted a 2-year guarantee (starting from the acquisition date) of full-occupancy net rental income.

Duetto II	
Acquisition price (EUR '000)	18,324
Construction/Renovation year	2018
Sector	Office
Net leasable area (sq. m.)	8,674
Entry yield (%)	7.1%

North Star

On 14 October 2019, the Fund closed the acquisition of the North Star Business Centre from UAB Prosperus Strategic RE Fund. The purchase price was approx. EUR 20.7 million, which corresponds to an estimated entry yield of approx. 7.3%. As part of the transaction, the seller subscribed for 3,772,731 Baltic Horizon Fund units for the amount of EUR 5 million.

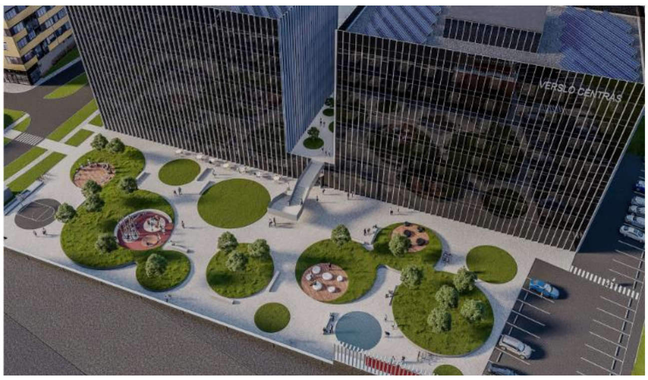
North Star is a B-class office building comprising of a net leasable area of 10,500 sqm over 7 floors with 310 underground parking spaces situated over two underground floors plus an additional 60 parking spaces on the ground level. The asset is located in Zirmunai district, in close vicinity to Ogmios City, boasting good connectivity to Vilnius CBD, Vilnius downtown and the majority of the residential districts in Vilnius. The asset was fully leased out by the end of 2019, with the Lithuanian State Tax Inspectorate occupying approx. 43% of the leasable area. The asset is expected to boost Baltic Horizon's long-term dividend yield.

North Star	
Acquisition price (EUR '000)	20,750
Construction/Renovation year	2009
Sector	Office
Net leasable area (sq. m.)	10,550
Entry yield (%)	7.3%

Developments

Meraki

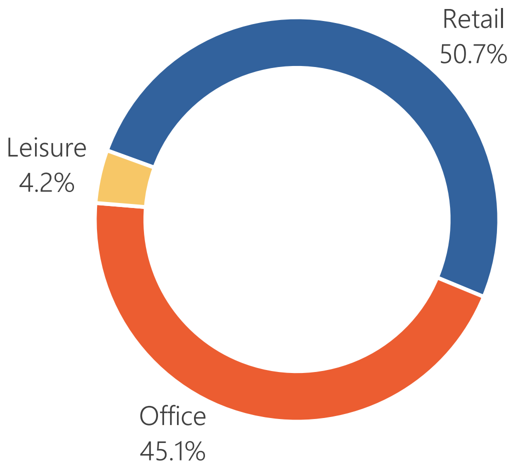
In 2018, the Fund completed the acquisition 0.87 hectares of land next to the Domus Pro complex. The plots were acquired with the goal to further expand the Domus Pro complex. The building permit received in Q4 2019 allows to build approx. 15,800 sq. m. of leasable office space along with a parking house. The construction preparations were started in Q4 2019 as the required level of pre-leases had been achieved.



At the end of 2019, 11% of net leasable area was pre-let to 3 local tenants. The building is expected to be completed in Q1 2021. Meraki total development costs amounted to EUR 2.4 million as of 31 December 2019, while the expected total development costs amount to EUR 26.5 million. The projected fair value of the Meraki after completion is EUR 30.5 million, while the expected net rental income after completion amounts to EUR 2.2 million.

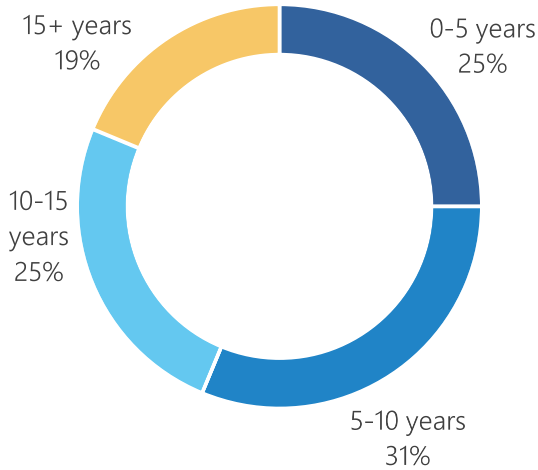
Property performance

Fund segment distribution as of 31 December 2019



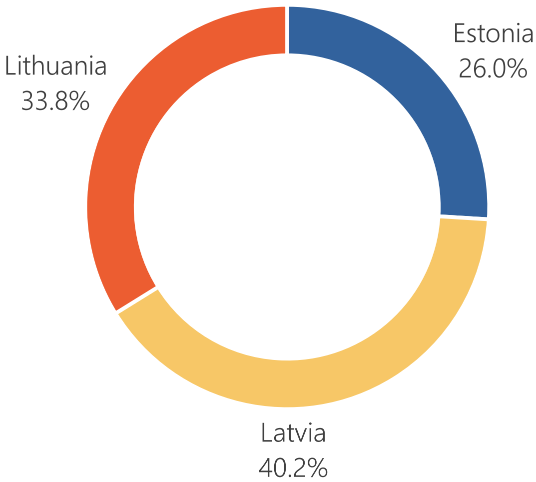
The retail segment portion of the portfolio strongly increased in 2019 and surpassed the office segment after the acquisition of Galerija Centrs. At the end of 2019, the portfolio was comprised of 50.7% retail assets, followed by 45.1% office assets and 4.2% leisure assets.

Fund portfolio by age as of 31 December 2019



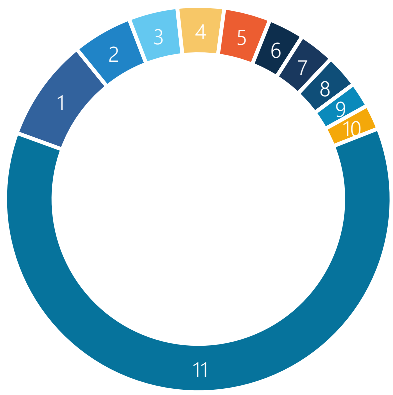
The graph above shows the age of assets in the Fund's portfolio since construction or last major refurbishment. As a result of Duetto II acquisition, the share of buildings between 0-5 years increased slightly, but it is expected to increase significantly after the completion of ongoing and planned developments.

Fund country distribution as of 31 December 2019



In terms of their portion of portfolio assets, in 2019 Lithuania and Latvia surpassed Estonia, which had the highest portion of portfolio assets at the end of 2018. After the successful acquisitions of North Star, Duetto II and Galerija Centrs the Fund's assets were located as follows: 40.2% in Latvia, 33.8% in Lithuania and 26.0% in Estonia. Fund country and Fund segment distribution charts include active cash flow investment properties. Meraki development project is excluded from Fund country and Fund segment distribution charts.

Rental concentration of the Fund's subsidiaries: 10 largest tenants as of 31 December 2019



1. Rimi Baltic	8.6%
2. Latvian State Forestry	5.0%
3. Forum Cinemas	4.1%
4. G4S Eesti	3.9%
5. SEB	3.9%
6. EMERGN	3.0%
7. Intrum Group	3.0%
8. Lithuania Tax Inspectorate	2.8%
9. H&M	2.1%
10. Apranga Group	2.1%
11. Others	61.5%

The tenant base of the Fund is well diversified. The rental concentration of the Fund's subsidiaries (rental income from the 10 largest tenants) is shown in the picture above with the largest tenant Rimi Baltic accounting for 8.6% of the annualised rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

The management of the Fund provides two different yield calculations in this management review section. Direct property yield (DPY) is calculated by dividing NOI by the acquisition value and subsequent capital expenditure of the property. The net initial yield (NIY) is calculated by dividing NOI by the market value of the property.

Overview of the Fund's investment properties as of 31 December 2019

Property name	Sector	Fair value[1] (EUR '000)	NLA (sq. m.)	Direct property yield[2]	Net initial yield[3]	Occupancy rate for 2019
Vilnius, Lithuania						
Duetto I	Office	16,460	8,586	7.7%	7.1%	100.0%[4]
Duetto II	Office	18,935	8,674	7.1%	7.2%	100.0%[4]
Europa SC	Retail	40,711	16,856	6.6%	6.1%	95.9%
Domus Pro Retail Park	Retail	16,670	11,247	7.3%	6.7%	98.0%
Domus Pro Office	Office	7,740	4,831	8.7%	7.5%	100.0%
North Star	Office	20,092	10,550	6.8%	6.9%	97.9%
Meraki Land		2,367	-	-		-
Total Vilnius		122,975	60,744	7.2%	6.7%	98.0%
Riga, Latvia						
Upmalas Biroji BC	Office	24,198	10,458	7.2%	6.7%	100.0%
Vainodes I	Office	20,890	8,052	6.9%	6.9%	100.0%
LNK Centre	Office	17,000	7,453	6.3%	6.3%	100.0%
Sky SC	Retail	4,850	3,254	7.4%	6.9%	99.4%
Galerija Centrs	Retail	76,409	20,022	6.3%	6.2%	96.0%
Total Riga		143,347	49,239	6.6%	6.5%	99.0%
Tallinn, Estonia						
Postimaja & CC Plaza complex	Retail	32,250	9,145	4.2%	4.5%	91.2%
Postimaja & CC Plaza complex	Leisure	15,150	8,664	8.7%	7.0%	100.0%
G4S Headquarters	Office	17,550	9,179	7.3%	6.5%	94.3%
Lincona	Office	17,820	10,871	8.1%	7.3%	99.4%
Pirita SC	Retail	9,850	5,508	3.6%	4.4%	91.2%
Total Tallinn		92,620	43,367	5.9%	5.8%	95.7%
Total portfolio		358,942	153,350	6.6%	6.3%	97.5%

1. Based on the latest valuation as at 31 December 2019 and recognised right-of-use assets.
2. Direct property yield (DPY) is calculated by dividing NOI by the acquisition value and subsequent capital expenditure of the property.
3. The net initial yield (NIY) is calculated by dividing NOI by the market value of the property.
4. Effective occupancy rate is 100% due to a rental guarantee.

During 2019, the average actual occupancy of the portfolio was 96.8% (2018: 97.6%). Taking into account all rental guarantees, the effective occupancy rate was 97.5% (2018: 98.0%). Occupancy rate as of 31 December 2019 was 98.3%. Average direct property yield during 2019 was 6.6% (2018: 6.8%). The net initial yield for the whole portfolio for 2019 was 6.3% (2018: 6.5%). The decrease is mainly related to the acquisition of new properties with lower yields (e.g. Galerija Centrs) and weaker like-for-like performance of the existing portfolio. The average rent rate for the whole portfolio for 2019 was EUR 13.1 per sq. m.

Breakdown of NOI development

Property	Date of acquisition	2015	2016	2017	2018	2019
Galerija Centrs	13 June 2019	-	-	-	-	2,552
Postimaja & CC Plaza complex	8 March 2013[1]	962	972	985	2,447	2,495
Europa SC	2 March 2015	1,962	2,360	2,365	2,332	2,467
Upmalas Biroji BC	30 August 2016	-	515	1,693	1,710	1,701
Vainodes I	12 December 2017	-	-	75	1,463	1,462
Lincona	1 July 2011	1,143	1,202	1,172	1,192	1,276
Duetto I	22 March 2017	-	-	799	1,096	1,160
Domus Pro Retail	1 May 2014	857	1,103	1,185	1,160	1,132
G4S Headquarters	12 July 2016	-	546	1,149	1,189	1,127
Duetto II	27 February 2019	-	-	-	-	1,090
LNK Centre	15 August 2018	-	-	-	409	1,072
Domus Pro Office	1 October 2017	-	-	35	499	562
Pirita SC	16 December 2016	-	30	900	900	438
Sky SC	7 December 2013	415	425	410	407	370
North Star	11 October 2019	-	-	-	-	315
Total portfolio		5,339	7,153	10,768	14,804	19,219

1. The Fund completed the acquisition of Postimaja SC on 13 February 2018.

The Fund's portfolio produced EUR 19.2 million of net operating income (NOI) during 2019 (2018: EUR 14.8 million). Please refer to the table above for a breakdown of NOI development by each property, which has been generating stable rental income over the years.

Like-for-like net rental growth provides a more clear view on the performance of the underlying assets, as these calculations exclude the impact of net rental growth or decline due to acquisitions, developments or disposals in 2018 and 2019. The change in the Fund's like-for-like net rental income compares the growth in the net rental income of the portfolio that has been consistently in operation, and not under development, during the two full periods that are presented.

EPRA like-for-like net rental income by segment

EUR '000	Fair value 31.12.2019	Net rental income 2019	Net rental income 2018	Change (EUR '000)	Change (%)
Like-for-like assets					
Retail	72,081	4,407	4,799	(392)	(8.2%)
Office	104,658	7,288	7,149	139	1.9%
Leisure	15,150	1,041	998	43	4.3%
Total like-for-like assets	191,889	12,736	12,946	(210)	(1.6%)
Acquired assets	164,686	6,483	1,858	4,625	248.9%
Development assets	2,367	-	-	-	-
Total portfolio assets	358,942	19,219	14,804	4,415	29.8%

Net rental income of the portfolio on a like-for-like basis declined by 1.6% or EUR 210 thousand in 2019, as compared to 2018. The leisure and office segments achieved healthy growth during 2019 with a 4.3% and 1.9% increase in net rental income respectively. While the like-for-like net rental income in the leisure and office segments achieved growth, the like-for-like assets in the retail segment underperformed and the net rental income decreased by 8.2%. The decrease was mainly influenced by a one-off rental guarantee write-off and impairment of trade receivables at Pirita Shopping Centre and tenant changes during the year. Assets in Latvia and Estonia recognised a decrease in net rental income on a like-for-like basis, which was partially compensated for by the strong net rental income growth in Lithuania.

EPRA like-for-like net rental income by country

EUR '000	Fair value 31.12.2019	Net rental income 2019	Net rental income 2018	Change (EUR '000)	Change (%)
Like-for-like assets					
Estonia	60,370	3,882	4,279	(397)	(9.3%)
Latvia	49,938	3,533	3,580	(47)	(1.3%)
Lithuania	81,581	5,321	5,087	234	4.6%
Total like-for-like assets	191,889	12,736	12,946	(210)	(1.6%)
Acquired assets	164,686	6,483	1,858	4,625	248.9%
Development assets	2,367	-	-	-	-
Total portfolio assets	358,942	19,219	14,804	4,415	29.8%

Lithuania

Portfolio properties based in Lithuania achieved strong growth, which led to a significant increase in the operating results and property yields. During 2019, the average direct property yield increased to 7.2% (2018: 6.9%), while the average net initial yield was up to 6.7% (2018: 6.3%). The acquisition of Duetto II and significantly stronger performance from Domus Pro Office building and Duetto I were the key factors behind the increase in net rental income and yields. The average occupancy level for 2019 dipped to 96.4% (2018: 97.0%).

The effective vacancy rate of Duetto I and Duetto II was zero because Duetto I and Duetto II net rental is covered by a rental guarantee provided by YIT Lietuva for two years after each acquisition. Both assets were fully leased at the end of 2019 as the last tenants moved into the premises in Q3 2019 and Q4 2019. The fair value of the properties in Lithuania has increased from EUR 84,010 thousand measured in the 2018 valuation to EUR 122,975 thousand as of 31 December 2019. The valuation as of 31 December 2019 includes the newly acquired buildings North Star and Duetto II with a combined value of EUR 39,027 thousand.

Latvia

Across all Baltic Horizon markets, the properties in Latvia achieved the highest absolute net rental income growth due to the acquisition of the Fund's largest asset to date and focal point - Galerija Centrs. The acquisition of the Galerija Centrs Shopping Centre lowered the Fund's average yield in the Latvian market, as anticipated before the transaction. As a result, the average direct property yield declined to 6.6% during 2019 (2018: 7.0%). The average net initial yield was 6.5% (2018: 6.8%). Latvian properties have development potential, which the Fund's management team aims to execute in the coming years in order to maximise the value of the properties.

At the end of 2019, 3 out of the 5 properties in Latvia were fully leased to local and international tenants. The average occupancy level for 2019 fell to 99.0% (2018: 99.9%) due to the acquisition of Galerija Centrs, which had an average occupancy of 96.0% during the year. The fair value of the properties in Latvia has increased from EUR 69,800 thousand measured in the 2018 valuation to EUR 143,347 thousand as of 31 December 2019. The valuation as of 31 December 2019 includes the newly acquired Galerija Centrs with a value of EUR 76,409 thousand.

Estonia

Portfolio properties based in Estonia underperformed during 2019, but are expected to recover during 2020. During 2019, the average direct property yield decreased to 5.9% (2018: 6.7%), while the average net initial yield was down to 5.8% (2018: 6.5%). The decrease in yields and net rental income is mainly related to the partial write-off of Pirita SC rental guarantee and the impairment recognised for Pirita SC trade receivables, which resulted in a significant decrease in net rental income. The impairment and write-off were one-off events.

During Q2 2019, two floors of the G4S Headquarters, building were vacant because Pipedrive's sub-lease contract ended at the beginning of 2019. Temporary vacancy led to a decrease in the net rental income of G4S Headquarters, which is expected to recover in 2020. The asset is fully leased now as the Social Insurance Board occupied two available floors. The average occupancy level for 2019 was down to 95.7% (2018: 97.8%). The fair value of the properties in Estonia on a like-for-like basis has increased from EUR 91,350 thousand measured in the 2018 valuation to EUR 92,620 thousand as of 31 December 2019

Property valuation

All real estate properties belonging to the Fund must be appraised at least once a year at the end of the financial year to determine the market value of the real estate portfolio. During 2018 and 2019, the Fund's property portfolio was appraised twice a year by an independent real estate appraiser. External property appraisals were carried out each year as of 30 June and 31 December.

The Management Company ensures that only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where the relevant real estate property is located evaluates real estate belonging to the Fund. As at 31 December 2019 and 31 December 2018, new external valuations were performed by the independent property valuator Newsec.

Independent appraisals are performed in accordance with the Practice Statements and Relevant Guidance Notes of the RICS Appraisal and Valuation approved by both the International Valuation Standards Committee (IVSC) and the European Group of Valuers' Associations (TEGoVA). The appraisal methodology employed by the external appraiser is explained in more detail in notes 12 and 13 to the financial statements.

As of 31 December 2019, the fair value of the Baltic Horizon Fund portfolio increased to EUR 358.9 million as compared to EUR 245.2 million as of 31 December 2018. During 2019, the Fund recognised valuation losses on investment properties of EUR 2.1 million (2018: valuation gains of EUR 2.0 million) in the consolidated financial statements. The table below shows the Baltic Horizon Fund investment portfolio fair value movements during 2019. The values of the properties are based on the valuation of investment properties performed by Newsec, which have been increased by the value of right-of-use assets.

Portfolio fair value movements by segment

EUR '000	Fair value 31.12.2019	Fair value 31.12.2018	Change (EUR '000)	Change (%)	Proportion of portfolio (%) 31.12.2019
Like-for-like assets					
Retail	104,331	106,420	(2,089)	(2.0%)	29.1%
Office	121,658	122,600	(942)	(0.8%)	33.9%
Leisure	15,150	14,470	680	4.7%	4.2%
Total like-for-like assets	241,139	243,490	(2,351)	(1.0%)	67.2%
Acquired assets					
Retail	76,409	-	76,409	-	21.3%
Office	39,027	-	39,027	-	10.9%
Development assets					
Office	2,367	1,670	697	41.7%	0.7%
Total portfolio assets	358,942	245,160	113,782	46.4%	100.0%

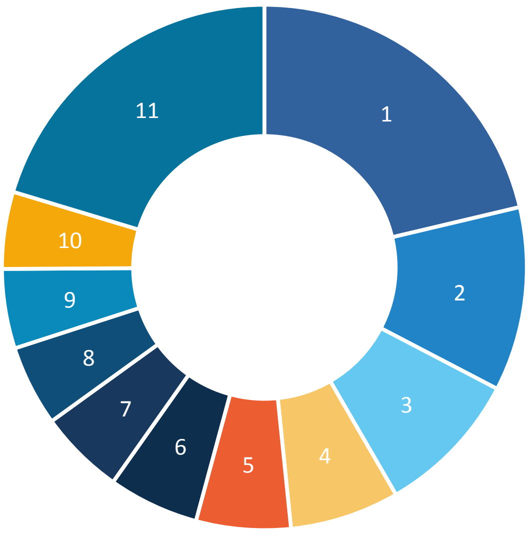
The like-for-like value of the property portfolio excluding acquisitions and developments decreased by EUR 2.4 million (minus 1.0%) in 2019, compared to year-end 2018. The decrease was mainly due to the value decrease of the Latvian properties, out of which Upmalas Biroji property fair value decrease amounted to EUR 1.5 million. The decrease was offset by the positive fair value development in the leisure segment, which compensated for the decrease in the retail and office segments by EUR 0.7 million. The decrease in valuation results in Latvia and Lithuania resulted primarily from an increase in the expected cost of debt, used to calculate the valuation discount rates and a decrease in the projected Baltic States' inflation rates, which are used for rent indexation. For the summary of property valuations please visit the Fund's website.

Portfolio fair value movements by country

EUR '000	Fair value 31.12.2019	Fair value 31.12.2018	Change (EUR '000)	Change (%)	Proportion of portfolio (%) 31.12.2019
Like-for-like assets					
Estonia	92,620	91,350	1,270	1.4%	25.8%
Latvia	66,938	69,800	(2,862)	(4.1%)	18.6%
Lithuania	81,581	82,340	(759)	(0.9%)	22.7%
Total like-for-like assets	241,139	243,490	(2,351)	(1.0%)	67.2%
Acquired assets					
Latvia	76,409	-	76,409	-	21.3%
Lithuania	39,027	-	39,027	-	10.9%
Development assets					
Lithuania	2,367	1,670	697	41.7%	0.7%
Total portfolio assets	358,942	245,160	113,782	46.4%	100.0%

Properties

Fair value by property



1. Galerija Centrs	21.3%
2. Europa SC	11.3%
3. Postimaja	9.0%
4. Upmalas Biroji BC	6.7%
5. Vainodes	5.8%
6. North Star	5.6%
7. Duetto II	5.3%
8. Lincona	5.0%
9. G4S Headquarters	4.9%
10. LNK Centre	4.7%
11. Others	20.4%

Galerija Centrs	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	76,409	1939/2006	13 June 2019	Retail	20,022

On 13 June 2019, the Fund completed the acquisition of the Galerija Centrs shopping centre located in Riga. The anchor tenants include H&M, RIMI, Massimo Dutti, Douglas, Lindex, Esprit, Gant, Marc O'Polo, Max Mara Weekend and others.

Europa SC	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	40,711	2004	2 March 2015	Retail	16,856

Located in the heart of Vilnius CBD on Konstitucijos Prospektas, the property has the potential to substantially expand its visitor flows in the near future as new office buildings in the Vilnius CBD are being built or nearing completion. The management team has been in touch with top European retail consultants to enable the shopping centre to refresh its concept and increase its attractiveness in the vastly growing CBD area of Vilnius.

Postimaja	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	32,250	1980	13 February 2018	Retail	9,145

Postimaja is located at Narva road 1 next to Coca Cola Plaza. The anchor tenants are Rimi, H&M, New Yorker and MyFitness. There is a synergy opportunity arising from the Postimaja immovable being located next to the Coca-Cola Plaza immovable. To achieve that synergy, HG Arhitektuur OÜ with its work The "Rotermann Passage" has been selected as the partner to work out the architectural solution. It includes a new exterior design as well as increasing the leasable area and aims to improve functionality between the two buildings and the Rotermann Quarter.

Upmalas Biroji BC	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	24,198	2008	30 August 2016	Office	10,458

Upmalas Biroji is an attractive B+/A class office building located in the southern part of Riga city just a few minutes' drive from Riga Old Town and just 1.5 km away from the Riga Plaza SC. Upmalas Biroji is anchored by SEB and CABOT as well as 11 other quality tenants. The property mostly accommodates and is most attractive among SSC/BPO tenants.

Vainodes I	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	20,890	2014	12 December 2017	Office	8,052

Vainodes I office building is situated on the left bank of the river Daugava next to one of the main arterial roads of Riga – Karla Ulmana avenue. The anchor tenant is JSC Latvian State Forests, other tenants include pharmaceutical company Abbvie and a cafeteria. Vainodes I has a development potential of at least additional 7,000 sq. m. which the Fund's management team aims to execute in the coming 4 years in order to maximise the value of the property.

North Star	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	20,092	2009	11 October 2019	Office	10,550

On 11 October 2019, the Fund completed the acquisition of the North Star Business Centre located in Vilnius. The asset was fully leased out by the end of Q4 2019, with the Lithuanian Tax Inspectorate occupying approx. 43% of the leasable area.

Duetto II	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	18,935	2018	27 February 2019	Office	8,674

On 27 February 2019, the Fund completed the acquisition of the newly constructed Duetto II office building located in Vilnius. The Duetto II property is located on 6 Spaudos street, next to the Duetto I property owned by Baltic Horizon Fund. The largest tenants in the property are Vilnius heating network company, Sweco and Rimi Lietuva. The property is of A class energy efficiency.

Lincona	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	17,820	2002 / 2008	1 July 2011	Office	10,871

Lincona office complex is located in the extended city centre of Tallinn, on the arterial Pärnu road. The property is a complex of three connected office buildings and a parking facility. Among the main tenants are Swedbank, Creative Mobile, Liewenthal Electronics, and others.

G4S Headquarters	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	17,550	2013	12 July 2016	Office	9,179

G4S Headquarters office, built-to-suit for G4S Estonia, is located in the western part of Tallinn next to a busy arterial road and 4.5 km away from the Old Town. The building has two key tenants – G4S and the Social Insurance Board of Estonia, which have rented the whole building under long-term agreements.

LNK Centre	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	17,000	2006 / 2014	15 August 2018	Office	7,453

The property is an office building with a net leasable area of 7,453 sq. m. located in Skanstes area, which is a well-known modern business district of Riga and is likely to become a new CBD of Riga in the future. Two anchor tenants, Exigen Services and LNK Group occupy approx. 90% of the leasable area. Exigen is a local IT and software development company owned by a US based IT company, whereas LNK Group is one of the largest local real estate and infrastructure development and construction companies in Latvia.

Domus Pro Retail	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	16,670	2013	1 May 2014	Retail	11,247

Domus Pro Retail Park is located in the northern part of Vilnius, next to the arterial Ukmergės street (A2 freeway) between two popular highly dense residential areas of Pasilaiciai and Perkunkiemis. The centre features a large RIMI supermarket as the anchor tenant along with several smaller retailers in a traditional synergistic neighbourhood retail centre setup offering house-hold goods with convenient access, spacious car parking and an effectively designed logistics scheme.

Duetto I	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	16,460	2017	22 March 2017	Office	8,586

Duetto I is a newly built 10-floor office centre with an underground parking lot. The property is of A class energy efficiency and will have BREEAM certification. Lindorff and Pernod Ricard are the anchor tenants.

Coca Cola Plaza	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	15,150	1999	8 March 2013	Leisure	8,664

Coca-Cola Plaza is the largest cinema and retail complex in Estonia. Built in 2001, the complex has 11 cinema screens and is run by Finnkino, the market leading cinema operator in Finland and the Baltics. It also has a number of smaller retail tenants.

Pirita SC	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	9,850	2016	16 December 2016	Retail	5,508

Pirita shopping centre in Tallinn, is an attractively compact centre. The property has Rimi and MyFitness as anchor tenants. The management team is working together with local and international retail consultants on the renewal of the concept of this neighbourhood retail property. Several negotiations with new satellite tenants are underway in order to minimise the ground floor vacancy and strengthen the tenant mix with destination tenants.

Domus Pro Office	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	7,740	2013	1 October 2017	Office	4,831

Initially, Domus Pro was a typical neighbourhood-type shopping centre offering everyday goods and services. However, thanks to its two expansions developed over 2015-2017, the shopping centre area of the property was significantly increased and over 4,500 sq.

m. of office space was added. Domus Pro SC was launched in March 2014. The centre was extended in 2015 by adding a gym and 2 large retailers. The third stage, during which the office complex was built (approx. 5000 m2), finished in 2017.

Sky SC	Property fair value (EUR '000)	Construction /Renovation year	Acquisition date	Sector	Net leasable area (sq. m.)
	4,850	2000 / 2010	7 December 2013	Retail	3,254

SKY is a neighbourhood shopping centre located in the heart of the local suburb of Mežciems, which provides groceries, goods and services for the inhabitants of this well-populated part of the Latvian capital. With good connections to both the city centre and the densely populated Riga suburbs, the centre is anchored by a SKY Supermarket along with a number of smaller satellite tenants offering everyday necessities.

Meraki	Property fair value (EUR '000)	Expected construction year	Acquisition date	Sector	Expected net leasable area (sq. m.)
	2,367	2021	16 May 2018	Office	15,800

In 2018, the Fund completed the acquisition 0.87 hectares of land next to the Domus Pro complex. The plots were acquired with the goal to further expand the Domus Pro complex. The building permit was received in Q4 2019 allowing to build approx. 15,800 sq. m. of leasable office space along with the parking house. The construction preparations were started in Q4 2019 as the required level of pre-leases has been achieved. The building is expected to be completed by Q1 2021.

FINANCIAL REPORT

Financial position and performance of the Fund

Net profit and net rental income

In 2019, the Group recorded a net profit of EUR 8.8 million, which was a down 12.0%, compared to net profit of EUR 10 million for 2018. The decrease in net profit was largely affected by the negative investment property valuation movement during the year. Excluding the effect of valuation gains (losses), net profit from operating performance grew by 36.1%. Net profit was also significantly impacted by the increase in net rental income and net financing costs. The increase in net financing costs arose from a higher average cost of financing. Earnings per unit were EUR 0.09 (2018: EUR 0.13).

During the year, the Group recorded a net rental income of EUR 19.2 million as against EUR 14.8 million in 2018. The increase was achieved through new acquisitions that were made following the capital raisings in 2019. The acquisition of the largest asset in the portfolio (Galerija Centrs) had a significant effect on the Group's net rental income for 2019 and will continue to have a positive impact on the net rental income in the future. On an EPRA like-for-like basis, portfolio rental income decreased by 1.6% compared to 2018.

Portfolio properties in the office segment contributed 50.8% (2018: 51.1%) of net rental income in 2019 followed by the retail segment with 43.8% (2018: 42.2%) and the leisure segment with 5.4% (6.7%).

During the year, investment properties in Latvia and Lithuania contributed 37.2% (2018: 51.1%) and 35.0% of net rental income respectively, while investment properties in Estonia contributed 27.8% (2018: 42.2%).

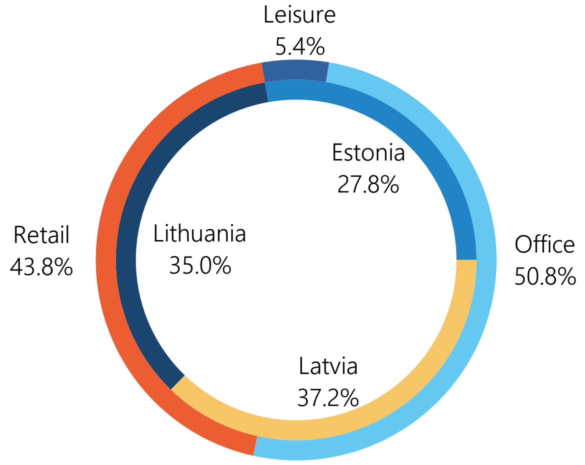
Gross Asset Value (GAV)

At the end of 2019, the GAV increased to EUR 371.7 million (31 December 2018: EUR 260.9 million) which was a rise of 42.5% over the year. The increase is mainly related to new acquisitions during the year and the start of the Meraki development project. The Fund completed the acquisitions of the Duetto II office building, the Galerija Centrs Shopping Centre and the North Star Business Centre and thus deployed most of the new capital raised in 2019. The Fund aims to use the remaining capital to finance the construction of the Meraki office building in 2020.

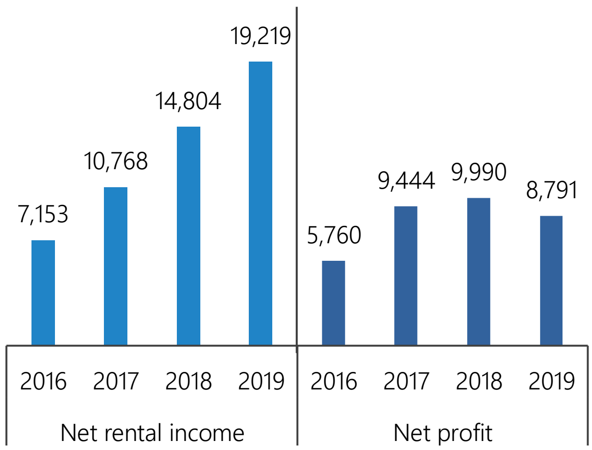
Investment properties

Baltic Horizon Fund portfolio consists of 15 cash flow investment properties in the Baltic capitals and investment property under construction on the Meraki land plot. At the end of 2019, the appraised value of the Fund's portfolio was EUR 358.9 million, which resulted in a valuation loss of EUR 2.1 million for 2019 (2018: a gain of EUR 2.0 million). Valuations were negatively affected by a decrease in the Baltic States' inflation rates, which are used for rent indexation, and an increase in the expected cost of debt, taken into account in the valuation discount rates. During the year, the Group invested EUR 0.7 million of capital expenditure in the existing property portfolio and an additional EUR 0.7 million in the Meraki development project.

Net rental income by segment and country (%)



Net rental income and net profit (EUR '000)



Interest bearing loans and bonds

Interest bearing loans and bonds increased to EUR 205.8 million (2018: EUR 140.5 million) which was a rise of 46.5% over the year. During 2019, the Group received external financing of EUR 67.4 million (bank loans and bonds), which was used to further expand the Fund's investment portfolio.

Cash flow

Cash flow from core operating activities for the year 2019 amounted to EUR 16.4 million (2018: EUR 10.4 million). Cash flow from investing activities was negative at EUR 78.2 million (2018: negative at EUR 56.4 million) due to subsequent capital expenditure and acquisitions of investment properties and the subsidiary Tampere Invest SIA, which owns Galerija Centrs. Cash flow from financing activities rose to EUR 59.4 million (2018: EUR 33.7 million). During the year, the Fund drew down several bank loans amounting to EUR 57.4 million and completed a subsequent bond subscription in an amount of EUR 10 million. The proceeds from the bank loans, bond issue and issue of new units (EUR 44.7 million) were used to acquire new properties. The Group's total cash balance at the end of 2019 amounted to EUR 9.8 million.

Key earnings figures

EUR '000	2019	2018	Change (%)
Net rental income	19,219	14,804	29.8%
Administrative expenses	(3,251)	(2,813)	15.6%
Other operating income	26	74	(64.9%)
Valuation gains (losses) on investment properties	(2,064)	2,014	(202.5%)
Operating profit	13,930	14,079	(1.1%)
Net financing costs	(4,713)	(2,781)	69.5%
Profit before tax	9,217	11,298	(18.4%)
Income tax	(426)	(1,308)	(67.4%)
Net profit for the period	8,791	9,990	(12.0%)
Weighted average number of units outstanding (units)	96,718,348	78,764,895[1]	22.8%
Earnings per unit (EUR)	0.09	0.13	(30.8%)

Key financial position figures

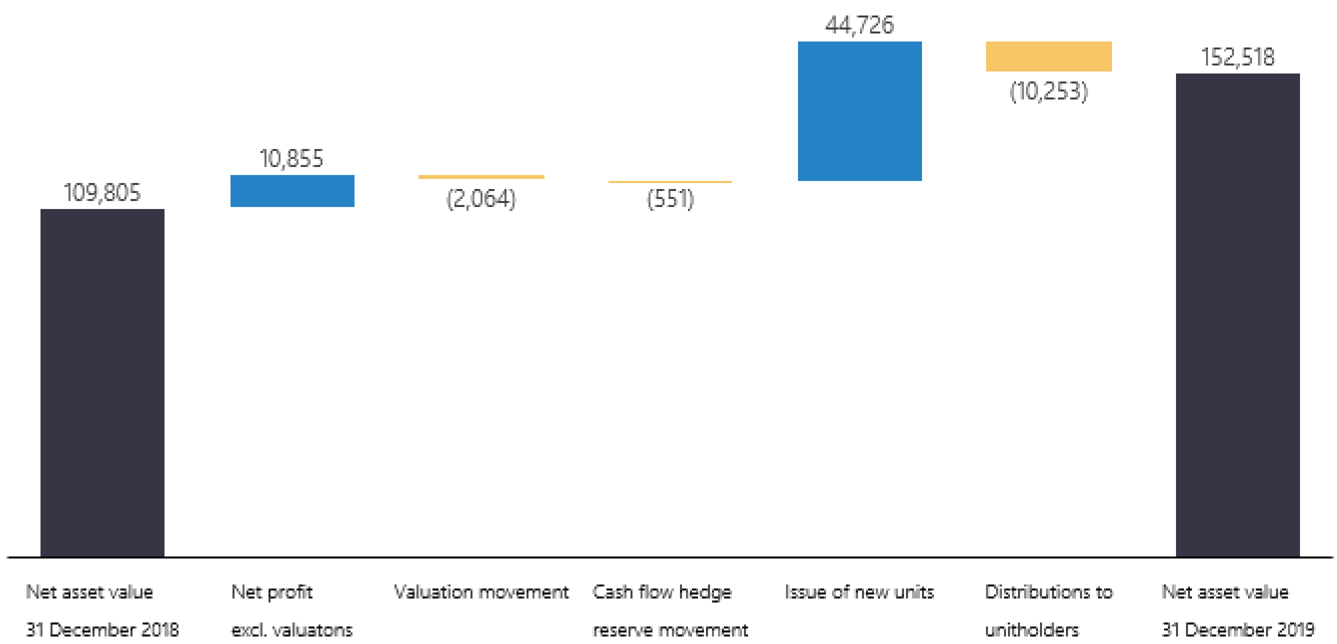
EUR '000	31.12.2019	31.12.2018	Change (%)
Investment properties in use	356,575	245,160	45.4%
Investment property under construction	2,367	-	-
Gross asset value (GAV)	371,734	260,878	42.5%
Interest bearing loans and bonds	205,827	140,507	46.5%
Total liabilities	219,216	151,073	45.1%
Net asset value (NAV)	152,518	109,805	38.9%
Number of units outstanding (units)	113,387,525	78,496,831[1]	44.4%
IFRS Net asset value (IFRS NAV) per unit (EUR)	1.3451	1.3988	(3.8%)
EPRA Net asset value (EPRA NAV) per unit (EUR)	1.4333	1.5101	(5.1%)
Loan-to-Value ratio (%)	57.3%	57.3%	-
Average effective interest rate (%)	2.6%	2.4%	-

1. The number of units excludes 255,969 units acquired by the Fund as part of the unit buy-back program.

Net Asset Value (NAV)

During 2019, the Fund NAV increased from EUR 109.8 million to EUR 152.5 million as compared to the end of 2018. The increase is related to new equity raised and the Group's operational performance over the year. The Fund raised a total of EUR 44.7 million net equity through private placements in April, May, July and October and generated almost EUR 8.8 million in net profit. The Fund NAV increase was offset by a EUR 10.3 million dividend distribution to its unitholders and a negative cash flow hedge reserve movement of EUR 0.6 million. At 31 December 2019, NAV per unit stood at EUR 1.3451 (31 December 2018: EUR 1.3988), while NAV per unit based on EPRA standards was EUR 1.4333 (31 December 2018: EUR 1.5101). The graph below shows the Baltic Horizon Fund IFRS net asset value bridge during 2019.

Net asset value (NAV) bridge (EUR '000)



FINANCING

The Fund currently aims to use a 55% long-term leverage strategy. At no point in time may the Fund's leverage exceed 65%. The ability to borrow on attractive terms plays a major role in the investment strategy and cash distributions to unitholders.

On 24 April 2018, S&P Global Ratings assigned an "MM3" mid-market evaluation (MME rating) to Baltic Horizon Fund. The indicative corresponding rating for "MM3" on the global rating scale is "BB+/ BB".

Bonds

On 8 May 2018, the Fund completed a subscription for its 5-year unsecured bonds of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly. The transaction took place under the private placement regime and was subscribed for by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks. On 28 August 2018, the bonds were listed on Nasdaq Tallinn.

On 13 December 2018, the Fund completed a subsequent subscription for its 5-year unsecured notes worth EUR 10 million. The additional bonds were issued under the same terms and conditions as the initial issue of unsecured bonds on 8 May 2018. On 20 December 2018, the additional bonds were listed on Nasdaq Tallinn.

On 8 May 2019, the Fund completed a subsequent subscription for its 5-year unsecured bonds for the amount of EUR 10 million. This was the third and final bond subscription that completed the full EUR 50 million volume under the terms and conditions of the initial issue of unsecured bonds on 8 May 2018. The proceeds from the bond issue were used for bank loan refinancing and the acquisition of new investment properties.

Bank loans

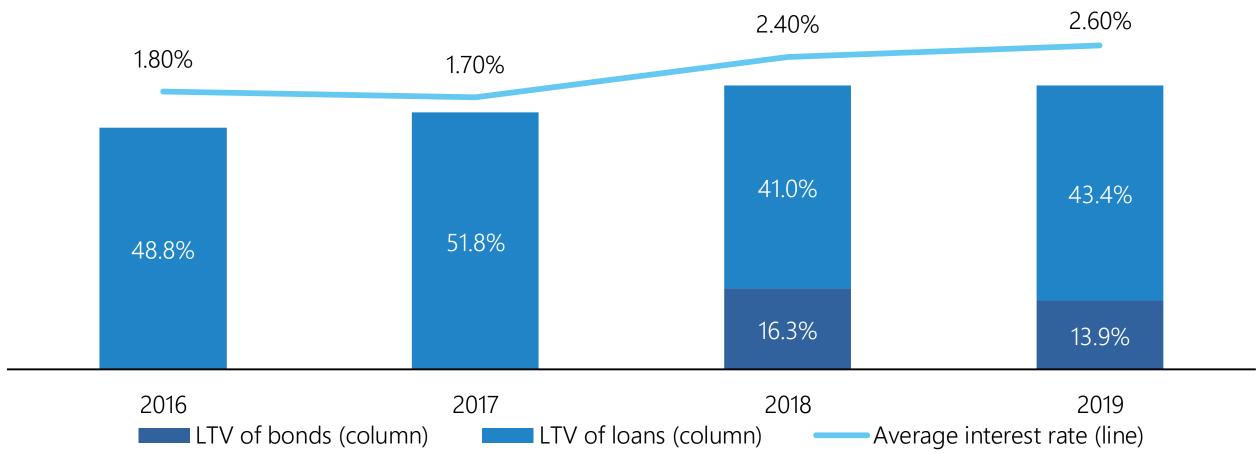
During Q1 2019, the Fund drew down an additional EUR 8.7 million bank loan for LNK Centre under an existing bank loan facility agreement.

During Q2 2019, the Fund drew down an EUR 9.7 million bank loan for Duetto II under the existing BH Duetto UAB bank loan facility agreement. In 2019, the Fund repaid EUR 1.6 million of Duetto II bank loan to reduce bank loan amortisation. The Fund reached an agreement with the bank to amend loan terms and Duetto I and II loan maturity was prolonged to 31 March 2023. The Fund drew down an additional EUR 30 million bank loan to finance the Galerija Centrs shopping centre acquisition in June 2019.

During Q4 2019, the Fund drew down a EUR 9.0 million bank loan to finance the North Star Business Centre acquisition in October 2019. According to the agreement, the maturity of the loan is 15 March 2024.

After the subsequent bond subscription and the drawdown of new loans during 2019, the bank loan amortisation increased to 0.2% (EUR 97 thousand per quarter) as compared to 0.1% in 2018, the average interest rate increased to 2.6% (2018: 2.4%) and LTV ratio remained stable at 57.3% (2018: 57.3%). The management team is working on maintaining a low average interest rate and reducing LTV in the future.

Debt financing terms of the Fund's assets



The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 31 December 2019. Interest bearing debt was comprised of bank loans with a total carrying value of EUR 156.1 million and bonds with a carrying value of EUR 49.8 million. 100% of the debt instruments were denominated in euros. Bank loans have been obtained by subsidiaries that hold the Fund's properties and the properties have been pledged as loan collateral. The parent entity holds the 5-year unsecured bonds.

Loan arrangement costs are capitalised and amortised over the terms of the respective loans. At the end of 2019, the unamortised balance of loan arrangement costs for all loans and bonds was EUR 539 thousand.

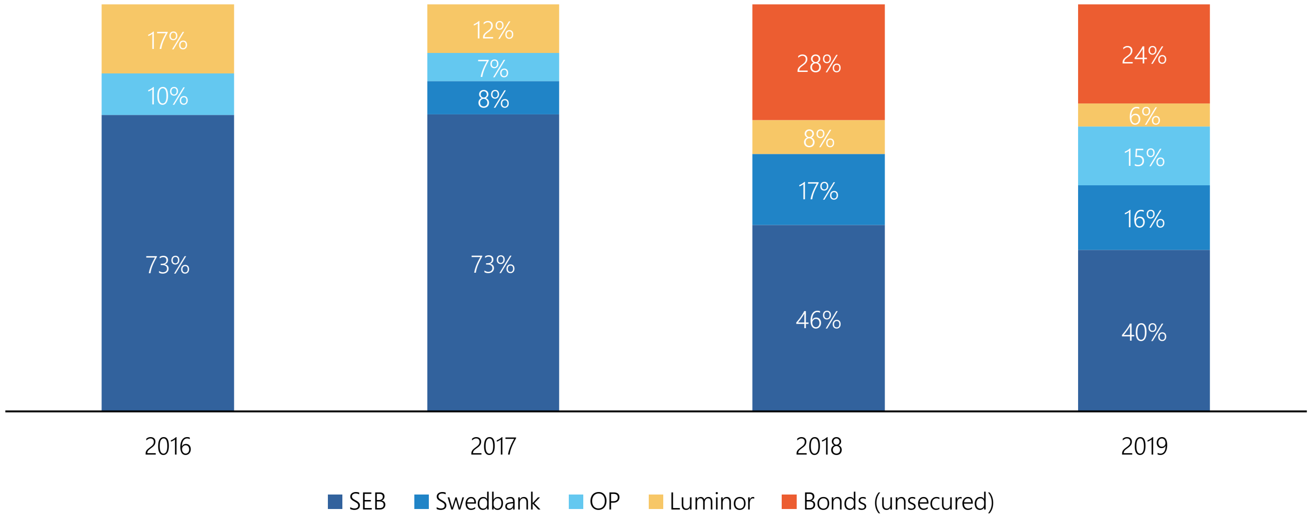
Financial debt structure of the Fund as of 31 December 2019

Property	Maturity	Currency	Carrying amount (EUR '000)	% of total	Fixed rate portion (%)
Galerija Centrs	26 May 2022	EUR	30,000	14.5%	100%
Europa SC	5 July 2022	EUR	20,900	10.1%	88%
CC Plaza and Postimaja	12 February 2023	EUR	17,200	8.3%	100%[1]
Duetto I and II	31 March 2023	EUR	15,376	7.5%	47%[2]
Upmalas Biroji BC	31 August 2023	EUR	11,750	5.7%	90%
Domus Pro	31 May 2022	EUR	11,000	5.3%	65%
Vainodes I	13 November 2024	EUR	9,842	4.8%	50%
LNK	27 September 2023	EUR	9,146	4.4%	63%
North Star	15 March 2024	EUR	9,000	4.4%	-%
G4S Headquarters	16 August 2021	EUR	7,750	3.8%	100%
Lincona	31 December 2022	EUR	7,188	3.5%	95%
Pirita SC	20 February 2022	EUR	4,944	2.4%	122%
Sky SC	1 August 2021	EUR	2,280	1.1%	-%
Total bank loans		EUR	156,376	75.8%	78%
Less capitalised loan arrangement fees[3]		EUR	(319)		
Total bank loans recognised in the statement of financial position		EUR	156,057		
5 year-unsecured bonds	8 May 2023	EUR	50,000	24.2%	100%
Less capitalised bond arrangement fees[3]		EUR	(230)		
Total debt recognised in the statement of financial position		EUR	205,827	100%	83%

1. CC Plaza and Postimaja loan has an interest rate cap at 3.5% for the variable interest rate part.
2. Duetto loan has an interest rate cap at 1% for the variable interest rate part.
3. Amortised each month over the term of a loan/bond.

The graph below shows that the Fund's debt financing is diversified between 4 most reputable domestic and international banks in the Baltics and unsecured bonds. SEB exposure decreased from 73% in 2016 to 40% in 2019. 5-year unsecured bonds amounted to 24% of total debt financing in 2019.

Financing diversification

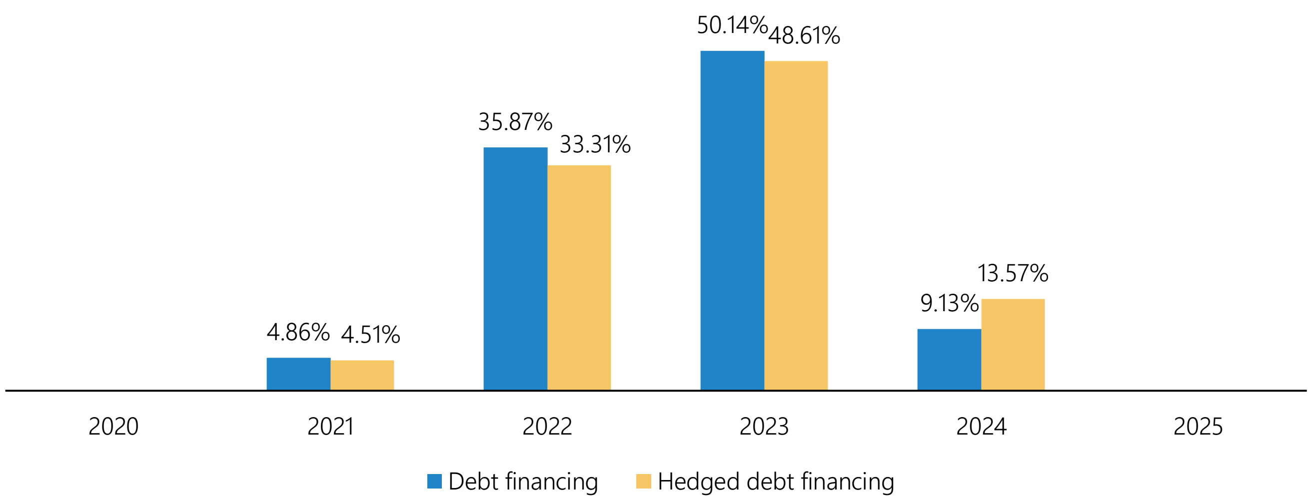


Weighted loan average time to maturity was 3.1 years and weighted hedge average time to maturity was 2.8 years at the end of 2019.

As of 31 December 2019, 83% of total debt had fixed interest rates while the remaining 17% had floating interest rates. The Fund fixes interest rates on a portion of its debt by acquiring IRS-type hedging instruments or limits the impact of rising interest rates with interest cap instruments (CAP). The unsecured bonds have a fixed coupon rate of 4.25%.

The graph below shows that around 86% of total debt financing and 82% of hedged debt financing matures in 2022-2023. The management team is working on debt refinancing and extension.

Loan and hedge maturity terms



COVENANT REPORTING

As of 31 December 2019, the Fund was in compliance with all the covenants set under the bond issue terms and conditions dated 8 May 2018.

Equity Ratio - Equity adjusted for the cash flow hedge reserve divided by total assets excluding financial assets and cash equivalents as defined in the accounting policies.

Debt Service Coverage Ratio - EBITDA divided by the principal payments and interest expenses of interest-bearing debt obligations, on a rolling 12 month basis.

During 2019, the Fund was in compliance with all special conditions and covenants set under the bank loan agreements as well.

Financial covenants

Covenant	Requirement	Ratio 31.03.2019	Ratio 30.06.2019	Ratio 30.09.2019	Ratio 31.12.2019
Equity Ratio	> 35.0%	41.6%	39.2%	40.5%	42.6%
Debt Service Coverage Ratio	> 1.20	3.69	3.54	3.39	3.32

EPRA PERFORMANCE MEASURES

The European Public Real Estate Association (EPRA) publishes recommendations for disclosing and defining the main financial performance indicators applicable to listed real estate companies. Baltic Horizon supports the standardisation of reporting designed to improve the quality and comparability of information to investors.

Key performance indicators – definition and use

	EPRA Indicators	EPRA definition	EPRA purpose
1.	EPRA Earnings	Earnings from operational activities	A key measure of a company's underlying results and an indication of the extent to which current dividend payments are supported by earnings.
2.	EPRA NAV	Net Asset Value adjusted to include properties and other investments at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate company with a long-term investment strategy.
3.	EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.
4.	EPRA Net initial yield (NIY)	Annualised rental income based on the cash rents passing at the reporting date, less non-recoverable property operating expenses, divided by the market value of the property, increased by (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.
5.	EPRA Topped-up NIY	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	
6.	EPRA Vacancy rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	A 'pure' (%) measure of investment property space that is vacant, based on ERV.
7.	EPRA Cost ratio	Administrative & operating costs (including & excluding the costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.

Source: EPRA best practices recommendations guidelines (www.epra.com)

EPRA Earnings

EUR '000	2019	2018
Net result IFRS	8,791	9,990
Adjustments to calculate EPRA Earnings	2,463	(1,279)
Exclude:		
I. Changes in fair value of investment properties	2,064	(2,014)
VIII. Deferred tax in respect of EPRA adjustments	399	735
EPRA Earnings	11,254	8,711
Weighted number of units during the period	96,718,348	78,764,895
EPRA Earnings per unit	0.12	0.11

EPRA NAV and NNNAV

EUR '000	31.12.2019	31.12.2018
IFRS NAV	152,518	109,805
Exclude:		
IV. Fair value of financial instruments	1,655	1,061
V. a. Deferred tax liability on investment properties	8,440	7,731
V. a. Deferred tax on fair value of financial instruments	(99)	(56)
EPRA NAV	162,514	118,541
EPRA NAV per unit (in EUR)	1.4333	1.5101
Include:		
I. Fair value of financial instruments	(1,655)	(1,061)
II. Revaluation at fair value of fixed-rate loans	(578)	(1,387)
III. Deferred tax on fair value of financial instruments	99	56
EPRA NNNAV	160,380	116,149
EPRA NNNAV per unit (in EUR)	1.4144	1.4797

EPRA NIY and "topped-up" NIY

EUR '000	31.12.2019	31.12.2018
Investment properties	358,637	245,160
Exclude:		
Developments	(2,367)	-
Completed property portfolio GAV	356,270	245,160
Annualised cash passing rental income	25,156	17,177
Property expenses not recharged to tenants	(1,238)	(450)
Annualised net rental income	23,918	16,727
Include:		
Notional rent expiration of rent free periods or other lease incentives	-	-
Topped-up net annualised rental income	23,918	16,727
EPRA NIY	6.7%	6.8%
EPRA "topped-up" NIY	6.7%	6.8%

EPRA Vacancy rate

EUR '000	31.12.2019	31.12.2018
Estimated rental value of vacant space	544	272
Estimated rental value of the whole portfolio	24,940	16,488
EPRA Vacancy rate	2.2%	1.6%

EPRA Cost ratio

EUR '000	31.12.2019	31.12.2018
Property expenses not recharged to tenants	1,557	1,056
Administrative expenses	3,251	2,813
EPRA costs (including direct vacancy costs)	4,808	3,869
Rental income	20,776	15,860
Gross rental income	20,776	15,860
EPRA Cost ratio (including direct vacancy costs)	23.1%	24.4%

EPRA Capital expenditure

EUR '000	31.12.2019	31.12.2018
Acquisitions	114,133	51,545
Development	746	1,661
Like-for-like portfolio	651	623
Other	-	-
EPRA Capital expenditure	115,530	53,829

INVESTOR RELATIONS

Baltic Horizon Fund units are currently dual-listed on the Fund List of the Nasdaq Tallinn Stock Exchange and the Nasdaq Stockholm Alternative Investment Funds market. Trading with Baltic Horizon units on the Nasdaq Tallinn Stock Exchange began on 6 July 2016. The first trading day on Nasdaq Stockholm was on 23 December 2016.

As at 31 December 2019, the market capitalisation for Baltic Horizon Fund was approx. EUR 151.2 million (31 December 2018: EUR 102.7 million) based on the closing unit market prices on the Nasdaq Tallinn Stock Exchange and the Nasdaq Stockholm's Alternative Investment Funds market. The units on the Nasdaq Tallinn Stock Exchange started the 2019 financial year at EUR 1.3000 and closed at EUR 1.3279 – an increase of 2.1%. In July 2019, the units achieved an all-time high of EUR 1.4195 per unit on the Nasdaq Tallinn Stock Exchange.

Key information

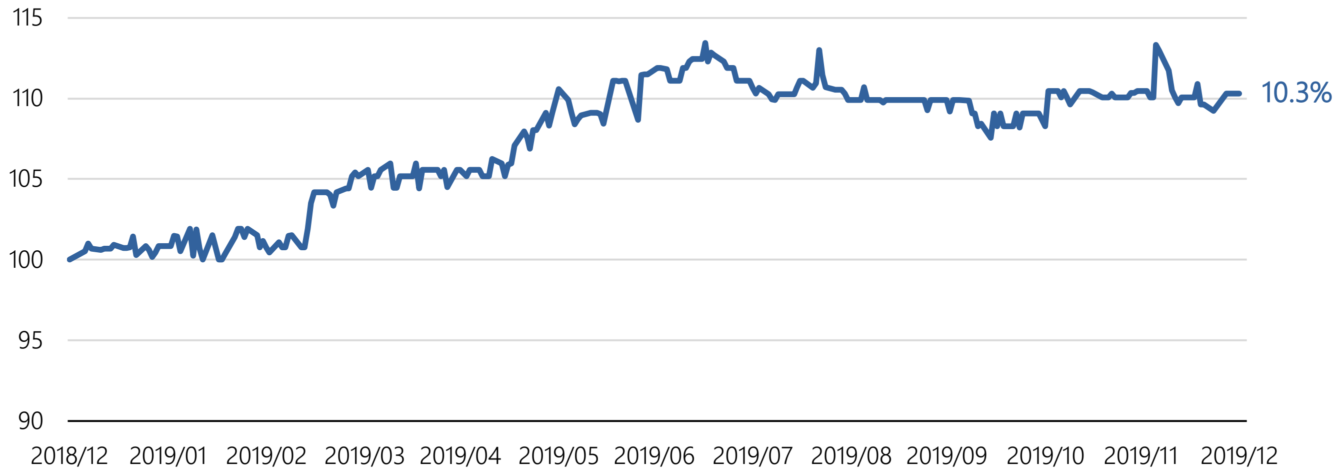
ISIN code	EE3500110244
Markets	Nasdaq Tallinn Nasdaq Stockholm
Ticker symbols:	
Nasdaq Tallinn	NHCBHFFT
Nasdaq Stockholm	NHCBHFFS
Bloomberg tickers:	
Nasdaq Tallinn	NHCBHFFT:ET
Nasdaq Stockholm	NHCBHFFS:SS

Key figures and graphs

	31.12.2019	31.12.2018
Number of units issued (units)	113,387,525	78,752,800
Nasdaq Tallinn:		
Highest unit price (EUR)	1.4195	1.3300
Lowest unit price (EUR)	1.3000	1.2410
Closing unit price (EUR)	1.3279	1.3000
Nasdaq Stockholm:		
Highest unit price (SEK)	15.60	14.00
Lowest unit price (SEK)	13.21	12.00
Closing unit price (SEK)	14.00	13.45
Market capitalisation[1] (EUR)	151,232,586	102,680,258
Earnings per units (EUR)	0.09	0.13
IFRS NAV per unit (EUR)	1.3451	1.3988
Unit price premium (discount) from IFRS NAV per unit[2] (%)	(1.3%)	(7.1%)
EPRA NAV per unit (EUR)	1.4333	1.5101
Unit price premium (discount) from EPRA NAV per unit[3] (%)	(7.4%)	(13.9%)
Distribution per unit[4] (EUR)	0.106	0.102

1. Based on the closing prices and split between units on the Nasdaq Tallinn and the Nasdaq Stockholm Stock Exchanges.
2. Based on the closing price on the Nasdaq Tallinn Stock Exchange at 31.12.2019 and the IFRS NAV per unit.
3. Based on the closing price on the Nasdaq Tallinn Stock Exchange at 31.12.2019 and the EPRA NAV per unit.
4. Distributions to unitholders for 2019 Fund results.

Development of the Baltic Horizon Fund unit price on the Nasdaq Tallinn Stock Exchange

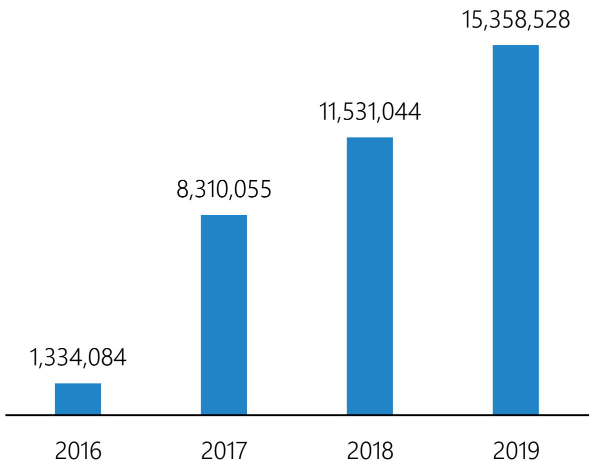


Baltic Horizon Fund's total shareholder return on unit price in 2019 amounted to 10.3%. Total shareholder return for a given year is equivalent to the growth in the unit price on the Nasdaq Tallinn Stock Exchange over the year, calculated assuming that dividends distributed in 2019 are reinvested to purchase additional units.

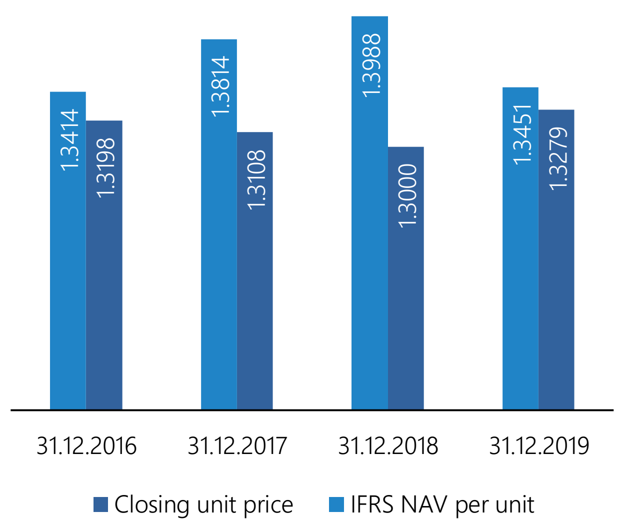
In 2019, Baltic Horizon Fund unit offered good liquidity and continued positive development. In total, 15,358,528 units were traded on the Nasdaq Tallinn and Nasdaq Stockholm stock exchanges, while the average daily trading volume reached 63,535 units (2018: 45,383). Market capitalisation of approx. EUR 151.2 million turns around in ca. 7.4 years on the Nasdaq Tallinn and Stockholm Stock Exchanges. Baltic Horizon Fund was the 6th most traded listed security on the Nasdaq Tallinn Exchange in 2019. The first graph below shows the Baltic Horizon Fund units' yearly trading volume on the Nasdaq Tallinn and the Nasdaq Stockholm Stock Exchanges.

During 2019, Baltic Horizon Fund units on the Nasdaq Tallinn Stock Exchange were mostly trading at a premium compared to the net asset value per unit. At the end of the 2019, unit price slipped below NAV per unit and traded at a 1.3% discount compared to the IFRS NAV and 7.4% discount compared to the EPRA NAV. The second graph below shows the Baltic Horizon Fund unit price in relation to its IFRS net asset value since inception.

Yearly trading volume on Nasdaq Tallinn and Stockholm Stock Exchanges (units)



Nasdaq Tallinn unit price compared with NAV (EUR)



Cancellation of units

On 30 January 2019, Northern Horizon Capital AS applied to Nasdaq CSD SE for the cancellation of 255,969 Baltic Horizon Fund units. These units were purchased between 22 October 2018 and 14 December 2018 under a buy-back program. The total number of Baltic Horizon Fund units before the cancellation was 78,752,800. After the cancellation, the number decreased to 78,496,831.

The cancellation was registered on 1 February 2019. All acquisitions through the buy-back program were made on Nasdaq Tallinn by SEB Pank AS, acting as a broker for Baltic Horizon Fund. The buy-back program lasted until 19 June 2019. Until then, Baltic Horizon Fund could acquire up to 5 million units worth up to EUR 5 million at a price below the most recent NAV per unit.

Capital raisings

On 12 April 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 20.5 million was raised through the transaction. The new units were issued at a price of EUR 1.3067, which was calculated according to the procedure adopted at the general meeting and was equal to the weighted average price of units on the Nasdaq Tallinn Stock Exchange over the period between 27 November 2018 and 24 February 2019. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 94,196,197.

On 30 April 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 4.1 million was raised through the transaction. The new units were issued at a price of EUR 1.3160, which was calculated according to the procedure adopted at the general meeting and was equal to the weighted average price of units on the Nasdaq Tallinn Stock Exchange over the period between 29 January 2019 and 28 April 2019. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 97,336,070.

On 14 May 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 0.8 million was raised through the transaction. The new units were issued at a price of EUR 1.3197, which was calculated according to the procedure adopted at the general meeting and was equal to the weighted average price of units on the Nasdaq Tallinn Stock Exchange over the period between 12 February 2019 and 12 May 2019. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 97,964,044.

On 15 July 2019, the Estonian Financial Supervision Authority registered the prospectus for the listing of the new units. Northern Horizon Capital AS, the Management Company of Baltic Horizon Fund, decided to issue 2,951,158 new units. The issue price of the new units was EUR 1.3554 corresponding to the latest net asset value per Fund unit preceding the subscription. Gross proceeds of the issue amounted to EUR 4 million and were used to finance the acquisition of Galerija Centrs Shopping Centre.

On 2 October 2019, the Fund announced the issue of new units in two private placements. In total, gross equity of EUR 16.5 million was raised through the transactions. The new units were issued in two parts at a price of EUR 1.3253, corresponding to the latest net asset value per fund unit preceding the subscription. Net proceeds of the issue were used to finance the acquisition of the North Star Business Centre. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 113,387,525.

Date	Description	Price per unit (EUR)	Number of units
31 December 2018	Total number of units		78,752,800
February 2019	Cancellation of units	-	(255,969)
April 2019	Issue of new units	1.3067	15,699,366
April 2019	Issue of new units	1,3160	3,139,873
May 2019	Issue of new units	1.3197	627,974
July 2019	Issue of new units	1.3554	2,951,158
October 2019	Issue of new units	1.3253	12,472,323
31 December 2019	Total number of units		113,387,525

DIVIDEND CAPACITY

According to the Fund Rules issued as of 23 May 2016, a distribution to investors will be made if all of the following conditions are met:

- The Fund has retained such reserves as required for the proper running of the Fund;
- The distribution does not endanger the liquidity of the Fund;
- The Fund has made the necessary follow-on investments in existing properties, i.e. investments in the development of the existing properties of the Fund, and new investments. The total of the Fund's annual net income that may be retained for making such investments is 20% of the Fund's annual net income of the previous year.

The Fund sets a target of dividend distributions to its unitholders in the range between 80% of generated net cash flow (GNCF) and a net profit after unrealized P&L items are adjusted. The distribution is based on the Fund's short-term and long-term performance projections. Management has a discretion to distribute lower dividends than 80% of generated net cash flow (GNCF) if the liquidity of the Fund is endangered.

Generated net cash flow (GNCF) calculation formula

Item	Comments
(+) Net rental income	
(-) Fund administrative expenses	
(-) External interest expenses	Interest expenses incurred for bank loan financing
(-) CAPEX expenditure	The expenditure incurred in order to improve investment properties; the calculation will include capital expenditure based on annual capital investment plans
(+) Added back listing related expenses	
(+) Added back acquisition related expenses	Include the expenses for acquisitions that did not occurr
Generated net cash flow (GNCF)	

Distributions to unitholders for 2019 Fund results

On 17 May 2019, the Fund declared a cash distribution of EUR 2,449 thousand (EUR 0.025 per unit) to the Fund unitholders for Q1 2019 results. This represents a 2.23% return on the weighted average Q1 2019 net asset value to its unitholders.

On 2 August 2019, the Fund declared a cash distribution of EUR 2,624 thousand (EUR 0.026 per unit) to the Fund unitholders for Q2 2019 results. This represents a 2.07% return on the weighted average Q2 2019 net asset value to its unitholders.

On 18 October 2019, the Fund declared a cash distribution of EUR 3,061 thousand (EUR 0.027 per unit) to the Fund unitholders for Q3 2019 results. This represents a 2.29% return on the weighted average Q3 2019 net asset value to its unitholders.

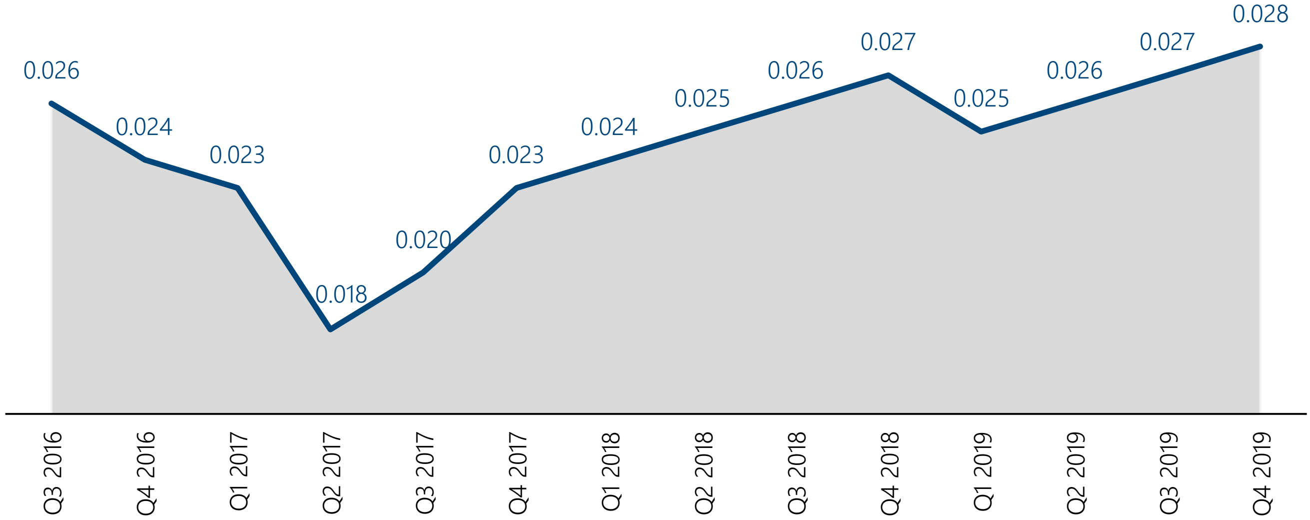
On 31 January 2020, the Fund declared a cash distribution of EUR 3,175 thousand (EUR 0.028 per unit) to the Fund unitholders for Q4 2019 results. This represents a 2.16% return on the weighted average Q4 2019 net asset value to its unitholders.

In total, the Fund declared a cash distribution of EUR 11,309 thousand from the operating results of 2019 (EUR 2,449 thousand from Q1 2019, EUR 2,624 thousand from Q2 2019, EUR 3,061 thousand from Q3 2019 and EUR 3,175 thousand from Q4 2019). Dividends for the operating results of 2019 correspond to a gross yield of 8.0% based on the closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2019.

Cash distributions during 2019

Payments to unitholders for Q4 2018, Q1 2019, Q2 2019 and Q3 2019 results were distributed in 2019, while payments for Q4 2019 results were distributed in 2020. Total cash distributions during 2019 amounted to EUR 10,253 thousand (2018: EUR 7,702 thousand) or EUR 0.105 per unit (2018: EUR 0.101 per unit). Dividends paid-out in 2019 corresponds to a gross yield of 7.9% based on the closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2019.

Dividend per unit (EUR)



The management of the Fund remains committed to target a 7-9% yield of annual dividends to investors on invested equity, which is defined as paid-in-capital since listing the Fund on the stock exchange on 30 June 2016. The table below provides the summary of historical calculations.

Dividend capacity calculation

EUR '000	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
(+) Net rental income	3,929	3,916	4,256	5,412	5,635
(-) Fund administrative expenses	(804)	(709)	(817)	(879)	(846)
(-) External interest expenses	(780)	(869)	(1,043)	(1,295)	(1,346)
(-) CAPEX expenditure[1]	(141)	(68)	(180)	(178)	(225)
(+) Added back listing related expenses	-	3	51	60	-
(+) Added back acquisition related expenses	-	63	39	16	-
Generated net cash flow (GNCF)	2,204	2,336	2,306	3,136	3,218
GNCF per weighted unit (EUR)	0.028	0.030	0.024	0.031	0.029
12-months rolling GNCF yield[2] (%)	8.4%	8.4%	7.8%	8.4%	8.6%
Dividends declared for the period	2,119	2,449	2,624	3,061	3,175
Dividends declared per unit[3] (EUR)	0.027	0.025	0.026	0.027	0.028
12-months rolling dividend yield[2] (%)	7.8%	7.7%	7.5%	7.8%	8.0%

3. The table provides actual capital expenditures for the quarter. Future dividend distributions to unitholders are aimed to be based on the annual budgeted capital expenditure plans equalised for each quarter. This will reduce the quarterly volatility of cash distributions to unitholders.
4. 12-month rolling GNCF and dividend yields are based on the closing market price of the unit as at the end of the quarter (Q4 2019: closing market price of the unit as of 31 December 2019).
5. Based on the number of units entitled to dividends.

Financial calendar

	Week (Year)
Distribution decision to unitholders Q4 2019	5 (2020)
Q4 2019 interim report (unaudited consolidated)	7 (2020)
Annual 2019 report (audited consolidated)	12 (2020)
Distribution decision to unitholders Q1 2020	17 (2020)
Annual 2019 report (audited) of the management company Northern Horizon Capital AS	18 (2020)
Q1 2020 interim report (unaudited consolidated)	19 (2020)
Annual general meeting of unitholders	21 (2020)
Distribution decision to unitholders Q2 2020	30 (2020)
H1 2020 interim report (unaudited consolidated)	32 (2020)
Distribution decision to investors Q3 2020	43 (2020)
Q3 2020 interim report (unaudited consolidated)	46 (2020)
Distribution decision to unitholders Q4 2020	5 (2021)
Q4 2020 interim report (unaudited consolidated)	7 (2021)

STRUCTURE AND GOVERNANCE

Baltic Horizon Fund is a closed-end contractual investment fund registered in Estonia on 23 May 2016. The Fund is defined as a real estate fund under the Estonian Investment Funds Act. The Fund cannot enter into agreements on its own. The unitholders own all the Fund's assets.

The Fund is a tax transparent and cost-efficient vehicle. The management fee is linked to the market capitalisation of the tradable units. It is also embedded in the Fund Rules that the management fee will decrease from 1.5% to as low as 0.5% of the market capitalisation as the Fund's assets grow.

The Fund operates under the REIT concept whereby the vast majority of the Fund's cash earnings are paid out and only 20% can be reinvested.

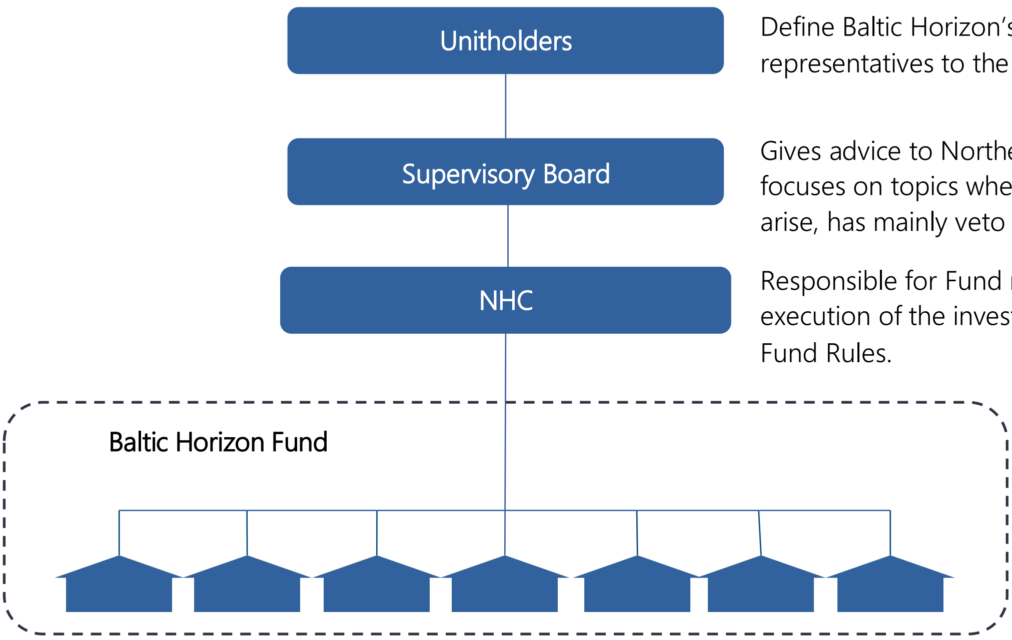
The Fund is managed by the Management Company, which is Northern Horizon Capital AS. The immediate team comprises of the Management Board, which is headed by the Fund Manager, and the Supervisory Board of the Management Company. The Fund also has its own Supervisory Board, which comprises of 4 independent board members.

Northern Horizon Capital AS is an experienced real estate asset manager. Northern Horizon Capital Group has proven itself as one of the leading real estate investors in the Baltic countries and elsewhere with an in-depth knowledge of the markets of operation. Over the course of the organization's life, Northern Horizon Capital Group has been able to build a strong and cohesive team from diverse backgrounds with a focus on being conservative and thorough, yet dynamic in real estate acquisitions and management.

Commitment to corporate governance is rooted in the Management Company's focus on long-term business relations with investors, partners, and tenants. In all relations, the Management Company encourages a professional and open dialogue based on mutual trust and strives to earn the respect of its business partners through strong commitment, transparency and fair dealings. The investor's best interest is always considered by the Management Company to make sure that the investor is treated fairly. The Management Board ensures that conflicts of interests between related parties are avoided or are as small as possible.

The Management Company is obliged to establish, maintain and document procedures to identify, prevent and manage conflicts of interest and, when necessary, issue supplementing instructions to the policies, instructions and guidelines.

Governance chart



Define Baltic Horizon's Fund Rules and appoint representatives to the Supervisory Board.

Gives advice to Northern Horizon Capital (NHC), focuses on topics where conflicts of interest may arise, has mainly veto capacity.

Responsible for Fund management including execution of the investment strategy as stated in the Fund Rules.

Management Board and Supervisory Board of the Management Company

The Management Board bears overall responsibility for the daily business of Baltic Horizon Fund. The Management Company's Management Board is composed of three members. The Management Board is supervised and advised by the Supervisory Board of the Management Company.

On 8 March 2019, Dalia Garbuzienė resigned from the Supervisory Board of Northern Horizon Capital AS. Nerijus Žebrauskas was elected as a member of the Supervisory Board of Northern Horizon Capital AS on 20 March 2019 for a period of 5 years.

Supervisory Board of the Fund

The Fund has a Supervisory Board which consists of qualified members with recognised experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education. In accordance with the Fund Rules, members of the Supervisory Board are appointed by the General Meeting. The Supervisory Board consists of three to five members.

The Supervisory Board acts solely in an advisory capacity and the Management Company remains responsible for making the decisions in connection with the Fund's management. The Supervisory Board members fulfil their consultation responsibilities collectively.

Supervisory Board members are entitled to remuneration for their service in the amount determined by the General Meeting. The chairman of the Supervisory Board is entitled to an annual remuneration of EUR 15,000 and a regular member is entitled to an annual remuneration of EUR 11,000. On the basis of the agreements concluded with each Supervisory Board member, Supervisory Board members are not entitled to any benefits from the Fund or the Management Company upon termination of their term of office.

The Fund administration services are provided by the Management Company. Accounting and depository services have been outsourced to Swedbank AS.

The real estate property valuation policies of the Fund are determined in the Fund Rules based on common market practice. Only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where the relevant real estate property is located may evaluate real estate belonging to the Fund.

Each potential acquisition opportunity is subject to extensive commercial, legal, technical and financial/tax due-diligence performed by the Management Company in cooperation with reputable local and international advisers. The auditor of the Fund is KPMG Baltics OÜ which is a member of the Estonian Association of Auditors. In addition to statutory audit services, KPMG Baltics OÜ has provided the Fund with translation services and other assurance services.

The Fund's activities are monitored on a regular basis by the Estonian Financial Supervision Authority and the Supervisory Board of the Fund.

Members of the Management Board of the Management Company	Members of the Supervisory Board of the Management Company	Members of the Supervisory Board of the Fund
Tarmo Karotam (Chairman)	Milda Dargužaitė (Chairman)	Raivo Vare (Chairman)
Aušra Stankevičienė	Nerijus Žebrauskas	Andris Kraujins
Algirdas Vaitiekūnas	Daiva Liubomirskienė	Per Moller
		David Bergendahl

RISK MANAGEMENT

The risk management function of the Fund is outsourced to a sister company of the Management Company: Northern Horizon Capital AIFM Oy, which is a licensed AIFM in Finland. The Risk Manager of the Fund is responsible for identifying the Fund's market risk portfolio, preparing proposals regarding market risk limits, monitoring the utilization of the limit and producing overall market risk analyses. The Risk Manager maintains a list of all risk management related instructions, monitors these compared to internationally recommended best practice, and initiates changes and improvements when needed. The Risk Manager reports to the Fund's boards on a regular basis. The Risk Manager assessed at the end of the reporting period that the Fund is currently in compliance with the intended risk management framework.

Principal risks faced by the Fund

Market risk

The Fund is exposed to the office and retail markets in Riga, Tallinn, and Vilnius through its indirect investments in investment property (through subsidiaries).

Currently, the yields of prime office and retail properties in the Baltic countries are decreasing as competition between real estate investors is consistently increasing. Investment yields in the Baltic countries are on average around 6.5% and 7.5% in the office and retail segments, with prime office yields at approx. 6%.

Interest rate risk

The Group's interest rate risk is related to interest-bearing borrowings. The Fund's policy is that long-term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swaps fixed interest rates for floating ones using interest rate derivatives. As 1) the Fund seeks to obtain financing on the best terms and conditions and 2) in the current market, fixed rate loans are often more expensive, the Fund hedges interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options. The Fund and its subsidiaries acquire swaps only for cash flow hedging purposes and not for trading.

Credit risk

The Fund is aiming to diversify its investments, and counterparties with low credit risk are preferred. Major acquisition and project finance credit risks are minimized by sharing these risks with banks and insurance companies. Credit risks related to the placement of liquid funds and trading in financial instruments (counterparty credit risks) are minimized by making agreements only with the most reputable domestic and international banks and financial institutions.

Liquidity risk

Liquidity risk is the possibility of sustaining significant losses due to the inability to liquidate open positions, to realise assets by the due time at the prescribed fair price or to refinance loan obligations.

Real estate investments have low liquidity and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicality, downturns in demand, market disruptions and the lack of available capital for potential purchasers and therefore often difficult or time consuming to liquidate.

The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and organizing long-term diversified financing for real estate investments.

Operational risk

Operational risk represents the potential for loss resulting from inadequate or failed internal processes or systems, human factors, or external events, including business disruptions and system failure. The Fund is exposed to many types of operational risk and attempts to mitigate them by maintaining a system of internal control procedures and processes that are designed to control risk within appropriate levels. Also, training and development of personnel competencies, and active dialogue with investors help the Fund to identify and reduce the risks related to its operation.

SUSTAINABILITY

Our Commitment

At Baltic Horizon we acknowledge that our business activities affect the society and the environment around us, and that we have an opportunity and an implicit duty to ensure this impact is positive. We also believe that efficient and sustainable operations are a necessity for long-term value creation.

Consequently, we are committed to taking being responsible when conducting our business by integrating environmental, social and governance ("ESG") factors into our investment decisions and operational processes.

We strongly feel that continued commitment to high ESG standards is the best way for our investors to achieve their investment goals while at the same time and to ensure that the environment and communities can benefit as well. For that we align our efforts with leading market standards: the Management Company of Baltic Horizon Fund and Northern Horizon group are members of EPRA, INREV, SIPA and GRESB, as well as a signatories of the United Nations-supported Principles for Responsible Investment since 2014.

Environmental Impact

Baltic Horizon maintains that all its employees are committed to environmental responsibility at all times. We are firmly of the belief that making the right environmental decision leads to better investment outcomes and increased wellbeing of our stakeholders and society at large. As such, It is our aim to ensure that we can continuously improve the environmental impact of our business.

We are taking steps to integrate ESG factors into our investment process in all steps of the investment life cycle by assigning positive value to measures that improve ESG. In Baltic Horizon our responsibility to national and international ESG legislation is recognized by monitoring present compliance and actively managing the risks of future proposed ESG regulation.

Stakeholder Engagement

By ensuring that our investment activities have a positive environmental impact, we put a strong emphasis on the benefits that our business can have to our stakeholders. We define 4 core groups of stakeholders that are key to the success of our business:

Investors: we build relationships with our investors on transparency by ensuring strong performance together positive ESG impacts.
Tenants: tenant retention and commitment to our assets is a core focus of our asset management efforts. We aim to be a considerate asset owner that reacts to the needs and suggestions of our tenants.
Partners: we continuously engage with our business partners to ensure smooth communication that is built on mutual values of trust, transparency and professionalism.
Employees: we are committed to creating sustainable value to our shareholders with integrity, and believe empowering our employees is the key in maintaining and creating excellent performance.

Governance

Baltic Horizon is dedicated to good corporate governance principles. We strive to have a transparent, fair and professional dialogue with our investors, business partners and employees. A lot of emphasis is put on identifying, monitoring, managing and minimizing potential risks, while protecting the full upside potential of investments. We will refuse any investment opportunity, which challenges our integrity or is in conflict with our mission statement and values.

We hold ourselves accountable to the highest standards of professionalism and ethics. Our group Code of Conduct ensures that our business activities are undertaken in an environment of integrity, transparency and accountability. This approach allows Baltic Horizon to be a trustworthy and accountable partner to all of our stakeholders.

OUTLOOK FOR 2020

At the end of December 2019, Baltic Horizon Fund owned 15 established cash flow properties. The acquisitions completed in 2019 included the Duetto II and North Star office buildings in Vilnius and a landmark shopping centre Galerija Centrs in the Old Town of Riga which has become the largest asset in the Fund's portfolio. All properties are located in the Baltic capitals with an expected gross property value of above EUR 370 million and an expected annualised full NOI of approx. EUR 22 million. The Fund aims to grow its asset base by acquiring carefully selected investment properties that best fit the Fund's long-term strategy. Growing by acquiring established properties with long-term tenants allows the Fund to become more efficient and diversify its risks further across segments, tenants and geographical locations. The Funds aims to continue the development of Meraki office building on the land plot adjacent to Domus PRO complex in 2020.

Given the established cash-flow portfolio which forms a strong backbone for the Fund, the Fund management team has considerably increased its focus on creating added value in the already owned investment properties. In addition to CC Plaza and Postimaja expansion, this also includes preparing for the expansion of the Upmalas Biroji complex, Vainodes I and G4S properties and further expansion of the Domus PRO complex. The period for starting the expansions, which are expected to improve the profitability of the Fund going forward, falls between 2020 and 2022.

The downside risks to the bullish future of the Baltics come primarily from the external environment. Despite somewhat weaker sentiment, overall investments are expected to continue growing, still fuelled by EU structural funds and public investments. Export growth, on the other hand, is likely to ease somewhat. At the same time, private sector financial leverage has decreased, while savings have continuously increased.

At the beginning of 2020 new Coronavirus (Covid-19) has started spreading all over the world and the virus has had an impact on the businesses and economies, including in the Baltics. The virus outbreak is considered to be a non-adjusting subsequent event for Baltic Horizon Fund's 2019 annual report. As the situation is uncertain and developing fast then the Fund management team at this point does not consider it to be practical to give a quantitative analysis of the potential impact of the virus outbreak. The impact of the virus on the Fund will be taken into account in 2020 financial statements.

MANAGEMENT BOARD'S CONFIRMATION

Members of the Management Board of the Management Company Tarmo Karotam, Algirdas Vaitiekūnas and Aušra Stankevičienė confirm that according to their best knowledge, the consolidated annual financial statements, prepared in accordance with IFRS as adopted by the European Union, present a correct and fair view of the assets, liabilities, equity, financial position, financial performance and cash flows of the Fund and its subsidiaries, taken as a whole, and the management report gives a true and fair view of the development, the results of the business activities and the financial position of the Fund and its subsidiaries, taken as a whole, as well as of the principal risks and significant events which took place during the financial year and their effect on the consolidated annual financial statements.

KPMG

Independent Auditors' Report

To the Unitholders of Baltic Horizon Fund

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Baltic Horizon Fund as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the consolidated financial statements of Baltic Horizon Fund (the Fund or the Group) as set out on pages from 49 to 95. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated of statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Approach

- Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the Group audit. In this respect, we have determined the type of our work to be performed on the financial information of the entities (components) within the Group based on their financial significance and other risk characteristics.
- We, as Group auditors, performed full scope audits in five of the Group entities, including the Fund's separate accounts.

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- KPMG audit teams in Latvia and Lithuania (component auditors) performed full scope audits in the remaining Group entities (except one insignificant entity) located in those countries. We, among other things, discussed with component auditors those of the components' business activities that are significant to the Group and the susceptibility of the components to material misstatement of the financial information due to fraud or error, and also determined the information required to be reported to us. We had other regular communication with component auditors and reviewed the component auditors' audit documentation, as deemed necessary.
- In total, the procedures performed by the KPMG Group engagement team and KPMG component auditors for the purpose of supporting our opinion on the consolidated financial statements covered 100% of the Fund's consolidated total assets and consolidated gross revenues.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of investment properties

The carrying amount of investment properties in the consolidated financial statements as at 31 December 2019 was EUR 356 270 thousand; revaluation loss recognised in 2019 profit or loss was EUR 1 969 thousand.

We refer to the consolidated financial statements: Note 2d (accounting policy), Note 12 (financial disclosures).

The key audit matter	How the matter was addressed in our audit
The Fund's primary activity is investing in commercial real estate. Consequently, investment properties represent the single largest category of assets on the Fund's statement of financial position as at 31 December 2019. The investment properties are measured at fair value, estimated by the Fund with the assistance of external appraisers, using the discounted cash flow method. We have assessed this area to be a key audit matter as the valuation process involves significant judgement in determining the appropriate valuation methodology, and in selecting and estimating the underlying assumptions to be applied. The valuations are highly sensitive to these key assumptions, including those relating to the capitalization rates and estimated net income, and a change in the assumptions may have a material impact on the valuation.	As part of our audit in the area, we, among other things, performed the following procedures: • We assessed the process applied by management in selecting, reviewing and assessing the work of the external appraisers engaged by the Fund; • We assessed the competence and objectivity of the external appraisers, and also inspected the terms of their engagement with the Fund, to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; • Assisted by our own valuation specialists, we: - evaluated the appropriateness of the valuation methodology applied by the Fund's external appraisers against relevant financial reporting standards, and against those applied by other appraisers for similar properties; - challenged the reasonableness of the key assumptions and inputs used by the Fund in estimating the fair values of investment

	properties (including market rent rates, exit yield, inflation and vacancy rates) by reference to our independent expectations developed based on our experience with the Fund's industry and external sources (such as publicly available market research by leading real estate appraisal agencies); - compared the estimated cash inflows to the terms of rental agreements; - made alternative calculations for discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the Fund's calculations. • We assessed the appropriateness and sufficiency of disclosures (including in respect of sensitivities to key assumptions) in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Management Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we

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determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed on 29 March 2016 by the Supervisory Board of the Management Company to audit the financial statements of Baltic Horizon Fund. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2015 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Fund;
- we have not provided to the Fund the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit and audit related services, we have not provided any additional services to the Fund and its controlled entities, which are not disclosed in the Management Report.

Tallinn, 20 March 2020

Eero Kaup
Certified Public Accountant, Licence No 459

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

EUR '000	Notes	2019	2018
Rental income		20,776	15,860
Service charge income	7	4,525	2,760
Cost of rental activities	7	(6,082)	(3,816)
Net rental income	6	19,219	14,804
Administrative expenses	8	(3,251)	(2,813)
Other operating income		26	74
Valuation gains (losses) on investment properties	12, 13	(2,064)	2,014
Operating profit		13,930	14,079
Financial income		5	8
Financial expenses	9	(4,718)	(2,789)
Net financing costs		(4,713)	(2,781)
Profit before tax		9,217	11,298
Income tax charge	6, 11	(426)	(1,308)
Profit for the period	6	8,791	9,990
Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods			
Net gains (losses) on cash flow hedges	17b	(595)	(1,013)
Recognition of initial interest rate cap costs		-	(33)
Income tax relating to net gains (losses) on cash flow hedges	17b, 11	44	97
Other comprehensive income (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods		(551)	(949)
Total comprehensive income for the period, net of tax		8,240	9,041
Basic and diluted earnings per unit (EUR)	10	0.09	0.13

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	Notes	31.12.2019	31.12.2018
Non-current assets			
Investment properties	6, 12	356,575	245,160
Investment property under construction	6, 13	2,367	-
Derivative financial instruments	23	73	9
Other non-current assets		54	596
Total non-current assets		359,069	245,765
Current assets			
Trade and other receivables	14	1,794	2,229
Prepayments		301	154
Other current assets	15	734	505
Cash and cash equivalents	16	9,836	12,225
Total current assets		12,665	15,113
Total assets	6	371,734	260,878
Equity			
Paid in capital	17a	138,064	93,673
Own units	17a	-	(335)
Cash flow hedge reserve	17b	(1,556)	(1,005)
Retained earnings		16,010	17,472
Total equity		152,518	109,805
Non-current liabilities			
Interest bearing loans and borrowings	18	205,718	140,401
Deferred tax liabilities	11	6,199	5,844
Derivative financial instruments	23	1,728	1,069
Other non-current liabilities		1,298	905
Total non-current liabilities		214,943	148,219
Current liabilities			
Interest bearing loans and borrowings	18	414	106
Trade and other payables	19	3,171	2,397
Income tax payable		8	-
Other current liabilities		680	351
Total current liabilities		4,273	2,854
Total liabilities	6	219,216	151,073
Total equity and liabilities		371,734	260,878

The accompanying notes are an integral part of these consolidated financial statements.

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20. 03. 2020
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KPMG, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR '000	Notes	Paid in capital	Own units	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2018		91,848	-	(56)	15,184	106,976
Comprehensive income						
Net profit for the period		-	-	-	9,990	9,990
Other comprehensive expense		-	-	(949)	-	(949)
Total comprehensive income		-	-	(949)	9,990	9,041
Transactions with unitholders						
Paid in capital – units issued		2,350	-	-	-	2,350
Repurchase of own units	17a	-	(860)	-	-	(860)
Cancellation of own units	17a	(525)	525	-	-	-
Profit distribution to unitholders	17c	-	-	-	(7,702)	(7,702)
Total transactions with unitholders		1,825	(335)	-	(7,702)	(6,212)
As at 31 December 2018		93,673	(335)	(1,005)	17,472	109,805
As at 1 January 2019		93,673	(335)	(1,005)	17,472	109,805
Comprehensive income						
Net profit for the period		-	-	-	8,791	8,791
Other comprehensive expense		-	-	(551)	-	(551)
Total comprehensive income		-	-	(551)	8,791	8,240
Transactions with unitholders						
Paid in capital – units issued	17a	44,726	-	-	-	44,726
Cancellation of own units	17a	(335)	335	-	-	-
Profit distribution to unitholders	17c	-	-	-	(10,253)	(10,253)
Total transactions with unitholders		44,391	335	-	(10,253)	34,473
As at 31 December 2019		138,064	-	(1,556)	16,010	152,518

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Notes	2019	2018
Cash flows from core activities			
Profit before tax		9,217	11,298
Adjustments for non-cash items:			
Value adjustment of investment properties	12, 13	2,064	(2,014)
Change in impairment losses for trade receivables		165	143
Financial income		(5)	(8)
Financial expenses	9	4,718	2,789
Unrealised exchange differences		(3)	-
Working capital adjustments:			
(Increase)/decrease in trade and other accounts receivable		780	(822)
(Increase)/decrease in other current assets		(427)	(540)
(Decrease)/Increase in other non-current liabilities		75	(76)
(Decrease)/increase in trade and other accounts payable		156	(522)
Increase/(decrease) in other current liabilities		(340)	702
(Paid)/refunded income tax		(8)	(586)
Total cash flows from core activities		16,392	10,364
Cash flows from investing activities			
Interest received		6	8
Acquisition of subsidiaries, net of cash acquired	12	(38,161)	(16,935)
Acquisition of investment property	12	(38,633)	(34,477)
Acquisition of a land plot		-	(1,661)
Advance payment for investment property		-	(500)
Proceeds from disposal of investment property		5	-
Investment property development expenditure	13	(746)	(2,237)
Capital expenditure on investment properties		(651)	(623)
Total cash flows from investing activities		(78,180)	(56,425)
Cash flows from financial activities			
Proceeds from the issue of bonds		10,000	40,000
Proceeds from bank loans		57,409	26,000
Repayment of bank loans		(37,796)	(23,299)
Proceeds from issue of units	17a	44,726	2,350
Profit distribution to unitholders	17c	(10,253)	(7,702)
Repurchase of units	17a	-	(860)
Transaction costs related to loans and borrowings		(206)	(380)
Repayment of lease liabilities		(16)	-
Interest paid		(4,465)	(2,380)
Total cash flows from financing activities		59,399	33,729
Net change in cash and cash equivalents		(2,389)	(12,332)
Cash and cash equivalents at the beginning of the year		12,225	24,557
Cash and cash equivalents at the end of the period		9,836	12,225

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

1. Corporate information

Baltic Horizon Fund is a regulated closed-end contractual investment fund registered in Estonia on 23 May 2016. The Fund is managed by Northern Horizon Capital AS. Both the Fund and the Management Company are supervised by the Estonian Financial Supervision Authority. The Depositary of the Fund is Swedbank AS. The Fund is the ultimate parent and controlling entity of the group comprising the Fund and its subsidiaries (the "Group" or the "Fund").

The Fund is a public fund with no particular lifetime (evergreen). Units of the Fund are made available to the public in accordance with the Fund Rules and applicable laws. The Fund is currently dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn Stock Exchanges.

The Fund's registered office is at Tornimäe 2, Tallinn, Estonia.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by investing primarily in commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring and managing a portfolio of high quality cash flow-generating commercial properties, thereby creating a stable stream of high yielding current income combined with capital gains at exit. Although the objective of the Fund is to generate positive returns to investors, the profitability of the Fund is not guaranteed to investors.

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 20 March 2020.

At the reporting date, the Fund held the following 100% interests in subsidiaries:

Name	31.12.2019	31.12.2018
BH Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BH CC Plaza OÜ	100%	100%
BH Domus Pro UAB	100%	100%
BH Europa UAB	100%	100%
BH P80 OÜ	100%	100%
Kontor SIA	100%	100%
Pirita Center OÜ	100%	100%
BH Duetto UAB	100%	100%
Vainodes Krasti SIA	100%	100%
BH S27 SIA	100%	100%
BH Meraki UAB	100%	100%
Tampere Invest SIA[1]	100%	-%
BH Northstar UAB[1]	100%	-%

1. Please refer to note 12 for more information regarding the new subsidiaries.

Baltic Horizon Fund merger with Baltic Opportunity Fund

On 30 June 2016 Baltic Horizon Fund was merged with Baltic Opportunity Fund by issuing 100 units in exchange for each unit in Baltic Opportunity Fund (ratio 1:100). During the public offering 41,979,150 units were listed on the NASDAQ Tallinn stock exchange, the offer price was EUR 1.3086 per unit, the total issue proceeds were EUR 29.7 million. Share capital was increased by EUR 21 million and the remaining amount of EUR 8.7 million was used to redeem the units for investors who decided to exit the Fund (EUR 7.5 million) and to pay off subscription fees (EUR 1.2 million).

The merger was treated as a restructuring of entities under common control. During the merger of Baltic Horizon Fund and Baltic Opportunity Fund, the assets and liabilities of the involved parties were recognised based on the Baltic Opportunity Fund's book values. As a result of this merger, no goodwill was recognised. At the time of the merger, the Fund had no assets and liabilities of its own. Thus, the historical financial and operational performance of Baltic Opportunity Fund prior to the merger is directly comparable the Fund's performance after the merger. In these consolidated financial statements, Baltic Opportunity Fund's financial results prior to the merger are presented as those of the Fund.

During three additional secondary public offerings in 2016 and 2017 and seven private placements in 2018 and 2019 the Fund raised additional net capital of EUR 92,288 thousand. During 2018, the Fund bought back and cancelled 404,294 units that were held on its own account. As a result of the offering of the new units and cancellation of own units, the total number of the Fund's units increased to 113,387,525. The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

2. Summary of significant accounting policies

Basis of preparation

The Group's consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (the "IFRS") as adopted for use in the European Union.

Going concern assessment

The management of the Fund has performed an assessment of the Fund's future consolidated financial position, consolidated financial performance and cash flows and has concluded that the continued application of the going concern assumption is appropriate.

New standards, amendments and interpretations adopted

The Group adopted IFRS 16 Leases for the first time from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the opening statement of financial position on 1 January 2019. Comparatives for the 2018 financial year have not been restated, as permitted under the specific transitional provision in the standard.

IFRS 16 Leases

The new standard eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of the right-of-use assets and interest on the lease liability separately in the statement of profit or loss and other comprehensive income.

After the commencement of the lease, a lessee shall measure the right-of-use assets using the cost model, unless:

- the right-of-use asset is an investment property and the lessee measures its investment property at fair value under IAS 40; or
- the right-of-use asset relates to a class of PPE to which the lessee applies IAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, i.e. a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group was not required to make any adjustment on transition to IFRS 16 as a lessor and continued to classify all current leases using the same classification principles as in IAS 17.

In accordance with its assessment of the impact of IFRS 16, the Group performed the initial valuation of lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. The Group determined that it holds ground lease agreements, which fall within the scope of IFRS 16. As a result, the Group recognised a right-of-use asset and lease liability in relation to ground leases.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. An incremental borrowing rate is the rate of interest that would have to be paid over a similar term and with a similar security to borrow the funds necessary to obtain an asset of a similar value and quality to the right-of-use asset. The weighted average incremental borrowing rate applied was 4%. Following the adoption of IFRS 16, the Group has presented lease liabilities within interest bearing loans and borrowings.

The associated right-of-use assets were initially recognised at an amount equal to the lease liabilities. As a result, the adoption of IFRS 16 did not have an impact on the Group's equity as at 1 January 2019. Right-of-use assets that meet the definition of investment property are presented within investment property.

The following table shows the reconciliation between payment obligations from operating leases at 31 December 2018 and the lease liability as at 1 January 2019:

Effects of initial application of IFRS 16

EUR '000	2019
Operating lease commitments off the statement of financial position at 31 December 2018	415
Recognition exemption for short-term leases	-
Recognition exemption for low-value assets	-
Discounted using the average incremental borrowing rate at 1 January 2019	(252)
Lease liabilities recognised at 1 January 2019	163

The following table shows the impact on the statement of financial position as at 1 January 2019 from the first-time application of IFRS 16:

Impact of adopting IFRS 16

EUR '000	31 December 2018	Application of IFRS 16	1 January 2019
Assets			
Investment property (right-of-use assets)	245,160	163	245,323
Total assets	245,160	163	245,323
Liabilities			
Interest bearing loans and borrowings, non-current	140,401	147	140,548
Interest bearing loans and borrowings, current	106	16	122
Total liabilities	140,507	163	140,670

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2019 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

(Effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

(Effective for annual periods beginning on or after 1 January 2020)

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that the IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- 'Highly probable' requirement;
- Risk components;
- Prospective assessments ;
- Retrospective effectiveness test (for IAS 39);
- Recycling of the cash flow hedging reserve.

The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 3 Business Combinations

(Effective for annual periods beginning on or after 1 January 2020)

These amendments are not yet endorsed by the EU.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Other changes

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated in the following text.

The significant accounting policies applied by the Fund are as follows:

2a. Presentation currency

The consolidated financial statements have been presented in thousands of euros (EUR), unless otherwise stated. The euro is the Fund's functional and presentation currency.

2b. Consolidated financial statements

The consolidated financial statements include the Fund and its subsidiaries (together "the Group").The Fund controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated in consolidation.

Assets are recognised in the consolidated statement of financial position when it is probable that future economic benefits will flow to the Group and the value of the assets can be measured reliably.

Liabilities are recognised in the consolidated statement of financial position when it is probable that an outflow of resources will be required to settle the obligation and they can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item below.

2c. Foreign currency translation

The functional currency of each Group company is determined with reference to the currency of the primary economic environment in which the entity operates. Transactions in other currencies than the functional currency are transactions in foreign currencies.

Foreign currency transactions are translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the date of the initial transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the reporting date.

The cumulative effect of exchange differences on cash transactions are considered as realised gains and losses in the consolidated statement of profit or loss and other comprehensive income in the period in which they are settled.

On consolidation, where the functional currency of a foreign operation is different from the functional currency of the parent, the assets and liabilities are translated at the rate of exchange ruling at the reporting date. The consolidated statements of profit or loss and other comprehensive income of such subsidiaries are translated at the rate in effect at the transaction date. The exchange differences arising on the currency translation are recorded as a separate component of equity reserves under the heading of "Foreign currency translation reserve". On the disposal of a foreign operation, accumulated exchange differences are recognised in other comprehensive income as a component of the gain or loss on disposal.

Fair value adjustments and goodwill arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity and are recorded at the exchange rate at the date of the transaction.

2d. Investment properties

Investment properties are real estate properties (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for the use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Investment property is initially recorded at cost including costs directly resulting from the acquisition such as transfer taxes and legal fees. The costs of adding new or improved qualities to an investment property compared to the date of acquisition, and which thereby improve the future yield of the property, are added to cost as an improvement. Costs, which do not add new or improved qualities to an investment property, are expensed in profit or loss under operating expenses.

Under IAS 40, investment properties are subsequently measured at fair value, as determined by independent appraisers, being the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Value adjustments are recognised in profit or loss under the item "Valuation gains / losses on investment properties".

2e. Dividends (distributions)

Proposed distributions are recognised as a liability at the time of declaration.

2f. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of a provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability.

2g. Derivative financial instruments

The Group engages in interest rate swap contracts for interest rate risk management purposes. Derivative financial instruments are carried in the consolidated statement of financial position at fair value. The estimated fair values of these contracts are reported as financial assets for contracts having a positive fair value; and financial liabilities for contracts with a negative fair value.

Gains or losses from changes in the fair value of derivative financial instruments, which are not classified as hedging instruments, are recognised in profit or loss as they arise.

2h. Hedge accounting

The Group applies hedge accounting for all interest rate swap contracts. The effectiveness of a hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instruments used in the hedge.

For the purposes of hedge accounting, hedges are classified as cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other comprehensive income and the ineffective portion is recognised in profit or loss. The gains or losses on effective cash flow hedges recognised initially in other comprehensive income are either transferred to profit or loss in the period in which the hedged transaction impacts the income statement or in which the hedge instrument or hedge relationship terminates.

2i. Interest bearing loans and borrowings

Debts to banks and financial institutions are initially recognised at fair value less transaction costs incurred. Subsequently, these debt items are measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Group classifies its financial liabilities as current when they are due to be settled within twelve months after reporting date, even if:

(a) the original term was for a period longer than twelve months; and
(b) an agreement to refinance, or to reschedule, payments on a long-term basis is completed after the reporting date and before the consolidated financial statements are authorised for issue.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2j. Other liabilities

Other liabilities, comprising payables to suppliers, guarantee deposits received from tenants and other payables, are measured at amortised cost using the effective interest rate method.

Deferred income is recognised under liabilities and includes payments received for future income.

2k. Financial assets

The Group recognises financial assets on its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Classification
Financial assets in the scope of IFRS 9 are classified as either financial assets at amortised cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The classification of financial assets depends on the contractual cash flow characteristics of the financial asset and the Fund's business model for managing them.

Financial assets held by the Group are comprised of trade and other receivables, cash and cash equivalents and derivative financial instruments. All financial assets unless otherwise stated are held to collect contractual cash flows and they are solely payments of principal and interest. Thus they are measured using the amortised cost method. Derivative financial instruments do not meet measurement at amortised cost criteria and are measured at fair value through profit or loss.

Recognition and derecognition

When financial assets are recognised initially, they are measured at fair value, plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All "regular way" purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised at the trade date (the date that the Group commits to purchase or sell the asset), otherwise such transactions are treated as derivatives until the settlement date.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment

Following the adoption of IFRS 9, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group's financial assets subject to the expected credit loss model within IFRS 9 are only trade and other receivables and cash and cash equivalents. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of receivables over a period of 36 months before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the tenants to settle the receivable. Such forward-looking information would include:

- changes in economic, regulatory, technological and environmental factors, (such as industry outlook, GDP, employment and politics); and
- external market indicators; and
- tenant base.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

The Group's cash and cash equivalents are considered to have low credit risk when they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term.

2l. Accounts receivable

Trade and other receivables are measured at amortised cost. Management assesses specific impairment on a customer by customer basis throughout the year. The Group holds trade and other receivables with the objective to collect the contractual cash flows.

2m. Cash and cash equivalents

Cash includes cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2n. Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow or economic benefits is possible.

2o. Subsequent events

Post-reporting date events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-reporting date events that are not adjusting events are disclosed in the notes when material.

2p. Revenue recognition

Rental income from operating leases represents rents charged to customers and is recognised on a straight line basis, net of any sales taxes, over the lease term. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Service charge income is recognised on a gross basis in profit or loss when the Group is not acting as an agent on behalf of third parties and charging commissions for the collections. Revenue is presented on a gross basis as the Group makes a contract with third party service providers and carries the risks associated with such contracts. Service charge income is recognised in the accounting period in which the service is rendered. The transaction prices include fixed or variable fees that are specified in contractual terms with each customer. Invoices for service charges are issued on a monthly basis and the normal credit term is 30 days. When the Group is acting as an agent on behalf of the third parties, amounts collected from the tenants for the goods or services provided by the third party are recognised in accordance with IFRS 15 on a net basis in profit or loss and recharge revenue is recognized in the amount of commissions earned, if any.

2q. Expense recognition

Expenses are accounted for an accrual basis. Expenses are charged to the consolidated statement of profit or loss and other comprehensive income, except for those incurred in the acquisition of an investment property which are capitalised as part of the cost the investment property and costs incurred to acquire borrowings which are capitalised. Operating expenses comprise costs incurred to earn rental revenue during the financial year to cover operations and maintenance of investment properties.

2r. Administrative expenses

Administrative expenses include costs and expenses which were incurred for the management of investment properties and the Group during the year.

2s. Current taxation

Taxation of the Group subsidiaries

The consolidated subsidiaries of the Group are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

Taxation of the Fund

Gains from transfer of property

Income tax is charged on gains derived from the transfer of property by a contractual investment fund if:

1) the transferred immovable is located in Estonia; or
2) the transferred real right or right of claim is related to an immovable or a structure as a movable, which is located in Estonia; or
3) the transferred or returned holding is a holding in a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or return or during a period within two years prior to that, more than 50% was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the transferor had a holding of at least 10% at the time of conclusion of the specified transaction.
4) gains were derived on the conditions specified in clause 3) upon the liquidation of a company, contractual investment fund or other pool of assets specified in the same clause.

Income tax is not charged on the part of the gains derived from the return of a holding specified in clause 3) or liquidation specified in clause 4) above if the income constituting the basis thereof has been taxed with income tax pursuant to the provisions of the Income Tax Act or at the level of a company that has repurchased the holding or paid the liquidation proceeds.

2t. Deferred taxation

Deferred taxes are calculated in the Fund's Lithuanian subsidiaries as follows:

Deferred income tax is provided using the liability method on temporary differences at the reporting date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

i) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss or directly in equity.

Under Estonian and Latvian laws, corporate profit for the year is not subject to income tax. Income tax is levied on dividends, gifts, donations, entertainment expenses, non-business expenditures and transfer price adjustments.

Income tax payable on dividends is recognised as income tax expense and a liability at the time the dividend is declared, regardless of the period for which the dividend is declared or the period in which the dividend is actually distributed. The obligation to pay income tax arises on the 10th day of the month following the distribution of the dividend in Estonia and on the 20th day of the month a following the distribution of the dividend in Latvia.

2u. Fair value measurements

The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, the fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2v. Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

2w. Paid in capital

Incremental costs directly attributable to the issue or redemption of units are recognised directly in equity as a deduction from proceeds or part of the acquisition costs.. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Applying the acquisition method

The acquisition method is applied in the acquisition of new subsidiaries which qualify as a business, under which the identifiable assets and liabilities and contingent liabilities of these companies are measured at fair value at the acquisition date. The cost of the acquired company consists of the fair value of the paid consideration (cash or own shares). If the final determination of the consideration is conditional on one or several future events, these are only recognised in cost if the relevant event is likely and the effect on cost can be calculated reliably. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IFRS 9 either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not re-measured until it is finally settled within equity.

When a transaction has not been identified as a business combination, it is accounted for as an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separate assets and liabilities acquired, based on the price paid for them.

Assets are recognised in the consolidated statement of financial position when it is probable that future economic benefits will flow to the Group and the value of the assets can be measured reliably.

Liabilities are recognised in the consolidated statement of financial position when it is probable that an outflow of resources will be required to settle the obligation and they can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item above.

Business combinations between entities under common control

A business combination is a combination between entities under common control if:

- the combining entities are ultimately controlled by the same party (or parties) both before and after the combination;
- common control is not transitory (not short-lived).

If a business combination is treated as a combination between entities under common control, then the transaction is accounted for under the predecessor values method. Under this method, the acquired assets and liabilities are recorded at their pre-acquisition carrying values and no goodwill is recorded.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

Management considers the following indicators to determine that a Group entity is acting as a principal in the agreement with the tenants in regards to service charge income:

- the entity is primarily responsible for fulfilling the contract and has the right to terminate, freeze or amend the utilities and other services contracts, to enter into contracts with other providers or to switch to other supply types at any time;
- the entity is exposed to credit risk for the amount receivable from a tenant in exchange for the other party's goods or services; if the tenant defaults, the entity is responsible to pay a supplier regardless of whether payment is collected from the tenant.

When the tenants have the right to contract directly with the utility service companies from their suppliers upon the prior written consent of the entities, the Fund is treated as an agent.

When the Group acts as a principal, service charge income is recognised on a gross basis in the consolidated statement of profit or loss and other comprehensive income. When the Group acts as an agent, both expenses and income are netted in the consolidated statement of profit or loss and other comprehensive income and recharge revenue is recognised in the amount of commissions earned.

Business combinations

The Group has acquired ownership interests in subsidiaries which hold real estate properties. When the acquisition of a subsidiary does not represent "an integrated set of activities and assets" in accordance with IFRS 3, the acquisition of the subsidiary is accounted for as an asset acquisition, in which the cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill and no deferred tax assets or liabilities resulting from the allocation of the cost of acquisition is recognised. The Group will account for the acquisition as a business combination where an integrated set of activities is acquired in addition to the properties. The Group has not accounted any acquisition as a business combination during the current or prior financial year. Please refer to the note 12 for more information regarding asset acquisition.

The following recognition criteria are considered as indicators of a business combination:

- multiple items of land and buildings;
- existence of ancillary services to tenants (e.g. maintenance, cleaning, security, bookkeeping etc.);
- existence of employees to have processes in operation (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information);
- management of the acquired properties is a complex process.

Operating lease contracts – the Group as lessor
Leases in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of its properties and so accounts for their leases as operating leases. One of the Fund's assets, Coca-Cola Plaza, has only one tenant with a long-term tenancy agreement acquired via a sale-lease back transaction. Based on the terms and conditions, the lease arrangement is treated as an operating lease due to the following reasons:

- all significant risks and rewards of the ownership of this property are retained by the Group;
- the ownership of the property will remain to the Group by the end of the lease term;
- there is no agreement with the lessee that would allow the lessee to purchase the property at a discount or significantly lower amount than the fair value of the property;
- the initial rent period agreed was for 10 years with a lease expiration on 18 March 2023. The tenant has the right to prolong their agreement once for a 5 year- period with by giving 12 months' notice. Therefore, the lease term does not comprise the major part of the economic life of the property;
- there is no agreement with the lessee that would allow for the lessee to continue the lease for a secondary period at a rent that is substantially lower than market rent;
- at the inception of the lease the present value of the minimum lease payments does not amount to all of the fair value of the leased property.

Estimates and assumptions

Deferred tax
The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. In particular, the effective tax rate applicable on the temporary differences on investment properties depends on the way and timing the investment property will be disposed of.

The Group recognises liabilities for anticipated tax provisions based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the net profit and deferred tax provisions in the period in which the determination is made.

In 2018, a new income tax system entered into force in Latvia. The system resembles the Estonian one but upon its application Latvian entities began to recognise deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, deferred tax for investments in subsidiaries is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (Estonia and Latvia), except to the extent that the company is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In line with the treatment used in Estonia to date, deferred tax liabilities are not recognised in such cases.

There is no consensus yet in Estonia as to which treatment is correct. The Ministry of Finance has asked the IFRS Interpretations Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 Income Taxes. As at the date of release of this report, IFRIC has not yet communicated its opinion.

In the case of investments in subsidiaries, the Group's management has decided to continue to account for deferred tax liabilities using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (as in Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in those jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

The maximum income tax liability which would arise if all of the available equity were distributed as dividends, is disclosed in note 11.

Detailed information on the deferred tax asset and liability of the Lithuanian subsidiary is disclosed in note 11.

Fair value of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. The Group engages independent valuation specialists to determine fair value. Information about valuation techniques and assumptions are disclosed in note 12.

4. Financial risk management

The risk management function of the Fund is the responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying the Fund's market risk portfolio, preparing proposals regarding market risk limits, monitoring the limit utilization and producing overall risk analyses of market risk. The manager maintains a list of all risk management related instructions, monitors their compliance with internationally recommended best practice, and initiates changes and improvements when needed. The manager assessed at the end of the financial year that the Fund is currently in compliance with the intended risk management framework.

4a. Credit risk

The Group has procedures in place to ensure that rental agreements are concluded with customers with an appropriate credit history and acceptable credit exposure limits are not exceeded. Credit risk related to tenants is also reduced by collecting rental deposits and taking rental guarantees. The Group limits its exposure to credit risk from trade and other receivables by establishing a credit term of 30 days or less. An amount is considered to be in default if it is more than 90 days past due.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position.

There are no significant concentrations of credit risk within the Group. As at 31 December 2019, the total credit risk exposure was as follows:

EUR '000	2019	2018
Cash and cash equivalents (note 16)	9,836	12,225
Trade and other receivables (note 14)	1,794	2,229
Derivative financial instruments (note 23)	73	9
Total exposure to credit risk	11,703	14,463

During 2019, provisions for bad debts in all properties of the Group amounted to EUR 399 thousand (2018: EUR 221 thousand).

The Fund is aiming to diversify its investments, and counterparties with low credit risk are preferred. Major acquisition and project finance credit risks are minimized by sharing these risks with banks and insurance companies. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with such domestic and international banks and financial institutions which have a high credit rating.

4b. Interest rate risk

The Group's interest rate risk is related to interest-bearing borrowings. Fluctuations in interest rates affect interest expense (note 17b). The Group's exposure to interest rate cash flow risk is mitigated by the use of interest rate swaps and interest rate caps.

At 31 December 2019, after taking into account the effect of interest rate swaps, 83% of the Group's borrowings had a fixed rate of interest (31 December 2018: 90%). The Group's management is of an opinion that an 83% hedge ratio is fully sufficient in the current interest environment. Development of interest rates is closely monitored and additional hedges can be concluded any time if the interest environment changes.

The following table demonstrates the sensitivity of the Group's profit before tax and equity (through the impact on cash flow hedge reserve) to a reasonably possible change in interest rates, with all other variables held constant):

EUR '000	2019 Effect on profit before tax	Effect on equity	2018 Effect on profit before tax	Effect on equity
Increase in basis points, +50	(178)	1,547	(79)	1,267
Decrease in basis points, -50	178	(1,547)	79	(1,267)

The Group uses interest rate swaps to fix the interest rate of long-term loans with floating interest rates. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swaps floating interest rates for fixed using interest rate derivatives. As 1) the Fund seeks to obtain financing on the best terms and conditions and 2) in the current market, fixed rate loans are often more expensive, the Fund hedges interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options.

The Group acquire swaps purely for cash flow hedge purposes and not for trading.

4c. Liquidity risk

The Fund's objectives are to maintain a balance between the continuity of funding and flexibility through the use of bank loans. For more comprehensive information about managing liquidity risk please refer to the risk management section in management review.

The table below summarises the contractual maturity profile of the Group's financial liabilities at 31 December 2019. The amounts are gross and undiscounted, and include contractual interest payments.

EUR '000	Less than 3 months	3 months - 1 year	1-2 years	2-5 years	More than 5 years	Total	Carrying amount
Interest bearing loans and borrowings (note 18)	1,423	4,274	15,436	202,228	-	223,361	206,132
Derivative financial instruments (note 23)	-	-	46	1,682	-	1,728	1,728
Trade and other payables (note 19)	3,171	-	-	-	-	3,171	3,171
Total current and non-current	4,594	4,274	15,482	203,910	-	228,259	211,032

4d. Foreign exchange risk

The Fund's primary currency is the euro. In 2019 and 2018 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than the euro from this date.

5. Capital management

The Group seeks to maintain a strong capital base while generating a solid return over the long-term to unitholders through improving the capital structure.

The capital structure of the Group consists of borrowings (as detailed in note 18) and equity. The capital structure of the Group is reviewed regularly based on the cost of capital and the risks associated with each class of capital.

Management monitors capital using the loan-to-value ratio, which is borrowings divided by property value. The Group's target loan to value ratio is 50%. As at 31 December 2019, the Group complied with all externally imposed capital requirements.

EUR '000	2019	2018
Interest bearing loans and borrowings (excluding lease liabilities)	205,827	140,507
Investment properties	356,575	245,160
Investment property under construction	2,367	-
Gearing ratio (loan-to-value)	57.3%	57.3%

6. Operating segments

The Group's reportable segments are as follows:

- Retail segment – includes Europa Shopping Centre (Lithuania), Domus Pro Retail Park (Lithuania), SKY Shopping Centre (Latvia), Pirita Shopping Centre (Estonia), Postimaja Shopping centre (Estonia), and Galerija Centrs Shopping Centre (Latvia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia), G4S Headquarters (Estonia), Upmalas Biroji (Latvia), Duetto I (Lithuania), Duetto II (Lithuania), Domus Pro stage III (Lithuania), Vainodes I (Latvia), LNK Centre (Latvia), and North Star (Lithuania) investment properties.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment property.

For management purposes, the Group is organized into three business segments based on the type of investment property. Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and assessing performance. Segment performance is evaluated based on net rental income and net profit/loss.

Information related to each reportable segment is set out below. Segment net rental income is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

Operating segments – 31 December 2019

EUR '000	Retail	Office	Leisure	Total segments
2019:				
External revenue[1]	12,871	11,356	1,074	25,301
Segment net rental income	8,413	9,765	1,041	19,219
Net gains (losses) from fair value adjustment	(988)	(1,756)	680	(2,064)
Interest expenses[2]	(1,343)	(1,187)	(66)	(2,596)
Income tax income	(265)	(161)	-	(426)
Segment net profit	5,762	6,176	1,645	13,583
As at 31.12.2019:				
Segment assets	186,377	168,352	15,710	370,439
Investment properties[3]	180,740	160,685	15,150	356,575
Investment property under construction[3]	-	2,367	-	2,367
Segment liabilities	85,563	76,907	5,534	168,004

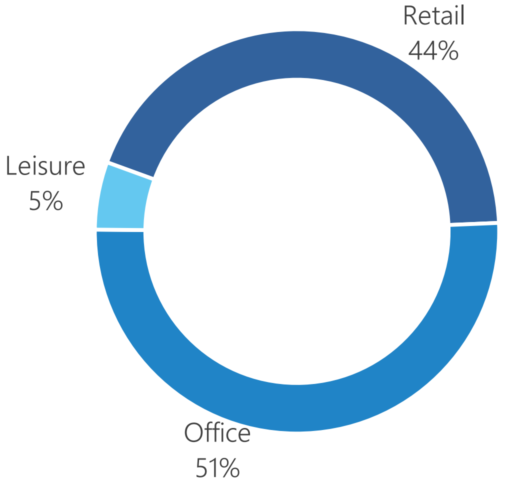
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses.
3. Additions to non-current assets consist of acquisition of investment property (EUR 114,133 thousand), subsequent expenditure on investment property (EUR 651 thousand), additions to right-of-use assets (EUR 321 thousand) and additions to investment property under construction (EUR 746 thousand). Please refer to notes 12 and 13 for more information.

Operating segments – 31 December 2018

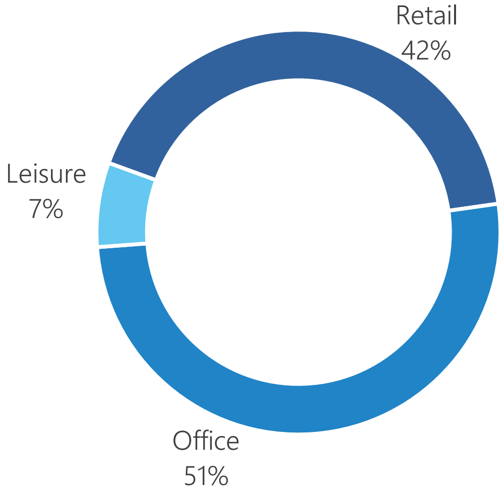
EUR '000	Retail	Office	Leisure	Total segments
2018:				
External revenue[1]	8,973	8,637	1,010	18,620
Segment net rental income	6,247	7,559	998	14,804
Net gains (losses) from fair value adjustment	(2,309)	3,093	1,230	2,014
Interest expenses[2]	(924)	(840)	(83)	(1,847)
Income tax expenses	(635)	(673)	-	(1,308)
Segment net profit	2,396	8,651	2,139	13,186
As at 31.12.2018:				
Segment assets	109,262	126,782	14,818	250,862
Investment properties[3]	106,420	124,270	14,470	245,160
Segment liabilities	54,679	50,353	5,369	110,401

1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses.
3. Additions to non-current assets consist of acquisition of investment property (EUR 51,545 thousand), acquisition of land (EUR 1,661) and subsequent expenditure on investment property (EUR 623 thousand). Please refer to notes 12 for more information.

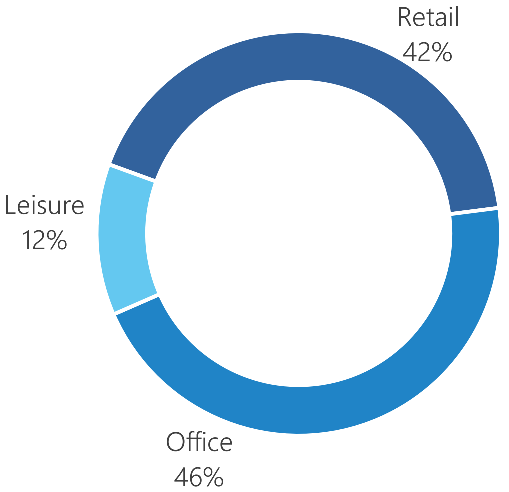
Segment net rental income for 2019*



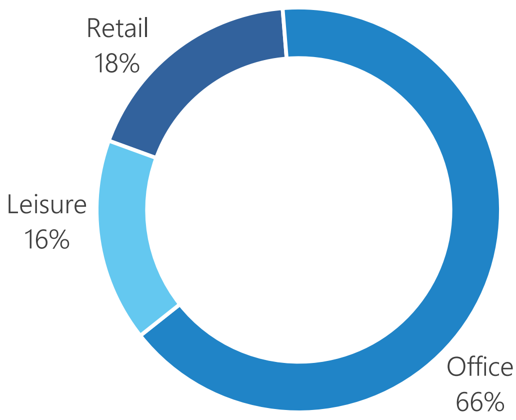
Segment net rental income for 2018*



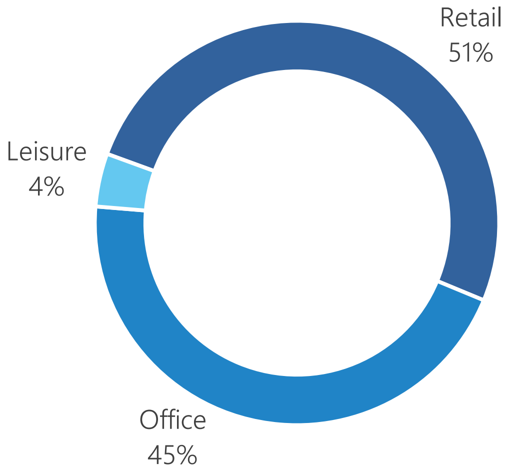
Segment net profit for 2019*



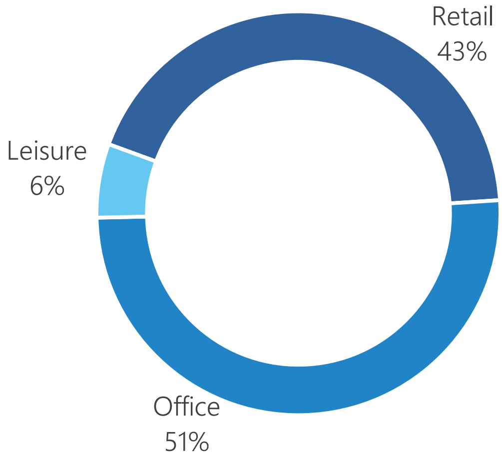
Segment net profit for 2018*



Investment properties as at 31 December 2019*



Investment properties as at 31 December 2018*



*As a percentage of the total for all reportable segments

Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2019

EUR '000	Total reportable segments	Adjustments	Consolidated
2019:			
Net profit (loss)	13,583	(4,792)[1]	8,791
As at 31.12.2019:			
Segment assets	370,439	1,295[2]	371,734
Segment liabilities	168,004	51,212[3]	219,216

1. Segment net profit for 2019 does not include Fund management fee (EUR 1,679 thousand), bond interest expenses (EUR 1,967 thousand), bond arrangement fee amortisation (EUR 65 thousand), Fund performance fee accrual (EUR 379 thousand), Fund custodian fees (EUR 65 thousand), and other Fund-level administrative expenses (EUR 637 thousand).
2. Segment assets do not include cash, which is held at the Fund level (EUR 1,295 thousand).
3. Segment liabilities do not include liabilities related to a bond issue at the Fund level (EUR 49,770 thousand), accrued bond coupon expenses (EUR 313 thousand), management fee payable (EUR 474 thousand), and other short-term payables (EUR 665 thousand) at the Fund level.

Operating segments – 31 December 2018

EUR '000	Total reportable segments	Adjustments	Consolidated
01.01.2018 – 31.12.2018:			
Net profit (loss)	13,186	(3,196)[1]	9,990
As at 31.12.2018:			
Segment assets	250,862	10,016[2]	260,878
Segment liabilities	110,401	40,672[3]	151,073

1. Segment net profit for 2018 does not include Fund management fee (EUR 1,391 thousand), bond interest expenses (EUR 838 thousand), Fund performance fee accrual (EUR 166 thousand), Fund custodian fees (EUR 47 thousand), and other Fund-level administrative expenses (EUR 754 thousand).
2. Segment assets do not include cash, which is held at the Fund level (EUR 10,016 thousand).
3. Segment liabilities do not include liabilities related to a bond issue at Fund level (EUR 39,755 thousand), accrued bond coupon expenses (EUR 250 thousand), management fee payable (EUR 354 thousand), and other short-term payables (EUR 313 thousand) at the Fund level.

Geographic information

	External revenue		Investment property value[1]	
EUR '000	2019	2018	31.12.2019	31.12.2018
Lithuania	9,326	7,280	122,975	84,010
Latvia	9,569	4,726	143,347	69,800
Estonia	6,406	6,614	92,620	91,350
Total	25,301	18,620	358,942	245,160

1. Investment property fair value including investment property under construction.

Major tenant

No single tenant accounted for more than 10% of the Group's total revenue. Rental income from one tenant in the office segment represented EUR 1,200 thousand of the Group's total rental income for 2019 (EUR 1,159 thousand for 2018).

7. Cost of rental activities

EUR '000	2019	2018
Repair and maintenance	2,085	1,424
Utilities	1,102	476
Property management expenses	936	629
Real estate taxes	842	569
Sales and marketing expenses	681	445
Allowance (reversal of allowance) for bad debts	165	143
Property insurance	84	73
Other	187	57
Total cost of rental activities	6,082	3,816

Part of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants: EUR 4,525 thousand during 2019 (EUR 2,760 thousand during 2018).

8. Administrative expenses

EUR '000	2019	2018
Management fee	1,679	1,391
Performance fee	379	166
Consultancy fees	270	215
Legal fees	221	323
Private placement related expenses	114	-
Audit fee	102	88
Fund marketing expenses	94	222
Custodian fees	65	47
Supervisory board fees	51	50
Other administrative expenses	276	311
Total administrative expenses	3,251	2,813

The Management Company is entitled to receive an annual management fee which is calculated quarterly, based on the 3-month average market capitalisation of the Fund.

The Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula is calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020). Transactions with related parties are disclosed in note 21.

9. Financial expenses

EUR '000	2019	2018
Interest on external loans and borrowings	4,553	2,685
Interest on lease liabilities	10	-
Loan arrangement fee amortisation	152	103
Foreign exchange loss	3	1
Total financial expenses	4,718	2,789

10. Earnings per unit

The calculation of earnings per unit is based on the following profit attributable to unitholders and weighted-average number of units outstanding.

Profit attributable to the unitholders of the Fund:

EUR '000	2019	2018
Profit for the period, attributed to the unitholders of the Fund	8,791	9,990
Profit for the period, attributed to the unitholders of the Fund	8,791	9,990

Weighted-average number of units:

	2019	2018
Issued units at 1 January	78,496,831[8]	77,440,638
Effect of units issued in February 2018[1]	-	1,471,248
Effect of units repurchased by the Fund in August and September 2018[2]	-	(115,281)
Effect of units repurchased by the Fund in October, November and December 2018[3]	-	(31,710)
Effect of units issued in April 2019[4]	13,508,355	-
Effect of units issued in May 2019[5]	400,247	-
Effect of units issued in July 2019[6]	1,370,181	-
Effect of units issued in October 2019[7]	2,942,734	-
Weighted-average number of units	96,718,348	78,764,895

1. In February 2018, the Fund issued 1,716,456 units through a private placement, which was part of the Postimaja acquisition deal.
2. In August and September 2018, the Fund repurchased 278,402 units through a buy-back program, which have been excluded from the calculation of earnings per unit.
3. In October, November and December 2018, the Fund repurchased 255,969 units through a buy-back program, which have been excluded from the calculation of earnings per unit.
4. In April 2019, the Fund issued 18,839,239 units through two private placements, which were part of the Galerija Centrs acquisition deal.
5. In May 2019, the Fund issued 627,974 units through a private placement, which was part of the Galerija Centrs acquisition deal.
6. In July 2019, the Fund issued 2,951,158 units through a private placement, which was part of the Galerija Centrs acquisition deal.
7. In October 2019, the Fund issued 12,472,323 units through two private placements, which were part of the North Star acquisition deal.
8. The number of units excludes 255,969 units acquired by the Fund and cancelled in February 2019 as part of the unit buy-back program.

Basic and diluted earnings per unit:

	2019	2018
Basic and diluted earnings per unit*	0.09	0.13

*There are no potentially dilutive instruments issued by the Group, therefore, the basic and diluted earnings per unit are the same.

11. Income tax

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where the real estate is situated. The Fund's subsidiaries in Lithuania depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income.

The Group's consolidated effective tax rate in respect of continuing operations for 2019 was 4.6% (2018: 11.6%).

The major components of income tax for the periods ended 31 December 2019 and 2018 were as follows:

EUR '000	2019	2018
Consolidated statement of profit or loss		
Current income tax for the period	(27)	(573)
Deferred tax for the period	(399)	(735)
Income tax expense reported in profit or loss	(426)	(1,308)
Consolidated statement of other comprehensive income		
Deferred income tax related to items charged or credited to equity:		
Revaluation of derivative instruments to fair value	44	97
Income tax reported in other comprehensive income	44	97

Deferred tax is only applicable for the Fund's subsidiaries in Lithuania. Deferred income tax as at 31 December 2019 and 2018 relates to the following:

	Consolidated statement of financial position		Recognised in profit or loss	
EUR '000	31.12.2019	31.12.2018	2019	2018
Tax losses brought forward	2,110	1,812	298	232
Revaluation of derivative instruments to fair value	143	99	-	-
Deferred income tax assets	2,253	1,911	-	-
Investment property	(8,440)	(7,731)	(709)	(968)
Other tax liability	(12)	(24)	12	1
Deferred income tax liabilities	(8,452)	(7,755)	-	-
Deferred income tax income/(expenses)	-	-	(399)	(735)
Deferred tax liabilities net	(6,199)	(5,844)	-	-
Reflected in the statement of financial position as follows:				
Deferred tax assets	-	-	-	-
Deferred tax liabilities	(6,199)	(5,844)	-	-
Deferred tax liabilities net	(6,199)	(5,844)	-	-

The reconciliation of effective tax rate for the years ended 31 December 2019 and 2018 is as follows:

EUR '000	2019		2018	
(Loss)/profit before income tax		9,217		11,928
At statutory tax rate	0.0%	-	0.0%	-
Effect of tax rates in foreign jurisdictions	(4.0)%	(369)	(7.4)%	(730)
Tax effect of non-deductible expenses	(0.2)%	(24)	(0.9)%	(104)
Change in unrecognized deferred tax	(0.4)%	(33)	(4.2)%	(474)
Total income tax expenses	(4.6)%	(426)	(11.6)%	(1,308)

As at 31 December 2019, the Group had tax losses of EUR 2,110 thousand that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Summary of taxation rates by country is presented below:

	2019	2018
Lithuania	15%	15%
Latvia[1]	0%	15%
Estonia[2]	0%	0%

1. 20% income tax rate applies to gross distributed profits or 25% rate applies to net distributed profits.
2. 20% income tax rate applies to gross distributed profits or 25% rate applies to net distributed profits.

The maximum income tax liability which would arise if all of the available retained earnings in subsidiaries in Estonia and Latvia were distributed as dividends to the Fund, is EUR 6,512 thousand.

12. Investment property

The fair value of the investment properties is approved by the Management Board of the Management Company, based on independent appraisals. Independent appraisals are performed in accordance with the Practice Statements and Relevant Guidance Notes of the RICS Appraisal and Valuation approved by both the International Valuation Standards Committee (IVSC) and by the European Group of Valuers' Associations (TEGoVA). In accordance with that basis, the market value is an estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The appraisers derive the fair value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom and in accordance with IAS 40.

As at 31 December 2019, new external valuations were performed by independent property valuator Newsec.

Valuations are prepared using the discounted cash flow model. Under the discounted cash flow model, the value of the property is estimated by compiling the net present values of future cash flows, which are obtained by applying a discount rate. This method first requires an estimate of potential gross income to which deductions for vacancy and collection losses are applied. The resulting net income is then capitalized or discounted at a rate that is commensurate with the risk inherent in the ownership of the property involved to produce a value estimate.

Fair value does not necessarily represent the liquidation value of the properties which would be dependent upon the price negotiated at the time net of selling costs. Fair value is largely based on estimates which are inherently subjective.

The yield requirement (discount factor) is determined for each property. Investment property comprises buildings, which are rented out under lease contracts.

EUR '000	2019	2018
Balance at 1 January	245,160	189,317
Acquisition of investment property	114,133	51,545
Acquisition of land	-	1,661
Additions (subsequent expenditure)	651	623
Disposals	(5)	-
Transfer to investment property under construction	(1,700)	-
Net revaluation gain (loss) on investment property	(1,969)	2,014
Closing balance excluding right-of-use assets	356,270	245,160
Initial recognition of right-of-use assets at 1 January (IFRS 16)	163	-
Additions to right-of-use assets (new leases)	158	-
Net revaluation gains on right-of-use assets	(16)	-
Closing balance	356,575	245,160

Acquisition of Duetto II

On 18 December 2018, the Fund signed a sales-purchase agreement to acquire the newly constructed Duetto II office building located in Vilnius, Lithuania. The agreed purchase price for the property was EUR 18,324 thousand corresponding to an approximate acquisition yield of 7.1%. The transaction was closed on 27 February 2019. Transaction costs related to the acquisition amounted to EUR 17 thousand. In accordance with IFRS 3, this acquisition is treated as an asset deal.

Acquisition of Galerija Centrs

On 13 June 2019, the Fund acquired 100% of the voting shares in Tampere Invest SIA, an unlisted company based in Riga, Latvia. Tampere Invest SIA owns the Galerija Centrs investment property which at the time of acquisition was valued at EUR 75,000 thousand corresponding to an approximate acquisition yield of 6.7%. In accordance with IFRS 3, this acquisition is treated as an asset deal.

Cash outflow on acquisition:

EUR '000	Total
Net cash acquired with the subsidiary	1,454
Cash paid for the acquisition	(39,615)
Net cash outflow on acquisition	(38,161)

At the time of acquisition, Tampere Invest SIA had an outstanding bank loan of EUR 35,813 thousand. In June 2019, the Group drew down a bank loan of EUR 30,000 thousand. The Group used the proceeds from the bank financing and capital raisings to fully refinance the acquired Tampere Invest SIA loan of EUR 35,813 thousand. The amounts were transferred to an escrow account at the moment of acquisition and later used to settle the Tampere Invest SIA bank loan. Tampere Invest SIA was legally released from its obligation to repay the liability of EUR 35,813 thousand after the settlement.

Acquisition of North Star

On 11 October 2019, the Fund acquired North Star Business Centre located in Vilnius, Lithuania. The agreed purchase price for the property was EUR 20,750 thousand corresponding to an approximate acquisition yield of 7.3%. Transaction costs related to the acquisition amounted to EUR 42 thousand. In accordance with IFRS 3, this acquisition is treated as an asset deal.

Fair value hierarchy

The following table shows an analysis of the fair values of investment properties recognised in the statement of financial position by their level in the fair value hierarchy as at 31 December 2019:

EUR '000	Total fair value Level 3	Total gain or (loss) for 2019 recognised in profit or loss
Latvia - Galerija Centrs (retail)	76,409	1,390
Lithuania – Europa (retail)	40,711	(520)
Estonia – Postimaja (retail)	32,250	(200)
Lithuania – Domus Pro (retail/office)	24,410	(509)
Latvia – Upmalas Biroji (office)	24,198	(1,619)
Latvia – Vainodes I (office)	20,890	(374)
Lithuania – North Star (office)	20,092	(783)
Lithuania – Duetto II (office)	18,935	425
Estonia – Lincona (office)	17,820	531
Estonia – G4S (office)	17,550	284
Latvia – LNK Centre (office)	17,000	(488)
Lithuania – Duetto I (office)	16,460	50
Estonia – Coca-Cola Plaza (leisure)	15,150	680
Estonia – Pirita (retail)	9,850	(254)
Latvia – SKY (retail)	4,850	(602)
Lithuania – Meraki (land)	-	4
Total	356,575	(1,985)

There were no transfers between levels during the years. Gains and losses recorded in profit or loss for fair value measurements categorised within Level 3 of the fair value hierarchy amounted to a net loss of EUR 1,985 thousand as at 31 December 2019 (2018: a net gain of EUR 2,014 thousand) and are presented in the consolidated statement of profit or loss and other comprehensive income on the line 'Valuation gains / (loss) on investment properties'.

Valuation techniques used to derive Level 3 fair values

The values of the properties are based on the valuation of investment properties performed by Newsec as at 31 December 2019 increased by right-of-use assets.

The table below presents the following for each investment property:

- A description of the valuation techniques applied;
- The inputs used in the fair value measurement;
- Quantitative information about the significant unobservable inputs used in the fair value measurement.

As of 31 December 2019:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 17,426 sq. m.		- Rental growth p.a.	1.2% - 2.3%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	6.8%
		- Average rent (EUR/sq. m.)	13.8
Domus Pro, Vilnius (Lithuania)	DCF	- Discount rate	8.0% - 8.5%
Net leasable area (NLA) – 16,057 sq. m.		- Rental growth p.a.	1.2% - 2.3%
Segment – Retail/Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	9.6

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Property	Valuation technique	Key unobservable inputs	Range
Lincona Office Complex, Tallinn (Estonia)	DCF	- Discount rate	8.1%
Net leasable area (NLA) – 10,865 sq. m.		- Rental growth p.a.	1.2% - 2.2%
Segment – Office		- Long-term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.1
Coca-Cola Plaza , Tallinn (Estonia)	DCF	- Discount rate	8.1%
Net leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	1.0% - 3.0%
Segment – Leisure		- Long-term vacancy rate	2.0%
Year of construction/renovation – 1999		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.7
G4S Headquarters, Tallinn (Estonia)*	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 9,179 sq. m.		- Rental growth p.a.	2.0% - 2.2%
Segment – Office		- Long-term vacancy rate	2.0%
Year of construction/renovation – 2013		- Exit yield	7.3%
		- Average rent (EUR/sq. m.)	10.8
SKY Shopping Centre, Riga (Latvia)	DCF	- Discount rate	9.3%
Net leasable area (NLA) – 3,254 sq. m.		- Rental growth p.a.	1.2% - 1.7%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	11.0
Upmalas Biroji, Riga (Latvia)	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 10,458 sq. m.		- Rental growth p.a.	0.7% - 1.7%
Segment – Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2008		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.0
Pirita Shopping Centre, Tallinn (Estonia)	DCF	- Discount rate	9.3%
Net leasable area (NLA) – 5,460 sq. m		- Rental growth p.a.	1.9% - 2.2%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2016		- Exit yield	8.0%
		- Average rent (EUR/sq. m.)	13.4
Duetto I, Vilnius (Lithuania)	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 8,498 sq. m		- Rental growth p.a.	0.5% - 2.3%
Segment – Office		- Long-term vacancy rate	5%
Year of construction/renovation – 2017		- Exit yield	7.3%
		- Average rent (EUR/sq. m.)	11.7
Duetto II, Vilnius (Lithuania)	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 8,515 sq. m		- Rental growth p.a.	1.2% - 2.3%
Segment – Office		- Long-term vacancy rate	5%
Year of construction/renovation – 2018		- Exit yield	7.3%
		- Average rent (EUR/sq. m.)	12.6
Vainodes I, Riga (Latvia)*	DCF	- Discount rate	8.0%
Net leasable area (NLA) – 8,052 sq. m		- Rental growth p.a.	0.0% - 2.5%
Segment – Office		- Long-term vacancy rate	1.0% - 5.0%
Year of construction/renovation – 2014		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.2

Property	Valuation technique	Key unobservable inputs	Range
Postimaja, Tallinn (Estonia)*	DCF	- Discount rate	7.4%
Net leasable area (NLA) – 9,145 sq. m		- Rental growth p.a.	0.5% - 2.8%
Segment – Retail		- Long-term vacancy rate	2.0%
Year of construction/renovation – 1980		- Exit yield	6.0%
		- Average rent (EUR/sq. m.)	16.4
LNK Centre, Riga (Latvia)	DCF	- Discount rate	7.4%
Net leasable area (NLA) – 7,453 sq. m		- Rental growth p.a.	0.7% - 2.6%
Segment – Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2006 / 2014		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	12.2
Galerija Centrs, Riga (Latvia)	DCF	- Discount rate	7.4%
Net leasable area (NLA) – 19,945 sq. m		- Rental growth p.a.	2.0% - 2.8%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 1939 / 2006		- Exit yield	6.8%
		- Average rent (EUR/sq. m.)	22.9
North Star, Vilnius (Lithuania)	DCF	- Discount rate	8.1%
Net leasable area (NLA) – 10,562 sq. m		- Rental growth p.a.	0.0% - 2.3%
Segment – Office		- Long-term vacancy rate	5.0%
Year of construction/renovation – 2009		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	12.2

*Postimaja, G4S and Vainodes I property valuations also include building expansion rights. The market value of the additional building rights is EUR 5.4 million for Postimaja, EUR 0.4 million for G4S and EUR 2.8 million for Vainodes I.

As of 31 December 2018:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 17,396 sq. m.		- Rental growth p.a.	1.2% - 2.3%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	14.0
Domus Pro, Vilnius (Lithuania)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 16,087 sq. m.		- Rental growth p.a.	1.7% - 2.2%
Segment – Retail/Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	9.3
Lincona Office Complex, Tallinn (Estonia)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 10,870 sq. m.		- Rental growth p.a.	1.6% - 1.9%
Segment – Office		- Long-term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.2
Coca-Cola Plaza , Tallinn (Estonia)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	1.4% - 3.0%
Segment – Leisure		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 1999		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.4

Property	Valuation technique	Key unobservable inputs	Range
G4S Headquarters, Tallinn (Estonia)*	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 9,179 sq. m.		- Rental growth p.a.	2.0% - 3.0%
Segment – Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	10.4
SKY Shopping Centre, Riga (Latvia)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 3,245 sq. m.		- Rental growth p.a.	1.7% - 1.9%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.8
Upmalas Biroji, Riga (Latvia)	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 10,422 sq. m.		- Rental growth p.a.	1.0% - 1.9%
Segment – Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2008		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	12.8
Pirita Shopping Centre, Tallinn (Estonia)	DCF	- Discount rate	9.0%
Net leasable area (NLA) – 5,454 sq. m		- Rental growth p.a.	1.6% - 3.0%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2016		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	12.8
Duetto I, Vilnius (Lithuania)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,498 sq. m		- Rental growth p.a.	1.8% - 2.8%
Segment – Office		- Long-term vacancy rate	5.0%
Year of construction/renovation – 2017		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	11.0
Vainodes I, Riga (Latvia)*	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 8,052 sq. m		- Rental growth p.a.	0.0% - 2.5%
Segment – Office		- Long-term vacancy rate	1.0% - 5.0%
Year of construction/renovation – 2014		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.2
Postimaja, Tallinn (Estonia)*	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 9,145 sq. m		- Rental growth p.a.	0.0% - 2.4%
Segment – Retail		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 1980		- Exit yield	6.0%
		- Average rent (EUR/sq. m.)	17.3
LNK Centre, Riga (Latvia)	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 7,453 sq. m		- Rental growth p.a.	0.0% - 2.5%
Segment – Office		- Long-term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2006 / 2014		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	12.0
Meraki land, Vilnius (Lithuania)	Sales comparison approach for land	- Discount rate	-%
Net leasable area (NLA) – n/a		- Rental growth p.a.	-%
Segment – n/a		- Long-term vacancy rate	-%
Year of acquisition – 2018		- Exit yield	-%
		- Average rent (EUR/sq. m.)	-

*Postimaja, G4S and Vainodes I property valuations also include building rights. The market value of the additional building rights (possible expansion) is EUR 3.9 million for Postimaja, EUR 0.4 million for G4S and EUR 3 million for Vainodes I.

The table below sets out information about significant unobservable inputs used at 31 December 2019 in measuring investment properties categorised to Level 3 in the fair value hierarchy.

Type of asset class	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	Discounted cash flow	Exit yield	2019: 6.0% - 8.0% 2018: 6.0% - 7.5%	An increase in exit yield in isolation would result in a lower value of Investment property.
		Discount rate	2019: 7.4% - 9.3% 2018: 7.8% - 9.0%	An increase in discount rate in isolation would result in a lower value of Investment property.
		Rental growth p.a.	2019: 0.0% - 3.0% 2018: 0% - 3.0%	An increase in rental growth in isolation would result in a higher value of Investment property.
		Long-term vacancy rate	2019: 1.0% - 5.0% 2018: 1.0% - 5.0%	An increase in long-term vacancy rate in isolation would result in a lower value of Investment property.

Sensitivity analysis of investment properties portfolio as at 31 December 2019 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

EUR '000		Movement in discount rate				
		-0.50%	-0.25%	0.00%	+0.25%	+0.50%
Movement in Exit yield	-0.50%	387,455	379,955	372,565	365,385	358,355
	-0.25%	378,775	371,425	364,285	357,275	350,445
	0.00%	370,695	363,565	356,575	349,755	343,095
	+0.25%	363,205	356,225	349,405	342,775	336,445
	+0.50%	356,205	349,415	342,745	336,425	330,225

Descriptions and definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values.

Discounted cash flows (DCF)

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and applying to this an appropriate, market-derived discount rate to establish the present value of the income stream. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment.

Rental growth

The estimated average increase in rent based on both market estimations and contractual indexations.

Long-term vacancy rate

Long-term vacancy rate is determined based on the percentage of estimated vacant space divided by the total lettable area.

Discount rate

Rate used to discount the net cash flows generated from rental activities during the period of analysis.

Exit yield
A rate used to estimate the resale value of a property at the end of the holding period. The expected net operating income per year is divided by the terminal cap rate to get the terminal value. The exit yield is calculated according to the growth rate of the stabilized net operating income or based on forecast.

Highest and best use
For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

13. Investment property under construction

On 16 May 2018, the Fund completed the acquisition of land next to the Domus Pro retail park. In December 2019, the Group started construction and development works to build an office on the acquired land plot. The land plot was initially recognised as an investment property, but was reclassified to investment property under construction at the beginning of construction.

EUR '000	31.12.2019	31.12.2018
Balance at 1 January	-	-
Transfer from investment property	1,700	-
Additions	746	-
Net revaluation gain	(79)	-
Closing balance	2,367	-

As of 31 December 2019, the investment property under construction was valued by the independent external valuator Newsec.

Fair value hierarchy
The following table shows an analysis of the fair value of investment property under construction recognised in the statement of financial position by their level in the fair value hierarchy as at 31 December 2019:

EUR '000	Total fair value Level 3	Total gain or (loss) for 2019 recognised in profit or loss
Lithuania – Meraki (land)	2,367	(79)
Total	2,367	(79)

There were no transfers between levels during the years. Gains and losses recorded in profit or loss for the fair value measurement categorised within Level 3 of the fair value hierarchy amounted to a net loss of EUR 79 thousand as at 31 December 2019 and are presented in the consolidated statement of profit or loss and other comprehensive income on the line 'Valuation gains / (loss) on investment properties'.

Valuation techniques used to derive Level 3 fair values
The value of the investment property under construction is based on the valuation of investment properties performed by Newsec as at 31 December 2019 increased by capitalised costs (EUR 67 thousand) that were not considered during valuation.

Property	Valuation technique		Key unobservable inputs	Range
Meraki, Vilnius (Lithuania)	DCF	-	Discount rate	18.0%
Net leasable area (NLA) – 15,621 sq. m		-	Rental growth p.a.	2.1% - 2.3%
Segment – Office		-	Long-term vacancy rate	5.0%
Year of construction/renovation – 2021		-	Exit yield	7.3%
		-	Average rent (EUR/sq. m.)	11.6

Sensitivity analysis of investment property under construction as at 31 December 2019 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

EUR '000		Movement in discount rate				
		-0.50%	-0.25%	0.00%	+0.25%	+0.50%
Movement in Exit yield	-0.50%	3,817	3,767	3,727	3,687	3,637
	-0.25%	3,097	3,057	3,017	2,987	2,947
	0.00%	2,437	2,397	2,367	2,327	2,297
	+0.25%	1,817	1,787	1,747	1,717	1,687
	+0.50%	1,237	1,207	1,177	1,147	1,127

14. Trade and other receivables

EUR '000	31.12.2019	31.12.2018
Trade receivables, gross	1,644	1,709
Less impairment allowance for doubtful receivables	(399)	(221)
Accrued income	477	614
Other accounts receivable	72	127
Total	1,794	2,229

Trade receivables are non-interest bearing and are generally on 30-day terms.

As at 31 December 2019, trade receivables at a nominal value of EUR 399 thousand were fully impaired (EUR 221 thousand as at 31 December 2018).

Movements in the impairment allowance for doubtful receivables were as follows:

EUR '000	2019	2018
Balance at 1 January	(221)	(84)
Acquisitions of subsidiaries	(190)	-
Charge for the period	(233)	(152)
Amounts written off	177	6
Reversal of allowances recognised in previous periods	68	9
Balance at end of period	(399)	(221)

The ageing analysis of trade receivables not impaired is as follows (at the end of the period):

EUR '000	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days
31.12.2019	1,245	920	210	48	13	9	45
31.12.2018	1,488	635	339	78	27	73	336

15. Other current assets

Other current assets comprise of prepaid expenses related to future investment property acquisitions and development projects in Lithuania, Latvia and Estonia.

16. Cash and cash equivalents

EUR '000	31.12.2019	31.12.2018
Cash at banks and on hand	9,836	12,225
Total cash	9,836	12,225

As at 31 December 2019, the Group had to keep at least EUR 350 thousand (2018: EUR 350 thousand) of cash in its bank accounts due to certain restrictions in bank loan agreements.

17. Equity
17a. Paid in capital

The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 31 December 2019, the total number of the Fund's units was 113,387,525 (as at 31 December 2018: 78,752,800). Units issued are presented in the table below:

EUR '000	Number of units	Amount
As at 1 January 2019	78,752,800	93,673
Cancelled own units	(255,969)	(335)
Units issued in April 2019	18,839,239	23,742
Units issued in May 2019	627,974	803
Units issued in July 2019	2,951,158	4,000
Units issued in October 2019	12,472,323	16,181
Total change during the period	34,634,725	44,391
As at 31 December 2019	113,387,525	138,064

Incremental costs directly attributable to the issue of units in the amount of EUR 1,278 thousand (2018: nil) were recognised as a deduction from paid in capital.

A unit represents the investor's share in the assets of the Fund. The Fund has one class of units. The investors have the following rights deriving from their ownership of units:

- to own a share of the Fund's assets corresponding to the number of units owned by the investor;
- to receive, when payments are made a share of the net income of the Fund in proportion to the number of units owned by the investor (pursuant to the Fund Rules);
- to call a general meeting in the cases prescribed in the Fund Rules and the law;
- to participate and vote in a general meeting pursuant to the number of votes arising from units belonging to the investor and the number of votes arising from units which have been issued and not redeemed as at ten days before the general meeting is held.

Subsidiaries did not hold any units of the Fund as at 31 December 2019 and 31 December 2018.

The Fund did not hold its own units as at 31 December 2019.

On 1 August 2018, the Fund commenced a unit buy-back program, which lasted until 19 June 2019. During the buy-back program, the Fund could acquire up to 5 million units for up to EUR 5 million. Until 31 December 2018, the Fund bought back 660,263 units for EUR 860 thousand and held 255,969 units as at that date. On 25 October 2018, the Fund cancelled and deleted 404,294 units that were held on its own account. On 1 February 2019, the remaining 255,969 units were cancelled and deleted.

17b. Cash flow hedge reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 31 December 2019 and 31 December 2018.

EUR '000	2019	2018
Balance at the beginning of the year	(1,005)	(56)
Movement in fair value of existing hedges	(595)	(1,013)
Recognition of initial interest rate cap costs	-	(33)
Movement in deferred income tax (note 11)	44	97
Net variation during the period	(551)	(949)
Balance at the end of the period	(1,556)	(1,005)

17c. Dividends (distributions)

EUR '000	2019	2018
Declared during the period	(10,253)	(7,702)
Total distributions made	(10,253)	(7,702)

On 31 January 2018, the Fund declared a cash distribution of EUR 1,781 thousand (EUR 0.023 per unit).
On 4 May 2018, the Fund declared a cash distribution of EUR 1,900 thousand (EUR 0.024 per unit).
On 16 August 2018, the Fund declared a cash distribution of EUR 1,977 thousand (EUR 0.025 per unit).
On 31 October 2018, the Fund declared a cash distribution of EUR 2,044 thousand (EUR 0.026 per unit).

On 13 February 2019, the Fund declared a cash distribution of EUR 2,119 thousand (EUR 0.027 per unit).
On 17 May 2019, the Fund declared a cash distribution of EUR 2,449 thousand (EUR 0.025 per unit).
On 2 August 2019, the Fund declared a cash distribution of EUR 2,624 thousand (EUR 0.026 per unit).
On 18 October 2019, the Fund declared a cash distribution of EUR 3,061 thousand (EUR 0.027 per unit).

On 31 January 2020, the Fund declared a cash distribution of EUR 3,175 thousand (EUR 0.028 per unit).

18. Interest bearing loans and borrowings

EUR '000	Maturity	Effective interest rate	31.12.2019	31.12.2018
Non-current borrowings				
Bonds	May 2023	4.25%	49,770	39,755
Bank 1	Jul 2022	3M EURIBOR + 1.40%	20,874	20,863
Bank 1	Aug 2021	3M EURIBOR + 1.75%	2,286	2,386
Bank 1	Aug 2021	6M EURIBOR + 1.40%	7,746	7,743
Bank 1	Feb 2022	6M EURIBOR + 1.40%	4,939	4,937
Bank 1	Dec 2022	6M EURIBOR + 1.40%	7,180	7,178
Bank 1	Nov 2024	3M EURIBOR + 1.55%	9,800	9,842
Bank 1	May 2022	3M EURIBOR + 1.55%	7,328	7,325
Bank 1	May 2022	6M EURIBOR + 1.55%	3,654	3,649
Bank 1[1]	Sep 2023	3M EURIBOR + 1.75%	9,111	662
Bank 1[2]	Mar 2024	6M EURIBOR + 2.65%	8,972	-
Bank 2[3]	May 2022	6M EURIBOR + 2.75%	29,928	-
Bank 3	Aug 2023	1M EURIBOR + 1.55%	11,727	11,722
Bank 4	Mar 2023	6M EURIBOR + 2.15%	15,344	7,287
Bank 4	Feb 2023	6M EURIBOR + 1.18%	17,168	17,158
Lease liabilities			305	-
Less current portion of bank loans and bonds			(397)	(106)
Less current portion of lease liabilities			(17)	-
Total non-current debt			205,718	140,401
Current borrowings				
Current portion of non-current bank loans and bonds			397	106
Current portion of lease liabilities			17	-
Total current debt			414	106
Total			206,132	140,507

1. In February 2019, the Fund drew down an additional EUR 9,704 thousand bank loan under an existing bank loan facility. During 2019, the Fund repaid EUR 1,628 thousand of the existing bank loan.
2. In October 2019, the Fund drew down a bank loan of EUR 9,000 thousand.
3. In June 2019, the Fund drew down a bank loan of EUR 30,000 thousand. The Group used the proceeds to partially refinance its bank loan by repaying EUR 35,813 thousand of existing bank loan. Please refer to note 12 for more information.

Reconciliation of movements of liabilities to cash flow arising from financing

EUR '000	1 January 2019 (restated)[1]	Changes from financing cash flows	Acquisition	New leases	Other movements	Change in fair value	31 December 2019
Liabilities							
Interest bearing loans and borrowings (excluding lease liabilities)	140,507	29,407	35,813[2]	-	100	-	205,827
Lease liabilities	163	(16)	-	158	-	-	305
Derivative financial instruments	1,069		-	-	-	659	1,728
Accrued financial expenses	313	(4,465)	-	-	4,562[3]	-	410
Total liabilities from financing activities	142,052	24,926	35,813	158	4,662	659	208,270
Equity							
Paid in capital	93,673	44,726	-	-	(335)	-	138,064
Retained earnings	17,472	(10,253)	-	-	8,791[4]	-	16,010
Total equity related changes	111,145	34,473	-	-	8,456	-	154,074
Total	253,197	59,399	35,813	158	13,118	659	362,344

1. In 2019, the Group adopted IFRS 16 Leases, effective from 1 January 2019. As a result, the comparative figures were adjusted. Please refer to note 2 for more information regarding the impact on the statement of financial position from the first-time application of IFRS 16.
2. As part of Tampere Invest SIA acquisition, the Group acquired a bank loan of EUR 35,813 thousand which was refinanced during 2019. Please refer to note 12 for more information.
3. During 2019, the Fund's interest expenses amounted to EUR 4,562 thousand. Please refer to note 9 for more information.
4. In 2019, the Fund earned a net profit of EUR 8,791 thousand. Please refer to note 10 for more information.

EUR '000	1 January 2018	Changes from financing cash flows	Acquisition	New leases	Other movements	Change in fair value	31 December 2018
Liabilities							
Interest bearing loans and borrowings	98,087	42,321	-	-	99	-	140,507
Derivative financial instruments	103	-	-	-	33	933	1,069
Accrued financial expenses	41	(2,380)	-	-	2,652[1]	-	313
Total liabilities from financing activities	98,231	39,941	-	-	2,784	933	141,889
Equity							
Paid in capital	91,848	2,350	-	-	(525)	-	93,673
Own units	-	(860)	-	-	525	-	(335)
Retained earnings	15,184	(7,702)	-	-	9,990[2]	-	17,472
Total equity related changes	107,032	(6,212)	-	-	9,990	-	110,810
Total	205,263	33,729	-	-	12,774	933	252,699

1. During 2018, the Fund's interest expenses amounted to EUR 2,685 thousand. Please refer to note 9 for more information. Other equity related movements amounted to minus EUR 33 thousand.
2. In 2018, the Fund earned a net profit of EUR 9,990 thousand. Please refer to note 10 for more information.

Loan securities

Borrowings received were secured with the following pledges and securities as of 31 December 2019:

	Mortgages of the property*	Second rank mortgages for derivatives	Cross-mortgage	Commercial pledge of the entire assets
Bank 1	Lincona, SKY, G4S Headquarters, Europa, Domus Pro, LNK, Vainodes I, North Star and Pirita	Europa, Domus Pro, Vainodes I	Pirita, Lincona, G4S Headquarters for Pirita, Lincona, G4S Headquarters bank loans; Vainodes I and LNK for Vainodes I and LNK bank loan	Vainodes I, LNK
Bank 2	Galerija Centrs	Galerija Centrs		Galerija Centrs
Bank 3	Upmalas Biroji			
Bank 4	Coca-Cola Plaza and Postimaja, Duetto I and II			

*Please refer to note 12 for the carrying amounts of assets pledged at period end.

	Suretyship	Pledges of receivables	Pledges of bank accounts	Share pledge
Bank 1	Europa for Domus Pro bank loan, Europa for North Star bank loan, Vainodes I for LNK bank loan, LNK for Vainodes I bank loan	Lincona, SKY, Europa, and Domus Pro	Europa, SKY, LNK and Vainodes I	BH Domus Pro UAB, Vainodes Krasti SIA, BH S27 SIA
Bank 2				Tampere Invest SIA
Bank 3			Upmalas Biroji	
Bank 4		Duetto I and II	Duetto I and II	BH Duetto UAB

19. Trade and other payables

EUR '000	31.12.2019	31.12.2018
Trade payables	875	733
Accrued expenses	830	418
Management fee payable	474	354
Tax payables	471	431
Accrued financial expenses	410	313
Other payables	111	148
Total trade and other payables	3,171	2,397

Terms and conditions of trade and other payables:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Other payables are non-interest bearing and have an average term of 3 months.

20. Commitments and contingencies

20a. Operating leases – the Group as a lessor

The Group leases real estate under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate.

The leasing arrangements entered into or in relation with the Group's investment properties portfolio which include a clause authorising tenants to terminate the leasing arrangements with up to six-month notice are not considered as non-cancellable leases.

Lease payments receivable under non-cancellable leases are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

EUR '000	2019		2018	
Year of expiry or first break option	Amount receivable	%	Amount receivable	%
Within 1 year	21,254	28%	14,867	23%
Between 2 and 5 years	47,445	64%	41,029	63%
5 years and more	5,680	8%	8,846	14%
Total	74,379	100%	64,742	100%

20b. Litigation

As at 31 December 2019, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

20c. Contingent assets

On 18 December 2018, the Fund signed an additional agreement to the sales and purchase agreement with the seller of the Duetto II property. The seller agreed to provide a rental income guarantee in the aggregate amount of EUR 1,300 thousand per annum (EUR 108 thousand per month) of the effective net operating income from the Building for the first 24 months starting from 27 February 2019. An asset has not been recognised in the financial statements as the management of the Fund expects that Duetto II will be able to earn the guaranteed amount of rent.

20d. Contingent liabilities

The Group did not have any contingent liabilities at the end of 31 December 2019.

21. Related parties

During the reporting period, the Group entered into transactions with related parties. Those transactions and related balances are presented below. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. All transactions between related parties are priced on an arm's length basis.

Northern Horizon Capital AS
As set out in Baltic Horizon Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund pays management fees for it (note 8).

The Group's transactions with related parties during 2019 and 2018 were the following:

EUR '000	2019	2018
Northern Horizon Capital AS group		
Management fees	1,679	1,391
Performance fees	379	166

The Group's balances with related parties as at 31 December 2019 and 31 December 2018 were the following:

EUR '000	31.12.2019	31.12.2018
Northern Horizon Capital AS group		
Management fees payable	474	354
Accrued performance fees	545	166

The Management Company is entitled to receive an annual management fee which is calculated quarterly, based on the 3-month average market capitalisation of the Fund. In case the market capitalisation is lower than 90% of the NAV of the Fund, the amount equal to 90% of the NAV of the Fund shall be used for the management fee calculation instead of the market capitalisation.

The fee is based on the following rates and in the following tranches:
- 1.50% of the market capitalisation below EUR 50 million;
- 1.25% of the part of the market capitalisation that is equal to or exceeds EUR 50 million and is below EUR 100 million;
- 1.00% of the part of the market capitalisation that is equal to or exceeds EUR 100 million and is below EUR 200 million;
- 0.75% of the part of the market capitalisation that is equal to or exceeds EUR 200 and is below EUR 300 million;
- 0.50% of the part of the market capitalisation that is equal to or exceeds EUR 300 million.

The Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula will be calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020).

Northern Horizon Capital AS Group owns 7,737 units of the Fund.

Supervisory Board of the Fund

As set out in Baltic Horizon Fund Rules, Supervisory Board members are entitled to remuneration for their service in the amount determined by the General Meeting. During 2019, the annual remuneration of the Supervisory Board of the Fund amounted to EUR 48 thousand (2018: EUR 48 thousand). Please refer to note 8 for more information regarding the total expenses related to the Supervisory Board of the Fund.

Entities having control or significant influence over the Fund

The holders of units owning more than 5% of the units in total as of 31 December 2019 and 31 December 2018 are presented in the tables below:

As at 31 December 2019

	Number of units	Percentage
Nordea Bank AB clients	54,428,197	48.00%
Raiffeisen Bank International AG clients	17,561,032	15.49%

As at 31 December 2018

	Number of units	Percentage
Nordea Bank AB clients	34,630,979	43.97%
Clearstream Banking Luxembourg S.A.A clients	16,474,489	20.92%
Skandinaviska Enskilda Banken SA clients	4,565,556	5.80%

Except for dividends paid, there were no transactions with the unitholders disclosed in the tables above.

22. Financial instruments

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments carried in the consolidated financial statements:

	Carrying amount		Fair value	
EUR '000	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets				
Trade and other receivables	1,794	2,229	1,794	2,229
Cash and cash equivalents	9,836	12,225	9,836	12,225
Derivative financial instruments	73	9	73	9
Financial liabilities				
Interest-bearing loans and borrowings				
Bank loans	(156,057)	(100,752)	(155,718)	(100,794)
Bonds	(49,770)	(39,755)	(50,687)	(41,100)
Trade and other payables	(3,171)	(2,397)	(3,171)	(2,397)
Derivative financial instruments	(1,728)	(1,069)	(1,728)	(1,069)

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2019 and 31 December 2018:

Period ended 31 December 2019

EUR '000	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Trade and other receivables	-	-	1,794	1,794
Cash and cash equivalents	-	9,836	-	9,836
Derivative financial instruments	-	73	-	73
Financial liabilities				
Interest-bearing loans and borrowings				
Bank loans	-	-	(155,718)	(155,718)
Bonds	-	-	(50,687)	(50,687)
Trade and other payables	-	-	(3,171)	(3,171)
Derivative financial instruments	-	(1,728)	-	(1,728)

Period ended 31 December 2018

EUR '000	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Trade and other receivables	-	-	2,229	2,229
Cash and cash equivalents	-	12,225	-	12,225
Derivative financial instruments	-	9	-	9
Financial liabilities				
Interest-bearing loans and borrowings				
Bank loans	-	-	(100,794)	(100,794)
Bonds	-	-	(41,100)	(41,100)
Trade and other payables	-	-	(2,397)	(2,397)
Derivative financial instruments	-	(1,069)	-	(1,069)

Management assessed that the carrying amounts of cash and short-term deposits, rent and other receivables, trade payables and other current liabilities approximate their fair values largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to estimate the fair values:

- Trade and other receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses on these receivables. As at 31 December 2019 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by discounting the expected future cash flows at prevailing interest rates. The estimated fair values of the Group's interest-bearing loans and borrowings were determined using discount rates in a range of 0.03% and negative 0.50%.
- Cash and cash equivalents are attributed to Level 2 in the fair value hierarchy.

23. Derivative financial instruments

The Group has entered into a number of interest rate swaps (IRS) with SEB, OP and Luminor banks. Also, the Group has interest rate cap (CAP) agreements with Swedbank.

The purpose of derivative instruments is to hedge the interest rate risk arising from the interest rate fluctuations of the Group's non-current loans and some of the Group's current loans because the Group's policy is to have fixed interest expenses. According to the IRS agreements, the Group makes fixed interest payments to the bank and receives variable interest rate payments from the bank. An interest rate cap allows to limit the interest rate fluctuation to a certain level.

IFRS 9 allows hedge accounting provided that the hedge is effective. In such cases, any gain or loss recorded on the fair value changes of the financial instrument is recognised in an equity reserve rather than the income statement. The ineffective part of the change in the fair value of the hedging instrument (if any) is recognised in the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles. Please refer to note 4b and 17b for more information.

Derivative type EUR '000	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						31.12.2019	31.12.2018
CAP	May 2018	Feb 2023	17,200	6M EURIBOR	3.5%*	-	8
CAP	Nov 2017	Mar 2022	7,200	6M EURIBOR	1.0%*	-	1
IRS	July 2019	May 2022	30,000	6M EURIBOR	-0.37%	73	-
Derivative financial instruments, assets						73	9
IRS	Mar 2018	Aug 2024	18,402	3M EURIBOR	0.73%	(805)	(529)
IRS	Mar 2018	Nov 2022	6,860	6M EURIBOR	0.46%	(142)	(113)
IRS	Sep 2017	May 2022	7,188	3M EURIBOR	0.26%	(102)	(85)
IRS	Nov 2016	Aug 2023	10,575	1M EURIBOR	0.26%	(228)	(123)
IRS	Aug 2017	Feb 2022	6,020	6M EURIBOR	0.305%	(76)	(69)
IRS	Aug 2016	Aug 2021	7,750	6M EURIBOR	0.05%	(46)	(34)
IRS	May 2018	Apr 2024	4,920	3M EURIBOR	0.63%	(194)	(116)
IRS	Jan 2019	Sep 2023	5,800	3M EURIBOR	0.32%	(135)	-
Derivative financial instruments, liabilities						(1,728)	(1,069)
Net value of financial derivatives						(1,655)	(1,060)

*Interest rate cap

Derivative financial instruments were accounted for at fair value as at 31 December 2019 and 31 December 2018. The maturity of the derivative financial instruments of the Group is as follows:

Classification according to maturity	Liabilities		Assets	
EUR '000	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non-current	(1,728)	(1,069)	73	9
Current	-	-	-	-
Total	(1,728)	(1,069)	73	9

24. Subsequent events

On 31 January 2020, the Fund declared a cash distribution of EUR 3,175 thousand (EUR 0.028 per unit) to unitholders.

On 6 February 2020, the Group signed a construction agreement for Meraki development project in Vilnius, Lithuania. The total capital commitment in respect of construction costs contracted amounts to EUR 22,879 thousand.

At the beginning of 2020, new Coronavirus (Covid-19) has started spreading all over the world and the virus has had an impact on the businesses and economies, including in the Baltics. The virus outbreak is considered to be a non-adjusting subsequent event for Baltic Horizon Fund's 2019 annual report. As the situation is uncertain and developing fast then the Fund management team at this point does not consider it to be practical to give a quantitative analysis of the potential impact of the virus outbreak. The impact of the virus on the Fund will be taken into account in 2020 financial statements.

There have been no other significant events after the end of the reporting period.

25. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Interest in capital
BH Lincona OÜ	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BH Domus Pro UAB	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BH CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BH Europa UAB	Gynėjų 16, Vilnius, Lithuania	300059140	2 March 2015	Asset holding company	100%
BH P80 OÜ	Hobujaama 5, Tallinn, Estonia	14065606	6 July 2016	Asset holding company	100%
Kontor SIA	Mūkusalas iela 101, Rīga, Latvia	40003771618	30 August 2016	Asset holding company	100%
Pirita Center OÜ	Hobujaama 5, Tallinn, Estonia	12992834	16 December 2016	Asset holding company	100%
BH Duetto UAB	Jogailos 9, Vilnius, Lithuania	304443754	13 January 2017	Asset holding company	100%
Vainodes Krasti SIA	Agenskalna 33, Riga, Latvia	50103684291	12 December 2017	Asset holding company	100%
BH S27 SIA	Skanstes iela 27, Riga, Latvia	40103810023	15 August 2018	Asset holding company	100%
BH Meraki UAB	Ukmergės str. 308-1, Vilnius, Lithuania	304875582	18 July 2018	Asset holding company	100%
Tampere Invest SIA	Audeju iela 16, Riga, Latvia	40003311422	13 June 2019	Asset holding company	100%
BH Northstar UAB	Bieliūnų g. 8-1, Vilnius, Lithuania	305175896	29 May 2019	Asset holding company	100%

MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 20 March 2020.

Tarmo Karotam Chairman of the Management Board	Aušra Stankevičienė Member of the Management Board	Algirdas Jonas Vaitiekūnas Member of the Management Board

DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

AIFM
Alternative Investment Fund Manager

AFFO
Adjusted Funds From Operations means the net operating income of properties less fund administration expenses, less external interest expenses and less all capital expenditures including tenant fit-out expenses invested into existing properties by the Fund. New investments and acquisitions and follow-on investments into properties are not considered to be capital expenditures.

Direct Property Yield
NOI divided by acquisition value and subsequent capital expenditure of the property

Dividend
Cash distributions paid out of the cash flows of the Fund in accordance with the Fund Rules.

EPRA NAV
It is a measure of the fair value of net assets assuming a normal investment property company business model. Accordingly, there is an assumption of owning and operating investment property for the long term. The measure is provided by the European Public Real Estate Association, the industry body for European Real Estate Investment Trusts (REITs).

Fund
Baltic Horizon Fund

GAV
Gross Asset Value of the Fund

IFRS
International Financial Reporting Standards

LTV
Loan to value ratio. The ratio is calculated as the amount of the external bank loan debt divided by the carrying amount of investment property (including investment property under construction).

Management Company
Northern Horizon Capital AS, register code 11025345, registered address at Tornimäe 2, Tallinn 15010, Estonia

NAV
Net asset value for the Fund

NAV per unit
NAV divided by the amount of units in the Fund at the moment of determination.

NOI
Net operating income

Net Initial Yield
NOI divided by market value of the property