BALTIC HORIZON

ANNUAL REPORT

AND

INDEPENDENT AUDITOR'S REPORT

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 Tallinn 10145 Estonia
Phone	+372 6 743 200
Fund Manager	Tarmo Karotam
Supervisory Board of the Fund	Raivo Vare (Chairman) Andris Kraujins Per Moller David Bergendahl
Remuneration of the Supervisory Board	EUR 48,000 p.a.
Management Board of the Management Company	Tarmo Karotam (Chairman) Aušra Stankevičienė Algirdas Vaitiekūnas
Supervisory Board of the Management Company	Milda Dargužaitė Dalia Garbuzienė (resigned 08 March 2019) 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 recognized 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. In addition to statutory audit services, KPMG Baltics OÜ has provided the Fund with translation services.

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 13 February 2018, the Fund completed the acquisition of 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%.

On 22 February 2018, the Fund announced the issue of new units in a private placement to CA I Estland in relation to the Postimaja shopping centre acquisition deal. In total, net equity of EUR 2.35 million was raised through the transaction. The new units were issued in accordance with the Fund rules at a price of EUR 1.3691 which was equal to NAV per unit. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 79,157,094.

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

On 8 May 2018, the Fund completed a subscription for its 5-year unsecured notes (hereafter "bonds") of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly. The transaction took place under the private placement regime and was subscribed for by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks. On 28 August 2018, the bonds were listed on Nasdaq Tallinn. On 13 December 2018, the Fund completed a subsequent subscription for its 5-year unsecured notes worth EUR 10 million. The additional bonds were issued under the same terms and conditions as the initial issue of unsecured bonds on 8 May 2018. On 20 December 2018, the additional bonds were listed on Nasdaq Tallinn.

On 16 May 2018, the Fund completed the acquisition of 0.87 hectares of land next to the Domus Pro complex in Vilnius, Lithuania, currently owned by the Fund (Meraki). 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.

MANAGEMENT REVIEW

On 1 August 2018, the Fund commenced a units 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 Management Company will cancel the units acquired during the program within 3 months. 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 15 August 2018, the Fund completed the acquisition of the LNK Centre office building located in Riga, Latvia, which is currently owned by the Fund. The property was acquired in a share deal. The agreed property purchase price was EUR 17.4 million, which corresponds to an entry yield of approx. 6.5%.

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 was approximately EUR 18.3 million, which corresponds to an entry yield of approximately 7.1%. During 2018, the Fund made an advance payment of EUR 0.5 million to UAB YIT Kausta for the Duetto II property.

MACROECONOMIC FACTORS IN THE BALTIC STATES

At the end of 2018, 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.

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 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%.

According to Colliers, take-up activity in the 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. The 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 the 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 the 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 2019 and the expansion of Gallerija Azur and Domina, the Riga retail market is likely to experience some redistribution of footfall and tenant profitability next year. In the 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.

MANAGEMENT REVIEW

FINANCIAL REPORT

Financial position and performance of the Fund

At the end of 2018, the GAV increased from EUR 215.8 million to EUR 260.9 million compared to the end of 2017. The increase is mainly related to new acquisitions during the year and the cash received from a subsequent bond issue in December. The Fund completed the acquisitions of the Postimaja Shopping Centre, LNK Centre and Meraki land plot and thus deployed most of the new capital raised in 2018.

During 2018, the Fund NAV increased from EUR 107 million to EUR 109.8 million compared to the end of 2017. The increase is related to new equity raised and the Group's operational performance over the year. The Fund raised EUR 2.4 million net equity during the February private placement and generated almost EUR 10 million in net profit. The Fund NAV increase was offset by a EUR 7.7 million dividend distribution to its unitholders and a EUR 0.9 million buy-back of own units.

In 2018, the net profit of the Group increased from EUR 9.4 million to EUR 10 million compared to 2017. During the year, the Group recorded a EUR 2.0 million fair value gain (EUR 3.7 million during 2017). In 2018, the Group recorded EUR 14.8 million net rental income (EUR 10.8 million in 2017). The increase is related to new acquisitions (Vainodes I office building, Postimaja shopping centre and LNK Centre) that were made following the capital raisings at the end of 2017 and at the start of 2018 and bond subscriptions.

Table 1: Annual key figures

Euro '000	**2018**	**2017**	**Change (%)**
Net rental income	14,804	10,768	37.5%
Valuation gains/(loss) on investment properties	2,014	3,676	(45.2%)
Operating profit	14,079	11,684	20.5%
Net financing costs	(2,781)	(1,481)	87.8%
Profit before tax	11,298	10,203	10.7%
Net profit for the period	**9,990**	**9,444**	**5.8%**
Weighted average number of units outstanding	78,764,895*	62,270,694	26.5%
Earnings per unit (EUR)	**0.13**	**0.15**	**(13.3%)**

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[1]	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%**	

1. 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	**2018**	**2017**
Net result IFRS	**9,990**	**9,444**
I. Exclude changes in fair value of investment properties	(2,014)	(3,676)
II. Exclude deferred tax	735	728
EPRA earnings	**8,711**	**6,496**
Weighted number of units during the period	**78,764,895**	**62,270,694**
EPRA earnings per unit	**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	7,731	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	**118,541**	**113,755**
EPRA NAV per unit (in EUR)	**1.5101**	**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	**116,149**	**113,707**
EPRA NNNAV per unit (in EUR)	**1.4797**	**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 the 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 regard to the retail sector, the Fund management team remains cautious as the supply of new shopping centres in all Baltic capitals is increasing and together with the change brought by online shopping, the scene is challenging but also interesting. In this reshuffling of footfall among the Baltic shopping centres, there will be winners and losers but in this moment of fluster there could arise some attractive acquisition opportunities. The management team of Baltic Horizon divides the retail assets into three categories: small neighbourhood centres with food stores such as SKY, Pirita and Domus PRO, CBD shopping centres such as Europa 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 their believed higher resilience to the expected turbulence in the Baltic retail scene. Today, many large destination shopping centre owners are struggling with how to attract the customer to the destination whereas other type of retail centres continue to have their immediate catchment present. Convenience, multi-functionalism and innovative retail concepts will be the catch words of retail in the Baltics as well as globally. If Baltic Horizon Fund is to consider any more retail investments, they are very likely to be in prime locations in the hearts of the Baltic capitals.

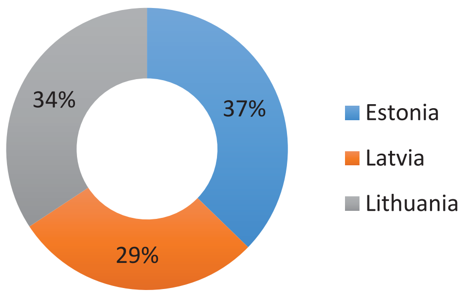
In the Baltic retail sector during 2018, rents for small spaces remained stable in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The spread between low and high rents has widened 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.

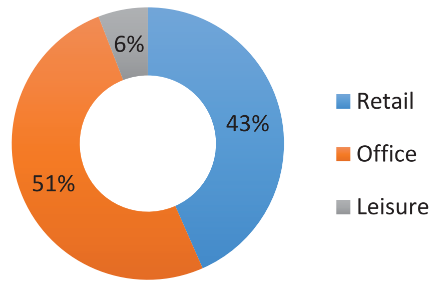
In 2018 capital city office rents stood in the bracket of EUR 13-16.5 per sq. m. per month for class A premises and EUR 8.6-13.5 sq. m. for modern class B offices. In Baltic Horizon portfolio, the average monthly rental level in Lincona was approx. EUR 10 per sq. m., in Duetto I approx. EUR 11.5 per sq. m. in Upmalas Biroji EUR 12.6 per sq. m. and in the 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 the 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 2018, the average actual occupancy of the portfolio was 97.6% (2017: 96.6%). When all rental guarantees are considered, the effective occupancy rate is 98.0% (2017: 97.8%). Average direct property yield during 2018 was 6.8% (2017: 7.2%). The net initial yield for the whole portfolio for 2018 was 6.5% (2017: 6.8%). The decrease is related to the acquisition of new properties with lower yields.

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 annual 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

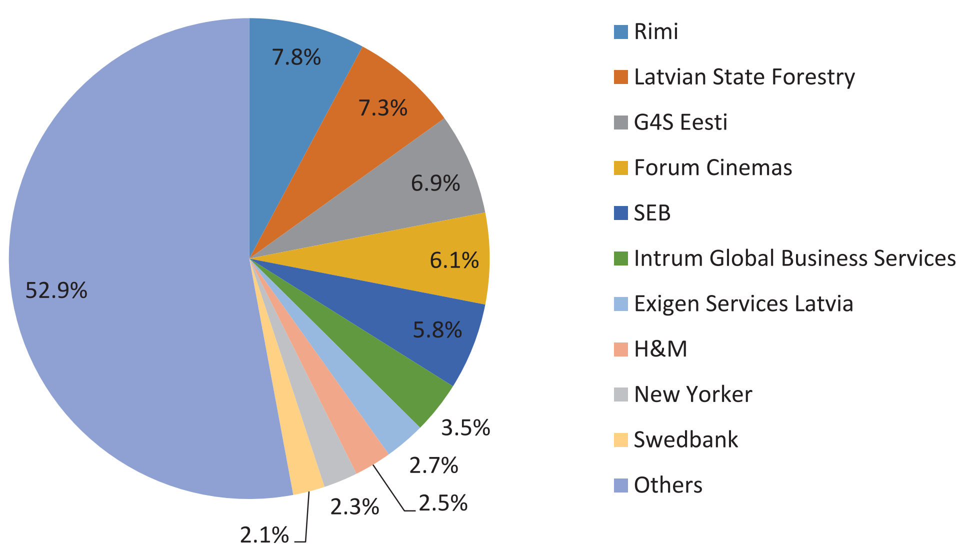


Table 5: Overview of the Fund's investment properties

Property name	City	Country	Market value[1] *Euro'000*	NLA	Direct property yield for 2018	Net initial yield for 2018	Occupancy rate for 2018
Duetto I	Vilnius	Lithuania	16,320	8,498	7.3%	6.7%	100.0%[2]
Pirita SC	Tallinn	Estonia	10,020	5,427	7.3%	8.1%	100.0%[2]
Upmalas Biroji BC	Riga	Latvia	25,730	10,458	7.2%	7.0%	100.0%
G4S Headquarters	Tallinn	Estonia	17,240	9,179	7.7%	7.1%	100.0%
Europa SC	Vilnius	Lithuania	41,100	16,856	6.3%	5.8%	94.8%
Domus Pro Retail Park	Vilnius	Lithuania	17,460	11,247	7.4%	6.7%	98.4%
Domus Pro Office	Vilnius	Lithuania	7,460	4,831	7.7%	6.9%	95.9%
Meraki Land	Vilnius	Lithuania	1,670	-	-	-	-
Sky SC	Riga	Latvia	5,390	3,254	8.2%	7.5%	99.3%
Lincona	Tallinn	Estonia	17,170	10,870	7.7%	7.2%	94.6%[3]
Vainodes I	Riga	Latvia	21,230	8,052	6.9%	6.7%	100.0%
Postimaja & CC Plaza complex	Tallinn	Estonia	46,920	17,809	6.2%	5.9%	98.1%
LNK Centre	Riga	Latvia	17,450	7,453	6.4%	6.4%	100.0%
Total portfolio			**245,160**	**113,934**	**6.8%**	**6.5%**	**98.0%**

1. Based on the latest valuation as at 28 December 2018.
2. Effective occupancy rate is 100% due to a rental guarantee.
3. Lincona Office Complex was fully occupied at the end of December 2018.

During 2018, the Fund's portfolio produced approx. EUR 14.8 million of net operating income (NOI) (approx. EUR 10.8 million during 2017). 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**

Lincona Office Complex, Tallinn (Estonia)

The average occupancy level for 2018 was 94.6% (2017: 95.0%). The occupancy increased and reached 100.0% in Q4 because a Rimi express convenience store opened its doors in October on the ground floor. During 2018, the average direct property yield remained stable at 7.7% (2017: 7.7%). The net initial yield in 2018 decreased slightly, declining from 7.4% to 7.2% compared to 2017. The decrease in net initial yields is related to a significant increase in investment property fair value during the year. The fair value of the property has increased from EUR 16,050 thousand measured in the 2017 valuation to EUR 17,170 thousand as of 31 December 2018.

Domus Pro, Vilnius (Lithuania)
The average occupancy rate for the retail part was 98.4% in 2018 (2017: 98.5%). During 2018, the business centre received strong interest from the market to lease the remaining office space thus the average occupancy rate for the business centre increased to 95.9% (2017: 73.4%). During 2018 the average direct property yield for the retail part was 7.4% (2017: 7.8%). The net initial yield for 2018 was 6.7% (2017: 6.9%). The value of the retail building increased from EUR 17,280 thousand measured in the 2017 valuation to EUR 17,460 thousand as of 31 December 2018. During 2018 the average direct property yield for the office part was 7.7% (starting direct property yield in 2017 was 7.9%). The net initial yield for 2018 was 6.9%. The fair value of the business centre has increased from EUR 7,150 thousand measured in the 2017 valuation to EUR 7,460 thousand as of 31 December 2018.

Meraki land, Vilnius (Lithuania)
On 21 August 2018, the Fund 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)
During 2018, the average direct property yield was 8.2% (2017: 8.6%). The net initial yield for 2018 was 7.5% (2017: 7.5%). The fair value of the property has decreased slightly, decreasing from EUR 5,448 thousand measured in the 2017 valuation to EUR 5,390 thousand as of 31 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 the Postimaja & Coca-Cola Plaza complex remained stable at 98.1%. Average direct yield of the complex was 6.2% in 2018. The net initial yield for 2018 was 5.9%. The fair value of the complex has decreased slightly from EUR 47,716 thousand measured in the 2017 (comprising the Coca-Cola Plaza valuation plus acquisition price of Postimaja) to EUR 46,920 thousand as of 31 December 2018.

On 13 February 2018, the Fund completed the acquisition of the Postimaja shopping centre. The Fund management team is taking active steps to combine Postimaja & Coca-Cola Plaza to seize the synergy potential between the 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)
Located in the heart of Vilnius central business district on Konstitucijos Prospektas the property has the potential to substantially expand its visitor flows in the near future as new office buildings in the Vilnius CBD are being built or nearing completion. The management team has been in touch with top European retail consultants to enable the shopping centre to refresh its concept and increase its attractiveness in the vastly growing CBD area of Vilnius. The average direct property yield during 2018 was 6.3% (2017: 6.5%). The net initial yield for 2018 was 5.8% (2017: 6.1%). The decrease is related to subsequent capital expenditure and an increase in investment property fair value during the year. The fair value of the property has increased from EUR 39,600 thousand measured in the 2017 valuation to EUR 41,100 thousand as of 31 December 2018.

MANAGEMENT REVIEW

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 property land plot allows for future development of an additional office building with a gross leasable office area of 11,000 sq. m. The average direct property yield during 2018 increased to 7.7% (2017: 7.4%). The net initial yield for 2018 was 7.1% (2017: 7.0%). The fair value of the property has increased from EUR 16,570 thousand measured in the 2017 valuation to EUR 17,240 thousand as of 31 December 2018.

Upmalas Biroji, Riga (Latvia)
Upmalas Biroji is an A class office complex built in 2008 with a net leasable area of 10,458 sq. m. The property currently accommodates a mix of 9 quality tenants and is positioned as a shared service centre accommodating such top class international tenants as SEB Global Services, CABOT, Johnson & Johnson and others. The average direct property yield during 2018 remained stable at 7.2% (2017: 7.2%). The net initial yield for 2018 was 7.0% (2017: 7.1%). The fair value of the property has increased significantly from EUR 24,269 thousand measured in the 2017 valuation to EUR 25,730 thousand as of 31 December 2018.

Pirita Shopping centre, Tallinn (Estonia)
Pirita shopping centre in Tallinn, Estonia, is a neighbourhood-type shopping centre with Rimi and MyFitness as anchor tenants. The property's net rental income was covered by a 2-year 100% rental guarantee resulting in a 7.4% direct property yield guaranteed by the seller of this property until the end of 2018. The average direct property yield during 2018 was 7.4% (2017: 7.4%). The net initial yield for 2018 was 8.1% (2017: 7.5%). The fair value of the property has decreased from EUR 11,630 thousand measured in the 2017 valuation to EUR 10,020 thousand as of 31 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 is a newly built 10-floor office centre with an underground parking lot. It is located in the western part of Vilnius, next to the recently constructed Vilnius western ring road. The property has an A class in energy efficiency and will have a BREEAM certification. Duetto I was developed by a Lithuanian subsidiary of YIT, a listed Finnish real estate and construction company. The anchor tenant in the building is Intrum Global. 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 for 2018 was 98.1% (at the end of 2017: 96.5%). The average direct property yield during 2018 was 7.3% (2017: 7.1%). The net initial yield for 2018 was 6.7% (2017: 7.0%). The fair value of the property has increased slightly from EUR 16,210 thousand measured in the 2017 valuation to EUR 16,320 thousand as of 31 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 was closed on 27 February 2019. The largest tenants in the property are Vilnius heating network company, Sweco and Rimi Lietuva.

Vainodes I Office building, Riga (Latvia)
The complex consists of a new office building, built in 2014, which is connected to a smaller reconstructed building. The total leasable area of the building is 8,052 sq. m. The anchor tenant is JSC Latvian State Forests (about 92% of GLA), other tenants include pharmaceutical company AbbVie and a cafeteria. Vainodes I has a development potential of at least additional 7,000 sq. m. which the Fund's management team aims to execute in the coming 4 years in order to maximize the value of the property. During 2018, the average occupancy rate was 100.0%. The average direct property yield for 2018 was 6.9%. The net initial yield for

2018 was 6.7%. The fair value of the property has decreased from EUR 21,870 thousand measured in the 2017 valuation to EUR 21,230 thousand as of 31 December 2018.

LNK Centre Office building, Riga (Latvia)

The LNK property transaction was closed on 15 August 2018. It is an A class office building with a net leasable area of 7,453 sq. m. located in Skanstes area, which is a well-known modern business district of Riga and is likely to become a new CBD of Riga in the future. The asset is fully leased to four tenants, of which Emergn AS and LNK Group occupy approx. 86% of the leasable area. LNK Group is one of the largest local real estate and infrastructure development and construction companies in Latvia. The property's weighted average unexpired lease term (WAULT) is higher than market average due to Emergn AS and LNK Group extending their leases as part of the acquisition transaction. Since acquisition in August 2018, the average occupancy rate was 100.0%. The average direct property yield and net initial yield for 2018 was 6.4%. The fair value of the property has increased from EUR 17,065 thousand measured as acquisition value to EUR 17,450 thousand as of 31 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 24 April 2018, S&P Global Ratings assigned an "MM3" mid-market evaluation (MME rating) to Baltic Horizon Fund. The indicative corresponding rating for "MM3" on the global rating scale is "BB+/ BB".

On 8 May 2018, the Fund completed a subscription for its 5-year unsecured bonds of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly. The transaction took place under the private placement regime and was subscribed for by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks. On 28 August 2018, the bonds were listed on Nasdaq Tallinn. On 13 December 2018, the Fund completed a subsequent subscription for its 5-year unsecured notes worth EUR 10 million. The additional bonds were issued under the same terms and conditions as the initial issue of unsecured bonds on 8 May 2018. On 20 December 2018, the additional bonds were listed on Nasdaq Tallinn.

The proceeds from the bond issue were used for bank loan refinancing and the acquisition of new investment properties. As a result of the bond issue, the weighted average interest rate increased from 1.7% at the end of 2017 to 2.4% at the end of 2018. In addition, the loan-to-value (LTV) of bank loans decreased from 51.8% as of 31 December 2017 to 41.1% as of 31 December 2018. The monthly loan principal amortization was reduced significantly from 1.6% to 0.1% due to bank loan refinancing. The management team is working on maintaining a low average interest rate and a low regular bank loan principal amortisation rate.

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'000	**222**	**243**	**345**	**106**	**27**	**27**
Regular annual bank loan amortisation from 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%

MANAGEMENT REVIEW

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 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 as of 31 December 2018

Property	**Maturity**	**Currency**	**Carrying amount** *Euro '000*	**% 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 Nov 2024	EUR	9,842	7.0%	50%
LNK	27 Sep 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]		EUR	(245)		
Total debt recognised in the statement of financial position		**EUR**	**140,507**	**100%**	**90%**

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

In February 2018, a new loan of EUR 25.3 million was taken for the acquisition of Postimaja and refinancing the loan taken for CC Plaza. The maturity date of the loan is 12 February 2023. Later in the year, Postimaja and CC Plaza loan were partially refinanced with bonds reducing loan balance to EUR 17.2 million.

On 8 May 2018, the Fund completed a subscription for its 5-year unsecured bonds of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly. On 13 December 2018, the Fund completed a subsequent subscription for its 5-year unsecured 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. The funds raised from bonds issued were used for partial repayment of existing bank loans and the acquisition of new properties.

In November 2018, a new loan amounting to EUR 0.7 million (out of EUR 9.4 million in total) was drawn down for the LNK Centre property. The remaining loan amount (EUR 8.7 million) was drawn down after the end of the reporting period. According to the agreement, the maturity of the loan is 27 September 2023.

Weighted average time to maturity shortened from 4.6 years at the end of 2017 to 4.0 years on 31 December 2018.

MANAGEMENT REVIEW

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). During 2018, the Group fixed the interest rate for the Vainodes I bank loan (50% hedge ratio), Lincona bank loan (95% hedge ratio), CC Plaza and Postimaja bank loan (the full loan interest rate has been capped at 3.5%) and a new swap agreement kicked in for the Europa bank loan.

DIVIDEND CAPACITY

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

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

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

Table 9: 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 10: Dividend capacity calculation

EUR '000	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 for the period	**1,781**	**1,900**	**1,977**	**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 will 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.

COVENANT REPORTING

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

Table 11: 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	3.68

During 2018, the Fund was in compliance with all special conditions and covenants set under the bank loan agreements.

RISK MANAGEMENT

The risk management function of the Fund is outsourced to sister company of the Management Company Northern Horizon Capital AIFM Oy which is 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.

Principal risks faced by the Fund

Market risk

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

Currently, the yields of prime office and retail properties in the Baltic countries are decreasing as competition between real estate investors is consistently increasing. Investment yields in the Baltic countries 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

Baltic Horizon Fund owned 12 established cash flow properties at the end of 2018 and closed 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 the 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 the Domus PRO complex. The period for completing these expansions falls between 2020-2023 and they are 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 the average economic growth will slow slightly 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 consolidated annual financial statements, prepared in accordance with IFRS as adopted by the European Union, present a correct and fair view of the assets, liabilities, equity, financial position, financial performance and cash flows of the Fund and its subsidiaries, taken as a whole, and the management report gives a true and fair view of the development, the results of the business activities and the financial position of the Fund and its subsidiaries, taken as a whole, as well as of the principal risks and significant events which took place during the financial year and their effect on the consolidated annual financial statements.

Independent Auditors' Report

To the Unitholders of Baltic Horizon Fund

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Baltic Horizon Fund as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the consolidated financial statements of Baltic Horizon Fund (the Fund or the Group) as set out on pages from 26 to 72. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated of statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

Audit Approach

- Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of our work to be performed on the financial information of the entities (components) within the group based on their financial significance and other risk characteristics.

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

Key Audit Matters

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

Fair value of investment properties

The carrying amount of investment properties in the consolidated financial statements as at 31 December 2018 was EUR 245,160 thousand; upward revaluation recognised in 2018 profit or loss was EUR 2,014 thousand.

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

The key audit matter	How the matter was addressed in our audit
The Fund's primary activity is investing in commercial real estate. Consequently, investment properties represent the single largest category of assets on the Fund's statement of financial position as at 31 December 2018. The investment properties are measured at fair value, estimated by the Fund with the assistance of external appraisers, using the discounted cash flow method. We have assessed this area to be a key audit matter as the valuation process involves significant judgement in determining the appropriate valuation methodology, and in selecting and estimating the underlying assumptions to be applied. The valuations are highly sensitive to these key assumptions, including those relating to the capitalization rates and estimated net income, and a change in the assumptions may have a material impact on the valuation.	As part of our audit in the area, we, among other things, performed the following procedures: • We assessed the process applied by management in selecting, reviewing and assessing the work of the external appraisers engaged by the Fund; • We assessed the competence and objectivity of the external appraisers, and also inspected the terms of their engagement with the Fund, to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; • Assisted by our own valuation specialists, we: - evaluated the appropriateness of the valuation methodology applied by the Fund's external appraisers against relevant financial reporting standards, and against those applied by other appraisers for similar properties;

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

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed on 29 March 2016 by the Supervisory Board of the Management Company to audit the financial statements of Baltic Horizon Fund. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2015 to 31 December 2018.

We confirm that:

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

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

Tallinn, 15 March 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Euro '000	**Notes**	**2018**	**2017 (restated)***
Rental income		15,860	11,839
Service charge income		2,760	1,921
Cost of rental activities	7	(3,816)	(2,992)
Net rental income	6	**14,804**	**10,768**
Administrative expenses	8	(2,813)	(2,774)
Other operating income/(expenses)		74	14
Valuation gains/(loss) on investment properties		2,014	3,676
Operating profit		**14,079**	**11,684**
Financial income		8	47
Financial expenses	9	(2,789)	(1,528)
Net financing costs		**(2,781)**	**(1,481)**
Profit before tax		**11,298**	**10,203**
Income tax charge	6, 11	(1,308)	(759)
Profit for the period	6	**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	15b	(1,013)	273
Termination of interest rate swap agreement reclassified to profit or loss	21	-	57
Recognition of initial interest rate cap costs	15b	(33)	(43)
Income tax relating to net gains (losses) on cash flow hedges	15b, 11	97	(49)
Other comprehensive income/(expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods		**(949)**	**238**
Total comprehensive income/(expense) for the period, net of tax		**9,041**	**9,682**
Basic and diluted earnings per unit (Euro)	10	**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 2).

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Euro '000	Notes	31.12.2018	31.12.2017
Non-current assets			
Investment properties	6, 12	245,160	189,317
Derivative financial instruments	21	9	89
Other non-current assets		596	146
Total non-current assets		**245,765**	**189,552**
Current assets			
Trade and other receivables	13	2,734	1,568
Prepayments		154	108
Cash and cash equivalents	14	12,225	24,557
Total current assets		**15,113**	**26,233**
Total assets	6	**260,878**	**215,785**
Equity			
Paid in capital	15a	93,673	91,848
Own units	15a	(335)	-
Cash flow hedge reserve	15b	(1,005)	(56)
Retained earnings		17,472	15,184
Total equity		**109,805**	**106,976**
Non-current liabilities			
Interest bearing loans and borrowings	16	140,401	96,497
Deferred tax liabilities	11	5,844	5,206
Derivative financial instruments	21	1,069	88
Other non-current liabilities		905	859
Total non-current liabilities		**148,219**	**102,650**
Current liabilities			
Interest bearing loans and borrowings	16	106	1,590
Trade and other payables	17	2,397	4,202
Income tax payable		-	14
Derivative financial instruments	21	-	15
Other current liabilities		351	338
Total current liabilities		**2,854**	**6,159**
Total liabilities	6	**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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 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	15b	-	-	57	-	**57**
Other comprehensive income		-	-	181	-	**181**
Total comprehensive income		**-**	**-**	**238**	**9,444**	**9,682**
Paid in capital – units issued		25,632	-	-	-	**25,632**
Cancellation of own units		(8)	8	-	-	**-**
Profit distribution to unitholders	15c	-	-	-	(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	15a	2,350	-	-	-	**2,350**
Repurchase of own units			(860)	-	-	**(860)**
Cancellation of own units	15a	(525)	525	-	-	**-**
Profit distribution to unitholders	15c	-	-	-	(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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Euro '000	Notes	2018	2017
Cash flows from core activities			
Profit (loss) before tax		**11,298**	**10,203**
Adjustments for non-cash items:			
Value adjustment of investment properties	12	(2,014)	(3,676)
Allowance for bad debts	13	143	45
Financial income		(8)	(47)
Financial expenses	9	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		(522)	(100)
(Decrease)/increase in other current liabilities		702	(6)
(Paid)/refunded income tax		(586)	(42)
Total cash flows from core activities		**10,364**	**7,475**
Cash flows from investing activities			
Interest received		8	8
Acquisition of subsidiaries, net of cash acquired	12	(16,935)	(8,614)
Acquisition of investment property	12	(34,477)	(14,362)
Acquisition of land plot	12	(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		**(56,425)**	**(28,127)**
Cash flows from financing activities			
Proceeds from the issue of bonds		40,000	-
Proceeds from bank loans		26,000	40,566
Repayment of bank loans		(23,299)	(24,112)
Proceeds from issue of units	15a	2,350	25,632
Repurchase of units	15a	(860)	-
Profit distribution to unitholders	15c	(7,702)	(5,147)
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 year		**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.

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

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the management board of the Management Company on 15 March 2019.

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[2]	100%	0%
BH Meraki UAB[2]	100%	0%

[1]ZM Development merged with Vainodes Krasti SIA on 18 October 2018.
[2]Please refer to note 12 for more information regarding the new subsidiaries.

Baltic Horizon Fund merger with Baltic Opportunity Fund

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

1. Corporate information (*continued*)

Baltic Horizon Fund merger with Baltic Opportunity Fund (*continued*)

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

During three additional secondary public offerings in November 2016, June 2017, and November 2017 and a private placement in February 2018 the Fund raised additional net capital of EUR 48 million. During 2018, the Fund bought back and cancelled 404,294 units that were held on its own account. As a result of the offering of the new units and cancellation of own units, the total number of the Fund's units increased to 78,752,800. The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

2. Summary of significant accounting policies

Basis of preparation

The Group's consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (the "IFRS") as adopted for use in the European Union.

Going concern assessment

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

New standards, amendments and interpretations adopted

In 2018, The Group applied for the first time IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments), which are effective for annual periods beginning on or after 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

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.

2. Summary of significant accounting policies (*continued*)

IFRS 15 Revenue from contracts with customers (*continued*)

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 initial 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 and services 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 and services.

The Group adopted IFRS 15 in its consolidated financial statements for the year ended 31 December 2018, using the retrospective approach. As a result, the Group applied all the requirements of IFRS 15 to each comparative period presented and adjusted its consolidated financial statements.

The following tables summarizes the impact of IFRS 15 on the Group's statement of profit or loss and other comprehensive income.

	Impact of IFRS 15		
Euro '000	**Amounts without adoption of IFRS 15 as at 31 December 2018**	**Adjustments due to adoption of IFRS 15**	**As reported at 31 December 2018**
Service charge income	5,008	(2,248)	2,760
Cost of rental activities	(6,064)	2,248	(3,816)

	Impact of IFRS 15		
Euro '000	**Amounts without adoption of IFRS 15 as at 31 December 2017**	**Adjustments due to adoption of IFRS 15**	**Adjusted balances as at 31 December 2017**
Service charge income	3,692	(1,771)	1,921
Cost of rental activities	(4,763)	1,771	(2,992)

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

IFRS 9 Financial Instruments

This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

2. Summary of significant accounting policies (*continued*)

IFRS 9 Financial instruments (*continued*)

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

The Group adopted IFRS 9 in its consolidated financial statements for the year ended 31 December 2018, using the retrospective approach. At the date of initial application, all of the Group's hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018. Therefore they are treated as continuing hedging relationships.

The adoption of IFRS 9 has not had a material impact on the Group's financial statements. The classification and measurement of the Group's financial instruments have not changed under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. The Fund holds only trade receivables and loans which are now classified to the amortised cost category under IFRS 9.

New standards, amendments and interpretations not yet adopted

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2018 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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.

2. Summary of significant accounting policies (*continued*)

IFRS 16 Leases (*continued*)

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 finance or operating lease contracts under the currently effective IAS 17. The Fund as a lessor will continue to classify all leases using the same classification principles as in IAS 17 and will provide more extensive disclosures in accordance with IFRS 16 requirements.

Other changes

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

Significant accounting policies

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

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

2a. Presentation currency

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

2b. Consolidated financial statements

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

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

2. Summary of significant accounting policies (*continued*)

2b. Consolidated financial statements (*continued*)

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

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

2c. Foreign currency translation

The functional currency of each Group company is determined with reference to the currency of the primary economic environment in which the entity operates. Transactions in other currencies than the functional currency are transactions in foreign currencies.
Foreign currency transactions are translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the date of the initial transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the reporting date.

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

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

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

2d. Investment properties

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

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

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

2. Summary of significant accounting policies (*continued*)

2d. Investment properties (*continued*)

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

2e. Dividends (distributions)

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

2f. Provisions

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

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

2g. Derivative financial instruments

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

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

2h. Hedge accounting

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

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

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

2i. Interest bearing loans and borrowings

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

2. Summary of significant accounting policies (*continued*)

2i. Interest bearing loans and borrowings (*continued*)

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

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

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

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

2j. Other liabilities

Other liabilities, comprising payables to suppliers, guarantee deposits received from tenants and other payables, are measured at amortised cost using the effective interest rate method.
Deferred income is recognised under liabilities and includes payments received for future income.

2k. Financial assets

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

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

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

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

2. Summary of significant accounting policies (*continued*)

2k. Financial assets (*continued*)

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

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

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment

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

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

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

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

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

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

2. Summary of significant accounting policies (*continued*)

2l. Accounts receivable

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

2m. Cash and cash equivalents

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

2n. Contingencies

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

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

2o. Subsequent events

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

2p. Revenue recognition

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

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

2q. Expense recognition

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

2. Summary of significant accounting policies (*continued*)

2r. Administrative expenses

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

2s. Current taxation

Taxation of the Group subsidiaries

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

Taxation of the Fund

Gains from transfer of property

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

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

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

2t. Deferred taxation

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

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

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

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

2. Summary of significant accounting policies (*continued*)

2t. Deferred taxation (*continued*)

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

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

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

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

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

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

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

Because of the specific nature of the taxation system in Estonia and Latvia, there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and therefore deferred tax assets and liabilities do not arise.

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

2. Summary of significant accounting policies (*continued*)

2u. Fair value measurements

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

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

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

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

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

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

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

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

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

2v. Business combinations

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

Applying the acquisition method

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

2. Summary of significant accounting policies (*continued*)

2v. Business combinations (*continued*)

Applying the acquisition method (*continued*)

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

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

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

Business combinations between entities under common control

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

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

If a business combination is treated as a combination between entities under common control, then the transaction is accounted for under the predecessor values method. Under this method, the acquired assets and liabilities are recorded at their pre-acquisition fair values and no goodwill is recorded. The consolidated financial statements will reflect both entities' combined full year's results, even though a business combination may have occurred part way through the year. The corresponding amounts for the previous years also reflect the combined results of both entities.

3. Significant accounting judgments, estimates and assumptions

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

Judgments

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

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

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

3. Significant accounting judgments, estimates and assumptions (*continued*)

Judgments (*continued*)

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

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

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

Operating lease contracts – the Group as lessor
Leases in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of its properties and so accounts for their leases as operating leases. One of the Fund's assets, Coca-Cola Plaza, has only one tenant with a long-term tenancy agreement acquired via a sale-lease back transaction. Based on the terms and conditions, the lease arrangement is treated as an operating lease due to the following reasons:
- all significant risks and rewards of the ownership of this property are retained by the Group;
- the ownership of the property will remain to the Group by the end of the lease term;
- there is no agreement with the lessee that would allow the lessee to purchase the property at a discount or significantly lower amount than the fair value of the property;
- the initial rent period agreed was for 10 years with a lease expiration on 18 March 2023. Therefore, the lease term does not comprise the major part of the economic life of the property;
- there is no agreement with the lessee that would allow for the lessee to continue the lease for a secondary period at a rent that is substantially lower than market rent;
- at the inception of the lease the present value of the minimum lease payments does not amount to all of the fair value of the leased property.

Estimates and assumptions

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

3. Significant accounting judgments, estimates and assumptions (*continued*)

Estimates and assumptions (*continued*)

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

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

4. Financial risk management

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

4a. Credit risk

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

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

There are no significant concentrations of credit risk within the Group. As at 31 December 2018, the total credit risk exposure was as follows:

Euro '000	**2018**	**2017**
Cash and cash equivalents (note 14)	12,225	24,557
Trade and other receivables (note 13)	2,734	1,568
Derivative financial instruments (note 21)	9	89
Total exposure to credit risk	**14,968**	**26,214**

During 2018 provisions for bad debts in all properties of the Group amounted to EUR 221 thousand.

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

4. Financial risk management (*continued*)

4b. Interest rate risk

The Group's interest rate risk is related to interest-bearing borrowings. Fluctuations in interest rates affect interest expense (note 15b). The Group's exposure to interest rate cash flow risk is mitigated by the use of interest rate swaps and interest rate caps.

At 31 December 2018, after taking into account the effect of interest rate swaps, 90% of the Group's borrowings had a fixed rate of interest (2017: 60%).

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

	2018		2017	
Euro '000	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Increase in basis points, +50	(79)	1,267	(89)	837
Decrease in basis points, -50	79	(1,267)	89	(837)

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

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

4c. Liquidity risk

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

The table below summarises the contractual maturity profile of the Group's financial liabilities at 31 December 2018. The amounts are gross and undiscounted, and include contractual interest payments.

Euro '000	**Less than 3 months**	**3 months - 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**	**Carrying amount**
Year ended 31 December 2018							
Interest bearing loans and borrowings (note 16)	888	2,676	3,604	138,675	9,842	**155,685**	**140,507**
Derivative financial instruments (note 21)	-	-	-	424	645	**1,069**	**1,069**
Trade and other payables (note 17)	2,397	-	-	-	-	**2,397**	**2,397**
Total current and non-current	**3,285**	**2,676**	**3,604**	**139,099**	**10,487**	**159,151**	**143,973**

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4. Financial risk management (*continued*)

4d. Foreign exchange risk

The Fund's primary currency is the euro. In 2018 and 2017 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than the euro from this date.

5. Capital management

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

The capital structure of the Group consists of borrowings (as detailed in note 16) and equity. The capital structure of the Group is reviewed regularly based on the cost of capital and the risks associated with each class of capital.

Management monitors capital using the loan-to-value ratio, which is borrowings divided by property value. The Group's target loan to value ratio is 50%. As at 31 December 2018, the Group complied with all externally imposed capital requirements.

Euro '000	**2018**	**2017**
Interest bearing loans and borrowings	140,507	98,087
Investment properties	245,160	189,317
Gearing ratio (loan-to-value)	**57.3%**	**51.8%**

6. 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.

6. Operating segments (*continued*)

Operating segments – 31 December 2018

Euro '000	**Retail**	**Office**	**Leisure**	**Total segments**
2018:				
External revenue[1]	8,973	8,637	1,010	18,620
Segment net rental income	**6,247**	**7,559**	**998**	**14,804**
Net gains 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.

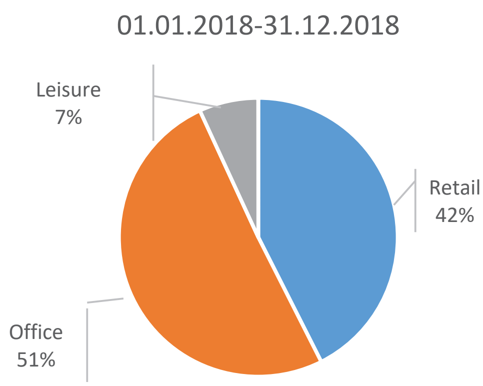
Operating segments – 31 December 2017

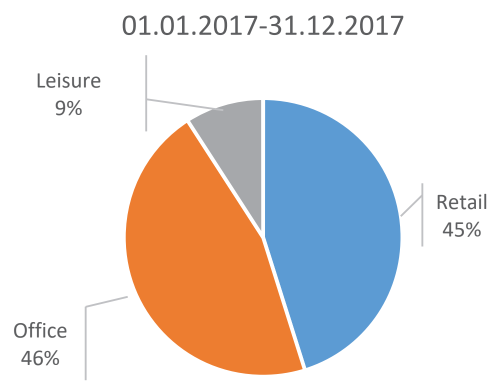
'000 Euro	**Retail**	**Office**	**Leisure**	**Total segments**
2017:				
External revenue[1]	7,117	5,647	996	13,760
Segment net rental income	**4,861**	**4,923**	**984**	**10,768**
Net gains or losses from fair value adjustment	370	3,066	240	3,676
Interest expenses[2]	(681)	(631)	(134)	(1,446)
Income 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. 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 2).
2. Interest expenses include only external bank loan interest expenses.

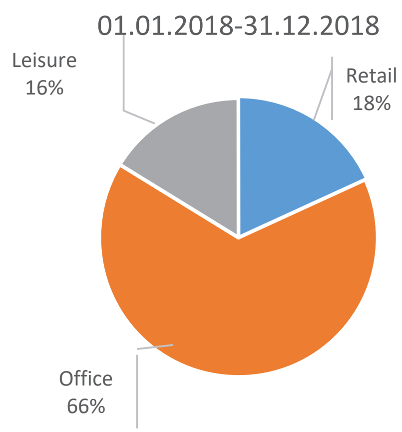
6. Operating segments (*continued*)

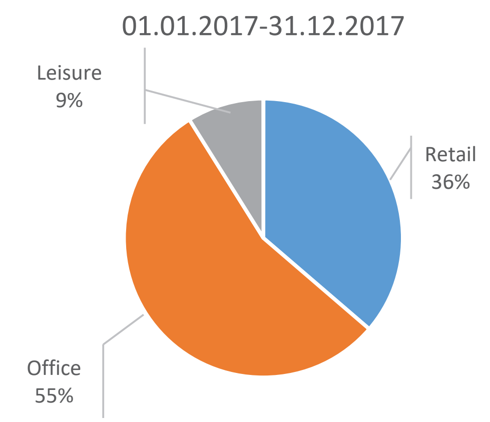
Segment net rental income*



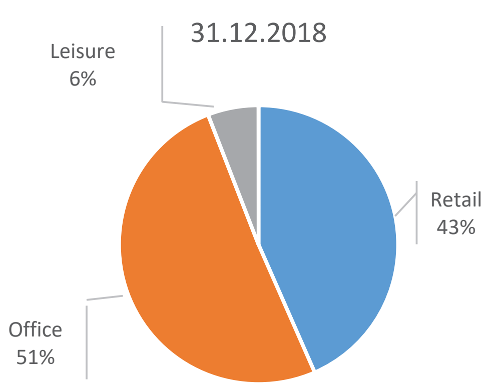


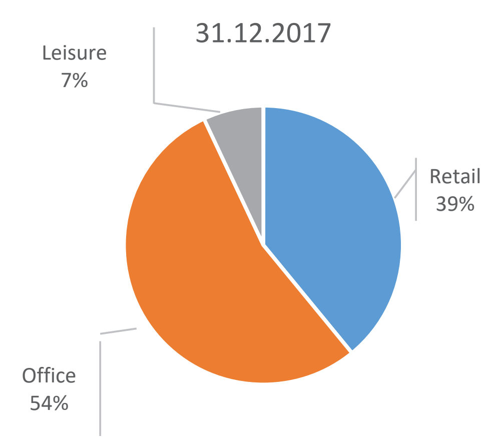
Segment net profit (loss)*





Investment properties*





*As a percentage of the total for all reportable segments

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6. Operating segments (*continued*)

Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2018

Euro '000	**Total reportable segments**	**Adjustments**	**Consolidated**
2018:			
Net profit	**13,186**	(3,196) [1]	**9,990**
As at 31.12.2018:			
Segment assets	**250,862**	10,016 [2]	**260,878**
Segment liabilities	**110,401**	40,672 [3]	**151,073**

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

Operating segments – 31 December 2017

Euro '000	**Total reportable segments**	**Adjustments**	**Consolidated**
2017:			
Net profit (loss)	**11,780**	(2,336) [1]	**9,444**
As at 31.12.2017:			
Segment assets	**198,051**	17,734 [2]	**215,785**
Segment liabilities	**108,153**	656 [3]	**108,809**

1. Segment net profit for 2017 does not include listing related expenses (EUR 637 thousand), the Fund management fee (EUR 1,153 thousand), Fund custodian fees (EUR 31 thousand), and other Fund-level administrative expenses (EUR 515 thousand).
2. 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).
3. 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.

6. Operating segments (*continued*)

Geographic information
Segment net rental income

	External revenue		*Investment property value*	
Euro '000	**2018**	**2017 (restated)***	**31.12.2018**	**31.12.2017**
Lithuania	7,280	6,304	84,010	80,240
Latvia	4,726	2,674	69,800	51,587
Estonia	6,614	4,782	91,350	57,490
Total	**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 2).

Major tenant
No single tenant accounted for more than 10% of the Group's total revenue. Rental income from one tenant in the office segment represented EUR 1,159 thousand of the Group's total rental income for 2018 (EUR 1,123 thousand for 2017). Another tenant in the leisure segment represented EUR 1,010 thousand of the Group's total rental income for 2018 (EUR 996 thousand for 2017).

7. Cost of rental activities

Euro '000	**2018**	**2017 (restated)***
Repair and maintenance	1,424	999
Property management expenses	629	549
Real estate taxes	569	498
Utilities	476	294
Sales and marketing expenses	445	434
Property insurance	73	56
Allowance / (reversal of allowance) for bad debts	143	45
Other	57	117
Total cost of rental activities	**3,816**	**2,992**

Part of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants: EUR 2,760 thousand during 2018 (EUR 1,921 thousand during 2017).

8. Administrative expenses

Euro '000	**2018**	**2017**
Management fee	1,391	1,153
Legal fees	323	115
Fund marketing expenses	222	204
Consultancy fees	215	297
Performance fee	166	-
Audit fee	88	83
Supervisory board fees	50	80
Custodian fees	47	31
Public offering related expenses	-	637
Other administrative expenses	311	174
Total administrative expenses	**2,813**	**2,774**

Up to 30 June 2016, the Management Company (Note 20) was entitled to receive an annual management fee, which was calculated as 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as NAV at certain dates (the last Banking Day of each calendar month). As from 1 July 2016, 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.

Up to 30 June 2016, the Management Company was entitled to calculate a performance fee of 20% of the average annual return on paid in capital if the average annual return on paid in capital of the Fund exceeded 11% per annum.

After the Baltic Opportunity Fund's merger with Baltic Horizon Fund starting from 1 July 2016, 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).

9. Financial expenses

Euro '000	**2018**	**2017**
Interest on external loans and borrowings	2,685	1,425
Loan arrangement fee amortisation	103	45
Termination of interest rate swap*	-	57
Foreign exchange loss	1	1
Total financial expenses	**2,789**	**1,528**

*In June 2017, the Fund terminated the interest rate swap agreement through the payment of EUR 57 thousand.

10. Earnings per unit

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

10. Earnings per unit (*continued*)

Profit attributable to the unitholders of the Fund:

Euro '000	2018	2017
Profit for the period, attributed to the unitholders of the Fund	9,990	9,444
Profit for the period, attributed to the unitholders of the Fund	**9,990**	**9,444**

Weighted-average number of units:

	2018	2017
Issued units at 1 January	77,440,638	57,264,743
Effect of own units cancelled in March 2017[1]	-	(4,911)
Effect of units issued in June 2017[2]	-	3,922,050
Effect of units issued in November 2017[3]	-	1,088,812
Effect of units issued in February 2018[4]	1,471,248	-
Effect of units repurchased by the Fund and cancelled in October 2018[5]	(115,281)	-
Effect of units repurchased by the Fund in October, November and December 2018[6]	(31,710)	-
Weighted-average number of units issued	**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 issued 7,397,027 new units 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 have been eliminated for the calculation of earnings per unit.

Basic and diluted earnings per unit:

	2018	2017
Basic and diluted earnings per unit*	**0.13**	**0.15**

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

11. Income tax

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where the real estate is situated. The Fund's subsidiaries 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 year ended 31 December 2018 was 11.6% (7.4% for the year ended 31 December 2017).

11. Income tax (*continued*)

The major components of income tax for the years ended 31 December 2018 and 2017 are:

Euro '000	2018	2017
Consolidated statement of profit or loss and other comprehensive income		
Current income tax for the year	(573)	(31)
Deferred tax for the year	(735)	(728)
Income tax expense reported profit or loss	**(1,308)**	**(759)**
Consolidated statement of profit or loss and other comprehensive income		
Deferred income tax related to items charged or credited to equity:		
Revaluation of derivative instruments to fair value	97	(49)
Income tax income/(expense) reported in other comprehensive income	**97**	**(49)**

Deferred income tax as at 31 December 2018 and 2017 relates to the following:

	Consolidated statement of financial position		Recognised in profit or loss	
Euro '000	31.12.2018	31.12.2017	2018	2017
Tax losses brought forward	1,812	1,580	232	(1,610)
Revaluation of derivative instruments to fair value	99	2	-	-
Deferred income tax assets	**1,911**	**1,582**		
Investment property	(7,731)	(6,763)	(968)	890
Other tax liability	(24)	(25)	1	(8)
Deferred income tax liabilities	**(7,755)**	**(6,788)**		
Deferred income tax income/(expense)			**(735)**	**(728)**
Deferred tax liabilities net	**(5,844)**	**(5,206)**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	-	-		
Deferred tax liabilities	(5,844)	(5,206)		
Deferred tax liabilities net	**(5,844)**	**(5,206)**		

The reconciliation of effective tax rate for the years ended 31 December 2018 and 2017 is as follows:

Euro '000	2018		2017	
(Loss)/profit before income tax		11,928		10,203
At statutory tax rate	0.0%	-	0.0%	-
Effect of tax rates in foreign jurisdictions	(7.4)%	(730)	(10.2)%	(1,037)
Tax effect of non-deductible expenses	(0.9)%	(104)	0.0%	-
Change in unrecognized deferred tax	(4.2)%	(474)	2.7%	278
Total income tax expenses	**(11.6)%**	**(1,308)**	**(7.4)%**	**(759)**

As at 31 December 2018, the Group had tax losses of EUR 1,830 thousand that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

11. Income tax (*continued*)

On 28 July 2017, the Latvian parliament approved a tax reform. The tax reform brought substantial changes to the tax policy of Latvia. According to the new tax model, which is effective starting on 1 January 2018, the following key changes were introduced:

- the new Corporate Income Tax (CIT) Law introduces a new CIT payment procedure, whereby the CIT payment may be deferred until the time when the profit is distributed or otherwise spent to cover expense which does not facilitate further development of the company;
- the new CIT rate is increased from 15% to 20% of gross distributed profits or 25% of net distributed profits.

Due to these changes, at the end of 2017 the Group recognized a EUR 137 thousand gain for 2017 for a deferred tax reversal at the Latvian subsidiaries.

Summary of taxation rates by country is presented below:

	2018	2017
Lithuania	15%	15%
Latvia[1]	0%	15%
Estonia[2]	0%	0%

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

[2]20% income tax rate applies to profit distributions.

12. Investment property

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

As at 28 December 2018, new external valuations were performed by the independent property valuator Newsec.

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

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

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

12. Investment property (*continued*)

Euro '000	**31.12.2018**	**31.12.2017**
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 (note 13)	-	6,592
Additions (subsequent expenditure)	623	1,371
Net revaluation gain	2,014	3,676
Closing balance	**245,160**	**189,317**

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

Acquisition of LNK Centre
On 15 August 2018, the Group acquired 100% of the voting shares of LNK Properties SIA (currently known as BH S27 SIA), an unlisted company based in Latvia. BH S27 SIA owns LNK Centre property. In accordance with IFRS 3, this acquisition is treated as an asset deal.

Cash outflow on acquisition:

Euro '000	**Total**
Net cash acquired with the subsidiary	452
Cash paid for the acquisition	(17,387)
Net cash outflow on acquisition	**(16,935)**

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. In accordance with IFRS 3, this acquisition is treated as an asset deal. The property is currently owned by the Fund (BH CC Plaza OÜ).

Acquisition of Meraki land plot
On 16 May 2018, the Fund completed the acquisition of 0.87 hectares of land next to the Domus Pro complex in Vilnius, Lithuania. The total purchase price for three land plots was EUR 1.7 million. The land plot is currently owned by the Fund (BH Meraki UAB).

Acquisition of Duetto II after the reporting period
On 18 December 2018, Baltic Horizon signed a sales-purchase agreement to acquire the newly constructed Duetto II office property in Vilnius, Lithuania. The total purchase price for the property was EUR 18.3 million corresponding to an approximate acquisition yield of 7.1%. The transaction was closed on 27 February 2019. In accordance with IFRS 3, this acquisition is treated as an asset deal.

12. Investment property (*continued*)

Fair value hierarchy
The following table shows an analysis of the fair values of investment properties recognised in the statement of financial position by their level in the fair value hierarchy:

31 December 2018	Level 1	Level 2	Level 3	Total	Total gain or (loss) for 2018 recognised in profit or loss
Lithuania – Europa (retail)	-	-	41,100	41,100	1,288
Lithuania – Domus Pro (retail/office)	-	-	24,920	24,920	414
Lithuania – Meraki (land)	-	-	1,670	1,670	(19)
Lithuania – Duetto I (office)	-	-	16,320	16,320	86
Latvia – SKY (retail)	-	-	5,390	5,390	(68)
Latvia – Upmalas Biroji (office)	-	-	25,730	25,730	1,438
Latvia – Vainodes I (office)	-	-	21,230	21,230	(640)
Latvia – LNK Centre (office)	-	-	17,450	17,450	382
Estonia – Lincona (office)	-	-	17,170	17,170	916
Estonia – Coca-Cola Plaza (leisure)	-	-	14,470	14,470	1,230
Estonia – Postimaja (retail)	-	-	32,450	32,450	(2,027)
Estonia – G4S (office)	-	-	17,240	17,240	635
Estonia – Pirita (retail)	-	-	10,020	10,020	(1,621)
Total	**-**	**-**	**245,160**	**245,160**	**2,014**

There were no transfers between levels during the years. Gains and losses recorded in profit or loss for fair value measurements categorised within Level 3 of the fair value hierarchy amounted to a net gain of EUR 2,014 thousand as at 31 December 2018 (2017: EUR 3,676 thousand) and are presented in the consolidated statement of profit or loss and other comprehensive income on the line 'Valuation gains / (loss) on investment properties'.

Valuation techniques used to derive Level 3 fair values
As of 31 December 2018, the valuations of investment properties were performed by Newsec.

The table below presents the following for each investment property:
- a description of the valuation techniques applied;
- the inputs used in the fair value measurement;
- quantitative information about the significant unobservable inputs used in the fair value measurement.

As of 31 December 2018:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 17,396 sq. m.		- Rental growth p.a.	1.2% - 2.3%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	14.0
Domus Pro, Vilnius (Lithuania)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 16,087 sq. m.		- Rental growth p.a.	1.7% - 2.2%
Segment – Retail/Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	9.3

12. Investment property (*continued*)

Lincona Office Complex, Tallinn (Estonia)	DCF	-	Discount rate	8.2%
Net leasable area (NLA) – 10,870 sq. m.		-	Rental growth p.a.	1.6% - 1.9%
Segment – Office		-	Long term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		-	Exit yield	7.5%
		-	Average rent (EUR/sq. m.)	10.2
Coca-Cola Plaza , Tallinn (Estonia)	DCF	-	Discount rate	8.2%
Net leasable area (NLA) – 8,664 sq. m.		-	Rental growth p.a.	1.4% - 3.0%
Segment – Leisure		-	Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 1999		-	Exit yield	7.5%
		-	Average rent (EUR/sq. m.)	10.4
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% - 5.0%
Year of construction/renovation – 1980		-	Exit yield	6.0%
		-	Average rent (EUR/sq. m.)	17.3
LNK Centre, Riga (Latvia)	DCF	-	Discount rate	7.8%
Net leasable area (NLA) – 7,453 sq. m		-	Rental growth p.a.	0.0% - 2.5%
Segment – Office		-	Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2006 / 2014		-	Exit yield	6.5%
		-	Average rent (EUR/sq. m.)	12.0

12. Investment property (*continued*)

Meraki land, Vilnius (Lithuania)	Sales	- Discount rate	-%
Net leasable area (NLA) – n/a	compariso	- Rental growth p.a.	-%
Segment – n/a	n approach	- Long term vacancy rate	-%
Year of acquisition – 2018	for land	- Exit yield	-%
		- Average rent (EUR/sq. m.)	-

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

As of 31 December 2017:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	7.2%
Net leasable area (NLA) – 16,900 sq. m.		- Rental growth p.a.	0.0% - 2.4%
Segment – Retail		- Long term vacancy rate	3.0%
Year of construction/renovation – 2004		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	14.6
Domus Pro, Vilnius (Lithuania)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 16,073 sq. m.		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail/Office		- Long term vacancy rate	2.5% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	9.4
Lincona Office Complex, Tallinn (Estonia) Net	DCF	- Discount rate	8.6%
leasable area (NLA) – 10,859 sq. m.		- Rental growth p.a.	1.0% - 2.7%
Segment – Office		- Long term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.8%
		- 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.	1.3% - 1.9%
Segment – Leisure		- Long term vacancy rate	1.5%
Year of construction/renovation – 1999		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	9.6
G4S Headquarters, Tallinn (Estonia)*	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,363 sq. m.		- Rental growth p.a.	0.0% - 3.2%
Segment – Office		- Long term vacancy rate	2.0%
Year of construction/renovation – 2013		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	11.2
SKY Supermarket, Riga (Latvia)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 3,263 sq. m.		- Rental growth p.a.	1.4% - 1.7%
Segment – Retail		- Long term vacancy rate	1.0% - 3.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	11.3
Upmalas Biroji, Riga (Latvia)	DCF	- Discount rate	7.3%
Net leasable area (NLA) – 10,600 sq. m.		- Rental growth p.a.	2.8% - 3.4%
Segment – Office		- Long term vacancy rate	1.0%
Year of construction/renovation – 2008		- Exit yield	7.1%
		- Average rent (EUR/sq. m.)	11.7
Pirita Shopping centre, Tallinn (Estonia)	DCF	- Discount rate	8.4%
Net leasable area (NLA) – 5,516 sq. m		- Rental growth p.a.	0.1% - 2.0%
Segment – Retail		- Long term vacancy rate	2.0%
Year of construction/renovation – 2016		- Exit yield	7.4%
		- Average rent (EUR/sq. m.)	14.8

12. Investment property (*continued*)

Duetto I, Vilnius (Lithuania)	DCF	-	Discount rate	7.9%
Net leasable area (NLA) – 8,327 sq. m		-	Rental growth p.a.	0.0% - 2.1%
Segment – Office		-	Long term vacancy rate	2.5%
Year of construction/renovation – 2017		-	Exit yield	7.25%
		-	Average rent (EUR/sq. m.)	11.6
Vainodes I, Riga (Latvia)*	DCF	-	Discount rate	8.2%
Net leasable area (NLA) – 8,052 sq. m		-	Rental growth p.a.	0.0% - 2.0%
Segment – Office		-	Long term vacancy rate	0.0% - 5.0%
Year of construction/renovation – 2014		-	Exit yield	7.0%
		-	Average rent (EUR/sq. m.)	13.3

*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% 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% - 9.0% 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% 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% 2017: 0% - 10.0%	An increase in long-term vacancy rate in isolation would result in a lower value of Investment property.

Sensitivity analysis of investment properties portfolio as at 31 December 2018 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

Euro '000		**Movement in discount rate**				
		-0.50%	*-0.25%*	*0.00%*	*+0.25%*	*+0.5%*
Movement in Exit yield	*-0.50%*	263,900	259,350	254,910	250,570	246,300
	-0.25%	258,600	254,190	249,850	245,610	241,490
	0.00%	253,700	249,380	**245,160**	241,050	237,030
	+0.25%	249,140	244,930	240,830	236,790	232,870
	+0.5%	244,900	240,800	236,760	232,830	228,990

Descriptions and definitions

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

12. Investment property (*continued*)

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

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

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

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

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

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

13. 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 (2017: EUR 84 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)**

13. Trade and other receivables (*continued*)

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

14. 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 (2017: EUR 100 thousand) of cash in its bank accounts due to certain restrictions in bank loan agreements.

15. Equity

15a. Paid in capital

During February 2018, the Fund raised additional gross capital of 2.35 million through a private placement in relation to the Postimaja shopping centre acquisition deal. 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.

15. Equity (*continued*)

15a. Paid in capital (*continued*)

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 (EUR 335 thousand) were cancelled and deleted after the end of the reporting period (note 22).

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

15b. 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 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 (note 21)	-	57
Recognition of initial interest rate cap costs	(33)	(43)
Movement in deferred income tax (note 11)	97	(49)
Net variation during the period	**(949)**	**238**
Balance at the end of the period	**(1,005)**	**(56)**

15c. Dividends (distributions)

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

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).

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

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

16. 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 a 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 a 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 partially drawn down in November 2018.
3. The loan was refinanced in February 2018.
4. The new loan was drawn down in February 2018.

16. Interest bearing loans and borrowings (*continued*)

Reconciliation of movements of liabilities to cash flow arising from financing

		Liabilities		Derivatives (assets) / liabilities held for hedging		Equity				
Euro '000	Note	Interest bearing loans and borrowings	Accrued interest expenses	Derivatives used for hedging - assets	Derivatives used for hedging - liabilities	Paid-in capital	Own units	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 January 2018		**98,087**	**41**	**(89)**	**103**	**91,848**	**-**	**(56)**	**15,184**	**205,118**
Changes from financing cash flows										
Proceeds from the issue of bonds		40,000	-	-	-	-	-	-	-	**40,000**
Proceeds from bank loans		26,000	-	-	-	-	-	-	-	**26,000**
Repayment of borrowings		(23,299)	-	-	-	-	-	-	-	**(23,299)**
Proceeds from issue of units	15a	-	-	-	-	2,350	-	-	-	**2,350**
Repurchase of own units		-	-	-	-	-	(860)	-	-	**(860)**
Profit distribution to unitholders	15c	-	-	-	-	-	-	-	(7,702)	**(7,702)**
Transaction costs related to loans and borrowings		(380)	-	-	-	-	-	-	-	**(380)**
Interest paid		-	(2,380)	-	-	-	-	-	-	**(2,380)**
Total changes from financing cash flows		**42,321**	**(2,380)**	**-**	**-**	**2,350**	**(860)**	**-**	**(7,702)**	**33,729**
Changes in fair value		**-**	**-**	**80**	**933**	**-**	**-**	**(1,013)**	**-**	**-**
The deferred tax effect for changes in fair value		**-**				**-**	**-**	**97**	**-**	**97**
Liability-related other changes										
Interest expense on bank loan	9	-	2,685	-	-	-	-	-	-	**2,685**
Amortisation of capitalized borrowing costs		99	-	-		-	-	-	-	**99**
Total liability-related other changes		**99**	**2,685**	**-**	**-**	**-**	**-**	**-**	**-**	**2,748**
Total equity-related other changes		**-**	**(33)**	**-**	**33**	**(525)**	**525**	**(33)**	**9,990**	**9,957**
Balance at 31 December 2018		**140,507**	**313**	**(9)**	**1,069**	**93,673**	**(335)**	**(1,005)**	**17,472**	**251,685**

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16. Interest bearing loans and borrowings (*continued*)

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 12 for the carrying amounts of assets pledged at period end.

	Suretyship	Pledges of receivables	Pledges of bank accounts	Share pledge
Bank 1	Europa for Domus Pro bank loan, 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	

17. Trade and other payables

Euro '000	**31.12.2018**	**31.12.2017**
Trade payables	733	921
Tax payables	431	365
Accrued expenses	418	243
Accrued financial expenses	313	41
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 less than 3 months.

18. Commitments and contingencies

18a. Operating leases – the Group as a lessor

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

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

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

Euro '000	2018		2017	
Year of expiry or first break option	**Amount receivable**	**%**	**Amount receivable**	**%**
Within 1 year	14,867	23%	12,393	21%
Between 2 and 5 years	41,029	63%	36,820	63%
5 years and more	8,846	14%	9,530	16%
Total	**64,742**	**100%**	**58,743**	**100%**

18b. Litigation

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

18c. Contingent assets

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.

18d. Contingent liabilities

The Group did not have any contingent liabilities at the end of 31 December 2018.

19. 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.

19. Related parties (*continued*)

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

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

Euro '000	**2018**	**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 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	-

As from 1 July 2016, 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.

As from 1 July 2016, 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 522,271 units of the Fund.

19. Related parties (*continued*)

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 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%

The holders of units presented in the tables above hold units on behalf of their clients thus they do not have power to represent all their clients in shareholder meetings unless they get approval from them.

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

20. 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				
Bank loans	(100,752)	(98,087)	(100,794)	(98,123)
Bonds	(39,755)	-	(41,100)	-
Trade and other payables	(2,397)	(4,202)	(2,397)	(4,202)
Derivative financial instruments	(1,069)	(103)	(1,069)	(103)

20. Financial instruments (*continued*)

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

Period ended 31 December 2018 *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				
Bank loans	-	-	(100,794)	**(100,794)**
Bonds	-	-	(41,100)	**(41,100)**
Trade and other payables	-	-	(2,397)	**(2,397)**
Derivative financial instruments	-	(1,069)	-	**(1,069)**

Period ended 31 December 2017 *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.

21. Derivative financial instruments

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

The Group's hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 therefore they are treated as continuing hedging relationships. IFRS 9 allows hedge accounting provided that the hedge is effective. In such cases, any gain or loss recorded on the fair value changes of the financial instrument is recognised in an equity reserve rather than the income statement. The ineffective part of the change in the fair value of the hedging instrument (if any) is recognised in the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles. Please refer to Note 15b 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	Feb 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**
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	7,312	3M EURIBOR	0.26%	(85)	(37)
IRS	Nov 2016	Aug 2023	10,575	1M EURIBOR	0.26%	(123)	(4)
IRS	Aug 2017	Feb 2022	6,147	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)**

*Interest rate cap

Derivative financial instruments were accounted for at fair value as at 31 December 2018 and 31 December 2017. The maturities of the derivative financial instruments of the Group are 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**

22. 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 the 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).

On 21 February 2019, the Fund drew down a bank loan amounting to EUR 8.7 million. According to the agreement, the maturity date of the loan is 27 September 2023.

On 27 February 2019, the Fund completed the acquisition of the newly constructed Duetto II office property in Vilnius, Lithuania. The total purchase price for the property was EUR 18.3 million corresponding to an approximate acquisition yield of 7.1%.

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

23. 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[1]	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%

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

MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 15 March 2019.

Name and position	Signature
Tarmo Karotam Chairman of the Management Board	__________________
Aušra Stankevičienė Member of the Management Board	__________________
Algirdas Jonas Vaitiekūnas Member of the Management Board	__________________