BALTIC HORIZON

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018**

| | |
|---|---|
| Beginning of financial year | 1 January |
| End of financial year | 31 December |
| Management company | Northern Horizon Capital AS |
| Business name | Baltic Horizon Fund |
| Type of fund | Contractual public closed-ended real estate fund |
| Style of fund | Core / Core plus |
| Market segment | Retail / Offices / Leisure |
| Life time/ Investment stage | Evergreen |
| Address of the Fund | Tornimäe 2<br>Tallinn 10145<br>Estonia |
| Phone | +372 6 743 200 |
| Fund Manager | Tarmo Karotam |
| Supervisory Board of the Fund | Raivo Vare (Chairman)<br>Andris Kraujins<br>Per Moller<br>David Bergendahl |
| Remuneration of the Supervisory Board | EUR 48,000 p.a. |
| Management Board of the Management Company | Tarmo Karotam (Chairman)<br>Aušra Stankevičienė<br>Algirdas Vaitiekūnas |
| Supervisory Board of the Management Company | Michael Schönach (Chairman)<br>Dalia Garbuzienė<br>Daiva Liubomirskiene |
| Depositary | Swedbank AS |

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## DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

| | |
|---|---|
| **AIFM** | Alternative Investment Fund Manager |
| **AFFO** | Adjusted Funds From Operations means the net operating income of properties less fund administration expenses, less external interest expenses and less all capital expenditures including tenant fit-out expenses invested into existing properties by the Fund. New investments and acquisitions and follow-on investments into properties are not considered to be capital expenditures. |
| **Dividend** | Cash distributions paid out of the cash flows of the Fund in accordance with the Fund Rules. |
| **EPRA NAV** | It is a measure of the fair value of net assets assuming a normal investment property company business model. Accordingly, there is an assumption of owning and operating investment property for the long term. The measure is provided by the European Public Real Estate Association, the industry body for European Real Estate Investment Trusts (REITs). |
| **Fund** | Baltic Horizon Fund |
| **IFRS** | International Financial Reporting Standards |
| **Management Company** | Northern Horizon Capital AS, register code 11025345, registered address at Tornimäe 2, Tallinn 15010, Estonia |
| **NAV** | Net asset value for the Fund |
| **NAV per unit** | NAV divided by the amount of units in the Fund at the moment of determination. |
| **NOI** | Net operating income |
| **Direct Property Yield** | NOI divided by acquisition value and subsequent capital expenditure of the property |
| **Net Initial Yield** | NOI divided by market value of the property |
| **GAV** | Gross Asset Value of the Fund |
| **Triple Net Lease** | A triple net lease is a lease agreement that designates the lessee, i.e. the tenant, as being solely responsible for all the costs relating to the asset being leased, in addition to the rent fee applied under the lease. |
| **LTV** | Loan to value ratio. The ratio is calculated as the amount of the external bank loan debt divided by the carrying amount of investment property. |

## MANAGEMENT REVIEW

### GENERAL INFORMATION ABOUT THE FUND

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

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

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

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

The Fund's focus is on established cash flow generating properties with potential to add value through active management within the retail, office and logistics segments in strategic locations and strong tenants or a quality tenant mix and long leases. Up to 20% of the Fund's assets may be invested in forward funding development / core plus projects.

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

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

**Structure and governance**

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

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

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

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

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

**MANAGEMENT REVIEW**

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

The Fund has a supervisory board which consists of qualified members with 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.

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

**MANAGEMENT REPORT**

On 31 January 2018, the Fund declared a EUR 1.8 million quarterly cash distribution to investors, which represents a 0.023 distribution per unit. The cash distribution is for the Q4 2017 results.

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%. For the Fund, the key strategic considerations of the transaction were the synergy potential arising from the Postimaja immovable property located next to Coca-Cola Plaza, already belonging to the Fund's portfolio and Tallinn's Main Street project. 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 increasing the leasable area by up to 33% and aims to improve functionality between the two buildings as well as the Rotermann Quarter. The management team aims to increase the running net rental yield of the complex to 7% after the expansion is completed.

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 to the Fund rules at a price of EUR 1.3691. After the transaction, the total number of Fund units registered in the Estonian Register of securities is 79,157,094.

On 27 April 2018, the Fund has completed subscription to 5-year unsecured bond of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly. The transaction took place under private placement regime and was subscribed by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks. Baltic Horizon will apply for listing of the bond on Nasdaq Tallinn.

**MACROECONOMIC FACTORS IN THE BALTIC STATES**

The global economy is currently in recovery, mainly due to rising confidence in global markets and improved financing conditions. According to the World Bank report published in January 2018, the upturn is broadbased, with growth increasing in more than half of the world's economies. In particular, there is a rebound in global investment growth. The GDP growth from 2016 to 2017 was supported by favourable financing costs, rising profits, and improved business sentiment across both advanced economies and emerging markets. This investment-led recovery is providing a substantial boost to global exports and imports in the near term. All the Baltic countries are dependent on foreign trade and, therefore, as long as the European outlook remains positive, the Baltic countries are expected to deliver attractive growth rates.

All three Baltic countries had impressive growth rates between 3.8% and 4.9% in 2017, mainly due to investment boost in Latvia and Estonia, and export expansion in Lithuania. According to the Swedbank economic outlook update released in March 2018, annual growth for 2018 will remain solid, in the 3-4% range. The inflow of EU structural funds will increase investments in Lithuania and Latvia. Labour shortages are increasing salaries, which will support consumption, especially in Latvia.

According to Statistics Estonia, the annual GDP growth rate in Estonia was 4.9% in 2017. This is the fastest growth rate in five years. The economy was positively affected by an investment boost in almost every sector and higher economic activity. The largest impact on the GDP came from investment in machinery and equipment by the government sector and investment in other buildings and structures by the government and non-financial sectors. In Estonia, growth in domestic demand accelerated to 4.2%. According to Swedbank's forecast, annual GDP growth in Estonia will be 3.9% in 2018 and 3% in 2019.

Based on published statistics for Latvia, the annual GDP growth rate in Latvia was 4.5% in 2017. The impressive growth was mainly driven by a strong boost in investments due to a recovery in business investment and more intensive EU funding. The fiscal and current account deficits remain moderate, public debt is low and unemployment rate is falling. According to Swedbank, the forecasted annual GDP growth in Latvia will be 3% in 2018 and 3.2% in 2019.

The annual GDP growth in Lithuania was 3.9% in 2017. The growth was mainly driven by increased exports and investment by privately-owned companies. On 2 March 2018, international rating agency S&P Global raised its long- and short-term credit ratings for Lithuania by one notch from "A-/A-2" to "A/A-1", with a stable outlook. The substantiation for the change in the rating was the economy's robust development over the past years and healthy prospects in the near term. According to Swedbank, the forecasted annual GDP growth in Lithuania will be 3.2% in 2018 and 2.5% in 2019.

Based on the real estate market overview published by Colliers International, the Lithuanian capital city Vilnius had a leading position on the office market during 2017. Last year, 66,000 sq. m. of new rental space was created in Vilnius, 24,000 sq. m. in Tallinn and 23,400 sq. m. in Riga. Rent rates for office space in all three countries for properties in a good location remained stable compared to 2016 (13-17 EUR per sq. m. for A-class premises and 8-13.5 EUR for B-class premises). The office rent rates are expected to remain stable during 2018. By the end of 2017, the vacancy rates in A-class offices were 5.2% in Tallinn, 1.6% in Riga and 1% in Vilnius. Despite new space provided in the market, the demand for office space remains very high.

In 2017, rent rates for retail in all three countries remained stable compared to 2016. No major changes are expected in the market during 2018. During 2018, 56,000 sq. m. of new retail space is expected to be built in Tallinn, mostly in connection with T1 Shopping centre. The new space might create downward pressure on rent rates for tenants occupying medium and large retail units. The Latvian retail market remains stable, in 2017 the rent rates did not change compared to 2016. No significant changes are expected in 2018. However, during the next two years, a large supply of new space will be built in Riga (163,700 sq. m.). The Lithuanian retail market was also stable during 2017. During 2017, rent rates continued to grow. Due to low vacancy rates, a further increase in rent rates is expected during 2018. Overall, the outlook for the retail sector in all three countries remains positive due to attractive growth rates.

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 Q1 2018, average yields for prime retail and office assets in the Baltic capitals remained around 6.5%, with the most attractive properties being bought at yields up to 50 basis points lower than the average yield. 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. In Estonia the most active segments were office, retail and logistics. In Latvia retail was the strongest followed by office and in Lithuania the most active segments were logistics and retail.

**FINANCIAL REPORT**

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

In Q1 2018, the GAV increased from EUR 215.8 million to EUR 234.5 million. During the quarter, the Group closed the Postimaja shopping centre acquisition and raised additional gross equity of EUR 2.35 million, which was part of the Postimaja acquisition deal.

In Q1 2018, the Fund NAV increased from EUR 107 million to EUR 109 million. The increase is related to new equity raised in February and the Group's operational performance over the quarter. The Fund also made a EUR 1.8 million cash distribution to its unitholders (EUR 0.023 per unit).

In Q1 2018, the Fund earned a net profit of EUR 1,684 thousand (EUR 950 thousand during Q1 2017). During Q1 2018, the Fund's performance was negatively affected by a EUR 467 thousand one-off tax charge in Latvia in relation to the structuring of the Vainodes I investment property transaction.

In Q1 2018, the Fund recorded a EUR 3.4 million NOI (EUR 2.5 million in Q1 2017). The increase is related to new acquisitions that were made following the capital raisings at the end of 2017 and the beginning of 2018 (Vainodes I and Postimaja shopping centre). The Fund completed the acquisition of Postimaja Shopping Centre on 13 February 2018 and thus has deployed most of the new capital raised in November 2017.

MANAGEMENT REVIEW

**Table 1: Quarterly Key Figures**

| *Euro '000* | **Q1 2018** | **Q1 2017 (restated)*** | **Change (%)** |
|---|---|---|---|
| Rental income | 3,606 | 2,727 | 32.2% |
| Service charge income | 585 | 358 | 63.4% |
| Cost of rental activities | (782) | (559) | 39.9% |
| **Net rental income** | **3,409** | **2,526** | **35.0%** |
| Expenses related to public offerings | - | (202) | (100.0)% |
| Administrative expenses | (640) | (528) | 21.2% |
| Other operating income / (expenses) | 6 | 13 | (53.8)% |
| **Operating profit** | **2,775** | **1,809** | **53.4%** |
| Financial income | 2 | 41 | (95.1)% |
| Financial expenses | (489) | (332) | 47.3% |
| **Net financing costs** | **(487)** | **(291)** | **67.4%** |
| **Profit before tax** | **2,288** | **1,518** | **50.7%** |
| Income tax charge | (604) | (568) | 6.3% |
| **Profit for the period** | **1,684** | **950** | **77.3%** |

*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.

| | | | |
|---|---|---|---|
| Weighted average number of units outstanding | 78,154,221 | 57,262,887 | 36.5% |
| **Earnings per unit (EUR)** | **0.02** | **0.02** | **-%** |

| *Euro '000* | **31.03.2018** | **31.12.2017** | **Change (%)** |
|---|---|---|---|
| Investment property in use | 223,961 | 189,317 | 18.3% |
| Gross asset value (GAV) | 234,486 | 215,785 | 8.7% |
| Interest bearing loans | 116,198 | 98,087 | 18.5% |
| Total liabilities | 125,531 | 108,809 | 15.4% |
| Net asset value (NAV) | 108,959 | 106,976 | 1.9% |
| Number of units outstanding | 79,157,094 | 77,440,638 | 2.2% |
| **Net asset value (NAV) per unit (EUR)** | **1.3765** | **1.3814** | **(0.4)%** |
| **Loan-to-Value ratio (LTV)** | **51.9%** | **51.8%** | |
| **Average effective interest rate** | **1.8%** | **1.7%** | |

**MANAGEMENT REVIEW**

The Fund also calculates EPRA NAV, which was EUR 116.2 million as at 31 March 2018. EPRA NAV is calculated according to EPRA Best practice recommendations that were issued in December 2014. EPRA NAV is calculated by adjusting IFRS NAV for the items summarised in the table below:

**Table 2: Adjustments for recalculating NAV to EPRA NAV**

| *Euro '000* | **31.03.2018** |
|---|---|
| **IFRS NAV as of 31 March 2018** | **108,958** |
| Exclude deferred tax liability on investment properties | 6,942 |
| Exclude fair value of financial instruments | 330 |
| Exclude deferred tax on fair value of financial instruments | (3) |
| **EPRA NAV*** | **116,227** |
| Amount of units | 79,157,094 |
| **EPRA NAV per unit** | **1.4683** |

***** The objective of the EPRA NAV measure is to highlight the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded.

**PROPERTY REPORT**

The property portfolio of Baltic Horizon Fund, which consists of 11 properties in the Baltic capitals, continues to be virtually fully let producing very attractive cash flows. 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 management team has negotiated 2-year NOI guarantees from the sellers of three properties in the portfolio: Upmalas Biroji, Pirita Centre and Duetto I office building.

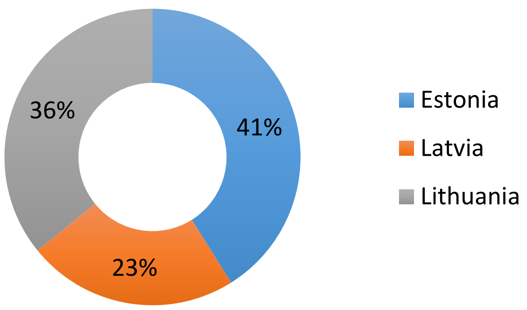
In the Baltic retail sector during Q1 2018, rents for small spaces were in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The spread between low and high rents has widened as compared to a year ago due to new supply of retail centres in the markets. Rental rates for medium and larger retail units are forecasted to be rather stable. The average rental range of retail assets in the Fund's portfolio was EUR 9.4-17 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.

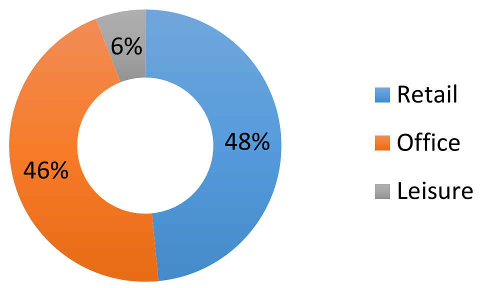
Capital city office rents during 2017 and the first quarter of 2018 stood at EUR 13-16.5 per sq. m. per month for class A premises and EUR 8.6 - 13.5 sq. m. for modern class B offices. For comparison, the average rental level in Lincona was approx. EUR 10 per sq. m., in Duetto I approx. EUR 11.5 per sq. m. and in Upmalas Biroji EUR 12.5 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 new 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.

MANAGEMENT REVIEW

**Picture 1: Fund segment and country distribution**




***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 Q1 2018, the average actual occupancy of the portfolio was 97.4% (Q4 2017: 96.6%). When all rental guarantees are considered, the effective occupancy rate is 97.7% (Q4 2017: 97.2%). Average direct property yield during Q1 2018 was 6.9% (Q4 2017: 7.1%). The net initial yield for the whole portfolio for Q1 2018 was 6.4% (Q4 2017: 6.7%).

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 G4S accounting for 8.2% of the annualized rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

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

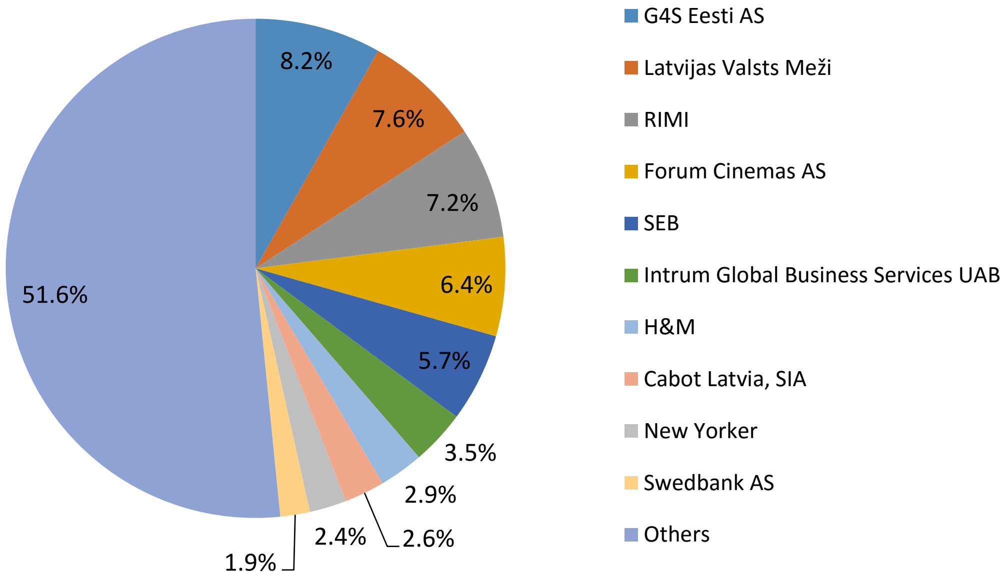


**Table 3: Overview of the Fund's investment properties**

| Property name | City | Country | Market value[1] *Euro'000* | NLA | Direct property yield[2] | Net initial yield[3] | Occupancy rate for Q1 2018 |
|---|---|---|---|---|---|---|---|
| Duetto I | Vilnius | Lithuania | 16,210 | 8,327 | 7.5% | 6.9% | 100.0%[4] |
| Pirita SC | Tallinn | Estonia | 11,630 | 5,436 | 7.4% | 7.7% | 100.0%[4] |
| Upmalas Biroji BC | Riga | Latvia | 24,269 | 10,419 | 7.0% | 6.8% | 99.8% |
| G4S Headquarters | Tallinn | Estonia | 16,570 | 8,363 | 7.6% | 7.1% | 100.0% |
| Europa SC | Vilnius | Lithuania | 39,600 | 16,856 | 6.3% | 5.8% | 95.8% |
| Domus Pro Retail Park | Vilnius | Lithuania | 17,280 | 11,247 | 7.7% | 7.0% | 98.4% |
| Domus Pro Office | Vilnius | Lithuania | 7,150 | 4,759 | 6.8% | 6.1% | 89.5% |
| CC Plaza | Tallinn | Estonia | 13,240 | 8,664 | 8.3% | 7.5% | 100.0% |
| Sky SC | Riga | Latvia | 5,448 | 3,263 | 8.3% | 7.6% | 99.3% |
| Lincona | Tallinn | Estonia | 16,050 | 10,859 | 7.6% | 7.4% | 94.1% |
| Vainodes I | Riga | Latvia | 21,870 | 8,052 | 6.8% | 6.6% | 100.0% |
| Postimaja | Tallinn | Estonia | 34,400 | 9,141 | 4.7%[5] | 5.0% | 95.6% |
| **Total portfolio** | | | **223,717** | **105,386** | **6.9%** | **6.4%** | **97.4%** |

1. Based on the latest valuation as at 31 December 2017.
2. Direct property yield (DPY) is calculated by dividing NOI by the acquisition value and subsequent capital expenditure of the property.
3. The net initial yield (NIY) is calculated by dividing NOI by the market value of the property.
4. Effective occupancy rate is 100% due to a rental guarantee.
5. Postimaja acquisition was closed on 13 February 2018. The annualized direct property yield is 5.4%.

During Q1 2018, the Fund's portfolio produced EUR 3.4 million of net operating income (NOI) (EUR 2.5 million during Q1 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 4: Breakdown of NOI development**

| Property *Euro'1000* | Date of acquisition | 2014 | 2015 | 2016 | 2017 | Q1 2017 | Q1 2018 |
|---|---|---|---|---|---|---|---|
| Lincona | 1 Jul 2011 | 898 | 1,143 | 1,202 | 1,172 | 299 | 295 |
| CC Plaza | 8 Mar 2013 | 953 | 962 | 972 | 985 | 244 | 248 |
| Sky SC | 7 Dec 2013 | 404 | 415 | 425 | 410 | 103 | 104 |
| Domus Pro Retail | 1 May 2014 | 445 | 857 | 1,103 | 1,185 | 306 | 301 |
| Domus Pro Office | 1 Oct 2017 | - | - | - | 35 | - | 108 |
| Europa SC | 2 Mar 2015 | - | 1,962 | 2,360 | 2,365 | 613 | 577 |
| G4S Headquarters | 12 Jul 2016 | - | - | 546 | 1,149 | 288 | 294 |
| Upmalas Biroji BC | 30 Aug 2016 | - | - | 515 | 1,693 | 418 | 412 |
| Pirita SC | 16 Dec 2016 | - | - | 30 | 900 | 225 | 225 |
| Duetto I | 22 Mar 2017 | - | - | - | 799 | 30 | 279 |
| Vainodes I | 12 Dec 2017 | - | - | - | 75 | - | 361 |
| Postimaja | 13 Feb 2018 | | | | | - | 205 |
| **Total portfolio** | | **2,700** | **5,339** | **7,153** | **10,768** | **2,526** | **3,409** |

Lincona Office Complex, Tallinn (Estonia)
The average occupancy level was 94.1% at the end of Q1 2018 (Q4 2017: 94.1%). During Q1 2018, the average direct property yield remains stable 7.6% (Q4 2017: 7.6%). The net initial yield during Q1 2018 was 7.4% (Q4 2017: 7.3%).

**MANAGEMENT REVIEW**

Domus Pro, Vilnius (Lithuania)
The average occupancy rate for the retail part increased slightly, rising to 98.4% (Q4 2017: 98.0%). During Q1 2018, the average occupancy rate for the business centre was 89.5% (Q4 2017: 73.4%). The business centre has received strong interest from the market to lease the remaining space. During Q1 the average direct property yield for the retail part was 7.7% (Q4 2017: 8.4%). The net initial yield for Q1 2018 was 6.9% (Q4 2017: 7.0%).

SKY Supermarket, Riga (Latvia)
Average direct property yield during Q1 2018 was 8.3% (Q4 2017: 8.4%). The net initial yield for Q1 2018 was 7.5% (Q4 2017: 7.5%).

Coca-Cola Plaza , Tallinn (Estonia)
In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. Average direct property yield remains stable and stands at 8.3% (Q4 2017: 8.3%). The net initial yield for Q1 2018 was 7.5% (Q4 2017: 7.5%).

On 27 December 2017, the Management Company of Baltic Horizon Fund announced the signing of an agreement with OÜ Letona Properties for the acquisition of the neighbouring Postimaja shopping centre. For the Fund, the key strategic considerations of the transaction were the synergy potential arising from the Postimaja immovable property located next to Coca-Cola Plaza, already belonging to the Fund's portfolio and Tallinn's Main Street project. 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 increasing the leasable area up to 33% and aims to improve functionality between the two buildings as well as the Rotermann Quarter.

Europa Shopping centre, Vilnius (Lithuania)
Average direct property yield during Q1 2018 was 6.3% (Q4 2017: 6.9%). The net initial yield for Q1 2018 was 5.8% (Q4 2017: 6.5%). Compared to Q4 2017, the decrease is related to turnover-based rental income, which is usually strong in the last quarter of the year.

G4S Headquarters, Tallinn (Estonia)
The building was built in 2013 as the regional headquarters of the global security company G4S. The cash management centre for Northern Estonia is also located on the underground floor of the building. The property has good visibility and access from the arterial Paldiski road. The land plot allows for future development of an additional office building with a gross leasable area of approx. 13,000 sq. m. In Q2 2017 the management team initiated a development project for the additional building in cooperation with Salto architects and the city of Tallinn.

The total gross space of the G4S headquarters is 8,363 sq. m. It has one key tenant – G4S, who has rented the whole building under a long-term agreement. Two floors of the building are sub-leased to a leading Estonian software company Pipedrive and there are also some smaller sub-tenants. Average direct property yield during Q1 was 7.6% (Q4 2017: 7.4%). The net initial yield for Q1 2018 was 7.1% (Q4 2017: 7.0%).

Upmalas Biroji, Riga (Latvia)
Upmalas Biroji is an A class office complex built in 2008 with an net leasable area of 10,419 sq. m. The property currently accommodates a mix of 13 quality tenants of which 8 can be regarded as international blue chip tenants (77% of total NLA). Upmalas Biroji is positioned as a shared service centre destination and accommodates such tenants as SEB Global Services, CABOT, Johnson&Johnson and others.

The property was built by the German developer Bauplan Nord and the quality has been maintained through attentive facility management. The property was elected the most energy efficient building in Latvia in 2013 and remains among tenants as one of the most preferred office buildings in Riga with its 2,000 sq. m. floor plates. Average direct property yield during Q1 2018 was 7.0% (Q4 2017: 6.9%). The net initial yield for Q1 2018 was 6.8% (Q4 2017: 6.7%).

Pirita Shopping centre, Tallinn (Estonia)
Pirita shopping centre in Tallinn, Estonia, is an attractively compact centre. It is located in the heart of the historical Pirita district on the corner of Merivälja street and Kloostrimetsa street. It is in the proximity of the popular Pirita beach which has tens of thousands of daily visitors during the summer months. Pirita shopping centre was reconstructed and opened in December 2016.

The property has Rimi and MyFitness as anchor tenants. The net leasable area of the Pirita shopping centre is close to 5,500 sq. m. The management team negotiated a 2-year NOI guarantee from the seller from the date of acquisition in order to ensure stable cash flows also during the property's establishment period. Since the opening of the centre in December 2016, the management team together with the original developer have been working on establishing the centre as the principal community centre with the right tenant mix catering primarily to the Pirita district residents. After a poll was conducted in the Pirita district in Q2 2017, in Q3 some satellite tenant agreements were terminated and new lease agreements were signed in Q4 2017. A 7.4% direct property yield is guaranteed by the seller of this property until the end of 2018. The net initial yield for Q1 2018 was 7.4% (Q4 2017: 7.8%).

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. The effective vacancy rate of Duetto I was zero because YIT Kausta, the seller of the property, granted a 2-year guarantee (starting from the acquisition date) of full-occupancy net rental income. Any shortage between the actual rental income and the guaranteed amount is paid to the Fund by YIT Kausta on a monthly basis. The Fund also has a call option to acquire the neighbouring Duetto II for which the anchor tenant search has already begun. Duetto I delivered a 7.5% direct property yield for the quarter (Q4 2017: 6.5%). The net initial yield for Q1 2018 was 6.9% (Q4 2017: 6.4%). Last quarter the yields were affected by bad debt provisions formed for two small tenants (total area of 456 sq. m). Part of the bad debt was already recovered in Q1 2018, which had a positive effect on the yields.

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 90% of GLA), other tenants include pharmaceutical company Abbvie and a cafeteria. There are no vacancies in the property. Average direct property yield for Q1 2018 was 6.8% (Q4 2017: 4.3%). The net initial yield for Q1 2018 was 6.6% (Q4 2017: 4.2%).

## 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. Following Baltic Horizon Fund's successful initial capital raising on 30 June 2016, the management team was highly focused on improving the financing terms of the Fund's assets. The main focus was on decreasing the average interest rate of the loans and seeking financing with minimum monthly loan amortisation. The weighted average interest rate increased slightly, rising from 1.7% to 1.8%. The annual loan principal amortisation rate has increased slightly, rising from 1.6% to 1.7% due to a new loan which was taken for the acquisition of Postimaja. The management team is working on maintaining a low average interest rate and a low regular bank loan principal amortisation rate. On 27 April 2018, the Fund has completed subscription to 5-year unsecured bond of EUR 30 million. Part of the net proceeds will be used to refinance a portion of existing bank loans in order to minimize the amortisation of bank loan principal and to finance the Group's investments.

**Table 5: Debt financing terms of the Fund's assets**

| | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 |
|---|---|---|---|---|---|
| **Regular quarterly bank loan amortisation, EUR'1000** | **489** | **523** | **222** | **243** | **345** |
| Regular annual bank loan amortisation from the loans outstanding, % | 2.7% | 2.7% | 1.2% | 1.6% | 1.7% |
| Average interest rate, % | 1.7% | 1.7% | 1.7% | 1.7% | 1.8% |
| LTV, % | 53.3% | 47.6% | 46.0% | 51.8% | 51.9% |

The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 31 March 2018. Interest bearing debt was fully comprised of bank loans with a total carrying value of EUR 116.4 million. 100% of them were denominated in euros. All of the 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, the Fund, had no financial debt at the reporting date.

**Table 6: Financial debt structure of the Fund, 31 March 2018**

| Property | Maturity | Currency | Carrying amount *Euro'1000* | % of total | Fixed rate portion |
|---|---|---|---|---|---|
| Lincona | 31 Dec 2022 | EUR | 8,202 | 7.0% | 84% |
| CC Plaza and Postimaja | 12 Feb 2023 | EUR | 25,247 | 21.7% | -% |
| Sky SC | 1 Aug 2021 | EUR | 2,466 | 2.1% | -% |
| Europa SC | 5 Jul 2022 | EUR | 20,900 | 18.0% | 88% |
| G4S Headquarters | 16 Aug 2021 | EUR | 7,750 | 6.7% | 100% |
| Upmalas Biroji BC | 31 Aug 2023 | EUR | 11,750 | 10.1% | 90% |
| Pirita SC | 20 Feb 2022 | EUR | 6,554 | 5.6% | 95% |
| Duetto I [1] | 20 Mar 2022 | EUR | 7,910 | 6.8% | 91% |
| Domus Pro | 31 May 2022 | EUR | 12,771 | 11.0% | 58% |
| Vainodes I | 31 Oct 2022 | EUR | 12,850 | 11.0% | -% |
| **Total bank loans** | | | **116,400** | **100%** | **55%** |
| Less capitalized loan arrangement fees[2] | | | **(202)** | | |
| **Total bank loans recognized in the statement of financial position** | | | **116,198** | | |

1. Duetto loan has an interest rate cap at 1% for the variable interest rate part.
2. Amortised each month over the term of a loan.

In the middle of 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.

Weighted average time to maturity was 4.6 years at the end of Q1 2018.

As of 31 March 2018, 55% of total bank loans had fixed interest rates while the remaining 45% had floating interest rates. During the quarter the Group fixed the interest rate for the Lincona loan (84% hedge ratio) and a new swap agreement kicked in for Europa. During the quarter, the environment was not favourable for fixing the interest rates. The management is continuously following market developments and looking for the right moment to fix the interest rates.

MANAGEMENT REVIEW

**DIVIDEND CAPACITY**

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

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

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

**Table 7: 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 8: Dividend capacity calculation**

| *EUR'1000* | **Q1 2017** | **Q2 2017** | **Q3 2017** | **Q4 2017** | **Q1 2018** |
|---|---|---|---|---|---|
| (+) Net rental income | 2,526 | 2,682 | 2,638 | 2,922 | 3,409 |
| (-) Fund administrative expenses | (730) | (670) | (535) | (839) | (640) |
| (-) External interest expenses | (327) | (438) | (340) | (405) | (489) |
| (-) CAPEX expenditure[1] | (129) | (197) | (547) | (290) | (155) |
| (+) Added back listing related expenses | 202 | 170 | 61 | 203 | - |
| (+) Added back acquisition related expenses | 32 | 65 | - | 97 | - |
| ***Generated net cash flow (GNCF)*** | **1,574** | **1,612** | **1,277** | **1,688** | **2,125** |
| Weighted average number of units during the quarter | 57,262,887 | 57,998,546 | 64,655,870 | 69,011,121 | 78,154,221 |
| Paid-in-capital since listing on stock exchange | 73,278 | 82,659 | 82,659 | 98,910 | 101,260 |
| Average paid-in-capital during the quarter | 73,282 | 77,969 | 82,659 | 90,785 | 100,085 |
| ***GNCF per weighted unit*** | **0.027** | **0.028** | **0.020** | **0.024** | **0.027** |
| ***Annualized GNCF return from average quarterly paid-in-capital*** | **8.6%** | **8.3%** | **6.2%** | **7.4%** | **8.5%** |
| ***Dividends declared*** | **1,317** | **1,164** | **1,293** | **1,781** | **1,900** |
| ***Dividends declared per weighted unit*** | **0.023** | **0.020** | **0.020** | **0.026** | **0.024** |
| ***Annualized dividend return from average quarterly paid-in-capital*** | **7.2%** | **6.0%** | **6.3%** | **7.8%** | **7.6%** |

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.

## RISK MANAGEMENT

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

### *Principal risks faced by the Fund*

Market risk

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

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

**MANAGEMENT REVIEW**

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.

**OUTLOOK FOR 2018**

At the end of Q1, Baltic Horizon Fund had 11 established cash flow properties located in the Baltic capitals with a gross property value of above EUR 223 million and an annualized full NOI of approx. EUR 15 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.

Given the historically low yields in the present market, the fund management team has considerably increased its focus on creating added value in the already owned investment properties. In addition to CC Plaza and Postimaja expansion, this also includes preparing for the expansion of the Upmalas Biroji complex, Vainodes I and G4S properties and further expansion of Domus PRO complex. The period of these expansions to be completed falls in 2020-2023 and depends on a sufficient level of new tenant interest, some of which is anticipated from expanding tenants in the existing portfolio.

**MANAGEMENT REVIEW**

Economic growth is likely to be strong in all three Baltic countries in 2018. Stronger external demand will lift exports and investments. GDP is expected to grow above its potential also in 2018. In Estonia and Latvia GDP growth is expected to remain around 4%, in Lithuania around 3% with similar growth trends expected in 2019. Consumer price growth is expected to exceed 2.5% in all the Baltic countries, driven by a rise in different excise taxes and rapid wage growth of approx. 5% p.a. The population is expected to continue growing in 2018 in Estonia, driven by positive net migration. However expected population decline of around 1% in Latvia and Lithuania will have a negative impact, especially on the smaller regions, thus constraining higher economic growth.

Despite demographic challenges, Baltic economies remain quite balanced and well prepared for external shocks as the trade deficit remains small, corporate and household financial leverage is moderate with sufficient financial reserves, and public finances are continuously stable.

**MANAGEMENT BOARD'S CONFIRMATION**

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018**

| *Euro '000* | **Note** | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017 (restated)*** |
|---|---|---|---|
| Rental income | | 3,606 | 2,727 |
| Service charge income | | 585 | 358 |
| Cost of rental activities | 6 | (782) | (559) |
| **Net rental income** | 4 | **3,409** | **2,526** |
| Administrative expenses | 7 | (640) | (730) |
| Other operating income / (expenses) | | 6 | 13 |
| **Operating profit** | | **2,775** | **1,809** |
| Financial income | | 2 | 41 |
| Financial expenses | 8 | (489) | (332) |
| **Net financing costs** | | **(487)** | **(291)** |
| **Profit before tax** | | **2,288** | **1,518** |
| Income tax charge | 4, 10 | (604) | (568) |
| **Profit for the period** | 4 | **1,684** | **950** |
| *Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods* | | | |
| Net gains (losses) on cash flow hedges | 14b | (315) | 138 |
| Income tax relating to net gains (losses) on cash flow hedges | 14b, 10 | 45 | (17) |
| **Other comprehensive income/ (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods** | | **(270)** | **121** |
| **Total comprehensive income for the period, net of tax** | | **1,414** | **1,071** |
| **Basic and diluted earnings per unit (Euro)** | 9 | **0.02** | **0.02** |

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

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

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018

| *Euro '000* | Note | 31.03.2018 | 31.12.2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 4, 11 | 223,961 | 189,317 |
| Derivative financial instruments | 20 | 94 | 89 |
| Other non-current assets | | 140 | 146 |
| **Total non-current assets** | | **224,195** | **189,552** |
| **Current assets** | | | |
| Trade and other receivables | 12 | 1,720 | 1,568 |
| Prepayments | | 281 | 108 |
| Cash and cash equivalents | 13 | 8,290 | 24,557 |
| **Total current assets** | | **10,291** | **26,233** |
| **Total assets** | 4 | **234,486** | **215,785** |
| **Equity** | | | |
| Paid in capital | 14a | 94,198 | 91,848 |
| Cash flow hedge reserve | 14b | (326) | (56) |
| Retained earnings | | 15,087 | 15,184 |
| **Total equity** | | **108,959** | **106,976** |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 114,225 | 96,497 |
| Deferred tax liabilities | | 5,295 | 5,206 |
| Derivative financial instruments | 20 | 423 | 88 |
| Other non-current liabilities | | 874 | 859 |
| **Total non-current liabilities** | | **120,817** | **102,650** |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 1,973 | 1,590 |
| Trade and other payables | 16 | 1,944 | 4,202 |
| Income tax payable | | 467 | 14 |
| Derivative financial instruments | 20 | - | 15 |
| Other current liabilities | | 326 | 338 |
| **Total current liabilities** | | **4,710** | **6,159** |
| **Total liabilities** | 4 | **125,527** | **108,809** |
| **Total equity and liabilities** | | **234,486** | **215,785** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 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 | | - | - | - | 950 | **950** |
| Other comprehensive income | | - | - | 121 | - | **121** |
| **Total comprehensive income** | | **-** | **-** | **121** | **950** | **1,071** |
| Repurchase of units | | (8) | 8 | - | - | **-** |
| Profit distribution to unitholders | | - | - | - | (1,374) | **(1,374)** |
| **As at 31 March 2017** | | **66,216** | **-** | **(173)** | **10,463** | **76,506** |
| **As at 1 January 2018** | | **91,848** | **-** | **(56)** | **15,184** | **106,976** |
| Net profit for the period | | - | - | - | 1,684 | **1,684** |
| Other comprehensive expense | | - | - | (270) | - | **(270)** |
| **Total comprehensive income** | | **-** | **-** | **(270)** | **1,684** | **1,414** |
| Paid in capital – units issued | 14a | 2,350 | - | - | - | **2,350** |
| Profit distribution to unitholders | 14c | - | - | - | (1,781) | **(1,781)** |
| **As at 31 March 2018** | | **94,198** | **-** | **(326)** | **15,087** | **108,959** |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018**

| *Euro '000* | **Note** | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017** |
|---|---|---|---|
| **Cash flows from core activities** | | | |
| **Profit (loss) before tax** | | **2,288** | **1,518** |
| Adjustments for non-cash items: | | | |
| Allowance for bad debts | | - | 3 |
| Financial income | | (2) | (41) |
| Financial expenses | 8 | 489 | 332 |
| Working capital adjustments: | | | |
| (Increase)/decrease in trade and other accounts receivable | | (155) | (55) |
| (Increase)/decrease in other current assets | | (47) | (61) |
| (Decrease)/Increase in other non-current liabilities | | 15 | 19 |
| (Decrease)/increase in trade and other accounts payable | | (623) | (503) |
| Increase/(decrease) in other current liabilities | | 159 | 10 |
| (Paid)/refunded income tax | | (29) | (11) |
| **Total cash flows from core activities** | | **2,095** | **1,211** |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 2 | 3 |
| Acquisition of subsidiaries, net of cash acquired | | (181) | - |
| Acquisition of investment property | | (34,477) | (14,349) |
| Investment property development expenditure | | (1,766) | (491) |
| Capital expenditure on investment properties | | (155) | (129) |
| **Total cash flows from investing activities** | | **(36,577)** | **(14,966)** |
| | | | |
| **Cash flows from financial activities** | | | |
| Proceeds from bank loans | | 25,300 | 14,730 |
| Repayment of bank loans | | (7,157) | (501) |
| Proceeds from issue of units | 14a | 2,350 | - |
| Profit distribution to unitholders | 14c | (1,781) | (1,374) |
| Transaction costs related to loans and borrowings | | (51) | (30) |
| Interest paid | | (446) | (312) |
| **Total cash flows from financing activities** | | **18,215** | **12,513** |
| | | | |
| **Net change in cash and cash equivalents** | | **(16,267)** | **(1,242)** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | | **24,557** | **9,883** |
| **Cash and cash equivalents at the end of the period** | | **8,290** | **8,641** |

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

## 1. Corporate information

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

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

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

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

| Name | 31.03.2018 | 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 | 100% | 100% |
| Vainodes Krasti SIA | 100% | 100% |

### 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 – EUR 29.7 million. Share capital was increased by EUR 21 million and the remaining amount of EUR 8.7 million was used to redeem the units for investors who decided to exit the Fund (EUR 7.5 million) and to pay off subscription fees (EUR 1.2 million).

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

During three additional secondary public offerings in November 2016, June 2017, and November 2017 the Fund raised additional gross capital of EUR 47 million. During Q1 2018, the Fund has raised additional gross capital of EUR 2.35 million through private placement, which was part of Postimaja Shopping centre acquisition deal. As a result of the offering of the new units, the total number of the Fund's units increased to 79,157,094 and the units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

## 2. Basis of preparation

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

These interim condensed consolidated financial statements were authorised for issue by the Management Company's Board of Directors on 3 May 2018.

**Going concern assessment**

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

**New standards, amendments and interpretations**

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

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

**IFRS 16 Leases**

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

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

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

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

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

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

**Other Changes**

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

**3. Use of judgements and estimates**

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

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

**Measurement of fair values**

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

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

- In the principal market for the asset or liability

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

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

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

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

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

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

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

## 4. Changes in significant accounting policies

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

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

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

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

**IFRS 15 Revenue from contracts with customers**

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

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

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

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

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

| | Impact of adopting IFRS 15 | | |
|---|---|---|---|
| *Euro '000* | **As reported at 31 March 2017** | **Adjustments due to adoption of IFRS 15** | **Adjusted balances as at 31 March 2017** |
| Service charge income | 924 | (566) | 358 |
| Cost of rental activities | (1,125) | 566 | (559) |

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

## 5. Operating segments

The Group's reportable segments are as follows:

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

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

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

Operating segments – 31 March 2018

| *Euro '000* | **Retail** | **Office** | **Leisure** | **Total segments** |
|---|---|---|---|---|
| ***01.01.2018 – 31.03.2018:*** | | | | |
| External revenue[1] | 2,134 | 1,806 | 251 | 4,191 |
| **Segment net rental income** | **1,486** | **1,675** | **248** | **3,409** |
| Net gains or losses from fair value adjustment | - | - | - | - |
| Interest expenses[2] | (228) | (224) | (17) | (469) |
| Income tax expenses | (103) | (501) | - | (604) |
| **Segment net profit** | **941** | **917** | **381** | **2,239** |
| | | | | |
| ***As at 31.03.2018:*** | | | | |
| **Segment assets** | **111,316** | **104,386** | **13,417** | **229,119** |
| Investment properties | 108,523 | 102,178 | 13,260 | 223,961 |
| **Segment liabilities** | **63,489** | **54,554** | **7,044** | **125,087** |

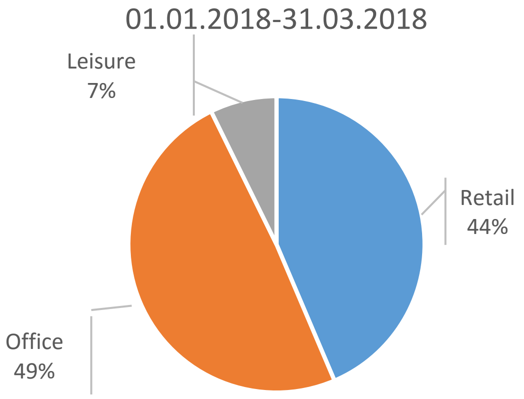
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external interest expenses.

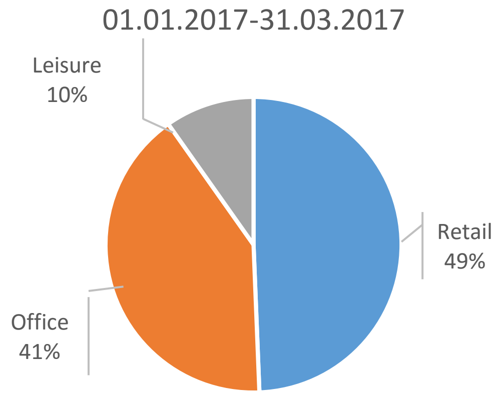
Operating segments – 31 March 2017

| *Euro '000* | **Retail** | **Office** | **Leisure** | **Total segments** |
|---|---|---|---|---|
| ***01.01.2017 – 31.03.2017 (restated)[1]:*** | | | | |
| External revenue[2] | 1,756 | 1,082 | 247 | 3,085 |
| **Segment net rental income** | **1,247** | **1,032** | **247** | **2,526** |
| Net gains or losses from fair value adjustment | - | - | - | - |
| Interest expenses[3] | (172) | (121) | (34) | (327) |
| Income tax expenses | (74) | (494) | - | (568) |
| **Segment net profit** | **934** | **438** | **207** | **1,579** |
| | | | | |
| ***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** |

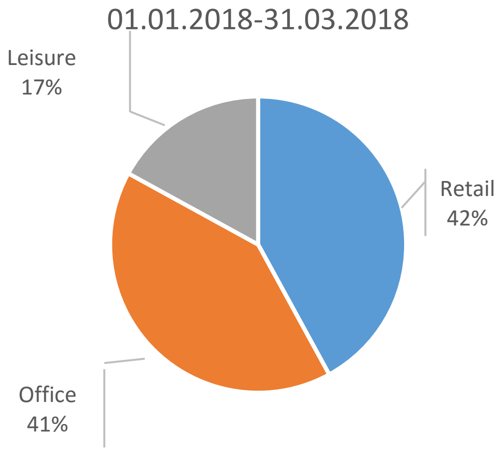
1. In 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018. As a result, the comparative figures for external revenue were adjusted. The adjustment did not have an impact on the Group's equity. The impact is related to presentation changes in accordance with IFRS 15 (note 4).
2. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
3. Interest expenses include only external interest expenses.

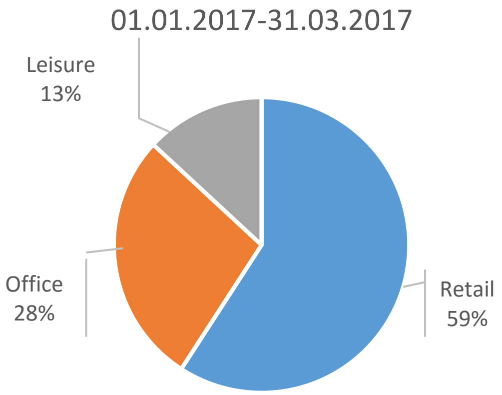
***Segment net rental income****



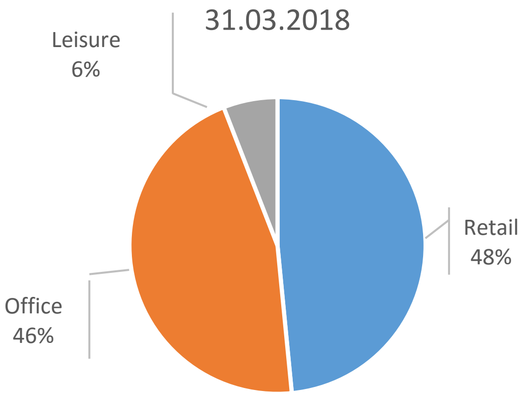



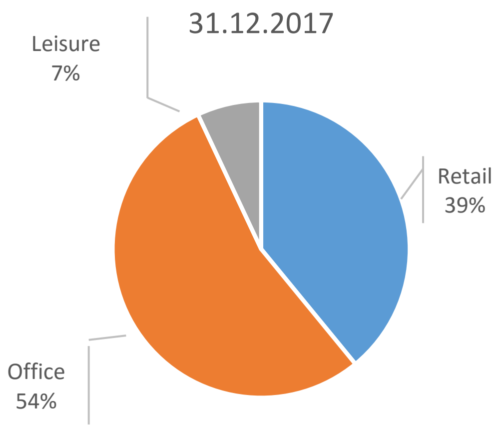

***Segment net profit (loss)****




***Investment properties****




*As a percentage of the total for all reportable segments

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

Operating segments – 31 March 2018

| *Euro '000* | **Total reportable segments** | **Adjustments** | **Consolidated** |
|---|---|---|---|
| ***01.01.2018 – 31.03.2018:*** | | | |
| **Net profit / (loss)** | 2,239 | **(555)[1]** | **1,684** |
| | | | |
| ***As at 31.03.2018:*** | | | |
| **Segment assets** | **229,119** | **5,367[2]** | **234,486** |
| **Segment liabilities** | **125,087** | **440[3]** | **125,527** |

1. Segment net profit for three months ended 31 March 2018, does not include Fund management fee (EUR 341 thousand), fund custodian fee (EUR 10 thousand), and other Fund-level administrative expenses (EUR 204 thousand).
2. Segment assets do not include cash, which is held at the Fund level (EUR 5,343 thousand) and other receivables at Fund level (EUR 24 thousand).
3. Segment liabilities do not include management fee payable (EUR 343 thousand), final purchase price settlement for the acquisition of Vainodes I (EUR 25 thousand), and other short-term payables (EUR 72 thousand) at Fund level.

Operating segments – 31 March 2017

| *Euro '000* | **Total reportable segments** | **Adjustments** | **Consolidated** |
|---|---|---|---|
| ***01.01.2017 – 31.03.2017:*** | | | |
| **Net profit (loss)** | **1,579** | **(629)[1]** | **950** |
| | | | |
| ***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 does not include public offering related expenses (EUR 202 thousand), Fund management fee (EUR 258 thousand), performance fee (EUR 6 thousand), fund custodian fee (EUR 7 thousand) and other administrative expenses (EUR 165 thousand), and other income received at Fund level (EUR 9 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.

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

| *Euro '000* | *External revenue* 01.01.2018-31.03.2018 | 01.01.2017-31.03.2017 (restated)* | *Investment property value* 31.03.2018 | 31.12.2017 |
|---|---|---|---|---|
| Lithuania | 1,758 | 1,358 | 80,339 | 80,240 |
| Latvia | 1,032 | 602 | 51,587 | 51,587 |
| Estonia | 1,401 | 1,125 | 92,035 | 57,490 |
| **Total** | **4,191** | **3,085** | **223,961** | **189,317** |

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

**Major tenant**
Rental income from one tenant in the leisure segment represented EUR 251 thousand of the Group's total rental income for Q1 2018 (EUR 247 thousand for Q1 2017).

## 6. Cost of rental activities

| *Euro '000* | 01.01.2018-31.03.2018 | 01.01.2017-31.03.2017 (restated)* |
|---|---|---|
| Repair and maintenance | 332 | 198 |
| Property management expenses | 166 | 127 |
| Real estate taxes | 123 | 97 |
| Sales and marketing expenses | 89 | 67 |
| Utilities | 42 | 35 |
| Property insurance | 18 | 11 |
| Allowance / (reversal of allowance) for bad debts | - | 3 |
| Other | 12 | 21 |
| **Total cost of rental activities** | **782** | **559** |

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

Part of the total cost of rental activities was recharged to tenants: EUR 585 thousand during the three-month period ended 31 March 2018 (EUR 358 thousand during the three-month period ended 31 March 2017).

## 7. Administrative expenses

| *Euro '000* | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017** |
|---|---|---|
| Management fee | 341 | 258 |
| Fund marketing expenses | 90 | 15 |
| Legal fees | 63 | 103 |
| Consultancy fees | 39 | 13 |
| Audit fee | 23 | 22 |
| Supervisory board fees | 13 | 33 |
| Custodian fees | 10 | 7 |
| Public offering related expenses | - | 202 |
| Performance fee | - | 6 |
| Other administrative expenses | 61 | 71 |
| **Total administrative expenses** | **640** | **730** |

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

## 8. Financial expenses

| *Euro '000* | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017** |
|---|---|---|
| Interest on bank loans | 469 | 327 |
| Loan arrangement fee amortisation | 19 | 5 |
| Foreign exchange loss | 1 | - |
| **Total financial expenses** | **489** | **332** |

## 9. Earnings per unit

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

Profit attributable to the unitholders of the Fund:

| *Euro '000* | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017** |
|---|---|---|
| Profit for the period, attributed to the unitholders of the Fund | 1,684 | 950 |
| **Profit for the period, attributed to the unitholders of the Fund** | **1,684** | **950** |

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] | - | (1,856) |
| Effect of units issued in February 2018[2] | 713,583 | - |
| **Weighted-average number of units issued** | **78,154,221** | **57,262,887** |

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 February 2018, the Fund issued 1,716,456 units through the private placement, which was part of the Postimaja acquisition deal.

Basic and diluted earnings per unit

| | 01.01.2018-31.03.2018 | 01.01.2017-31.03.2017 |
|---|---|---|
| Basic and diluted earnings per unit* | **0.02** | **0.02** |

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

## 10. Income tax

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

The Group's consolidated effective tax rate in respect of continuing operations for the three months ended 31 March 2018 was 26.4% (three months ended 31 March 2017: 37.4%). The high effective tax rate in Q1 2018 was caused by a EUR 467 thousand one-off tax charge in Latvia related to the structuring of the Vainodes I investment property transaction.

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

| *Euro '000* | 01.01.2018-31.03.2018 | 01.01.2017-31.03.2017 |
|---|---|---|
| **Consolidated statement of profit or loss** | | |
| Current income tax for the period | (467) | (11) |
| Deferred tax for the period | (137) | (557) |
| **Income tax expense reported in profit or loss** | **(604)** | **(568)** |
| **Consolidated statement of other comprehensive income** | | |
| Deferred income tax related to items charged or credited to equity: | | |
| Revaluation of derivative instruments to fair value | 45 | (17) |
| **Income tax expense reported in other comprehensive income** | **45** | **(17)** |

## 11. Investment property

| *Euro '000* | 2018 | 2017 |
|---|---|---|
| **Balance at 1 January** | **189,317** | **141,740** |
| Acquisition of investment property | 34,477 | 35,938 |
| Investment property under construction reclassified* | - | 6,592 |
| Additions (subsequent expenditure) | 167 | 1,371 |
| Net revaluation gain | - | 3,676 |
| **Closing balance** | **223,961** | **189,317** |

*Domus Pro III stage

No external property valuations were performed as at 31 March 2018 and 31 March 2017. The management has assessed the fair values of investment properties as at 31 March 2018 and 31 March 2017 using the same key assumptions used for valuations as at the end of preceding financial years and concluded that the fair values of investment properties do not differ significantly from those as at end of preceding financial years. As the Postimaja Shopping centre property was acquired in Q1 2018, the value of the property on the statement of financial position is based on its acquisition price and additional capitalized costs related to the acquisition of the property.

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.

Valuation techniques used to derive Level 3 fair values

As at 31 March 2018, the values of the properties are based on valuations conducted in 2017. The valuations of investment properties were performed by Colliers International and 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 March 2018 (based on 2017 valuations):

| 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 |

| Property | Valuation technique | Key unobservable inputs | Range |
|---|---|---|---|
| **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 |
| **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 2017 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 | 2017: 7.0%-7.8% | An increase in exit yield in isolation would result in a lower value of Investment property. |
| | | Discount rate | 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. | 2017: 0 - 4.4% | An increase in rental growth in isolation would result in a higher value of Investment property. |
| | | Long term vacancy rate | 2017: 0 – 10.0% | An increase in long-term vacancy rate in isolation would result in a lower value of Investment property. |

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

| *Euro '000* | **Total** |
|---|---|
| Lithuania – Europa (retail) | 39,644 |
| Estonia – Postimaja (retail) | 34,488 |
| Lithuania – Domus Pro (retail/office) | 24,486 |
| Latvia – SKY (retail) | 5,448 |
| Latvia – Upmalas Biroji (office) | 24,269 |
| Estonia – Lincona (office) | 16,066 |
| Estonia – Coca-Cola Plaza (leisure) | 13,259 |
| Estonia – G4S (office) | 16,586 |
| Estonia – Pirita (retail) | 11,635 |
| Lithuania – Duetto I (office) | 16,210 |
| Latvia – Vainodes I (office) | 21,870 |
| **Total** | **223,961** |

## 12. Trade and other receivables

| *Euro '000* | **31.03.2018** | **31.12.2017** |
|---|---|---|
| Trade receivables, gross | 1,436 | 1,323 |
| Less impairment allowance for doubtful receivables | (84) | (84) |
| Accrued income | 284 | 222 |
| Other accounts receivable | 84 | 107 |
| **Total** | **1,720** | **1,568** |

Trade receivables are non-interest bearing and are generally on 30-day terms.
As at 31 March 2018, trade receivables at a nominal value of 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 | - | (45) |
| **Balance at end of period** | **(84)** | **(84)** |

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

| | | Neither past due | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| *Euro '000* | **Total** | **nor impaired** | **<30 days** | **30-60 days** | **60-90 days** | **90-120 days** | **>120 days** |
| 31.03.2018 | **1,352** | 557 | 221 | 95 | 179 | 95 | 205 |
| 31.12.2017 | **1,239** | 653 | 178 | 73 | 48 | 60 | 227 |

## 13. Cash and cash equivalents

| *Euro '000* | **31.03.2018** | **31.12.2017** |
|---|---|---|
| Cash at banks and on hand | 8,290 | 24,557 |
| **Total cash** | **8,290** | **24,557** |

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

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

During Q1 2018, the Fund raised additional gross capital of EUR 2.35 million through a private placement. The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 31 March 2018, the total number of the Fund's units was 79,157,094 (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** |
| Units issued in February 2018[1] | 1,716,456 | 2,350 |
| **Total change during the period** | **1,716,456** | **2,350** |
| **As at 31 March 2018** | **79,157,094** | **94,198** |

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 March 2018 and 31 December 2017.
The Fund did not hold its own units as at 31 March 2018 and 31 December 2017.

**14b. Cash flow hedge reserve**

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 31 March 2018 and 31 December 2017.

| *Euro ’000* | **2018** | **2017** |
|---|---|---|
| **Balance at the beginning of the year** | **(56)** | **(294)** |
| Movement in fair value of existing hedges | (315) | 274 |
| Termination of interest rate swap | - | 57 |
| Recognition of initial interest rate cap costs | - | (43) |
| Movement in deferred income tax (Note 10) | 45 | (50) |
| **Net variation during the period** | **(270)** | **238** |
| **Balance at the end of the period** | **(326)** | **(56)** |

**14c. Dividends (distributions)**

| *Euro ‘000* | **2018** | **2017** |
|---|---|---|
| Declared during the year | (1,781) | (1,374) |
| **Total distributions made** | **(1,781)** | **(1,374)** |

On 20 January 2017, the Fund declared a cash distribution of EUR 1,374 thousand (EUR 0.024 per unit).
On 31 January 2018, the Fund declared a cash distribution of EUR 1,781 thousand (EUR 0.023 per unit).

## 15. Interest bearing loans and borrowings

| *Euro '000* | Maturity | Effective interest rate | 31.03.2018 | 31.12.2017 |
|---|---|---|---|---|
| **Non-current borrowings** | | | | |
| Bank 1 | Jul 2022 | 3M EURIBOR + 1.50% | 20,856 | 20,852 |
| Bank 1 | Aug 2021 | 3M EURIBOR + 1.75% | 2,466 | 2,493 |
| Bank 1 | Aug 2021 | 6M EURIBOR + 1.45% | 7,742 | 7,742 |
| Bank 1 | Feb 2022 | 6M EURIBOR + 1.55% | 6,547 | 6,580 |
| Bank 1 | Dec 2022 | 6M EURIBOR + 1.55% | 8,190 | 8,231 |
| Bank 1 | Nov 2024 | 3M EURIBOR + 1.80% | 12,850 | 12,870 |
| Bank 1 | May 2022 | 3M EURIBOR + 1.75% | 7,425 | 7,463 |
| Bank 1 | May 2022 | 6M EURIBOR + 1.75% | 5,314 | 5,403 |
| Bank 2[1] | Mar 2019 | 3M EURIBOR + 1.90% | - | 6,805 |
| Bank 3 | Aug 2023 | 1M EURIBOR + 1.55% | 11,715 | 11,715 |
| Bank 4 | Mar 2022 | 6M EURIBOR + 1.75% | 7,895 | 7,933 |
| Bank 4[2] | Feb 2023 | 6M EURIBOR + 1.46% | 25,198 | - |
| Less current portion | | | (1,973) | (1,590) |
| **Total non-current debt** | | | **114,225** | **96,497** |
| | | | | |
| **Current borrowings** | | | | |
| Current portion of non-current borrowings | | | 1,973 | 1,722 |
| **Total current debt** | | | **1,973** | **1,590** |
| | | | | |
| **Total** | | | **116,198** | **98,087** |

1. The loan was refinanced in February 2018.
2. The new loan was drawn down in February 2018.

### Loan securities

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

| | Mortgages of the property* | Second rank mortgages for derivatives | Commercial pledge of the entire assets | Pledges of receivables | Pledges of bank accounts | Share pledge |
|---|---|---|---|---|---|---|
| **Bank 1** | Lincona, SKY, G4S Headquarters, Europa, Domus Pro and Pirita | Europa, Domus Pro | Vainodes I | Lincona, SKY, Europa, and Domus Pro | Europa, SKY | BOF Domus Pro UAB, Vainodes Krasti SIA |
| **Bank 3** | Coca-Cola Plaza and Postimaja, Duetto I | | | Duetto I | Duetto I | BH Duetto UAB |
| **Bank 4** | Upmalas Biroji | | | | Upmalas Biroji | |

*Please refer to Note 11 for carrying amounts of assets pledged at period end.

## 16. Trade and other payables

| *Euro '000* | 31.03.2018 | 31.12.2017 |
|---|---|---|
| Accrued expenses related to Domus Pro development | - | 1,974 |
| Trade payables | 514 | 921 |
| Accrued expenses | 629 | 243 |
| Tax payables | 303 | 365 |
| Accrued financial expenses | 56 | 41 |
| Other payables | 442 | 658 |
| **Total trade and other payables** | **1,944** | **4,202** |

Terms and conditions of trade and other payables:

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

## 17. Commitments and contingencies

### 17a. Litigation

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

### 17b. Contingent assets

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

On 22 December 2016, the Fund signed an amendment to the sales and purchase agreement with the seller of the Upmalas Biroji property. The seller agreed to provide a rental income guarantee in the amount of EUR 168 thousand per year to be generated by the property from the rent of the parking places, storage rooms, advertisement areas and other areas that are not classified as "office revenues". The rental income guarantee is valid for a period of 24 months from 30 August 2016 (Upmalas Biroji acquisition date). An asset has not been recognized in the financial statements as the management of the Fund expects that Upmalas Biroji will be able to earn the guaranteed amount of rent.

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.

### 17c. Contingent liabilities

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

## 18. Related parties

During the reporting period, the Group entered into transactions with related parties. Those transactions and related balances are presented below. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. All transactions between related parties are priced on an arm's length basis.
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 7).

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

| *Euro '000* | **01.01.2018-31.03.2018** | **01.01.2017-31.03.2017** |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees | 341 | 258 |
| Performance fees | - | 6 |

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

| **'000 Euro** | **31.03.2018** | **31.12.2017** |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees payable | 343 | 311 |

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

- 1.50% of the market capitalisation below EUR 50 million;
- 1.25% of the part of the market capitalisation that is equal to or exceeds EUR 50 million and is below EUR 100 million;
- 1.00% of the part of the market capitalisation that is equal to or exceeds EUR 100 million and is below EUR 200 million;
- 0.75% of the part of the market capitalisation that is equal to or exceeds EUR 200 and is below EUR 300 million;
- 0.50% of the part of the market capitalisation that is equal to or exceeds EUR 300 million.

The Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula will be calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020).
Northern Horizon Capital Group owns 499,171 units of the Fund.

Entities having control or significant influence over the Fund

The holders of units owning more than 5% of the units in total as of 31 March 2018 and 31 December 2017 are presented in the tables below:

**As at 31 March 2018**

| | Number of units | Percentage |
|---|---|---|
| Nordea Bank AB clients | 35,096,111 | 44.34% |
| Catella Bank SA on behalf of its clients | 17,761,976 | 22.44% |
| Skandinaviska Enskilda Banken SA clients | 4,666,556 | 5.89% |

**As at 31 December 2017**

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

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

## 19. Financial instruments

**Fair values**

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| *Euro '000* | **31.03.2018** | **31.12.2017** | **31.03.2018** | **31.12.2017** |
| **Financial assets** | | | | |
| Trade and other receivables | 1,720 | 1,568 | 1,720 | 1,568 |
| Cash and cash equivalents | 8,290 | 24,557 | 8,290 | 24,557 |
| Derivative financial instruments | 94 | 89 | 94 | 89 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | (116,198) | (98,087) | (116,178) | (98,123) |
| Trade and other payables | (1,944) | (4,202) | (1,944) | (4,202) |
| Derivative financial instruments | (423) | (103) | (423) | (103) |

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

| **Period ended 31 March 2018** *Euro '000* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | - | - | 1,720 | **1,720** |
| Cash and cash equivalents | - | 8,290 | - | **8,290** |
| Derivative financial instruments | - | 94 | - | **94** |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | - | - | (116,178) | **(116,178)** |
| Trade and other payables | - | - | (1,944) | **(1,944)** |
| Derivative financial instruments | - | (423) | - | **(423)** |

| **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 March 2018 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by discounting the expected future cash flows at prevailing interest rates.
- Cash and cash equivalents are attributed to level 2 in the fair value hierarchy.

## 20. Derivative financial instruments

The Group has entered into a number of interest rate swaps (IRS) with SEB and Luminor banks. Also, the Group has an interest rate cap (CAP) agreement with Swedbank.
The purpose of derivative instruments is to hedge the interest rate risk arising from the interest rate fluctuations of the Group's non-current loans and some of the Group's current loans because the Group's policy is to have fixed interest expenses. According to the IRS agreements, the Group makes fixed interest payments to the bank and receives variable interest rate payments from the bank. An interest rate cap allows to limit the interest rate fluctuation to a certain level.

IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument is recognised in an equity reserve rather than the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles. Please refer to Note 14b for more information.

| **Derivative type** *Euro '000* | **Starting date** | **Maturity date** | **Notional amount** | **Variable rate (received)** | **Fixed rate (paid)** | **Fair value** | |
|---|---|---|---|---|---|---|---|
| | | | | | | **31.03.2018** | **31.12.2017** |
| CAP | Nov 2017 | Mar 2022 | 7,200 | 6M EURIBOR | 1.0%* | 79 | 83 |
| IRS | Nov 2016 | Aug 2023 | 10,575 | 1M EURIBOR | 0.26% | 6 | - |
| IRS | Aug 2016 | Aug 2021 | 7,750 | 6M EURIBOR | 0.05% | 9 | 6 |
| **Derivative financial instruments, assets** | | | | | | **94** | **89** |
| *Interest rate cap | | | | | | | |
| IRS | Mar 2018 | Aug 2024 | 18,402 | 3M EURIBOR | 0.73% | (311) | - |
| IRS | Mar 2018 | Nov 2022 | 6,860 | 6M EURIBOR | 0.46% | (44) | - |
| IRS | Aug 2017 | Feb 2022 | 6,275 | 6M EURIBOR | 0.305% | (33) | (47) |
| IRS | Sep 2017 | May 2022 | 7,500 | 3M EURIBOR | 0.05% | (35) | (37) |
| IRS | Sep 2015 | Mar 2018 | 18,223 | 3M EURIBOR | 0.15% | - | (15) |
| IRS | Nov 2016 | Aug 2023 | 10,575 | 1M EURIBOR | 0.26% | - | (4) |
| **Derivative financial instruments, liabilities** | | | | | | **(423)** | **(103)** |
| **Net value of financial derivatives** | | | | | | **(329)** | **(14)** |

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

| **Classification according to maturity** | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| *Euro '000* | **31.03.2018** | **31.12.2017** | **31.03.2018** | **31.12.2017** |
| Non-current | (423) | (88) | 94 | 89 |
| Current | - | (15) | - | - |
| **Total** | **(423)** | **(103)** | **94** | **89** |

## 21. Subsequent events

On 27 April 2018, the Fund has completed subscription to 5-year unsecured bond of EUR 30 million. The bond bears a fixed rate coupon of 4.25% payable quarterly.

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

## 22. List of consolidated companies

| Name | Registered office | Registration Number | Date of incorporation / acquisition | Activity | Interest in capital |
|---|---|---|---|---|---|
| BH Lincona OÜ[1] | 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, 10151 Tallinn, Estonia | 14065606 | 6 July 2016 | Asset holding company | 100% |
| Kontor SIA | Mūkusalas iela 101, LV-1004, Rīga, Latvia | 40003771618 | 30 August 2016 | Asset holding company | 100% |
| BH MT24 OÜ | Hobujaama 5, 10151 Tallinn, Estonia | 14169458 | 14 December 2016 | Holding company | 0% |
| Pirita Center OÜ | Hobujaama 5, 10151 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 | Kuldigas 51, LV-1004 Riga, Latvia | 40003673853 | 12 December 2017 | Asset holding company | 100% |
| Vainodes Krasti SIA | Agenskalna 33 LV-1046, Riga, Latvia | 50103684291 | 12 December 2017 | Asset holding company | 100% |

## MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS



The interim condensed consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 3 May 2018.

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