BALTIC HORIZON

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2018**

| | |
|---|---|
| Beginning of financial year | 1 January |
| End of financial year | 31 December |
| Management Company | Northern Horizon Capital AS |
| Business name | Baltic Horizon Fund |
| 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 |
| Address of the Fund | Tornimäe 2<br>Tallinn 10145<br>Estonia |
| Phone | +372 6 743 200 |
| Fund Manager | Tarmo Karotam |
| Supervisory Board of the Fund | Raivo Vare (Chairman)<br>Andris Kraujins<br>Per Moller<br>David Bergendahl |
| Remuneration of the Supervisory Board | EUR 48,000 p.a. |
| Management Board of the Management Company | Tarmo Karotam (Chairman)<br>Aušra Stankevičienė<br>Algirdas Vaitiekūnas |
| Supervisory Board of the Management Company | Milda Dargužaitė<br>Dalia Garbuzienė<br>Daiva Liubomirskiene |
| Depositary | Swedbank AS |

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## 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. |
| **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 |
| **IFRS** | International Financial Reporting Standards |
| **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 |
| **Direct Property Yield** | NOI divided by acquisition value and subsequent capital expenditure of the property |
| **Net Initial Yield** | NOI divided by market value of the property |
| **GAV** | Gross Asset Value of the Fund |
| **Triple Net Lease** | A triple net lease is a lease agreement that designates the lessee, i.e. the tenant, as being solely responsible for all the costs relating to the asset being leased, in addition to the rent fee applied under the lease. |
| **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. |

## MANAGEMENT REVIEW

### GENERAL INFORMATION ABOUT THE 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’s Alternative Investment Funds market.

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

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 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 invested in forward funding development / core plus projects.

The Fund aims to use 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, across tenants and debt providers.

#### Structure and governance

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 imbedded 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 and the Supervisory Board of the Management Company. The Fund also has its 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.

## MANAGEMENT REVIEW

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.

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.

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 the 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.

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

## MANAGEMENT REPORT

On 31 October 2018, the Fund declared a EUR 2.06 million quarterly cash distribution to investors, which represents a 0.026 distribution per unit. The cash distribution was for the Q3 2018 results.

On 13 December 2018, the Fund completed subsequent subscription for its 5-year unsecured notes (hereafter “bonds”) 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 1 August 2018, the Fund commenced a unit buy-back program, which will last until 19 June 2019. During the buy-back program, the Fund could acquire up to 5 million units for up to EUR 5 million. The purpose of the buy-back program is to acquire Fund units from the open market as long as the Fund’s units trade at a discount to its most recent NAV. The buy-back is carried out via the Nasdaq Tallinn Stock Exchange. By 31 December 2018, the Fund had bought back 660,263 units 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. The remaining 255,969 units were cancelled and deleted after the end of the reporting period.

On 18 December 2018, Baltic Horizon signed a sales and purchase agreement with UAB YIT Kausta to acquire the newly constructed Duetto II office property in Vilnius, Lithuania. The purchase price is approximately EUR 18.3 million, which corresponds to an entry yield of approximately 7.1%. The transaction is expected to close by the beginning of March 2019, once construction is complete and tenants move in. During Q4 2018, the Fund made an advance payment of EUR 0.5 million to UAB YIT Kausta for Duetto II property.

## MACROECONOMIC FACTORS IN THE BALTIC STATES

In Q4, GDP growth figures for Estonia, Latvia and Lithuania remained solid, ranging from 3.3% to 4.7%. Overall, all three Baltic economies remain well balanced, show little signs of overheating, and are well positioned to meet external shocks.

**MANAGEMENT REVIEW**

According to Swedbank, the Estonian economy has expanded above its potential for the past three years, supported by soaring foreign and domestic demand. The growth of the economy has been broad based, led by the construction sector and remains well balanced. 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. However, the robust economic growth in recent years has increased demand for labour and has considerably tightened the labour market. The growing number of foreign workers has somewhat alleviated the labour shortage for companies and it is expected that wage growth will remain robust and might slow only modestly in the next two years. Real GDP growth is expected to slow slightly but still remain around 3% for the coming years.

In Q4, the Latvian economy grew by a whopping 4.7% in annual terms. The growth was also broad based. There was a growth slowdown in construction, trade, and manufacturing in Q3, but this was compensated for by continuous double-digit growth in the ICT and transport sectors. It is expected that construction will grow more slowly in 2019 owing to labour shortages and cost pressures, as well as a slower pace of incoming EU funds. The transport sector is also vulnerable, but it is expected companies in manufacturing and trade will sustain recent growth rates. Labour cost pressures on companies keep rising, but profit margins remain commendable. Exporters have also managed to keep their market shares.

Despite global volatility and uncertainty, both consumer and business confidence in Latvia remains strong. Household consumption will continue to benefit from rapid wage growth and moderate inflation. An additional support factor will be increasing mortgage activity, as the household loan volume will continue rising slowly. Employment is expected to still grow marginally in 2019, before starting to slow down in 2020 due to decreasing working-age population and a historically high participation rate.

In Lithuania, after a slightly weaker Q3 which was affected by poor harvests that subdued growth in the agricultural sector, the economy regained momentum again in Q4. All numbers still point to very healthy household finances – in 2018 wage growth reached 10%, unemployment dropped to the lowest level in 10 years, and the deposit growth rate accelerated to above 12%. At the same time, the household loan portfolio continued growing at a stable rate of only 7.5%. Retail trade and household consumption sustained strong growth and are likely to maintain momentum in 2019. It is forecasted that inflation will remain at 2.7% in 2019, while wage growth will ease marginally to 8%. However, workers' net income will be boosted by the tax reform, which has substantially reduced the tax wedge on labour income. It is estimated that in 2019 average real net wage growth will reach 11.3%.

Another long-awaited positive trend of 2018 that will spill over into 2019 emerged in migration. Due to an increase in immigration, most of which is attributed to Lithuanians coming back, and a decrease in emigration, net migration was at a record low. It is forecasted that in 2019 net migration will be positive for the first time in the 21st century. Despite a shrinking population, improving migration trends, rising labour participation rates, and a more efficient labour market caused employment to increase unexpectedly by 0.7% in 2018. However, in 2019 it is expected to increase by 0.4%. Due to better-than-expected trends in the labour market, the GDP forecast for 2019 has been raised to 2.7%.

MANAGEMENT REVIEW

According to Colliers, take-up activity in Tallinn office market is mainly driven by ICT companies, followed by the professional, scientific and technical services sectors. The vacancy rate in A class buildings rose slightly due to the completion of the Maakri 19/21 tower but the vacancy rate of B1 class buildings stays sustainably below 6% while 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 13.5-16.5 per sq. m. per month and B1 rents between EUR 9-13.5.

In the most vibrant office market, Vilnius, four A class office buildings were delivered in 2018. The year marked an expansion of the CBD as all new business centres were located in the heart of the city. A class premises located in the CBD will continue 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 the upcoming years will remain at the same level. The largest tenant transactions in 2018 were by SEB, Maxima Group, Yara, Ernst & Young Baltic, and Teleperformance.

It is interesting to note that by the end of 2018, the total modern office stock (speculative and built-to-suit) in each Baltic capital city reached around 650,000 sq. m. Per capita however the figures are 1.5 sq. m. for Tallinn, 1.16 sq. m. for Vilnius and only 1 sq. m. for Riga. This explains why the take-up has been exceptionally strong in Vilnius as the office market is organically growing. Riga office market remains largely stable with no new additions to the stock in Q4. However, the market is in anxious anticipation of the wave of new supply in the coming years as the demand for quality premises exceeds supply. In Q4 vacancy in Riga market remained at approx. 3.4% in A class and 8.5% in B class buildings with rents on the upward move.

In 2018, rent rates for retail in all three countries remained relatively stable compared to last year. T1 Shopping centre with its approx. 45,000 sq. m. leasable area opened in Q4 2018 in Tallinn. It seems to have affected the large shopping centre vacancies and rents less than expected as after opening the centre still struggles with vacancies and attracting a sufficient number of regular visitors. It is 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. The Latvian retail market was active in 2018 and saw the opening of the first IKEA store of 33,600 sq. m. After the opening of Akropole in Q1 2019 and the expansion of Gallerija Azur and Domina, Riga retail market is likely to experience some redistribution of footfall and tenant profitability next year. In Vilnius retail market no new developments were commissioned or started. The wellness segment seems to be in the growth phase with a new chain of health clubs going to be opened next year. 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 Q4 2018, average yields for prime retail and office assets in the Baltic capitals have stabilized due to an expected increase in the cost of bank financing and remained with a few exceptions around 6.5%. 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.

FINANCIAL REPORT

***Financial position and performance of the Fund***

***Gross Asset Value (GAV)***

As at 31 December 2018, the GAV was EUR 260.9 million (EUR 248.6 million as at 30 September 2018). During Q4 2018, the Group completed subsequent subscription for its 5-year unsecured notes (bonds) worth EUR 10 million.

MANAGEMENT REVIEW

***Net Asset Value (NAV)***

In Q4 2018, the Fund NAV increased from EUR 109.3 million to EUR 109.8 million. Equity was positively affected by the Fund's operational performance over the quarter, however, this was offset by a EUR 2.04 million cash distribution to its unitholders (EUR 0.026 per unit) and a buy-back of own units.

***Net Operating Income (NOI) and Net Profit***

In Q4 2018, the Fund NOI was EUR 3.9 million (EUR 2.9 million in Q4 2017), net profit was EUR 3.5 million (EUR 5.3 million in Q4 2017). Growth in NOI was positively affected by the new property acquisitions (Vainodes I office building, Postimaja shopping centre and LNK Centre). In Q4 2018, the Fund's net profit decreased mainly due to lower fair value gain resulting from year-end valuations. During the quarter, the Fund recorded a fair value gain of EUR 1.5 million whereas the fair value gain in Q4 2017 was EUR 3.3 million.

**Table 1: Quarterly Key Figures**

| *Euro '000* | **Q4 2018** | **Q4 2017** | **Change (%)** |
|---|---|---|---|
| Net rental income | 3,929 | 2,922 | 34.5% |
| Valuation gains / (loss) on investment properties | 1,534 | 3,337 | (54.0%) |
| Operating profit | 4,685 | 5,357 | (12.5%) |
| Net financing costs | (806) | (403) | 100% |
| Profit before tax | 3,879 | 4,954 | (21.7%) |
| **Net profit for the period** | **3,535** | **5,277** | **(33.0%)** |
| Weighted average number of units outstanding | 78,637,645* | 69,011,121 | 13.9% |
| **Earnings per unit (EUR)** | **0.04** | **0.08** | **(50%)** |

| *Euro '000* | **31.12.2018** | **31.12.2017** | **Change (%)** |
|---|---|---|---|
| Investment property in use | 245,160 | 189,317 | 29.5% |
| Gross asset value (GAV) | 260,878 | 215,785 | 20.9% |
| Interest bearing loans | 140,507 | 98,087 | 43.2% |
| Total liabilities | 151,073 | 108,809 | 38.8% |
| Net asset value (NAV) | 109,805 | 106,976 | 2.6% |
| Number of units outstanding | 78,496,831* | 77,440,638 | 1.4% |
| **Net asset value (NAV) per unit (EUR)** | **1.3988** | **1.3814** | **1.3%** |
| **Loan-to-Value ratio (LTV)** | **57.3%** | **51.8%** | |
| **Average effective interest rate** | **2.4%** | **1.7%** | |

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

MANAGEMENT REVIEW

## EPRA REPORTING

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.

**Table 2: Key performance indicators – definition and use**

| | EPRA indicator | 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 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. |

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

**Table 3: EPRA earnings**

| *Euro '000* | Q4 2018 | Q4 2017 | Jan-Dec 2018 | Jan-Dec 2017 |
|---|---|---|---|---|
| **Net result IFRS** | **3,535** | **5,277** | **9,990** | **9,444** |
| I. Exclude changes in fair value of investment properties | (1,534) | (3,337) | (2,014) | (3,676) |
| II. Exclude deferred tax | 242 | (325) | 735 | 728 |
| **EPRA earnings** | **2,243** | **2,265** | **8,711** | **6,496** |
| Weighted number of units during the period | **78,637,645** | **69,011,121** | **78,764,895** | **62,270,694** |
| **EPRA earnings per unit** | **0.03** | **0.03** | **0.11** | **0.10** |

**Table 4: EPRA NAV and NNNAV**

| *Euro '000* | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **IFRS NAV** | **109,805** | **106,976** |
| I. Exclude deferred tax liability on investment properties | 7,347 | 6,763 |
| II. Exclude fair value of financial instruments | 1,061 | 14 |
| III. Exclude deferred tax on fair value of financial instruments | (56) | 2 |
| **EPRA NAV** | **118,157** | **113,755** |
| **EPRA NAV per unit (in EUR)** | **1.5052** | **1.4689** |
| I. Include fair value of financial instruments | (1,061) | (14) |
| II. Include deferred tax on fair value of financial instruments | 56 | 2 |
| III. Include revaluation at fair value of fixed-rate loans | (1,387) | (36) |
| **EPRA NNNAV** | **115,765** | **113,707** |
| **EPRA NNNAV per unit (in EUR)** | **1.4748** | **1.4683** |

**MANAGEMENT REVIEW**

**PROPERTY REPORT**

The diversified property portfolio of Baltic Horizon Fund consists of 12 properties in the Baltic capitals and one land plot adjacent to Domus PRO complex. High occupancy is supported by the expectations that the Baltic economic growth is largely driven by domestic consumption and stronger export prospects. 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 who enjoy the ease of doing business in the Baltics but also the relatively low operating costs and tech savvy productive workforce.

In regards to 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 and Postimaja 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 the 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.

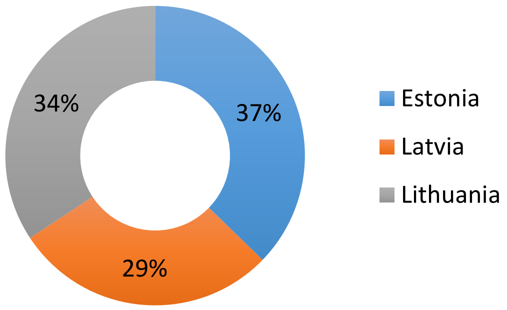
In the Baltic retail sector during Q4 2018, rents for small spaces remained stable in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The spread between low and high rents has widened as compared to a year ago due to new supply of retail centres in the markets. Rental rates for medium and larger retail units are forecasted to be rather stable. The average rental range of retail assets in the Fund's portfolio was EUR 9.5-17.1 per sq. m. per month, therefore well in line with average market brackets. Top rent levels are charged in CBD shopping centres Europa and Postimaja.

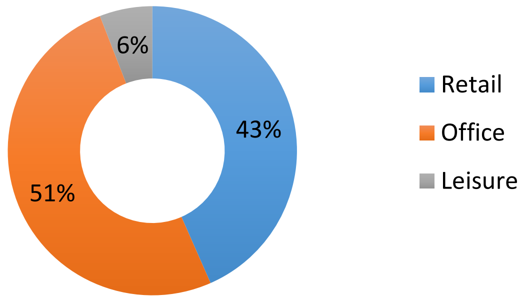
In 2018 capital city office rents stood in the bracket of EUR 13-16.5 per sq. m. per month for class A premises and EUR 8.6 - 13.5 sq. m. for modern class B offices. In Baltic Horizon portfolio, the average monthly rental level in Lincona was approx. EUR 10 per sq. m., in Duetto I approx. EUR 11.5 per sq. m. in Upmalas Biroji EUR 12.6 per sq. m. and in newly acquired LNK office approx. EUR 12.0 per sq. m, therefore also well in line with average market brackets. 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.

The Baltic property yields in both office and retail segments continued to decrease and latest deals are now closed at approx. 6% or even below. The yields depend on the exact micro location, age, rental level and history of the property. At the same time the Baltic countries continue to maintain a yield value gap of 200-300 bps compared to the Western European and the Nordic countries and 100-150 bps to Poland as yields in the real estate asset class are contracting across the board. The pace of further yield contraction is expected to slow down as core yields are stabilizing.

MANAGEMENT REVIEW

**Picture 1: Fund segment and country distribution as of 31.12.2018**




***Property performance***

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.

During Q4 2018, the average actual occupancy of the portfolio was 98.2% (Q3 2018: 97.5%). When all rental guarantees are considered, the effective occupancy rate is 98.6% (Q3 2018: 97.8%). The average direct property yield during Q4 2018 was 6.8% (Q3 2018: 6.9%). The net initial yield for the whole portfolio for Q4 2018 was 6.5% (Q3 2018: 6.6%).

The tenant base of the Fund is well diversified. The rental concentration of the 10 largest tenants of the Fund's subsidiaries is shown in picture 2 with the largest tenant Rimi accounting for 7.8% of the annualized rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

**Picture 2: Rental concentration of 10 largest tenants of the Fund's subsidiaries as of 31.12.2018**

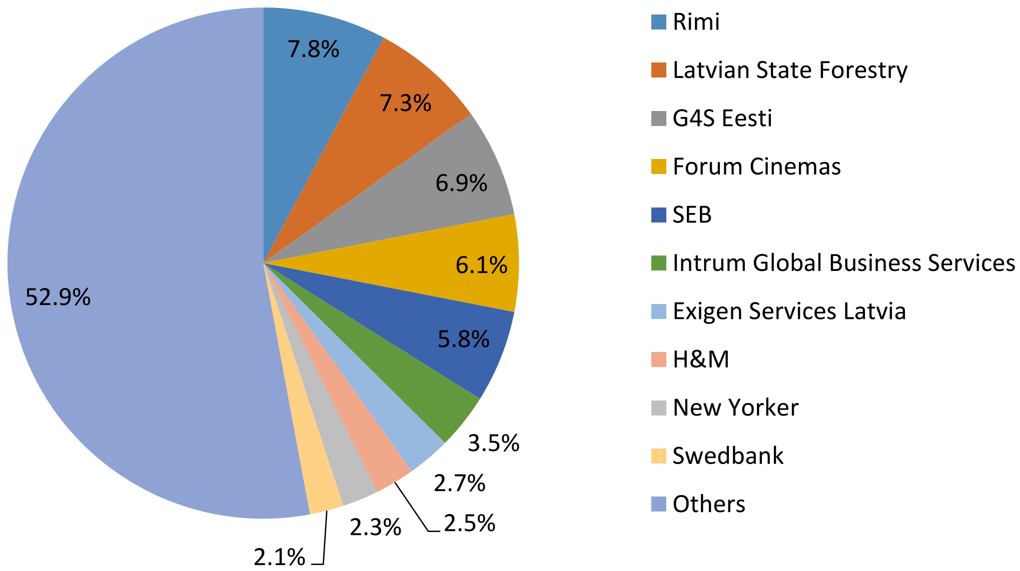


**Table 5: Overview of the Fund's investment properties as of 31.12.2018**

| Property name | City | Country | Book value[1] *Euro'000* | NLA | Direct property yield[2] | Net initial yield[3] | Occupancy rate for Q4 2018 |
|---|---|---|---|---|---|---|---|
| Duetto I | Vilnius | Lithuania | 16,320 | 8,498 | 6.7% | 6.1% | 100.0%[4] |
| Pirita SC | Tallinn | Estonia | 10,020 | 5,427 | 7.4% | 9.0% | 100.0%[4] |
| Upmalas Biroji BC | Riga | Latvia | 25,730 | 10,458 | 7.3% | 6.7% | 100.0% |
| G4S Headquarters | Tallinn | Estonia | 17,240 | 9,179 | 7.7% | 6.9% | 100.0% |
| Europa SC | Vilnius | Lithuania | 41,100 | 16,856 | 6.3% | 5.7% | 95.6% |
| Domus Pro Retail Park | Vilnius | Lithuania | 17,460 | 11,247 | 7.2% | 6.5% | 98.4% |
| Domus Pro Office | Vilnius | Lithuania | 7,460 | 4,831 | 8.2% | 7.1% | 98.4% |
| Meraki | Vilnius | Lithuania | 1,670 | - | - | - | - |
| Sky SC | Riga | Latvia | 5,390 | 3,254 | 8.1% | 7.5% | 99.4% |
| Lincona | Tallinn | Estonia | 17,170 | 10,870 | 8.1% | 7.4% | 98.5% |
| Vainodes I | Riga | Latvia | 21,230 | 8,052 | 6.8% | 6.8% | 100.0% |
| Postimaja & CC Plaza complex | Tallinn | Estonia | 46,920 | 17,809 | 5.9% | 5.8% | 97.9% |
| LNK Centre | Riga | Latvia | 17,450 | 7,453 | 6.3% | 6.3% | 100.0% |
| **Total portfolio** | | | **245,160** | **113,934** | **6.8%** | **6.5%** | **98.6%** |

1. Based on the latest valuation as at 28 December 2018.
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.

Please refer to the table below for a breakdown of NOI development by each property, which has been generating stable rental income over the years.

**Table 6: Breakdown of NOI development**

| Property *Euro'1000* | Date of acquisition | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Lincona | 1 Jul 2011 | 898 | 1,143 | 1,202 | 1,172 | 1,192 |
| Postimaja & CC Plaza complex | 13 Feb 2018 | 953 | 962 | 972 | 985 | 2,447 |
| Sky SC | 7 Dec 2013 | 404 | 415 | 425 | 410 | 407 |
| Domus Pro Retail | 1 May 2014 | 445 | 857 | 1,103 | 1,185 | 1,160 |
| Domus Pro Office | 1 Oct 2017 | - | - | - | 35 | 499 |
| Europa SC | 2 Mar 2015 | - | 1,962 | 2,360 | 2,365 | 2,332 |
| G4S Headquarters | 12 Jul 2016 | - | - | 546 | 1,149 | 1,189 |
| Upmalas Biroji BC | 30 Aug 2016 | - | - | 515 | 1,693 | 1,710 |
| Pirita SC | 16 Dec 2016 | - | - | 30 | 900 | 900 |
| Duetto I | 22 Mar 2017 | - | - | - | 799 | 1,096 |
| Vainodes I | 12 Dec 2017 | - | - | - | 75 | 1,463 |
| LNK Centre | 15 Aug 2018 | - | - | - | - | 409 |
| **Total portfolio** | | **2,700** | **5,339** | **7,153** | **10,768** | **14,804** |

<u>Lincona Office Complex, Tallinn (Estonia)</u>

The average occupancy level was 98.5% during Q4 2018 (Q3 2018: 93.8%). The occupancy increased in Q4 as Rimi express convenience store has opened its doors in October on the ground floor. During Q4 2018, the average direct property yield increased to 8.1% (Q3 2018: 7.6%). The net initial yield during Q4 2018 was 7.4% (Q3 2018: 6.2%). The fair value of the property increased from EUR 16,650 thousand measured as of 30 June 2018 to EUR 17,170 thousand as of 28 December 2018.

MANAGEMENT REVIEW

Domus Pro, Vilnius (Lithuania)
The average occupancy rate for the retail part remained stable at 98.4% (Q3 2018: 98.4%). During Q4 2018 the average occupancy rate for the business centre remained stable at 98.4% (Q3 2018: 97.9%). During Q4 the average direct property yield for the retail part was 7.2% (Q3 2018: 7.4%) and the net initial yield was 6.5% (Q3 2018: 6.6%). The fair value of the retail part increased from EUR 17,350 thousand measured as of 30 June 2018 to EUR 17,460 thousand as of 28 December 2018. During Q4 2018 the average direct property yield of the business centre was 8.2% (Q3 2018: 8.2%) and the net initial yield was 7.1% (Q3 2018: 7.2%). The fair value of the business centre increased from EUR 7,290 thousand measured as of 30 June 2018 to EUR 7,460 thousand as of 28 December 2018.

Meraki, Vilnius (Lithuania)
On 21 August 2018, Meraki completed the acquisition 0.87 hectares of land next to the Domus Pro complex from Domus Pro. The total purchase price for three land plots was EUR 1.7 million. The plots were acquired with the goal to further expand the Domus Pro complex and anchor tenant search for the new office complex is underway.

SKY Supermarket, Riga (Latvia)
The average occupancy level was 99.4% for Q4 2018 (Q3 2018: 99.2%). The average direct property yield during Q4 2018 was 8.1% (Q3 2018: 8.0%). The net initial yield for Q4 2018 was 7.5% (Q3 2018: 7.4%). The fair value of the property increased from EUR 5,360 thousand measured as of 30 June 2018 to EUR 5,390 thousand as of 28 December 2018.

Postimaja & Coca-Cola Plaza complex, Tallinn (Estonia)
In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. The average occupancy level for Postimaja & Coca-Cola Plaza complex remained stable at 97.9% for Q4 2018 (Q3 2018: 97.9%). Average direct complex yield during Q4 2018 was 5.9% (Q3 2018: 5.7%). The net initial yield for Q4 2018 was 5.8% (Q3 2018: 5.7%). The fair value of the complex decreased slightly, from EUR 47,170 thousand measured as of 30 June 2018 to EUR 46,920 thousand as of 28 December 2018.

The Fund management team is taking active steps to combine Postimaja & Coca-Cola Plaza to seize the synergy potential between Postimaja & Coca-Cola Plaza properties which are located next to each other. 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. The project includes developing a new exterior design as well as considerably increasing the leasable area and aims to improve functionality between the two buildings as well as the central Rotermann Quarter. The technical preparation for the expansion is ongoing with the architects, retail concept developers and Tallinn city.

Europa Shopping centre, Vilnius (Lithuania)
The average occupancy level slightly increased to 95.6% for Q4 2018 (Q3 2018: 93.3%). Average direct property yield during Q4 2018 was 6.3% (Q3 2018: 6.5%). The net initial yield for Q4 2018 was 5.7% (Q3 2018: 6.0%). The fair value of the property increased, from EUR 40,310 thousand measured as of 30 June 2018 to EUR 41,100 thousand as of 28 December 2018.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.

G4S Headquarters, Tallinn (Estonia)
The building has one key tenant – G4S, who has rented the whole building under a long-term agreement. Two floors of the building have been sub-leased to a leading Estonian software company Pipedrive and there are also some smaller sub-tenants. It is expected that Pipedrive will be replaced by a new tenant in Q1 2019 as they have plans to move into larger premises nearby. The average direct property yield during Q4 was 7.7% (Q3 2018: 7.7%). The net initial yield for Q4 2018 was 6.9% (Q3 2018: 7.1%). The fair value of the property increased from EUR 16,900 thousand measured as of 30 June 2018 to EUR 17,240 thousand as of 28 December 2018.

**MANAGEMENT REVIEW**

Upmalas Biroji, Riga (Latvia)

The average occupancy rate was 100.0% for Q4 2018 (Q3 2018: 99.8%). The average direct property yield during Q4 2018 was 7.3% (Q3 2018: 7.3%). The net initial yield for Q4 2018 was 6.7% (Q3 2018: 7.0%). The fair value of the property increased from EUR 24,660 thousand measured as of 30 June 2018 to EUR 25,730 thousand as of 28 December 2018.

Pirita Shopping centre, Tallinn (Estonia)

The average occupancy rate for Q4 2018 has decreased to 93.8% (Q3 2018: 95.6%). Pirita net rental is covered by a 2-year 100% rental guarantee. A 7.4% direct property yield is guaranteed by the seller of this property until the end of 2018. The average direct property yield during Q4 2018 was 7.4% (Q3 2018: 7.4%). The net initial yield for Q4 2018 was 9.0% (Q3 2018: 8.2%). The fair value of the property decreased from EUR 10,950 thousand measured as of 30 June 2018 to EUR 10,020 thousand as of 28 December 2018. 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 minimize the ground floor vacancy and strengthen the tenant mix with destination tenants.

Duetto I Office building, Vilnius (Lithuania)

Duetto I net rental is covered by a rental guarantee provided by YIT Kausta for two years after its acquisition on 22 March 2017. The actual average occupancy level was 98.7% for Q4 2018 (Q3 2018: 98.1%). The average direct property yield during Q4 2018 was 6.7% (Q3 2018: 7.7%). The net initial yield for Q4 2018 was 6.1% (Q3 2018: 7.1%). The fair value of the property decreased slightly from EUR 16,650 thousand measured as of 30 June 2018 to EUR 16,320 thousand as of 28 December 2018.

On 18 December 2018, the Fund signed an agreement to acquire the adjacent newly constructed Duetto II office building for approximately EUR 18,300 thousand, which corresponds to an entry yield of approximately 7.1%. The transaction is expected to close by the beginning of March 2019, once construction is complete and tenants move in. The largest tenants in the property are Vilnius heating network company, Sweco, Coca-Cola and Rimi Lietuva.

Vainodes I Office building, Riga (Latvia)

The average occupancy rate was 100.0% for Q4 2018 (Q3 2018: 100.0%). The average direct property yield for Q4 2018 was 6.8% (Q3 2018: 7.0%). The net initial yield for Q4 2018 was 6.8% (Q3 2018: 6.9%). The fair value of the property decreased slightly from EUR 21,610 thousand measured as of 30 June 2018 to EUR 21,230 thousand as of 28 December 2018.

LNK Centre office building, Riga (Latvia)

The average occupancy rate remained stable at 100.0% for Q4 2018 (Q3 2018: 100.0%). The average direct property yield for Q4 2018 was 6.3% (Q3 2018: 6.5%). The net initial yield for Q4 2018 was 6.2% (Q3 2018: 6.5%). The fair value of the property increased from EUR 17,065 thousand measured as acquisition value to EUR 17,450 thousand as of 28 December 2018.

**FINANCING**

The Fund aims to use a 50% 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 13 December 2018, the Fund completed subsequent subscription for its 5-year unsecured notes (bonds) worth EUR 10 million (10,000 bonds with a nominal value of EUR 1,000 each). The additional bonds were issued under the same terms and conditions as the initial issue of unsecured bonds. On 20 December 2018, the additional bonds were listed on Nasdaq Tallinn.

After the subsequent bond subscription and the drawdown of a new loan for LNK Centre, the weighted average interest rate increased from 2.3% to 2.4% in Q4 2018, bank loan amortisation remained at 0.1%.

**Table 7: Debt financing terms of the Fund's assets**

| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|---|---|
| **Regular quarterly bank loan amortisation, EUR'1000** | **222** | **243** | **345** | **106** | **27** | **27** |
| Regular annual bank loan amortisation from the loans outstanding, % | 1.2% | 1.6% | 1.7% | 0.1% | 0.1% | 0.1% |
| Average interest rate, % | 1.7% | 1.7% | 1.8% | 2.3% | 2.3% | 2.4% |
| LTV, % | 46.0% | 51.8% | 51.9% | 57.4% | 53.3% | 57.3% |

The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 31 December 2018. Interest bearing debt was comprised of bank loans with a total carrying value of EUR 100.8 million and bonds with a carrying value of EUR 39.8 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.

**Table 8: Financial debt structure of the Fund**

| Property | **Maturity** | **Currency** | **Carrying amount** ***Euro'1000*** | **% of total** | **Fixed rate portion** |
|---|---|---|---|---|---|
| Lincona | 31 Dec 2022 | EUR | 7,188 | 5.1% | 95% |
| CC Plaza and Postimaja | 12 Feb 2023 | EUR | 17,200 | 12.2% | 100%[1] |
| Sky SC | 1 Aug 2021 | EUR | 2,386 | 1.7% | -% |
| Europa SC | 5 Jul 2022 | EUR | 20,900 | 14.8% | 88% |
| G4S Headquarters | 16 Aug 2021 | EUR | 7,750 | 5.5% | 100% |
| Upmalas Biroji BC | 31 Aug 2023 | EUR | 11,750 | 8.3% | 90% |
| Pirita SC | 20 Feb 2022 | EUR | 4,944 | 3.5% | 124% |
| Duetto I | 20 Mar 2022 | EUR | 7,300 | 5.2% | 99%[2] |
| Domus Pro | 31 May 2022 | EUR | 11,000 | 7.8% | 66% |
| Vainodes I | 13 Mar 2024 | EUR | 9,842 | 7.0% | 50% |
| LNK | 27 Aug 2023 | EUR | 700 | 0.5% | -% |
| **Total bank loans** | | **EUR** | **100,960** | **71.6%** | **86%** |
| Less capitalized loan arrangement fees[3] | | EUR | (208) | | |
| **Total bank loans recognised in the statement of financial position** | | **EUR** | **100,752** | | |
| 5 year-unsecured bonds | | EUR | 40,000 | 28.4% | 100% |
| Less capitalized bond arrangement fees[3] | | | (245) | | |
| **Total debt recognised in the statement of financial position** | | **EUR** | **140,507** | **100%** | **90%** |

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.

Weighted average time to maturity was 4.0 years at the end of Q4 2018.

As of 31 December 2018, 90% of total debt had fixed interest rates while the remaining 10% 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%.

**MANAGEMENT REVIEW**

**COVENANT REPORTING**

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

**Table 9: Financial covenants**

| Financial covenant | **Definition** | **Requirement** | **Ratio** |
|---|---|---|---|
| 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. | > 35.0% | 44.6% |
| Debt Service Coverage Ratio | EBITDA divided by the principal payments and interest expenses of interest-bearing debt obligations, on a rolling 12 month basis. | > 1.20 | 4.36 |

**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. The Management has a discretion to distribute lower dividends than 80% of generated net cash flow (GNCF) if the liquidity of the Fund is endangered.

**Table 10: 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 not occurred |
| ***Generated net cash flow (GNCF)*** | |

The management of the Fund remains committed to target a 7-9**%** yield of annual dividends to investors from 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.

MANAGEMENT REVIEW

**Table 11: Dividend capacity calculation**

| *EUR'1000* | **Q4 2017** | **Q1 2018** | **Q2 2018** | **Q3 2018** | **Q4 2018** |
|---|---|---|---|---|---|
| (+) Net rental income | 2,922 | 3,409 | 3,626 | 3,840 | 3,929 |
| (-) Fund administrative expenses | (839) | (640) | (621) | (748) | (804) |
| (-) External interest expenses | (405) | (469) | (680) | (756) | (780) |
| (-) CAPEX expenditure[1] | (290) | (155) | (58) | (269) | (141) |
| (+) Added back listing related expenses | 203 | - | - | - | - |
| (+) Added back acquisition related expenses | 97 | - | - | - | - |
| ***Generated net cash flow (GNCF)*** | **1,688** | **2,145** | **2,267** | **2,067** | **2,204** |
| ***GNCF per weighted unit*** | **0.024** | **0.027** | **0.029** | **0.026** | **0.028** |
| ***12-months rolling GNCF yield[2]*** | **7.6%** | **7.9%** | **7.9%** | **8.2%** | **8.4%** |
| ***Dividends declared*** | **1,781** | **1,900** | **1,979** | **2,044** | **2,119** |
| ***Dividends declared per weighted unit*** | **0.026** | **0.024** | **0.025** | **0.026** | **0.027** |
| ***12-months rolling dividend yield[2]*** | **6.8%** | **7.2%** | **7.5%** | **7.8%** | **7.8%** |

1. 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 equalized for each quarter. This will reduce the quarterly volatility of cash distributions to unitholders.
2. 12-month rolling GNCF and dividend yields are based on the closing market price of the unit as of 31 December 2018.

***Distributions to unitholders for Q3 and Q4 2018 Fund results***

On 31 October 2018, the Fund declared a cash distribution of EUR 2,044 thousand (EUR 0.026 per unit) to the Fund unitholders for Q3 2018 results. This represents a 1.92% return on the weighted average Q3 net asset value to its unitholders.

On 13 February 2019, the Fund declared a cash distribution of EUR 2,119 thousand (EUR 0.027 per unit) to the Fund unitholders for Q4 2018 results. This represents a 1.95% return on the weighted average Q4 net asset value to its unitholders.

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. He reports to the Fund's board 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.

**MANAGEMENT REVIEW**

***Principal risks faced by the Fund***

*Market risk*
The Fund is exposed to the office market in Tallinn and Riga and the retail market 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 have bottomed out and are on average around 6.5% and 7.5% in the office and retail segments, with prime office yields having declined to 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.

MANAGEMENT REVIEW

**OUTLOOK FOR 2019**

At the end of December 2018, Baltic Horizon Fund owns 12 established cash flow properties and expects to close the acquisition of Duetto II, another newly built office building with blue chip international tenants in Vilnius in Q1 2019. All properties are located in the Baltic capitals with an expected gross property value of above EUR 260 million and an expected annualized full NOI of approx. EUR 17 million. The Fund aims to grow its asset base by acquiring carefully selected investment properties that best fit the Fund's very 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 Fund also owns one land plot adjacent to Domus PRO complex for further office expansion.

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 Domus PRO complex. The period for completing these expansions falls between2020-2023 and that is expected to improve the profitability of the Fund going forward.

The downside risks to the bullish future of the Baltics come primarily from the external environment. As the economic cycle matures, it is expected that economic growth will slow slightly on average to 3% in 2019 and 2.5% in 2020. Despite somewhat weaker sentiment, overall investments are expected to continue growing at a good pace, 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.

There are several global risks that could further hinder growth. Yet, the Baltics have weathered uncertainty and volatility quite well so far and with low public debt, the strong financial situation of companies, and no external imbalances, after 10 years of bolstering, the economies should remain resilient and balanced to withstand possible external shocks without going into recession.

**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 condensed consolidated interim financial statements for the 12 months of the financial year, 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 significant events which took place during the 12 months of the financial year and their effect on the condensed consolidated accounts.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2018**

| *Euro '000* | Note | 01.10.2018-31.12.2018 | 01.10.2017-31.12.2017 (restated)* | 01.01.2018-31.12.2018 | 01.01.2017-31.12.2017 (restated)* |
|---|---|---|---|---|---|
| Rental income | | 4,284 | 3,217 | 15,860 | 11,839 |
| Service charge income | | 948 | 756 | 2,760 | 1,921 |
| Cost of rental activities | 6 | (1,303) | (1,051) | (3,816) | (2,992) |
| **Net rental income** | 4 | **3,929** | **2,922** | **14,804** | **10,768** |
| Administrative expenses | 7 | (804) | (839) | (2,813) | (2,774) |
| Other operating income / (expenses) | | 26 | (63) | 74 | 14 |
| Valuation gains / (loss) on investment properties | | 1,534 | 3,337 | 2,014 | 3,676 |
| **Operating profit** | | **4,685** | **5,357** | **14,079** | **11,684** |
| Financial income | | 2 | 2 | 8 | 47 |
| Financial expenses | 8 | (808) | (405) | (2,789) | (1,528) |
| **Net financing costs** | | **(806)** | **(403)** | **(2,781)** | **(1,481)** |
| **Profit before tax** | | **3,879** | **4,954** | 11,298 | **10,203** |
| Income tax charge | 4, 10 | (344) | 323 | (1,308) | (759) |
| **Profit for the period** | 4 | **3,535** | **5,277** | **9,990** | **9,444** |
| *Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods* | | | | | |
| Net gains (losses) on cash flow hedges | 14b | (588) | 147 | (1,013) | 273 |
| Termination of interest rate swap agreement | | - | - | - | 57 |
| Recognition of initial interest rate cap costs | | - | (43) | (33) | (43) |
| Income tax relating to net gains (losses) on cash flow hedges | 14b, 10 | 55 | (17) | 97 | (49) |
| **Other comprehensive income/ (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods** | | **(533)** | **87** | **(949)** | **238** |
| **Total comprehensive income for the period, net of tax** | | **3,002** | **5,364** | **9,041** | **9,682** |
| **Basic and diluted earnings per unit (Euro)** | 9 | **0.04** | **0.08** | **0.13** | **0.15** |

*In 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018. As a result, the comparative figures for "service charge income" and "cost of rental activities" were adjusted. The adjustment did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with IFRS 15 (note 4).

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2018

| *Euro '000* | **Note** | **31.12.2018** | **31.12.2017** |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 4, 11 | 245,160 | 189,317 |
| Derivative financial instruments | 20 | 9 | 89 |
| Other non-current assets | | 596 | 146 |
| **Total non-current assets** | | **245,765** | **189,552** |
| **Current assets** | | | |
| Trade and other receivables | 12 | 2,734 | 1,568 |
| Prepayments | | 154 | 108 |
| Cash and cash equivalents | 13 | 12,225 | 24,557 |
| **Total current assets** | | **15,113** | **26,233** |
| **Total assets** | 4 | **260,878** | **215,785** |
| **Equity** | | | |
| Paid in capital | 14a | 93,673 | 91,848 |
| Own units | 14a | (335) | - |
| Cash flow hedge reserve | 14b | (1,005) | (56) |
| Retained earnings | | 17,472 | 15,184 |
| **Total equity** | | **109,805** | **106,976** |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 140,401 | 96,497 |
| Deferred tax liabilities | | 5,844 | 5,206 |
| Derivative financial instruments | 20 | 1,069 | 88 |
| Other non-current liabilities | | 905 | 859 |
| **Total non-current liabilities** | | **148,219** | **102,650** |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 106 | 1,590 |
| Trade and other payables | 16 | 2,397 | 4,202 |
| Income tax payable | | - | 14 |
| Derivative financial instruments | 20 | - | 15 |
| Other current liabilities | | 351 | 338 |
| **Total current liabilities** | | **2,854** | **6,159** |
| **Total liabilities** | 4 | **151,073** | **108,809** |
| **Total equity and liabilities** | | **260,878** | **215,785** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2018

| *Euro '000* | **Notes** | **Paid in capital** | **Own units** | **Cash flow hedge reserve** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|---|---|
| **As at 1 January 2017** | | **66,224** | **(8)** | **(294)** | **10,887** | **76,809** |
| Net profit for the period | | - | - | - | 9,444 | **9,444** |
| Termination of interest rate swap | | - | - | 57 | - | **57** |
| Other comprehensive income | | - | - | 181 | - | **181** |
| **Total comprehensive income** | | **-** | **-** | **238** | **9,444** | **9,682** |
| Paid in capital – units issued | 14a | 25,632 | - | - | - | **25,632** |
| Repurchase of units | 14a | (8) | 8 | - | - | **-** |
| Profit distribution to unitholders | 14c | - | - | - | (5,147) | **(5,147)** |
| **As at 31 December 2017** | | **91,848** | **-** | **(56)** | **15,184** | **106,976** |
| **As at 1 January 2018** | | **91,848** | **-** | **(56)** | **15,184** | **106,976** |
| Net profit for the period | | - | - | - | 9,990 | **9,990** |
| Other comprehensive expense | | - | - | (949) | - | **(949)** |
| **Total comprehensive income** | | **-** | **-** | **(949)** | **9,990** | **9,041** |
| Paid in capital – units issued | 14a | 2,350 | - | - | - | **2,350** |
| Repurchase of units | 14a | (525) | (335) | - | - | **(860)** |
| Profit distribution to unitholders | 14a | - | - | - | (7,702) | **(7,702)** |
| **As at 31 December 2018** | | **93,673** | **(335)** | **(1,005)** | **17,472** | **109,805** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2018

| *Euro '000* | **Note** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|
| **Cash flows from core activities** | | | |
| **Profit (loss) before tax** | | **11,298** | **10,203** |
| Adjustments for non-cash items: | | | |
| Value adjustment of investment properties | | (2,014) | (3,676) |
| Value adjustment of investment properties under construction | | | - |
| Allowance for bad debts | | 143 | 45 |
| Financial income | | (8) | (47) |
| Financial expenses | 8 | 2,789 | 1,528 |
| Working capital adjustments: | | | |
| (Increase)/decrease in trade and other accounts receivable | | (822) | (241) |
| (Increase)/decrease in other current assets | | (540) | (39) |
| (Decrease)/Increase in other non-current liabilities | | (76) | (150) |
| (Decrease)/increase in trade and other accounts payable | | (304) | (100) |
| Increase/(decrease) in other current liabilities | | 702 | (6) |
| (Paid)/refunded income tax | | (586) | (42) |
| **Total cash flows from core activities** | | **10,582** | **7,475** |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 8 | 8 |
| Acquisition of subsidiaries, net of cash acquired | | (17,153) | (8,614) |
| Acquisition of investment property | | (34,477) | (14,362) |
| Acquisition of a land plot | | (1,661) | - |
| Advance payment for investment property | | (500) | - |
| Investment property development expenditure | | (2,237) | (3,996) |
| Capital expenditure on investment properties | | (623) | (1,163) |
| **Total cash flows from investing activities** | | **(56,643)** | **(28,127)** |
| | | | |
| **Cash flows from financial activities** | | | |
| Proceeds from the issue of bonds | | 40,000 | 40,566 |
| Proceeds from bank loans | | 26,000 | (24,112) |
| Repayment of bank loans | | (23,299) | 25,632 |
| Proceeds from issue of units | 14a | 2,350 | - |
| Profit distribution to unitholders | 14c | (7,702) | (5,147) |
| Repurchase of units | 14a | (860) | - |
| Transaction costs related to loans and borrowings | | (380) | (223) |
| Interest paid | | (2,380) | (1,390) |
| **Total cash flows from financing activities** | | **33,729** | **35,326** |
| | | | |
| **Net change in cash and cash equivalents** | | **(12,332)** | **14,674** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | | **24,557** | **9,883** |
| **Cash and cash equivalents at the end of the period** | | **12,225** | **24,557** |

The accompanying notes are an integral part of these 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.

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

| Name | 31.12.2018 | 31.12.2017 |
|---|---|---|
| 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% |
| ZM Development[1] | 0% | 100% |
| Vainodes Krasti SIA | 100% | 100% |
| BH S27 SIA | 100% | 100% |
| BH Meraki UAB | 100% | 0% |

[1]ZM Development merged with Vainodes Krasti SIA on 18 October 2018.

## 2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's latest consolidated annual financial statements as at and for the year ended 31 December 2017. These interim condensed consolidated financial statements do not include all of the information required in the complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are relevant to understanding the changes in the Group's financial position and performance since the last annual financial statements.

These interim condensed consolidated financial statements were authorised for issue by the Management Company's Board of Directors on 14 February 2019.

### 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**

A number of new standards and amendments to standards are not effective for annual periods beginning on 1 January 2018 but their earlier application is permitted; however, the Group has not early adopted any of the new or amended standards in preparing these interim condensed consolidated financial statements.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

**IFRS 16 Leases**

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)
IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

The Group does not expect that the new standard, when initially applied, will have a material impact on the financial statements because the Group as a lessee has not entered into lease contracts which qualify as financial or operating lease contracts under the currently effective IAS 17.

**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.

## 3. Use of judgements and estimates

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15, which are described in Note 4.

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 reported item in the future. The assumptions and judgements applied in these interim condensed consolidated financial statement are similar as those applied in the Group's consolidated financial statements for the year ended 31 December 2017.

**Measurement of fair values**

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.

## 4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group adopted IFRS 15 Revenue from Contracts with Customers for the first time from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

The first-time adoption of IFRS 15 did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with the standard.

**IFRS 15 Revenue from contracts with customers**

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

In accordance with its assessment of the impact of IFRS 15, the Group has determined that it acts in the capacity of an agent for certain transactions. Under IFRS 15, the assessment is based on whether the Group controls specific goods before transferring them to the end customer, rather than whether it has exposure to the significant risks and rewards associated with the sale of the goods.

The following table summarises the impact of IFRS 15 on the group's interim statement of profit or loss and other comprehensive income.

| | Impact of adopting IFRS 15 | | |
|---|---|---|---|
| *Euro '000* | **As reported at 31 December 2017** | **Adjustments due to adoption of IFRS 15** | **Adjusted balances as at 31 December 2017** |
| ***01.10.2017 – 31.12.2017:*** | | | |
| Service charge income | 1,029 | (273) | 756 |
| Cost of rental activities | (1,324) | 273 | (1,051) |
| ***01.01.2017 – 31.12.2017:*** | | | |
| Service charge income | 3,692 | (1,771) | 1,921 |
| Cost of rental activities | (4,763) | 1,771 | (2,992) |

The adjustment did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with IFRS 15.

## 5. Operating segments

The Group's reportable segments are as follows:

- Retail segment – includes Europa Shopping Centre (Lithuania), Domus Pro Retail Park (Lithuania), SKY Supermarket (Latvia), Pirita Shopping centre (Estonia), and Postimaja Shopping centre (Estonia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia), G4S Headquarters (Estonia), Upmalas Biroji (Latvia), Duetto I (Lithuania), Domus Pro stage III (Lithuania), Vainodes I (Latvia) and LNK Centre (Latvia) 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 2018

| *Euro '000* | **Retail** | **Office** | **Leisure** | **Total segments** |
|---|---|---|---|---|
| ***01.10.2018 – 31.12.2018:*** | | | | |
| External revenue[1] | 2,379 | 2,600 | 253 | 5,232 |
| **Segment net rental income** | **1,619** | **2,060** | **250** | **3,929** |
| Net gains or losses from fair value adjustment | (1,695) | 1,949 | 1,280 | 1,534 |
| Interest expenses[2] | (212) | (214) | (23) | (449) |
| Income tax expenses | (225) | (119) | - | (344) |
| **Segment net profit** | **-381** | **3,429** | **1,507** | **4,555** |
| ***01.01.2018 – 31.12.2018:*** | | | | |
| External revenue[1] | 8,973 | 8,637 | 1,010 | 18,620 |
| **Segment net rental income** | **6,247** | **7,559** | **998** | **14,804** |
| Net gains or 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 | 106,420 | 124,270 | 14,470 | 245,160 |
| **Segment liabilities** | **54,679** | **50,353** | **5,369** | **110,401** |

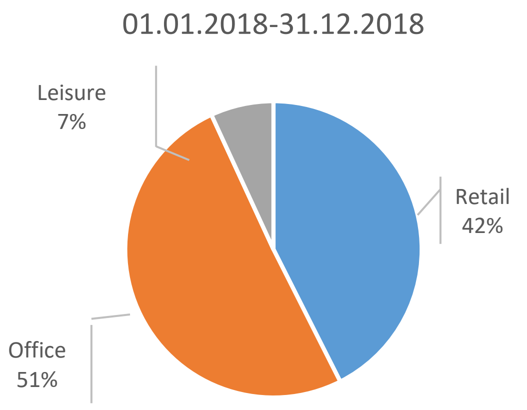
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses.

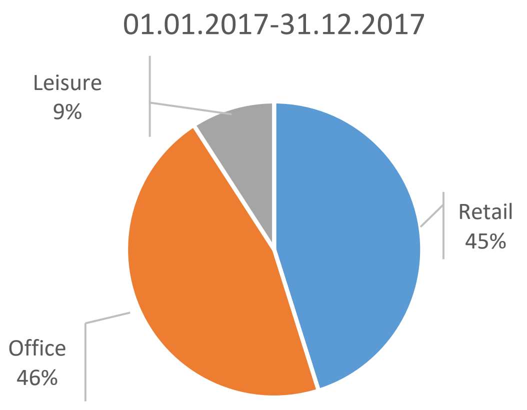
Operating segments – 31 December 2017

| '000 Euro | Retail | Office | Leisure | Total segments |
|---|---|---|---|---|
| ***01.10.2017 – 31.12.2017:*** | | | | |
| External revenue[1] | 2,151 | 1,845 | 250 | 4,246 |
| **Segment net rental income** | **1,263** | **1,413** | **246** | **2,922** |
| Net gains or losses from fair value adjustment | 382 | 2,895 | 60 | 3,337 |
| Interest expenses[2] | (165) | (200) | (33) | (398) |
| Income tax expenses | (178) | 501 | - | 323 |
| **Segment net profit / (loss)** | **1,778** | **3,974** | **243** | **5,995** |
| | | | | |
| ***01.01.2017 – 31.12.2017:*** | | | | |
| External revenue[1] | 8,269 | 6,266 | 996 | 15,531 |
| **Segment net rental income** | **4,861** | **4,923** | **984** | **10,768** |
| Net gains or losses from fair value adjustment | 370 | 3,066 | 240 | 3,676 |
| Interest expenses[2] | (681) | (631) | (134) | (1,446) |
| Income tax expenses | (528) | (231) | - | (759) |
| **Segment net profit / (loss)** | **4,246** | **6,493** | **1,041** | **11,780** |
| | | | | |
| ***As at 31.12.2017:*** | | | | |
| **Segment assets** | **78,929** | **105,838** | **13,284** | **198,051** |
| Investment properties | 73,958 | 102,119 | 13,240 | 189,317 |
| **Segment liabilities** | **46,502** | **54,811** | **6,840** | **108,153** |

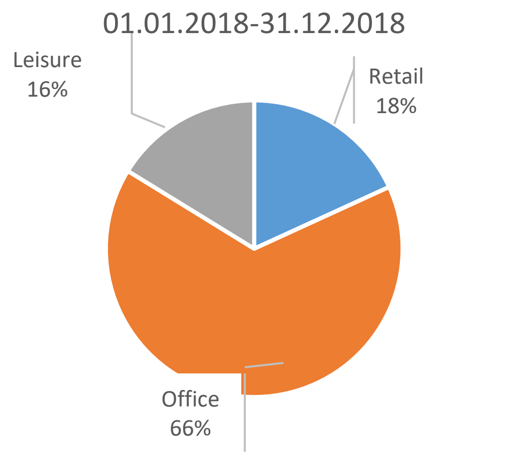
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses and expenses in relation to terminated swap.

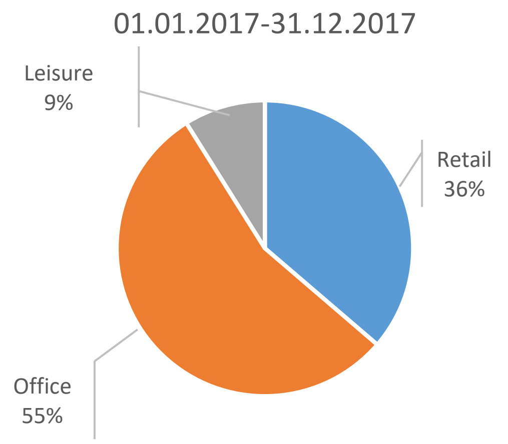
***Segment net rental income****



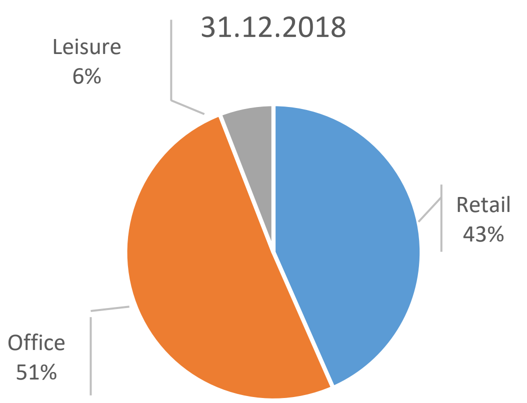



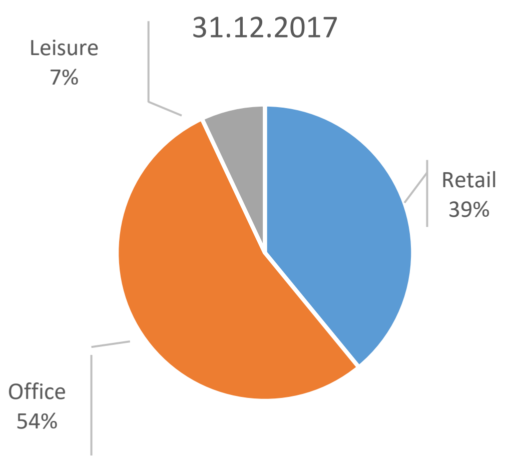

***Segment net profit (loss)****




***Investment properties****




*As a percentage of the total for all reportable segments

**Reconciliation of information on reportable segments to IFRS measures**

Operating segments – 31 December 2018

| *Euro '000* | **Total reportable segments** | **Adjustments** | **Consolidated** |
|---|---|---|---|
| ***01.10.2018 – 31.12.2018:*** | | | |
| **Net profit / (loss)** | **4,555** | (1,020) [1] | **3,535** |
| ***01.01.2018 – 31.12.2018:*** | | | |
| **Net profit / (loss)** | **13,186** | (3,196) [2] | **9,990** |
| ***As at 31.12.2018:*** | | | |
| **Segment assets** | **250,862** | 10,016[3] | **260,878** |
| **Segment liabilities** | **110,401** | 40,672[4] | **151,073** |

1. Segment net profit for Q4 2018 does not include Fund management fee (EUR 354 thousand), bond interest expenses (EUR 332 thousand), Fund performance fee accrual (EUR 88 thousand), Fund custodian fees (EUR 13 thousand), and other Fund-level administrative expenses (EUR 233 thousand).
2. Segment net profit for 12 months ended 31 December 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).
3. Segment assets do not include cash, which is held at the Fund level (EUR 10,016 thousand).
4. 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 Fund level.

Operating segments – 31 December 2017

| *Euro '000* | **Total reportable segments** | **Adjustments** | **Consolidated** |
|---|---|---|---|
| ***01.10.2017 – 31.12.2017:*** | | | |
| **Net profit / (loss)** | **5,995** | (718)[1] | **5,277** |
| ***01.01.2017 – 31.12.2017:*** | | | |
| **Net profit / (loss)** | **11,780** | (2,336)[2] | **9,444** |
| ***As at 31.12.2017:*** | | | |
| **Segment assets** | **198,051** | 17,734[3] | **215,785** |
| **Segment liabilities** | **108,153** | 656[4] | **108,809** |

1. Segment net profit for Q4 2017, does not include listing related expenses (EUR 203 thousand), Fund management fee (EUR 310 thousand), fund custodian fee (EUR 9 thousand), and other Fund-level administrative expenses (EUR 196 thousand).
2. Segment net profit for 12 months ended 31 December 2017, does not include listing related expenses (EUR 637 thousand), Fund management fee (EUR 1,153 thousand), fund custodian fee (EUR 31 thousand), and other Fund-level administrative expenses (EUR 515 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 17,707 thousand) and other receivables at Fund level (EUR 27 thousand).
4. Segment liabilities do not include management fee payable (EUR 310 thousand), final purchase price settlement for the acquisition of Vainodes I (EUR 196 thousand), and other short-term payables (EUR 150 thousand) at Fund level.

**Geographic information**
***Segment net rental income***

| *Euro '000* | *External revenue* | | | | *Investment property value* | |
|---|---|---|---|---|---|---|
| | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017 (restated)*** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017 (restated)*** | **31.12.2018** | **31.12.2017** |
| Lithuania | 2,027 | 1,790 | 7,280 | 6,304 | 84,010 | 80,240 |
| Latvia | 1,387 | 953 | 4,726 | 2,674 | 69,800 | 51,587 |
| Estonia | 1,818 | 1,230 | 6,614 | 4,782 | 91,350 | 57,490 |
| **Total** | **5,232** | **3,973** | **18,620** | **13,760** | **245,160** | **189,317** |

*In 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018. As a result, the comparative figures for external revenue were adjusted. The adjustment did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with IFRS 15 (note 4).

**Major tenant**
Rental income from one tenant in the leisure segment represented EUR 1,010 thousand of the Group's total rental income for 12 months ended 31 December 2018 and EUR 253 thousand for Q4 2018 (EUR 996 thousand for 12 months ended 31 December 2017 and EUR 250 thousand for Q4 2017).

## 6. Cost of rental activities

| *Euro '000* | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017 (restated)*** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017 (restated)*** |
|---|---|---|---|---|
| Repair and maintenance | 416 | 372 | 1,424 | 999 |
| Property management expenses | 157 | 207 | 629 | 549 |
| Real estate taxes | 157 | 113 | 569 | 498 |
| Utilities | 328 | 148 | 476 | 294 |
| Sales and marketing expenses | 160 | 147 | 445 | 434 |
| Property insurance | 21 | 15 | 73 | 56 |
| Allowance / (reversal of allowance) for bad debts | 45 | 23 | 143 | 45 |
| Other | 19 | 26 | 57 | 117 |
| **Total cost of rental activities** | **1,303** | **1,051** | **3,816** | **2,992** |

*In 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018. As a result, the comparative figures for "service charge income" and "cost of rental activities" were adjusted. The adjustment did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with IFRS 15 (note 4).

Part of the total cost of rental activities was recharged to tenants: EUR 2,760 thousand during the 12-month period ended 31 December 2018 and EUR 948 thousand during Q4 2018 (EUR 1,921 thousand during the 12-month period ended 31 December 2017 and EUR 756 thousand during Q4 2017).

## 7. Administrative expenses

| *Euro '000* | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| Management fee | 354 | 310 | 1,391 | 1,153 |
| Legal fees | 65 | - | 323 | 115 |
| Fund marketing expenses | 50 | 59 | 222 | 204 |
| Consultancy fees | 90 | 173 | 215 | 297 |
| Performance fee | 88 | - | 166 | - |
| Audit fee | 13 | 24 | 88 | 83 |
| Supervisory board fees | 12 | 12 | 50 | 80 |
| Custodian fees | 13 | 9 | 47 | 31 |
| Public offering related expenses | - | 203 | - | 637 |
| Other administrative expenses | 119 | 49 | 311 | 174 |
| **Total administrative expenses** | **804** | **839** | **2,813** | **2,774** |

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).

## 8. Financial expenses

| *Euro '000* | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| Interest on external loans and borrowings | 780 | 377 | 2,685 | 1,425 |
| Loan arrangement fee amortisation | 28 | 28 | 103 | 45 |
| Termination of interest rate SWAP* | - | - | - | 57 |
| Foreign exchange loss | - | - | 1 | 1 |
| **Total financial expenses** | **808** | **405** | **2,789** | **1,528** |

## 9. 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:

| *Euro '000* | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| Profit for the period, attributed to the unitholders of the Fund | 3,535 | 5,277 | 9,990 | 9,444 |
| **Profit for the period, attributed to the unitholders of the Fund** | **3,535** | **5,277** | **9,990** | **9,444** |

Weighted-average number of units:

| | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| Issued units at 1 January | 77,440,638 | 57,264,743 | 77,440,638 | 57,264,743 |
| Effect of own units cancelled in March 2017[1] | - | (5,900) | - | (4,911) |
| Effect of units issued in June 2017[2] | - | 7,397,027 | - | 3,922,050 |
| Effect of units issued in November 2017[3] | - | 4,355,251 | - | 1,088,813 |
| Effect of units issued in February 2018[4] | 1,716,456 | - | 1,471,248 | - |
| Effect of units repurchased by the Fund and cancelled in October 2018[5] | (392,611) | | (115,281) | |
| Effect of units repurchased by the Fund in October, November and December 2018[6] | (126,838) | - | (31,709) | - |
| **Weighted-average number of units** | **78,637,645** | **69,011,121** | **78,764,895** | **62,270,694** |

1. In March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account.
2. In June 2017, the Fund registered 7,397,027 new units issued through a secondary public offering.
3. In November 2017, the Fund issued 12,784,768 new units through a secondary public offering.
4. In February 2018, the Fund issued 1,716,456 units through a private placement, which was part of the Postimaja acquisition deal.
5. In August, September and October 2018, the Fund repurchased 404,294 units through a buy-back program, which were cancelled and deleted in October.
6. In October, November and December 2018, the Fund repurchased 255,969 units through a buy-back program, which are eliminated for the calculation of earnings per unit.

Basic and diluted earnings per unit

| | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| Basic and diluted earnings per unit* | 0.04 | 0.08 | 0.13 | 0.15 |

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

## 10. 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 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 the 12 months ended 31 December 2018 was 11.6% (12 months ended 31 December 2017: 7.4%).

The major components of income tax for the periods ended 31 December 2018 and 2017 were as follows:

| *Euro '000* | **01.10.2018-31.12.2018** | **01.10.2017-31.12.2017** | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|---|---|
| **Consolidated statement of profit or loss** | | | | |
| Current income tax for the period | (102) | (2) | (573) | (31) |
| Deferred tax for the period | (242) | 325 | (735) | (728) |
| **Income tax expense reported in profit or loss** | **(344)** | **323** | **(1,308)** | **(759)** |
| | | | | |
| **Consolidated statement of other comprehensive income** | | | | |
| Deferred income tax related to items charged or credited to equity: | | | | |
| Revaluation of derivative instruments to fair value | 55 | (17) | 97 | (49) |
| **Income tax expense reported in other comprehensive income** | **55** | **(17)** | **97** | **(49)** |

## 11. 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 28 December 2018, 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.

The 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. The fair value is largely based on estimates which are inherently subjective.

The yield requirement (discount factor) is determined for each property.

Investment property represents buildings, which are rented out under lease contracts, and land.

| *Euro '000* | **2018** | **2017** |
|---|---|---|
| **Balance at 1 January** | **189,317** | **141,740** |
| Acquisition of investment property | 51,545 | 35,938 |
| Acquisition of land | 1,661 | - |
| Investment property under construction reclassified* | - | 6,592 |
| Additions (subsequent expenditure) | 623 | 1,371 |
| Net revaluation gain | 2,014 | 3,676 |
| **Closing balance** | **245,160** | **189,317** |

*Domus Pro, stage III

Acquisition of LNK Centre

On 4 July 2018, the Fund signed a sales-purchase agreement to acquire the LNK Centre office building located in Riga, Latvia. The agreed purchase price for the property was EUR 17.1 million corresponding to an approximate acquisition yield of 6.5%. The transaction was closed on 15 August 2018. In accordance to IFRS 3, this acquisition is treated as an asset deal.

Acquisition of Postimaja Shopping Centre

On 27 December 2017, the Fund signed a sales-purchase agreement to acquire the Postimaja Shopping Centre located at Narva road 1, Tallinn, Estonia. The total purchase price for the property was EUR 34.4 million corresponding to an approximate acquisition yield of 5.4%. The transaction was closed on 13 February 2018.

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 28 December 2018.

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.

| **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 | 1.9% |
| Year of construction/renovation – 2004 | | - Exit yield | 6.5% |
| | | - Average rent (EUR/sq. m.) | 14.0 |
| **Domus Pro, Vilnius (Lithuania)** | DCF / Sales | - Discount rate | 8.2% |
| Net leasable area (NLA) – 16,087 sq. m. | comparison | - Rental growth p.a. | 1.7% - 2.2% |
| Segment – Retail/Office | approach for | - Long term vacancy rate | 2.0% - 5.0% |
| Year of construction/renovation – 2013 | land | - Exit yield | 7.5% |
| | | - Average rent (EUR/sq. m.) | 9.3 |

| Property | Valuation technique | Key unobservable inputs | Range |
|---|---|---|---|
| **Lincona Office Complex, Tallinn (Estonia)** Net leasable area (NLA) – 10,870 sq. m. | DCF | - Discount rate | 8.2% |
| Segment – Office | | - Rental growth p.a. | 1.6% - 1.9% |
| Year of construction/renovation – 2002 / 2008 | | - Long term vacancy rate | 5.0% |
| | | - 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 |
| **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 Supermarket, 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% |
| 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% |
| Year of construction/renovation - 2006 / 2014 | | - Exit yield | 6.5% |
| | | - Average rent (EUR/sq. m.) | 12.0 |

*Postimaja, G4S and Vainodes I property valuations also include building rights.

The table below sets out information about significant unobservable inputs used at 31 December 2018 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 | 2018: 6.0% - 7.5%<br>2017: 7.0% - 7.8% | An increase in exit yield in isolation would result in a lower value of Investment property. |
| | | Discount rate | 2018: 7.8% – 8.2%<br>2017: 7.2% - 9.0% | An increase in discount rate in isolation would result in a lower value of Investment property. |
| | | Rental growth p.a. | 2018: 0% - 3.0%<br>2017: 0% - 4.4% | An increase in rental growth in isolation would result in a higher value of Investment property. |
| | | Long term vacancy rate | 2018: 1.0% - 5.0%<br>2017: 0% – 10.0% | An increase in long-term vacancy rate in isolation would result in a lower value of Investment property. |

The book values of investment properties as at 31 December 2018 were as follows:

| *Euro '000* | **Total** |
|---|---|
| Lithuania – Europa (retail) | 41,100 |
| Estonia – Postimaja (retail) | 32,450 |
| Lithuania – Domus Pro (retail/office) | 24,920 |
| Lithuania – Meraki (land) | 1,670 |
| Latvia – SKY (retail) | 5,390 |
| Latvia – Upmalas Biroji (office) | 25,730 |
| Estonia – Lincona (office) | 17,170 |
| Estonia – Coca-Cola Plaza (leisure) | 14,470 |
| Estonia – G4S (office) | 17,240 |
| Estonia – Pirita (retail) | 10,020 |
| Lithuania – Duetto I (office) | 16,320 |
| Latvia – Vainodes I (office) | 21,230 |
| Latvia – LNK Centre (office) | 17,450 |
| **Total** | **245,160** |

## 12. Trade and other receivables

| *Euro '000* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Trade receivables, gross | 1,709 | 1,323 |
| Less impairment allowance for doubtful receivables | (221) | (84) |
| Accrued income | 614 | 222 |
| Other accounts receivable | 632 | 107 |
| **Total** | **2,734** | **1,568** |

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

As at 31 December 2018, trade receivables at a nominal value of EUR 221 thousand were impaired and fully provisioned.

Movements in the impairment allowance for receivables were as follows:

| *Euro '000* | **2018** | **2017** |
|---|---|---|
| Balance at 1 January | (84) | (39) |
| Charge for the period | (152) | (45) |
| Amounts written off during the year as uncollectible | 6 | - |
| Unused amounts reversed | 9 | - |
| **Balance at end of period** | **(221)** | **(84)** |

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

| | | **Neither past due** | **Past due but not impaired** | | | | |
|---|---|---|---|---|---|---|---|
| *Euro '000* | **Total** | **nor impaired** | **<30 days** | **30-60 days** | **60-90 days** | **90-120 days** | **>120 days** |
| 31.12.2018 | **1,488** | 635 | 339 | 78 | 27 | 73 | 336 |
| 31.12.2017 | **1,239** | 653 | 178 | 73 | 48 | 60 | 227 |

## 13. Cash and cash equivalents

| *Euro '000* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Cash at banks and on hand | 12,225 | 24,557 |
| **Total cash** | **12,225** | **24,557** |

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

## 14. Equity
### 14a. Paid in capital

The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 31 December 2018, the total number of the Fund's units was 78,752,800 (as at 31 December 2017: 77,440,638).

Units issued are presented in the table below:

| *Euro '000* | **Number of units** | **Amount** |
|---|---|---|
| **As at 1 January 2018** | **77,440,638** | **91,848** |
| Cancelled own units | (404,294) | (525) |
| Units issued in February 2018 | 1,716,456 | 2,350 |
| **Total change during the period** | **1,312,162** | **1,825** |
| **As at 31 December 2018** | **78,752,800** | **93,673** |

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 2018 and 31 December 2017.

On 1 August 2018, the Fund commenced a unit buy-back program, which will last 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 has 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. The remaining 255,969 units were cancelled and deleted after the end of the reporting period (note 21).

The Fund did not hold its own units as at 31 December 2017.

**14b. 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 2018 and 31 December 2017.

| *Euro '000* | **2018** | **2017** |
|---|---|---|
| **Balance at the beginning of the year** | **(56)** | **(294)** |
| Movement in fair value of existing hedges | (1,013) | 273 |
| Termination of interest rate swap | - | 57 |
| Recognition of initial interest rate cap costs | (33) | (43) |
| Movement in deferred income tax (Note 10) | 97 | (49) |
| **Net variation during the period** | **(949)** | **238** |
| **Balance at the end of the period** | **(1,005)** | **(56)** |

**14c. Dividends (distributions)**

| *Euro '000* | **2018** | **2017** |
|---|---|---|
| Declared during the period | (7,702) | (5,147) |
| **Total distributions made** | **(7,702)** | **(5,147)** |

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 1,979 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 20 January 2017, the Fund declared a cash distribution of EUR 1,374 thousand (EUR 0.024 per unit).
On 28 April 2017, the Fund declared a cash distribution of EUR 1,317 thousand (EUR 0.023 per unit).
On 4 August 2017, the Fund declared a cash distribution of EUR 1,164 thousand (EUR 0.018 per unit)

On 31 October 2017, the Fund declared a cash distribution of EUR 1,292 thousand (EUR 0.02 per unit).

## 15. Interest bearing loans and borrowings

| *Euro '000* | Maturity | Effective interest rate | 31.12.2018 | 31.12.2017 |
|---|---|---|---|---|
| **Non-current borrowings** | | | | |
| Bonds[1] | May 2023 | 4.25% | 39,755 | - |
| Bank 1 | Jul 2022 | 3M EURIBOR + 1.50% | 20,863 | 20,852 |
| Bank 1 | Aug 2021 | 3M EURIBOR + 1.75% | 2,386 | 2,493 |
| Bank 1 | Aug 2021 | 6M EURIBOR + 1.40% | 7,743 | 7,742 |
| Bank 1 | Feb 2022 | 6M EURIBOR + 1.40% | 4,937 | 6,580 |
| Bank 1 | Dec 2022 | 6M EURIBOR + 1.40% | 7,178 | 8,231 |
| Bank 1 | Nov 2024 | 3M EURIBOR + 1.55% | 9,842 | 12,870 |
| Bank 1 | May 2022 | 3M EURIBOR + 1.55% | 7,325 | 7,463 |
| Bank 1 | May 2022 | 6M EURIBOR + 1.55% | 3,649 | 5,403 |
| Bank 1[2] | Sep 2023 | 3M EURIBOR + 1.55% | 662 | - |
| Bank 2[3] | Mar 2019 | 3M EURIBOR + 1.90% | - | 6,805 |
| Bank 3 | Aug 2023 | 1M EURIBOR + 1.55% | 11,722 | 11,715 |
| Bank 4 | Mar 2022 | 6M EURIBOR + 1.75% | 7,287 | 7,933 |
| Bank 4[4] | Feb 2023 | 6M EURIBOR + 1.18% | 17,158 | - |
| Less current portion | | | (106) | (1,590) |
| **Total non-current debt** | | | **140,401** | **96,497** |
| | | | | |
| **Current borrowings** | | | | |
| Current portion of non-current borrowings | | | 106 | 1,590 |
| **Total current debt** | | | **106** | **1,590** |
| | | | | |
| **Total** | | | **140,507** | **98,087** |

1. On 8 May 2018, the Fund completed subscription for its 5-year unsecured notes (bonds) of EUR 30 million. The bonds bear a fixed rate coupon of 4.25% payable quarterly. On 28 August 2018, the bonds were listed on Nasdaq Tallinn. On 13 December 2018, the Fund completed subsequent subscription for its 5-year unsecured notes (bonds) worth EUR 10 million. The additional bonds were issued under the same terms and conditions as the initial issue of unsecured bonds. On 20 December 2018, the additional bonds were listed on Nasdaq Tallinn.
2. The new loan was drawn down in November 2018.
3. The loan was refinanced in February 2018.
4. The new loan was drawn down in February 2018.

**Loan securities**

Borrowings received were secured with the following pledges and securities as of 31 December 2018:

| | 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 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 3** | Coca-Cola Plaza and Postimaja, Duetto I | | | |
| **Bank 4** | Upmalas Biroji | | | |

*Please refer to Note 11 for 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 Vainodes I for LNK bank loan, LNK for Vainodes I bank loan | Lincona, SKY, Europa, and Domus Pro | Europa, SKY | BH Domus Pro UAB, Vainodes Krasti SIA, BH S27 SIA |
| **Bank 3** | | Duetto I | Duetto I | BH Duetto UAB |
| **Bank 4** | | | Upmalas Biroji | |

## 16. Trade and other payables

| *Euro '000* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Trade payables | 733 | 921 |
| Tax payables | 431 | 365 |
| Accrued financial expenses | 313 | 41 |
| Accrued expenses | 418 | 243 |
| Accrued expenses related to Domus Pro development | - | 1,974 |
| Other payables | 502 | 658 |
| **Total trade and other payables** | **2,397** | **4,202** |

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.

## 17. Commitments and contingencies

### 17a. Litigation

As at 31 December 2018, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

### 17b. Contingent assets

On 16 December 2016, the Fund signed a sales and purchase agreement for the acquisition of Pirita shopping centre. A part of the purchase price (EUR 150 thousand) was deferred and recognised as a liability. The purchase price was deferred because it is contingent on the performance of the property. If net operating income (NOI) for either 2017 or 2018 is less than EUR 900 thousand, irrespective of reasons, the Fund is entitled to unilaterally reduce the purchase price by the amount by which the NOI is lower than EUR 900 thousand but under no circumstances by more than EUR 500 thousand in total for 2017 and 2018. An asset of EUR 429 thousand has been recognised in the financial statements based on NOI earned by the property until 31 December 2018.

On 22 March 2017, the Fund signed an additional agreement to the sales and purchase agreement with the seller of the Duetto I property. The seller agreed to provide a rental income guarantee in the aggregate amount of EUR 1,055 thousand per annum (EUR 88 thousand per month) of the effective net operating income from the Building for the first 24 months starting from 22 March 2017. An asset has not been recognised in the financial statements as the management of the Fund expects that Duetto I will be able to earn the guaranteed amount of rent.

### 17c. Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2018.

## 18. 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.

<u>Northern Horizon Capital AS</u>
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 7).

The Group's transactions with related parties during the 12-month period ended 31 December 2018 and 2017 were the following:

| *Euro '000* | **01.01.2018-31.12.2018** | **01.01.2017-31.12.2017** |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees | 1,391 | 1,153 |
| Performance fees | 166 | - |

The Group's balances with related parties as at 31 December 2018 and 31 December 2017 were the following:

| ’000 Euro | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees payable | 354 | 311 |
| Accrued performance fees | 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 Group owns 499,171 units 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 2018 and 31 December 2017 are presented in the tables below:

**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% |

**As at 31 December 2017**

| | Number of units | Percentage |
|---|---|---|
| Nordea Bank AB clients | 35,335,740 | 45.63% |
| Catella Bank SA on behalf of its clients | 17,705,618 | 22.86% |
| Skandinaviska Enskilda Banken SA clients | 4,766,470 | 6.15% |

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

## 19. 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 | |
|---|---|---|---|---|
| *Euro '000* | **31.12.2018** | **31.12.2017** | **31.12.2018** | **31.12.2017** |
| **Financial assets** | | | | |
| Trade and other receivables | 2,734 | 1,568 | 2,734 | 1,568 |
| Cash and cash equivalents | 12,225 | 24,557 | 12,225 | 24,557 |
| Derivative financial instruments | 9 | 89 | 9 | 89 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | (140,507) | (98,087) | (141,894) | (141,894) |
| Trade and other payables | (2,397) | (4,202) | (2,397) | (4,202) |
| Derivative financial instruments | (1,069) | (103) | (1,069) | (103) |

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2018 and 31 December 2017:

| **Period ended 31 December 2018**<br>*Euro '000* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | - | - | 2,734 | **2,734** |
| Cash and cash equivalents | - | 12,225 | - | **12,225** |
| Derivative financial instruments | - | 9 | - | **9** |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | - | - | (141,894) | **(141,894)** |
| Trade and other payables | - | - | (2,397) | **(2,397)** |
| Derivative financial instruments | - | (1,069) | - | **(1,069)** |

| **Period ended 31 December 2017**<br>*Euro '000* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | - | - | 1,568 | **1,568** |
| Cash and cash equivalents | - | 24,557 | - | **24,557** |
| Derivative financial instruments | - | 89 | - | **89** |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | - | - | (98,123) | **(98,123)** |
| Trade and other payables | - | - | (4,202) | **(4,202)** |
| Derivative financial instruments | - | (103) | - | **(103)** |

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 2018 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.
- Cash and cash equivalents are attributed to level 2 in the fair value hierarchy.

### 20. Derivative financial instruments

The Group has entered into a number of interest rate swaps (IRS) with SEB 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.

IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument is recognised in an equity reserve rather than 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 14b for more information.

| **Derivative type** *Euro '000* | **Starting date** | **Maturity date** | **Notional amount** | **Variable rate (received)** | **Fixed rate (paid)** | **Fair value** | |
|---|---|---|---|---|---|---|---|
| | | | | | | **31.12.2018** | **31.12.2017** |
| CAP | May 2018 | Nov 2023 | 17,200 | 6M EURIBOR | 3.5%* | 8 | - |
| CAP | Nov 2017 | Mar 2022 | 7,200 | 6M EURIBOR | 1.0%* | 1 | 83 |
| IRS | Aug 2016 | Aug 2021 | 7,750 | 6M EURIBOR | 0.05% | - | 6 |
| **Derivative financial instruments, assets** | | | | | | **9** | **89** |
| *Interest rate cap | | | | | | | |
| IRS | Mar 2018 | Aug 2024 | 18,402 | 3M EURIBOR | 0.73% | (529) | - |
| IRS | Mar 2018 | Nov 2022 | 6,860 | 6M EURIBOR | 0.46% | (113) | - |
| IRS | Sep 2017 | May 2022 | 7,413 | 3M EURIBOR | 0.26% | (85) | (37) |
| IRS | Nov 2016 | Aug 2023 | 10,575 | 1M EURIBOR | 0.26% | (123) | (4) |
| IRS | Aug 2017 | Feb 2022 | 6,211 | 6M EURIBOR | 0.305% | (69) | (47) |
| IRS | Aug 2016 | Aug 2021 | 7,750 | 6M EURIBOR | 0.05% | (34) | - |
| IRS | May 2018 | Apr 2024 | 4,920 | 3M EURIBOR | 0.63% | (116) | |
| IRS | Sep 2015 | Mar 2018 | 18,223 | 3M EURIBOR | 0.15% | - | (15) |
| **Derivative financial instruments, liabilities** | | | | | | **(1,069)** | **(103)** |
| **Net value of financial derivatives** | | | | | | **(1,060)** | **(14)** |

Derivative financial instruments were accounted for at fair value as at 31 December 2018 and 31 December 2017. The maturity of the derivative financial instruments of the Group is as follows:

| **Classification according to maturity** | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| *Euro '000* | **31.12.2018** | **31.12.2017** | **31.12.2018** | **31.12.2017** |
| Non-current | (1,069) | (88) | 9 | 89 |
| Current | - | (15) | - | - |
| **Total** | **(1,069)** | **(103)** | **9** | **89** |

### 21. Subsequent events

On 1 February 2019, 255,969 Fund units, which were bought back during the period of 22 October 2018 – 14 December 2018 under the buy-back program, were cancelled and deleted. After cancellation, the total amount of units has decreased to 78,496,831.

On 13 February 2019, the Fund declared a cash distribution of EUR 2,119 thousand (EUR 0.027 per unit).

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

### 22. 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% |
| ZM Development SIA* | Kuldigas 51, Riga, Latvia | 40003673853 | 12 December 2017 | Asset holding company | 0% |
| 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% |

*On 18 October 2018, the merger between Vaiņodes Krasti SIA and ZM Development SIA has been completed. All assets, rights and obligations of ZM Development SIA were transferred to Vaiņodes Krasti SIA, and ZM Development SIA has ceased to exist as a legal entity.

The interim condensed consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 14 February 2019.

| Name and position | Signature |
|---|---|
| Tarmo Karotam<br>Chairman of the Management Board | __________________ |
| Aušra Stankevičienė<br>Member of the Management Board | __________________ |
| Algirdas Jonas Vaitiekūnas<br>Member of the Management Board | __________________ |