



# BALTIC HORIZON

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

## Baltic Horizon Fund

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

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## Baltic Horizon Fund

### DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

<b>AIFM</b>	Alternative Investment Fund Manager
<b>AFFO</b>	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.
<b>Dividend</b>	Cash distributions paid out of the cash flows of the Fund in accordance with the Fund Rules.
<b>EPRA NAV</b>	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).
<b>Fund</b>	Baltic Horizon Fund
<b>IFRS</b>	International Financial Reporting Standards
<b>Management Company</b>	Northern Horizon Capital AS, register code 11025345, registered address at Tornimäe 2, Tallinn 15010, Estonia
<b>NAV</b>	Net asset value for the Fund
<b>NAV per unit</b>	NAV divided by the amount of units in the Fund at the moment of determination.
<b>NOI</b>	Net operating income
<b>Direct Property Yield</b>	NOI divided by acquisition value and subsequent capital expenditure of the property
<b>Net Initial Yield</b>	NOI divided by market value of the property
<b>GAV</b>	Gross Asset Value of the Fund
<b>Triple Net Lease</b>	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.
<b>LTV</b>	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.

## Baltic Horizon Fund

### 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 embedded in the Fund Rules that the management fee will decrease from 1.5% to as low as 0.5% of the market capitalisation as the Fund's assets grow.

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

The Fund is managed by the Management Company which is Northern Horizon Capital AS. The immediate team comprises of the Management Board 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.

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

The Fund has a supervisory board which consists of qualified members with recognized experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education.

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

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

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

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

### MANAGEMENT REPORT

On 15 July 2019, the Fund announced the issue of new units in a private placement. In total, gross equity of EUR 4 million was raised through the transaction. The new units were issued at a price of EUR 1.3554, corresponding to the latest net asset value per fund unit preceding the subscription. Net proceeds of the issue were used to finance the acquisition of the Galerija Centrs Shopping Centre. After the transaction, the total number of Fund units registered in the Estonian Register of Securities increased to 100,915,202.

On 2 August 2019, the Fund declared a cash distribution of EUR 2.62 million to investors, which represents a EUR 0.026 distribution per unit for the Q2 2019 results.

On 30 August 2019, the Fund signed an agreement with closed-end investment undertaking intended for informed investors UAB Prosperus Strategic RE Fund to acquire business centre North Star in Vilnius, Lithuania. The purchase price was approximately EUR 20.7 million, which corresponds to an entry yield of approximately 7.3%. In Q4 2019, the Fund closed the acquisition of the North Star business centre after a successful capital raising by way of a private placement.

### MACROECONOMIC FACTORS IN THE BALTIC STATES

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

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

**MANAGEMENT REVIEW**

According to Swedbank, the growth of the Estonian economy has been broad-based and remains well balanced. Some slowdown can be noted in the construction sector where after very strong years there are fewer new projects on the table. It is expected that the current account will be in surplus for the next few years, public finances will remain strong, and households will be able to save as well as consume. However, the robust economic growth in recent years has increased demand for labour and has considerably tightened the labour market. As unemployment is at a record low in Estonia, employers have been actively hiring from abroad and the share of foreign labour is the highest in construction, agriculture, and manufacturing. The hiring of foreign labour has both boosted economic growth and slowed wage growth. The International Monetary Fund (IMF) has raised its 2019 economic growth forecast for Estonia by 0.2% to 3.2%. Estonia is expected to run a current account surplus of 0.7% of GDP this year and 0.3% of GDP in 2020. Unemployment, meanwhile, is forecast to decline by 0.7% points to 4.7% this year and remain steady in 2020.

Latvia's economy showed faster growth in Q3 as gross domestic product grew by non-adjusted 2.8% year-on-year. This was a notable improvement from the second quarter's 1.8% expansion, reflecting stronger activity growth in the industrial and services sectors. Economic growth is expected to continue at a healthy pace this year, although it is set to lose some traction due to weaker external sector gains. A tighter labour market should bolster private consumption, while heavy inflows from the EU cohesion funds should bolster fixed investment. Labour cost pressures on companies keep rising, but profit margins should remain commendable.

For Lithuania, in 2019 and 2020 economic growth is forecasted to stay around 3%. Gross domestic product grew by a seasonally and calendar adjusted 3.6% year-on-year in the third quarter after a 4.0% expansion in the previous three months. The overall expansion reflected solid output growth in the wholesale and retail trade, which more than offset contracting activity in the agricultural, forestry, and insurance sectors. Private consumption and investment are expected to stay the main engines of growth. Strong wage growth of approximately 10% with a lower personal income tax rate and a positive turn in net migration will support disposable income and should lead to robust private consumption growth in 2019. Consumer confidence is currently at its highest level since 2013, providing further impetus to household spending. The use of EU funds is projected to increase further in the next two years. At the same time, increasing uncertainty at the global level could curb companies' enthusiasm and restrain their investment activities. Moreover, external factors are likely to take their toll on export growth this year.

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

According to Colliers, take-up activity in the Tallinn office market is mainly driven by IT and high-tech ICT companies, followed by the professional, scientific, and technical services sectors. The supply of office premises has considerably grown in CBD due to the completion of several new projects including the landmark Maakri 19/21 office tower occupied by lawyers, auditors, notaries and financial sector companies. During the period, the average vacancy grew slightly, rising to 7% in A class buildings. However, in B1 class vacancy remained slightly below 6% indicating a good absorption ratio for new office premises. The upper margins of asking rents continue to climb. This is due to increasing construction costs and strong demand from the back-office sector. A class rents stood between EUR 13.5-16.5 per sq. m. per month and B1 rents between EUR 9-13.5.

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

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contribution coming from IT and professional service companies. In addition, the lack of professional office space allows landlords to have a strong position in the leasing market.

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

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

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

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

### FINANCIAL REPORT

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

##### Gross Asset Value (GAV)

In Q3 2019, the GAV increased slightly from EUR 344.9 million to EUR 345.3 million compared to the end of Q2 2019. The increase is mainly related to the increase in investment property book value due to capital expenditures and the increase in cash as a result of the newly acquired Galerija Centrs's positive effect on the Fund's cash flows over the quarter.

##### Net Asset Value (NAV)

In Q3 2019, the Fund NAV increased from EUR 131.1 million to EUR 135.2 million compared to the end of Q2 2019. The Fund NAV was positively affected by the Fund's operational performance over the quarter and capital raising in the amount of EUR 4 million (net equity) through a private placement in July. However, this

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was offset by a EUR 2.6 million cash distribution to unitholders (EUR 0.026 per unit) and a negative cash flow hedge reserve movement during the quarter.

#### **Net Rental Income and Net Profit**

In Q3 2019, the Fund earned a net profit of EUR 3.1 million (EUR 2.2 million during Q3 2018). In Q3 2019, the Fund recorded a EUR 5.4 million net rental income (EUR 3.8 million in Q3 2018). Growth in net rental income and net profit was positively affected by new property acquisitions in 2019 (Duetto II office building and Galerija Centrs shopping centre).

**Table 1: Quarterly key figures**

<i>Euro '000</i>	<b>Q3 2019</b>	<b>Q3 2018</b>	<b>Change (%)</b>
Net rental income	5,412	3,840	40.9%
Operating profit	4,550	3,095	47.0%
Net financing costs	(1,339)	(774)	73.0%
Profit before tax	3,211	2,321	38.3%
<b>Net profit for the period</b>	<b>3,059</b>	<b>2,195</b>	<b>39.4%</b>
Weighted average number of units outstanding	100,461,178	79,064,293 <sup>1</sup>	27.1%
<b>Earnings per unit (EUR)</b>	<b>0.03</b>	<b>0.03</b>	-
<i>Euro '000</i>	<b>30.09.2019</b>	<b>31.12.2018</b>	<b>Change (%)</b>
Investment property in use	336,488	245,160	37.3%
Gross asset value (GAV)	345,327	260,878	32.4%
Interest bearing loans	196,947	140,507	40.2%
Total liabilities	210,098	151,073	39.1%
Net asset value (NAV)	135,229	109,805	23.2%
Number of units outstanding	100,915,202	78,496,831 <sup>2</sup>	28.6%
<b>Net asset value (NAV) per unit (EUR)</b>	<b>1.3400</b>	<b>1.3988</b>	<b>(4.2%)</b>
<b>Loan-to-Value ratio (LTV)</b>	<b>58.5%</b>	<b>57.3%</b>	-
<b>Average effective interest rate</b>	<b>2.6%</b>	<b>2.4%</b>	-

1. The number of units excludes 278,402 units purchased by the Fund and cancelled in October 2018 as part of the unit buy-back program.
2. The number of units excludes 255,969 units acquired by the Fund and cancelled in February 2019 as part of the unit buy-back program.

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#### EPRA REPORTING

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

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

EPRA indicator	EPRA definition	EPRA purpose
1. EPRA earnings	Earnings from operational activities	A key measure of a company's underlying results and an indication of the extent to which current dividend payments are supported by earnings.
2. EPRA NAV	Net Asset Value adjusted to include properties and other investments at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on fair value of the assets and liabilities within a true real estate company with a long-term investment strategy.
3. EPRA NNNAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.

Source: EPRA best practices recommendations guidelines ([www.epra.com](http://www.epra.com))

**Table 3: EPRA earnings**

Euro '000	Q3 2019	Q3 2018	Jan-Sep 2019	Jan-Sep 2018
<b>Net result IFRS</b>	<b>3,059</b>	<b>2,195</b>	<b>5,376</b>	<b>6,455</b>
I. Exclude changes in fair value of investment properties	-	-	2,439	(480)
II. Exclude deferred tax	151	118	57	493
<b>EPRA earnings</b>	<b>3,210</b>	<b>2,313</b>	<b>7,872</b>	<b>6,468</b>
Weighted number of units during the period	100,461,178	79,064,293	91,360,754	78,798,014
<b>EPRA earnings per unit</b>	<b>0.03</b>	<b>0.03</b>	<b>0.09</b>	<b>0.08</b>

**Table 4: EPRA NAV and NNNAV**

Euro '000	30.09.2019	31.12.2018
<b>IFRS NAV</b>	<b>135,229</b>	<b>109,805</b>
I. Exclude deferred tax liability on investment properties	8,199	7,731
II. Exclude fair value of financial instruments	2,458	1,061
III. Exclude deferred tax on fair value of financial instruments	(148)	(56)
<b>EPRA NAV</b>	<b>145,738</b>	<b>118,541</b>
<b>EPRA NAV per unit (in EUR)</b>	<b>1.4442</b>	<b>1.5101</b>
I. Include fair value of financial instruments	(2,458)	(1,061)
II. Include deferred tax on fair value of financial instruments	148	56
III. Include revaluation at fair value of fixed-rate loans	(95)	(1,387)
<b>EPRA NNNAV</b>	<b>143,333</b>	<b>116,149</b>
<b>EPRA NNNAV per unit (in EUR)</b>	<b>1.4203</b>	<b>1.4797</b>

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#### PROPERTY REPORT

The diversified property portfolio of Baltic Horizon Fund consists of 14 properties in the Baltic capitals and one land plot adjacent to the Domus PRO complex. High occupancy is supported by the expectations that the Baltic economic growth is largely driven by domestic consumption, strong export prospects and transition to a more value added phase. Baltic Horizon believes it has established a portfolio of strong retail and office assets with well-known and long term tenants including local commercial leaders, governmental tenants, nearshoring shared service centres and the Baltic headquarters of leading international companies. The Baltic countries are also moving towards housing more and more Baltic and international fintech companies who enjoy the ease of doing business in the Baltics but also the relatively low operating costs and tech savvy productive workforce.

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

In the Baltic retail sector during 2019, rents for small spaces remained stable in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The average rental range of retail assets in the Fund's portfolio was EUR 9.5-17.1 per sq. m. per month, therefore well in line with average market brackets. Top rent levels are charged in CBD shopping centres Europa, Galerija Centrs and Postimaja.

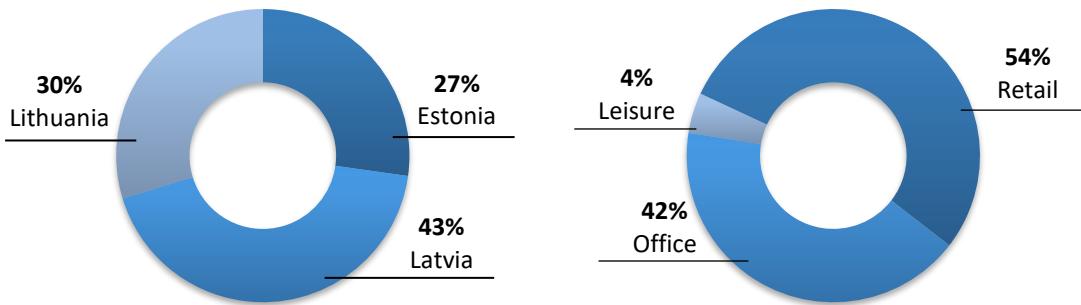
During the period, capital city office rents stood in the bracket of EUR 13-16.5 per sq. m. per month for class A premises and EUR 8.6-13.5 sq. m. for modern class B offices. In Baltic Horizon portfolio, the average monthly rental level in Lincona was approx. EUR 10 per sq. m., in Duetto I approx. EUR 11.9 per sq. m. in Upmalas Biroji EUR 12.6 per sq. m. and in LNK office approx. EUR 12.3 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.

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

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

## MANAGEMENT REVIEW

**Picture 1: Fund country and segment distribution as of 30.09.2019**



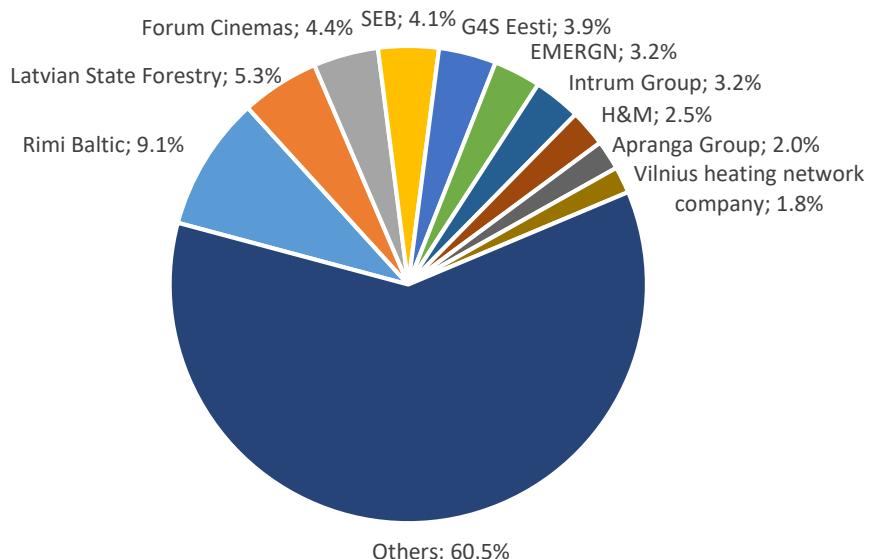
### ***Property performance***

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 Q3 2019, the average actual occupancy of the portfolio was 97.3% (Q2 2019: 95.4%). When all rental guarantees are considered, the effective occupancy rate is 97.7% (Q2 2019: 96.7%). The average direct property yield during Q3 2019 was 6.7% (Q2 2019: 6.8%). The net initial yield for the whole portfolio for Q3 2019 was 6.5% (Q2 2019: 6.5%).

The tenant base of the Fund is well diversified. The rental concentration of the 10 largest tenants of the Fund's subsidiaries is shown in picture 2 with the largest tenant Rimi Baltic accounting for 9.1% of the annualized rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

**Picture 2: Rental concentration of 10 largest tenants of the Fund's subsidiaries as of 30.09.2019**



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**Table 5: Overview of the Fund's investment properties as of 30.09.2019**

Property name	Sector	Book value <sup>1</sup> Euro '000	NLA	Direct property yield <sup>2</sup>	Net initial yield <sup>3</sup>	Occupancy rate for Q3 2019
<b>Vilnius, Lithuania</b>						
Duetto I	Office	16,020	8,498	7.7%	7.2%	98.7%
Duetto II	Office	17,900	8,673	7.1%	7.3%	100.0% <sup>4</sup>
Europa SC	Retail	40,403	16,856	6.7%	6.1%	95.6%
Domus Pro Retail Park	Retail	16,523	11,247	7.5%	7.1%	98.1%
Domus Pro Office	Office	7,530	4,831	8.7%	7.5%	100.0%
Meraki Land		1,700	-	-	-	-
<b>Total Vilnius</b>		<b>100,076</b>	<b>50,105</b>	<b>7.2%</b>	<b>6.8%</b>	<b>97.9%</b>
<b>Riga, Latvia</b>						
Upmalas Biroji BC	Office	25,220	10,458	6.9%	6.5%	100.0%
Vainodes I	Office	21,497	8,052	6.9%	6.9%	100.0%
LNK Centre	Office	16,830	7,453	6.4%	6.5%	100.0%
Sky SC	Retail	5,424	3,254	7.9%	7.4%	99.4%
Galerija Centrs	Retail	75,840	20,022	6.1%	6.0%	95.9%
<b>Total Riga</b>		<b>144,811</b>	<b>49,239</b>	<b>6.5%</b>	<b>6.4%</b>	<b>98.3%</b>
<b>Tallinn, Estonia</b>						
Postimaja & CC Plaza	Retail	32,140	9,145	4.2%	4.5%	90.8%
Postimaja & CC Plaza	Leisure	14,980	8,664	9.0%	7.1%	100.0%
G4S Headquarters	Office	17,133	9,179	7.7%	7.0%	100.0%
Lincona	Office	17,513	10,871	8.0%	7.2%	99.4%
Pirita SC	Retail	9,835	5,508	6.8%	8.6%	92.6%
<b>Total Tallinn</b>		<b>91,601</b>	<b>43,367</b>	<b>6.5%</b>	<b>6.3%</b>	<b>97.0%</b>
<b>Total portfolio</b>		<b>336,488</b>	<b>142,711</b>	<b>6.7%</b>	<b>6.5%</b>	<b>97.7%</b>

1. Based on the latest valuation as at 30 June 2019 and subsequent capital expenditures.
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. Duetto II effective occupancy rate is 100% due to a rental guarantee.

The Fund's portfolio produced EUR 13.6 million of net operating income (NOI) during the nine months of 2019 and EUR 5.4 million during Q3 2019 (Jan–Sep 2018: EUR 10.9 million; Q3 2018: EUR 3.8 million).



## Baltic Horizon Fund

### MANAGEMENT REVIEW

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

**Table 6: Breakdown of NOI development**

Property Euro '000	Date of acquisition	2015	2016	2017	2018	Jan-Sep 2018	Jan-Sep 2019
Lincona	1 Jul 2011	1,143	1,202	1,172	1,192	875	963
Postimaja & CC Plaza complex	13 Feb 2018	962	972	985	2,447	1,767	1,870
Sky SC	7 Dec 2013	415	425	410	407	306	267
Domus Pro Retail	1 May 2014	857	1,103	1,185	1,160	878	866
Domus Pro Office	1 Oct 2017	-	-	35	499	367	421
Europa SC	2 Mar 2015	1,962	2,360	2,365	2,332	1,750	1,889
G4S Headquarters	12 Jul 2016	-	546	1,149	1,189	890	827
Upmalas Biroji BC	30 Aug 2016	-	515	1,693	1,710	1,278	1,252
Pirita SC	16 Dec 2016	-	30	900	900	675	308 <sup>1</sup>
Duetto I	22 Mar 2017	-	-	799	1,096	847	869
Vainodes I	12 Dec 2017	-	-	75	1,463	1,102	1,097
LNK Centre	15 Aug 2018	-	-	-	409	140	798
Duetto II	27 Feb 2019	-	-	-	-	-	767
Galerija Centrs	13 Jun 2019	-	-	-	-	-	1,390
<b>Total portfolio</b>		<b>5,339</b>	<b>7,153</b>	<b>10,768</b>	<b>14,804</b>	<b>10,875</b>	<b>13,584</b>

1. The results of the Pirita SC were affected by a one-off rental guarantee write-off and impairment of trade receivables (please refer to the Pirita SC section below).

#### Lincona Office Complex, Tallinn (Estonia)

The property is a complex of three connected office buildings and a parking facility. The average occupancy level was 99.4% during Q3 2019 (Q2 2019: 98.3%). During Q3 2019, the average direct property yield decreased slightly to 8.0% (Q2 2019: 8.1%). The net initial yield during Q3 2019 decreased to 7.2% (Q2 2019: 7.4%).

#### Domus Pro Complex, Vilnius (Lithuania)

Initially, Domus Pro was a typical neighbourhood-type shopping centre offering everyday goods and services. However, thanks to its two expansions developed over 2015-2017, the shopping centre area of the property was significantly increased and over 4,500 sq. m. of office space was added. During Q3 2019, the average occupancy rate for the retail part remained stable and was 98.1% (Q2 2019: 98.1%). The average occupancy rate for the business centre remained stable at 100% (Q2 2019: 100%). During Q3 2019, the average direct property yield for the retail part increased slightly to 7.5% (Q2 2019: 7.4%) and the net initial yield increased to 7.1% (Q2 2019: 6.7%). During Q3 2019, the average direct property yield of the business centre remained stable at 8.7% (Q2 2019: 8.7%) and the net initial yield remained stable at 7.5% (Q2 2019: 7.5%).

#### Meraki Land, Vilnius (Lithuania)

In 2018, the Fund completed the acquisition 0.87 hectares of land next to the Domus Pro complex. The plots were acquired with the goal to further expand the Domus Pro complex. Active tenant search is underway and preparations for starting construction are in motion. The building permit was received in Q4 allowing to build approximately 15,800 sq. m. of leasable office space along with the parking house.

#### SKY Supermarket, Riga (Latvia)

The average occupancy level remained stable at 99.4% for Q3 2019 (Q2 2019: 99.4%). During Q3 2019 the average direct property yield decreased to 7.9% (Q2 2019: 8.4%) and the net initial yield decreased to 7.4% (Q2 2019: 7.8%).

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### MANAGEMENT REVIEW

#### Postimaja & Coca-Cola Plaza Complex, Tallinn (Estonia)

In Postimaja & Coca-Cola Plaza complex, the master lease agreement with Forum Cinemas (leisure) holds strong and tenant risk remains very low. During Q3 2019, the average occupancy rate for the leisure area remained stable at 100% (Q2 2019: 100%). The average direct property yield for the leisure area increased to 9.0% (Q2 2019: 8.5%) and the net initial yield increased to 7.1% (Q2 2019: 6.9%). The net rental income and yields increased in Q3 2019 as a result of a new tenant moving into Coca-Cola Plaza premises at the end of Q2 2019. During Q3 2019, the average occupancy rate for the retail part was 90.8% (Q2 2019: 90.6%). During Q3 2019, the average direct property yield for the retail part was 4.2% (Q2 2019: 4.2%) and the net initial yield was 4.5% (Q2 2019: 4.5%).

The Fund management team is taking active steps to combine Postimaja & Coca-Cola Plaza to seize the synergy potential between Postimaja & Coca-Cola Plaza properties which are located next to each other. To achieve that synergy, HG Arhitektuur OÜ with its work the “Rotermann Passage” has been selected as the partner to work out the architectural solution. The project includes developing a new exterior design as well as considerably increasing the leasable area and aims to improve functionality between the two buildings as well as the central Rotermann Quarter. The technical preparation for the expansion is ongoing with the architects, retail concept developers and Tallinn city. Fine tuning of the new concept is underway and active work is ongoing to obtain the final building permit.

#### Europa Shopping centre, Vilnius (Lithuania)

Located in the heart of Vilnius central business district on Konstitucijos Prospektas the property has the potential to substantially expand its visitor flows in the near future as new office buildings in the Vilnius CBD are being built or nearing completion. The management team has been in touch with top European retail consultants to enable the shopping centre to refresh its concept and increase its attractiveness in the vastly growing CBD area of Vilnius. The average occupancy level increased slightly to 95.6% for Q3 2019 (Q2 2019: 95.1%). Average direct property yield during Q3 2019 was 6.7% (Q2 2019: 6.8%). The net initial yield for Q3 2019 was 6.1% (Q2 2019: 6.1%).

#### G4S Headquarters, Tallinn (Estonia)

The building has a key tenant – G4S, who has rented the whole building under a long-term agreement. During Q2 2019, two floors of the building were vacant because Pipedrive’s sub-lease contract ended at the beginning of 2019. The asset is fully leased now as the Social Insurance Board occupied two available floors at the end of Q2 2019. The property’s land plot allows for future development of an additional office building with a gross leasable office area of 11,000 sq. m. The average occupancy level increased to 100% in Q3 2019 (Q2 2019: 87.0%). The average direct property yield during Q3 2019 increased to 7.7% (Q2 2019: 6.4%). The net initial yield for Q3 2019 was 7.0% (Q2 2019: 5.8%).

#### Upmalas Biroji, Riga (Latvia)

The property tenant mix remains strong, including such top class international tenants as SEB Global Services, CABOT, Johnson & Johnson and others. The average occupancy rate remained stable at 100% for Q3 2019 (Q2 2019: 100%). The average direct property yield during Q3 2019 was 6.9% (Q2 2019: 7.2%). The net initial yield for Q3 2019 was 6.5% (Q2 2019: 6.7%).

#### Pirita Shopping centre, Tallinn (Estonia)

The average occupancy rate increased to 92.6% during Q3 2019 (Q2 2019: 91.1%). During Q2 2019, rental guarantee accrual was partially written off (EUR 153 thousand) and also impairment for trade receivables (EUR 91 thousand) was recognized which resulted in negative annualized actual yields for the quarter. The impairment and write-off were excluded from yield calculations as they are considered a one-off event. The average direct property yield for Q3 2019 was 6.8% (Q2 2019: 6.6%). The net initial yield for Q3 2019 was 8.6% (Q2 2019: 8.1%). The actual average direct property yield during Q2 2019 was negative at 1.4% and the actual net initial yield was negative at 1.8%.

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The management team is working together with local and international retail consultants on the renewal of the concept of this neighbourhood retail property. Several negotiations with new satellite tenants are underway in order to minimize the ground floor vacancy and strengthen the tenant mix with destination tenants.

#### Duetto I Office building, Vilnius (Lithuania)

Duetto I is a newly built 10-floor office centre with an underground parking lot. The property has an A class in energy efficiency and a BREEAM certification. The actual average occupancy level was 98.7% for Q3 2019 (Q2 2019: 98.7%). The average direct property yield during Q3 2019 was 7.7% (Q2 2019: 7.7%). The net initial yield for Q3 2019 was 7.2% (Q2 2019: 7.1%).

#### Duetto II Office building, Vilnius (Lithuania)

On 27 February 2019, the Fund completed the acquisition of the newly constructed Duetto II office building located in Vilnius, Lithuania. The largest tenants in the property are Vilnius heating network company, Sweco and Rimi Lietuva. The Duetto II property is located on 6 Spaudos street, Vilnius, next to the Duetto I property already owned by the Fund. The property has an A class in energy efficiency and a BREEAM certification. The effective vacancy rate of Duetto II 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. The actual average occupancy level for Q3 2019 was 93.3% (Q2 2019: 81.5%). The average direct property yield during Q3 2019 was 7.1% (Q2 2019: 7.1%). The net initial yield for Q3 2019 was 7.3% (Q2 2019: 7.2%).

#### Vainodes I Office building, Riga (Latvia)

The complex consists of an office building, built in 2014, which is connected to a smaller reconstructed building. The anchor tenant is JSC Latvian State Forests, other tenants include pharmaceutical company Abbvie and a cafeteria. Vainodes I has a development potential of at least additional 7,000 sq. m. which the Fund's management team aims to execute in the coming 4 years in order to maximize the value of the property. The average occupancy rate was 100% for Q3 2019 (Q2 2019: 100%). During Q3 2019, the average direct property yield was 6.9% (Q2 2019: 6.9%) and the net initial yield was 6.9% (Q2 2019: 6.9%).

#### LNK Centre Office building, Riga (Latvia)

The property is an office building with a net leasable area of 7,453 sq. m. located in Skanstes area, which is a well-known modern business district of Riga and is likely to become a new CBD of Riga in the future. The asset is fully leased out, with Emergn AS and LNK Group occupying approx. 96% of the leasable area. The property's weighted average unexpired lease term (WAULT) is higher than market average due to recent extensions of the lease agreements of Emergn AS and LNK Group. The average occupancy rate for Q3 2019 remained stable at 100% (Q2 2019: 100%). The average direct property yield for Q3 2019 was 6.4% (Q2 2019: 6.3%). The net initial yield for Q3 2019 was 6.5% (Q2 2019: 6.2%).

#### Galerija Centrs Shopping centre, Riga (Latvia)

On 13 June 2019, the Fund completed the acquisition of the Galerija Centrs shopping centre located in Riga, Latvia. The Galerija Centrs property is located at Audeju Street 16, 1050 in Riga Old Town, next to the National Opera. As a block of Old Town, the 5-floor property complex consists of two buildings connected with a glass-roofed arcade. Originally opened as the Army Department Store in 1938, the high street retail centre was last refurbished and extended in 2006. The anchor tenants include H&M, RIMI, Massimo Dutti, Douglas, Lindex, Esprit, Gant, Marc O'Polo, Max Mara Weekend and others. The average occupancy level was 95.7% for Q3 2019 (Q2 2019: 95.8%). The average direct property yield during Q3 2019 was 6.1% (Q2 2019: 6.9%). The net initial yield for Q3 2019 was 6.0% (Q2 2019: 6.8%).

### 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.

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### MANAGEMENT REVIEW

After the subsequent bond subscription and the drawdown of new loans during 2019, the bank loan amortisation decreased to 0.2% (EUR 97 thousand per quarter), but the average interest rate increased to 2.6%. The management team is working on maintaining a low average interest rate and reducing LTV in the future.

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

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
<b>Regular quarterly bank loan amortisation, Euro '000</b>	<b>27</b>	<b>27</b>	<b>97</b>	<b>97</b>	<b>97</b>
Regular annual bank loan amortisation from the loans outstanding, %	0.1%	0.1%	0.3%	0.2%	0.2%
Average interest rate, %	2.3%	2.4%	2.4%	2.6%	2.6%
LTV, %	53.3%	57.3%	56.6%	58.6%	58.5%

The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 30 September 2019. Interest bearing debt was comprised of bank loans with a total carrying value of EUR 147.2 million and bonds with a carrying value of EUR 49.8 million. 100% of the debt instruments were denominated in euros. Bank loans have been obtained by subsidiaries that hold the Fund's properties and the properties have been pledged as loan collateral. The parent entity holds the 5-year unsecured bonds.

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

Property	Maturity	Currency	Carrying amount Euro '000	% of total	Fixed rate portion
Lincona	31 Dec 2022	EUR	7,188	3.6%	95%
CC Plaza and Postimaja	12 Feb 2023	EUR	17,200	8.7%	100% <sup>1</sup>
Sky SC	1 Aug 2021	EUR	2,289	1.2%	-%
Europa SC	5 Jul 2022	EUR	20,900	10.6%	88%
G4S Headquarters	16 Aug 2021	EUR	7,750	3.9%	100%
Upmalas Biroji BC	31 Aug 2023	EUR	11,750	5.9%	90%
Pirita SC	20 Feb 2022	EUR	4,944	2.5%	123%
Duetto I and II	31 Mar 2023	EUR	15,376	7.8%	47% <sup>2</sup>
Domus Pro	31 May 2022	EUR	11,000	5.6%	66%
Vainodes I	13 Nov 2024	EUR	9,842	5.0%	50%
LNK	27 Sep 2023	EUR	9,217	4.7%	63%
Galerija Centrs	26 May 2022	EUR	30,000	15.2%	100%
<b>Total bank loans</b>		<b>EUR</b>	<b>147,456</b>	<b>74.7%</b>	<b>83%</b>
Less capitalized loan arrangement fees <sup>3</sup>		EUR	(262)		
<b>Total bank loans recognised in the statement of financial position</b>		<b>EUR</b>	<b>147,194</b>		
5 year-unsecured bonds		EUR	50,000	25.3%	100%
Less capitalized bond arrangement fees <sup>3</sup>		EUR	(247)		
<b>Total debt recognised in the statement of financial position</b>		<b>EUR</b>	<b>196,947</b>	<b>100%</b>	<b>87%</b>

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

Weighted average time to maturity was 3.3 years at the end of Q3 2019.

As of 30 September 2019, 87% of total debt had fixed interest rates while the remaining 13% had floating interest rates. The Fund fixes interest rates on a portion of its debt by acquiring IRS-type hedging instruments

## Baltic Horizon Fund

### MANAGEMENT REVIEW

or limits the impact of rising interest rates with interest cap instruments (CAP). The unsecured bonds have a fixed coupon rate of 4.25%.

### COVENANT REPORTING

As of 30 September 2019, the Fund was in compliance with all the covenants set under the bond issue terms and conditions dated 8 May 2018.

**Table 9: Financial covenants**

Financial covenant	Definition	Requirement	Ratio
Equity Ratio	Equity adjusted for the cash flow hedge reserve divided by total assets excluding financial assets and cash equivalents as defined in the accounting policies.	> 35.0%	40.5%
Debt Service Coverage Ratio	EBITDA divided by the principal payments and interest expenses of interest-bearing debt obligations, on a rolling 12 month basis.	> 1.20	3.39

During Q3 2019, the Fund was in compliance with all special conditions and covenants set under the bank loan agreements.

### DIVIDEND CAPACITY

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

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

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

**Table 10: Generated net cash flow (GNCF) calculation formula**

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

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### MANAGEMENT REVIEW

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.

**Table 11: Dividend capacity calculation**

Euro '000	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
(+) Net rental income	3,840	3,929	3,916	4,256	5,412
(-) Fund administrative expenses	(748)	(804)	(709)	(817)	(879)
(-) External interest expenses	(756)	(780)	(869)	(1,043)	(1,295)
(-) CAPEX expenditure <sup>1</sup>	(269)	(141)	(68)	(180)	(178)
(+) Added back listing related expenses	-	-	3	51	60
(+) Added back acquisition related expenses	-	-	63	39	16
<b>Generated net cash flow (GNCF)</b>	<b>2,067</b>	<b>2,204</b>	<b>2,336</b>	<b>2,306</b>	<b>3,136</b>
<b>GNCF per weighted unit</b>	<b>0.026</b>	<b>0.028</b>	<b>0.030</b>	<b>0.024</b>	<b>0.031</b>
<b>12-months rolling GNCF yield<sup>2</sup></b>	<b>8.2%</b>	<b>8.4%</b>	<b>8.4%</b>	<b>7.8%</b>	<b>8.4%</b>
<b>Dividends declared for the period</b>	<b>2,044</b>	<b>2,119</b>	<b>2,449</b>	<b>2,624</b>	<b>3,061</b>
<b>Dividends declared per unit</b>	<b>0.026</b>	<b>0.027</b>	<b>0.025</b>	<b>0.026</b>	<b>0.027</b>
<b>12-months rolling dividend yield<sup>2</sup></b>	<b>7.8%</b>	<b>7.8%</b>	<b>7.7%</b>	<b>7.5%</b>	<b>7.8%</b>

1. The table provides actual capital expenditures for the quarter. Future dividend distributions to unitholders are aimed to be based on the annual budgeted capital expenditure plans equalized for each quarter. This will reduce the quarterly volatility of cash distributions to unitholders.
2. 12-month rolling GNCF and dividend yields are based on the closing market price of the unit as at the end of the quarter (Q3 2019: closing market price of the unit as of 30 September 2019).

#### Distributions to unitholders for Q2 2019 and Q3 2019 Fund results

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

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

### 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.

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

##### Market risk

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

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

##### Interest rate risk

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

##### Credit risk

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

##### Liquidity risk

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

Real estate investments have low liquidity and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicalities, 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 2019

At the end of September 2019, Baltic Horizon Fund owned 14 established cash flow properties. The latest acquisition was a landmark shopping centre Galerija Centrs in the Old Town of Riga, closed on 13 June 2019. All properties are located in the Baltic capitals with an expected gross property value of above EUR 330

## Baltic Horizon Fund

### MANAGEMENT REVIEW

million and an expected annualized full NOI of approx. EUR 22 million. The Fund aims to grow its asset base by acquiring carefully selected investment properties that best fit the Fund's very long-term strategy. Growing by acquiring established properties with long-term tenants allows the Fund to become more efficient and diversify its risks further across segments, tenants and geographical locations. The Fund also owns one land plot adjacent to Domus PRO complex for further office expansion.

Given the established cash-flow portfolio which forms a strong backbone for the Fund, the Fund management team has considerably increased its focus on creating added value in the already owned investment properties. In addition to CC Plaza and Postimaja expansion, this also includes preparing for the expansion of the Upmalas Biroji complex, Vainodes I and G4S properties and further expansion of Domus PRO complex. The period for starting the expansions, which are expected to improve the profitability of the Fund going forward, falls between 2019 and 2021.

The downside risks to the bullish future of the Baltics come primarily from the external environment. As the economic cycle matures, it is expected that economic growth will slow slightly: on average to 3% in 2019 and 2.5% in 2020. Despite somewhat weaker sentiment, overall investments are expected to continue growing at a good pace, still fuelled by EU structural funds and public investments. Export growth, on the other hand, is likely to ease somewhat. At the same time, private sector financial leverage has decreased, while savings have continuously increased.

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

### MANAGEMENT BOARD'S CONFIRMATION

Members of the Management Board of the Management Company Tarmo Karotam, Algirdas Vaitiekūnas and Aušra Stankevičienė confirm that according to their best knowledge, the condensed consolidated interim financial statements for the nine months of 2019, 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 nine 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 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

Euro '000	Note	01.07.2019- 30.09.2019	01.07.2018- 30.09.2018	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018
Rental income		5,782	4,012	14,579	11,576
Service charge income		1,476	619	3,128	1,812
Cost of rental activities	6	(1,846)	(791)	(4,123)	(2,513)
<b>Net rental income</b>	<b>5</b>	<b>5,412</b>	<b>3,840</b>	<b>13,584</b>	<b>10,875</b>
Administrative expenses	7	(879)	(748)	(2,405)	(2,009)
Other operating income		17	3	23	48
Valuation gains (losses) on investment properties		-	-	(2,439)	480
<b>Operating profit</b>		<b>4,550</b>	<b>3,095</b>	<b>8,763</b>	<b>9,394</b>
Financial income		1	2	4	6
Financial expenses	8	(1,340)	(776)	(3,316)	(1,981)
<b>Net financing costs</b>		<b>(1,339)</b>	<b>(774)</b>	<b>(3,312)</b>	<b>(1,975)</b>
<b>Profit before tax</b>		<b>3,211</b>	<b>2,321</b>	<b>5,451</b>	<b>7,419</b>
Income tax charge	4, 10	(152)	(126)	(75)	(964)
<b>Profit for the period</b>	<b>4</b>	<b>3,059</b>	<b>2,195</b>	<b>5,376</b>	<b>6,455</b>
<i>Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods</i>					
Net gains (losses) on cash flow hedges	15b	(305)	205	(1,397)	(425)
Recognition of initial interest rate cap costs		-	-	-	(33)
Income tax relating to net gains (losses) on cash flow hedges	15b, 10	17	(37)	92	42
<b>Other comprehensive income (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods</b>		<b>(288)</b>	<b>168</b>	<b>(1,305)</b>	<b>(416)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>2,771</b>	<b>2,363</b>	<b>4,071</b>	<b>6,039</b>
<b>Basic and diluted earnings per unit (Euro)</b>	<b>9</b>	<b>0.03</b>	<b>0.03</b>	<b>0.06</b>	<b>0.08</b>

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

**Baltic Horizon Fund**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

<i>Euro '000</i>	<i>Note</i>	<b>30.09.2019</b>	<b>31.12.2018</b>
<b>Non-current assets</b>			
Investment properties	4, 11	336,488	245,160
Derivative financial instruments	21	33	9
Other non-current assets		96	596
<b>Total non-current assets</b>		<b>336,617</b>	<b>245,765</b>
<b>Current assets</b>			
Trade and other receivables	12	1,958	2,229
Prepayments		247	154
Other current assets	13	960	505
Cash and cash equivalents	14	5,545	12,225
<b>Total current assets</b>		<b>8,710</b>	<b>15,113</b>
<b>Total assets</b>	4	<b>345,327</b>	<b>260,878</b>
<b>Equity</b>			
Paid in capital	15a	121,883	93,673
Own units	15a	-	(335)
Cash flow hedge reserve	15b	(2,310)	(1,005)
Retained earnings		15,656	17,472
<b>Total equity</b>		<b>135,229</b>	<b>109,805</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	16	196,559	140,401
Deferred tax liabilities		5,809	5,844
Derivative financial instruments	21	2,491	1,069
Other non-current liabilities		1,248	905
<b>Total non-current liabilities</b>		<b>206,107</b>	<b>148,219</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	16	388	106
Trade and other payables	17	2,890	2,397
Income tax payable		1	-
Other current liabilities		712	351
<b>Total current liabilities</b>		<b>3,991</b>	<b>2,854</b>
<b>Total liabilities</b>	4	<b>210,098</b>	<b>151,073</b>
<b>Total equity and liabilities</b>		<b>345,327</b>	<b>260,878</b>

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

**Baltic Horizon Fund**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**


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<i>Euro '000</i>	<i>Notes</i>	<b>Paid in capital</b>	<b>Own units</b>	<b>Cash flow hedge reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>As at 1 January 2018</b>		<b>91,848</b>	-	(56)	<b>15,184</b>	<b>106,976</b>
Net profit for the period		-	-	-	6,455	<b>6,455</b>
Other comprehensive expense		-	-	(416)	-	(416)
<b>Total comprehensive income</b>		-	-	(416)	<b>6,455</b>	<b>6,039</b>
Paid in capital – units issued	15a	2,350	-	-	-	<b>2,350</b>
Repurchase of own units	15a	-	(362)	-	-	(362)
Profit distribution to unitholders	15c	-	-	-	(5,658)	(5,658)
<b>As at 30 September 2018</b>		<b>94,198</b>	<b>(362)</b>	<b>(472)</b>	<b>15,981</b>	<b>109,345</b>
<b>As at 1 January 2019</b>		<b>93,673</b>	<b>(335)</b>	<b>(1,005)</b>	<b>17,472</b>	<b>109,805</b>
Net profit for the period		-	-	-	5,376	<b>5,376</b>
Other comprehensive expense		-	-	(1,305)	-	(1,305)
<b>Total comprehensive income</b>		-	-	(1,305)	<b>5,376</b>	<b>4,071</b>
Paid in capital – units issued	15a	28,545	-	-	-	<b>28,545</b>
Cancellation of own units	15a	(335)	335	-	-	-
Profit distribution to unitholders	15c	-	-	-	(7,192)	(7,192)
<b>As at 30 September 2019</b>		<b>121,883</b>	-	<b>(2,310)</b>	<b>15,656</b>	<b>135,229</b>

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



**CONSOLIDATED STATEMENT OF CASH FLOWS**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

Euro '000	Note	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018
<b>Cash flows from core activities</b>			
<b>Profit before tax</b>		<b>5,451</b>	<b>7,419</b>
Adjustments for non-cash items:			
Value adjustment of investment properties	11	2,439	(480)
Change in impairment losses for trade receivables		44	98
Financial income		(4)	(6)
Financial expenses	8	3,316	1,981
Working capital adjustments:			
(Increase)/decrease in trade and other accounts receivable		734	(337)
(Increase)/decrease in other current assets		(561)	(382)
(Decrease)/Increase in other non-current liabilities		27	(15)
(Decrease)/increase in trade and other accounts payable		56	(385)
Increase/(decrease) in other current liabilities		(507)	280
(Paid)/refunded income tax		(6)	(501)
<b>Total cash flows from core activities</b>		<b>10,989</b>	<b>7,672</b>
<b>Cash flows from investing activities</b>			
Interest received		4	6
Acquisition of subsidiaries, net of cash acquired		(38,161)	(17,153)
Acquisition of investment property		(17,841)	(36,138)
Investment property development expenditure		-	(2,237)
Capital expenditure on investment properties		(426)	(482)
<b>Total cash flows from investing activities</b>		<b>(56,424)</b>	<b>(56,004)</b>
<b>Cash flows from financial activities</b>			
Proceeds from the issue of bonds		10,000	30,000
Proceeds from bank loans		48,409	25,300
Repayment of bank loans		(37,708)	(23,273)
Proceeds from issue of units	15a	28,545	2,350
Profit distribution to unitholders	15c	(7,192)	(5,658)
Repurchase of units	15a	-	(362)
Transaction costs related to loans and borrowings		(175)	(291)
Interest paid		(3,124)	(1,681)
<b>Total cash flows from financing activities</b>		<b>38,755</b>	<b>26,385</b>
<b>Net change in cash and cash equivalents</b>		<b>(6,680)</b>	<b>(21,947)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>12,225</b>	<b>24,557</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>5,545</b>	<b>2,610</b>

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

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

#### 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	30.09.2019	31.12.2018
BH Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BH CC Plaza OÜ	100%	100%
BH Domus Pro UAB	100%	100%
BH Europa UAB	100%	100%
BH P80 OÜ	100%	100%
Kontor SIA	100%	100%
Pirita Center OÜ	100%	100%
BH Duetto UAB	100%	100%
Vainodes Krasti SIA	100%	100%
BH S27 SIA	100%	100%
BH Meraki UAB	100%	100%
Tampere Invest SIA	100%	-%
BH Northstar UAB	100%	-%

#### 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 2018. 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 15 November 2019.

#### Going concern assessment

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

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

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#### New standards, amendments and interpretations

A number of new standards and amendments to standards are not effective for annual periods beginning on 1 January 2019 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.

#### 3. Use of judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the reported item in the future. The assumptions and judgements applied in these interim condensed consolidated financial statement were the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2018.

#### 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 2018.

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 2019.

The Group adopted IFRS 16 Leases for the first time from 1 January 2019. The new standard does not have a material impact on the financial statements because the Group as a lessee has not entered into lease contracts which qualify as finance or operating lease contracts under the previously effective IAS 17. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

#### IFRS 16 Leases

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

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

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

The Group is not required to make any adjustment on transition to IFRS 16 as a lessor and will continue to classify all current leases using the same classification principles as in IAS 17. The Group will provide more extensive disclosures in accordance with IFRS 16 requirements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**


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

For management purposes, the Group is organized into three business segments based on the type of investment property. Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and assessing performance. Segment performance is evaluated based on net rental income and net profit or 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 – 30 September 2019

<i>Euro '000</i>	<b>Retail</b>	<b>Office</b>	<b>Leisure</b>	<b>Total segments</b>
<b>01.07.2019 – 30.09.2019:</b>				
External revenue <sup>1</sup>	4,084	2,899	275	7,258
<b>Segment net rental income</b>	<b>2,727</b>	<b>2,418</b>	<b>267</b>	<b>5,412</b>
Net gains (losses) from fair value adjustment	-	-	-	-
Interest expenses <sup>2</sup>	(420)	(315)	(17)	(752)
Income tax income	(96)	(56)	-	(152)
<b>Segment net profit (loss)</b>	<b>2,144</b>	<b>2,002</b>	<b>248</b>	<b>4,394</b>
<b>01.01.2019 – 30.09.2019:</b>				
External revenue <sup>1</sup>	8,704	8,204	799	17,707
<b>Segment net rental income</b>	<b>5,814</b>	<b>6,996</b>	<b>774</b>	<b>13,584</b>
Net gains (losses) from fair value adjustment	(1,497)	(1,452)	510	(2,439)
Interest expenses <sup>2</sup>	(912)	(816)	(49)	(1,777)
Income tax income	(46)	(29)	-	(75)
<b>Segment net profit</b>	<b>3,194</b>	<b>4,501</b>	<b>1,229</b>	<b>8,924</b>
<b>As at 30.09.2019:</b>				
<b>Segment assets</b>	<b>184,339</b>	<b>144,703</b>	<b>15,378</b>	<b>344,420</b>
Investment properties	180,165	141,343	14,980	336,488
<b>Segment liabilities</b>	<b>85,771</b>	<b>67,751</b>	<b>5,513</b>	<b>159,035</b>

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

Operating segments – 30 September 2018

Euro '000	Retail	Office	Leisure	Total segments
<b>01.07.2018 – 30.09.2018:</b>				
External revenue <sup>1</sup>	2,214	2,164	253	4,631
<b>Segment net rental income</b>	<b>1,631</b>	<b>1,959</b>	<b>250</b>	<b>3,840</b>
Net gains (losses) from fair value adjustment	(9)	9	-	-
Interest expenses <sup>2</sup>	(219)	(196)	(14)	(429)
Income tax expenses	(100)	(26)	-	(126)
<b>Segment net profit</b>	<b>1,196</b>	<b>1,703</b>	<b>234</b>	<b>3,133</b>
<b>01.01.2018 – 30.09.2018:</b>				
External revenue <sup>1</sup>	6,594	6,037	757	13,388
<b>Segment net rental income</b>	<b>4,628</b>	<b>5,499</b>	<b>748</b>	<b>10,875</b>
Net gains (losses) from fair value adjustment	(614)	1,144	(50)	480
Interest expenses <sup>2</sup>	(712)	(626)	(60)	(1,398)
Income tax expenses	(410)	(554)	-	(964)
<b>Segment net profit</b>	<b>2,777</b>	<b>5,222</b>	<b>632</b>	<b>8,631</b>
<b>As at 31.12.2018:</b>				
<b>Segment assets</b>	<b>109,262</b>	<b>126,782</b>	<b>14,818</b>	<b>250,862</b>
Investment properties	106,420	124,270	14,470	245,160
<b>Segment liabilities</b>	<b>54,679</b>	<b>50,353</b>	<b>5,369</b>	<b>110,401</b>

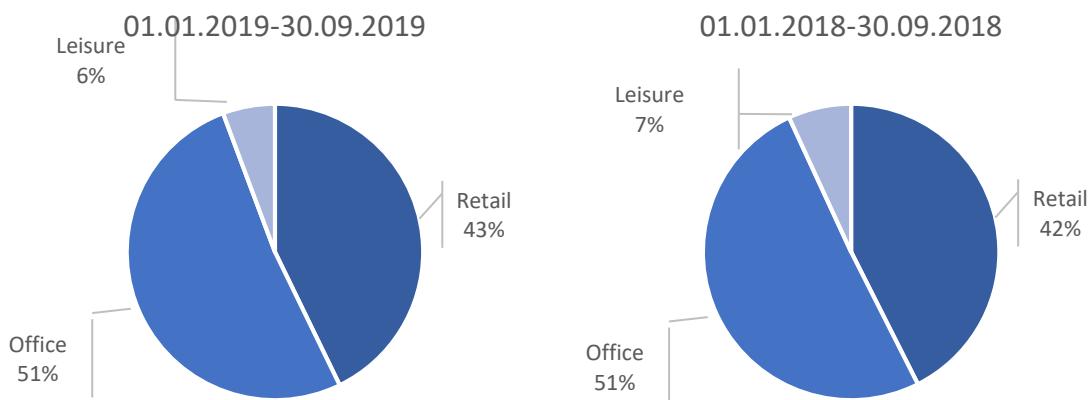
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses.

## Baltic Horizon Fund

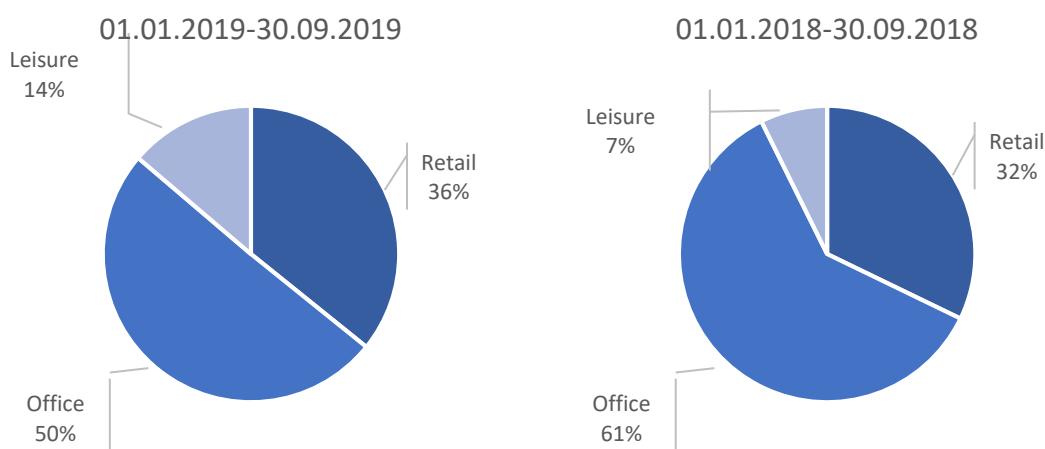
### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

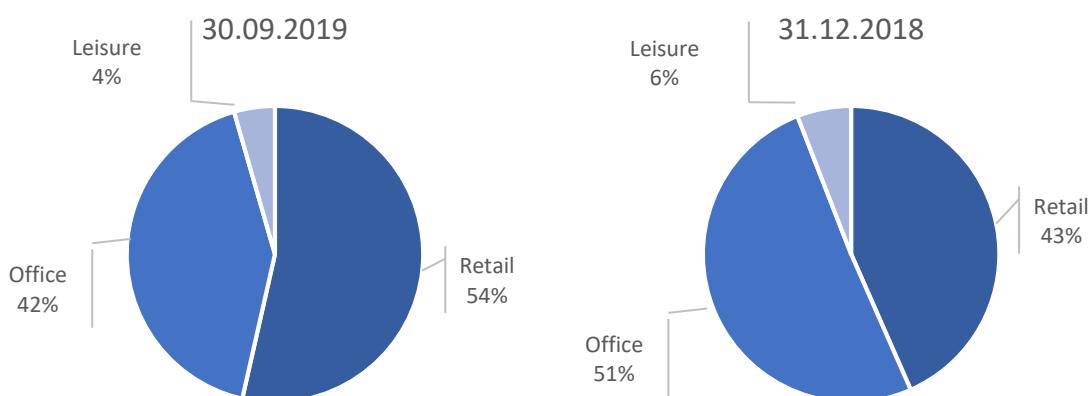
#### *Segment net rental income\**



#### *Segment net profit\**



#### *Investment properties\**



\*As a percentage of the total for all reportable segments

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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

Operating segments – 30 September 2019

Euro '000	Total reportable segments	Adjustments	Consolidated
<b>01.07.2019 – 30.09.2019:</b>			
Net profit (loss)	4,394	(1,335) <sup>1</sup>	3,059
<b>01.01.2019 – 30.09.2019:</b>			
Net profit (loss)	8,924	(3,548) <sup>2</sup>	5,376
<b>As at 30.09.2019:</b>			
Segment assets	344,420	907 <sup>3</sup>	345,327
Segment liabilities	159,035	51,063 <sup>4</sup>	210,098

1. Segment net profit for Q3 2019 does not include Fund management fee (EUR 444 thousand), bond interest expenses (EUR 543 thousand), bond arrangement fee amortisation (EUR 14 thousand), Fund performance fee accrual (EUR 164 thousand), Fund custodian fees (EUR 17 thousand), and other Fund-level administrative expenses (EUR 153 thousand).
2. Segment net profit for nine months ended 30 September 2019 does not include Fund management fee (EUR 1,205 thousand), bond interest expenses (EUR 1,430 thousand), bond arrangement fee amortisation (EUR 47 thousand), Fund performance fee accrual (EUR 310 thousand), Fund custodian fees (EUR 47 thousand), and other Fund-level administrative expenses (EUR 509 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 907 thousand).
4. Segment liabilities do not include liabilities related to a bond issue at the Fund level (EUR 49,753 thousand), accrued bond coupon expenses (EUR 307 thousand), management fee payable (EUR 444 thousand), and other short-term payables (EUR 559 thousand) at the Fund level.

Operating segments – 30 September 2018

Euro '000	Total reportable segments	Adjustments	Consolidated
<b>01.07.2018 – 30.09.2018:</b>			
Net profit (loss)	3,133	(938) <sup>1</sup>	2,195
<b>01.01.2018 – 30.09.2018:</b>			
Net profit (loss)	8,631	(2,176) <sup>2</sup>	6,455
<b>As at 31.12.2018:</b>			
Segment assets	250,862	10,016 <sup>3</sup>	260,878
Segment liabilities	110,401	40,672 <sup>4</sup>	151,073

1. Segment net profit for Q3 2018 does not include Fund management fee (EUR 350 thousand), bond interest expenses (EUR 326 thousand), Fund performance fee accrual (EUR 49 thousand), Fund custodian fees (EUR 12 thousand), and other Fund-level administrative expenses (EUR 201 thousand).
2. Segment net profit for nine months ended 30 September 2018, does not include Fund management fee (EUR 1,037 thousand), bond interest expenses (EUR 506 thousand), Fund performance fee accrual (EUR 78 thousand), Fund custodian fees (EUR 34 thousand), and other Fund-level administrative expenses (EUR 521 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 10,016 thousand).
4. Segment liabilities do not include liabilities related to a bond issue at Fund level (EUR 39,755 thousand), accrued bond coupon expenses (EUR 250 thousand), management fee payable (EUR 354 thousand), and other short-term payables (EUR 313 thousand) at the Fund level.

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

#### Geographic information

##### *Segment net rental income*

Euro '000	<i>External revenue</i>			<i>Investment property value</i>		
	01.07.2019- 30.09.2019	01.07.2018- 30.09.2018	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018	30.09.2019	31.12.2018
Lithuania	2,268	1,726	6,598	5,253	100,076	84,010
Latvia	3,329	1,239	6,391	3,339	144,811	69,800
Estonia	1,661	1,666	4,718	4,796	91,601	91,350
<b>Total</b>	<b>7,258</b>	<b>4,631</b>	<b>17,707</b>	<b>13,388</b>	<b>336,488</b>	<b>245,160</b>

#### Major tenant

No single tenant accounted for more than 10% of the Group's total revenue. Rental income from one tenant in the office segment represented EUR 900 thousand of the Group's total rental income for nine months ended 30 September 2019 and EUR 300 thousand for Q3 2019 (EUR 900 thousand for nine months ended 30 September 2018 and EUR 300 thousand for Q3 2018).

#### 6. Cost of rental activities

Euro '000	01.07.2019- 30.09.2019	01.07.2018- 30.09.2018	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018
Repair and maintenance	602	332	1,446	1,008
Utilities	419	44	773	148
Property management expenses	294	163	669	472
Real estate taxes	256	144	600	412
Sales and marketing expenses	238	77	418	285
Property insurance	23	19	62	52
Allowance (reversal of allowance) for bad debts	(42)	1	44	98
Other	56	11	111	38
<b>Total cost of rental activities</b>	<b>1,846</b>	<b>791</b>	<b>4,123</b>	<b>2,513</b>

Part of the total cost of rental activities was recharged to tenants: EUR 3,128 thousand during the nine-month period ended 30 September 2019 and EUR 1,476 thousand during Q3 2019 (EUR 1,812 thousand during the nine-month period ended 30 September 2018 and EUR 619 thousand during Q3 2018).

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

#### 7. Administrative expenses

<i>Euro '000</i>	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
Management fee	444	350	1,205	1,037
Performance fee	164	49	310	78
Private placement related expenses	60	-	114	-
Consultancy fees	55	37	238	125
Legal fees	38	157	120	258
Fund marketing expenses	26	39	74	172
Audit fee	24	25	66	75
Custodian fees	17	12	47	34
Supervisory board fees	13	13	38	38
Other administrative expenses	38	66	193	192
<b>Total administrative expenses</b>	<b>879</b>	<b>748</b>	<b>2,405</b>	<b>2,009</b>

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

<i>Euro '000</i>	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
Interest on external loans and borrowings	1,295	756	3,207	1,905
Loan arrangement fee amortisation	45	20	108	75
Foreign exchange loss	-	-	1	1
<b>Total financial expenses</b>	<b>1,340</b>	<b>776</b>	<b>3,316</b>	<b>1,981</b>

#### 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:

<i>Euro '000</i>	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
Profit for the period, attributed to the unitholders of the Fund	3,059	2,195	5,376	6,455
<b>Profit for the period, attributed to the unitholders of the Fund</b>	<b>3,059</b>	<b>2,195</b>	<b>5,376</b>	<b>6,455</b>

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Weighted-average number of units:

	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
Issued units at 1 January	78,496,831 <sup>6</sup>	77,440,638	78,496,831 <sup>6</sup>	77,440,638
Effect of units issued in February 2018 <sup>1</sup>		1,716,456		1,388,310
Effect of units repurchased by the Fund in August and September 2018 <sup>2</sup>		(92,801)		(30,934)
Effect of units issued in April 2019 <sup>3</sup>	18,839,239		11,705,262	-
Effect of units issued in May 2019 <sup>4</sup>	627,974		323,222	-
Effect of units issued in July 2019 <sup>5</sup>	2,497,134		835,438	
<b>Weighted-average number of units</b>	<b>100,461,178</b>	<b>79,064,293</b>	<b>91,360,754</b>	<b>78,798,014</b>

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

Basic and diluted earnings per unit:

	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
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<b>Basic and diluted earnings per unit*</b>	0.03	0.03	0.06	0.08
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\*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 nine months ended 30 September 2019 was 1.4% (nine months ended 30 September 2018: 13.0%).

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#### CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

The major components of income tax for the periods ended 30 September 2019 and 2018 were as follows:

<i>Euro '000</i>	<b>01.07.2019- 30.09.2019</b>	<b>01.07.2018- 30.09.2018</b>	<b>01.01.2019- 30.09.2019</b>	<b>01.01.2018- 30.09.2018</b>
<b>Consolidated statement of profit or loss</b>				
Current income tax for the period	(1)	(8)	(18)	(471)
Deferred tax for the period	(151)	(118)	(57)	(493)
<b>Income tax expense reported in profit or loss</b>	<b>(152)</b>	<b>(126)</b>	<b>(75)</b>	<b>(964)</b>
<b>Consolidated statement of other comprehensive income</b>				
Deferred income tax related to items charged or credited to equity:				
Revaluation of derivative instruments to fair value	17	(37)	92	42
<b>Income tax reported in other comprehensive income</b>	<b>17</b>	<b>(37)</b>	<b>92</b>	<b>42</b>

#### 11. Investment property

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

As at 30 June 2019, new external valuations were performed by independent property valuator Newsec.

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

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

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

## Baltic Horizon Fund

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

<i>Euro '000</i>	<b>2019</b>	<b>2018</b>
<b>Balance at 1 January</b>	<b>245,160</b>	<b>189,317</b>
Acquisition of investment property	93,341	51,545
Acquisition of land	-	1,661
Additions (subsequent expenditure)	426	623
Net revaluation gain	(2,439)	2,014
<b>Closing balance</b>	<b>336,310</b>	<b>245,160</b>

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

#### Acquisition of Duetto II

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

#### Acquisition of Galerija Centrs

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

#### Valuation techniques used to derive Level 3 fair values

The Fund did not perform any property valuation as at 30 September 2019. The values of the properties are based on the valuation of investment properties performed by Newsec as at 30 June 2019.

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.

<b>Property</b>	<b>Valuation technique</b>	<b>Key unobservable inputs</b>	<b>Range</b>
<b>Europa Shopping centre, Vilnius (Lithuania)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 16,856 sq. m.		- Rental growth p.a.	1.3% - 2.2%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	14.4
<b>Domus Pro, Vilnius (Lithuania)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 16,078 sq. m.		- Rental growth p.a.	1.4% - 2.0%
Segment – Retail/Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	9.4
<b>Lincona Office Complex, Tallinn (Estonia)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 10,871 sq. m.		- Rental growth p.a.	1.4% - 1.8%
Segment – Office		- Long term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.1



## Baltic Horizon Fund

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<b>Coca-Cola Plaza , Tallinn (Estonia)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	1.4% - 3.0%
Segment – Leisure		- Long term vacancy rate	2.0%
Year of construction/renovation – 1999		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	10.6
<b>G4S Headquarters, Tallinn (Estonia)*</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 9,179 sq. m.		- Rental growth p.a.	2.0% - 2.2%
Segment – Office		- Long term vacancy rate	2.0%
Year of construction/renovation – 2013		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	10.6
<b>SKY Supermarket, Riga (Latvia)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 3,254 sq. m.		- Rental growth p.a.	1.4% - 1.8%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	10.8
<b>Upmalas Biroji, Riga (Latvia)</b>	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 10,422 sq. m.		- Rental growth p.a.	1.4% - 1.8%
Segment – Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2008		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	12.7
<b>Pirita Shopping centre, Tallinn (Estonia)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 5,508 sq. m		- Rental growth p.a.	2.0% - 2.1%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2016		- Exit yield	7.5%
		- Average rent (EUR/sq. m.)	13.5
<b>Duetto I, Vilnius (Lithuania)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,498 sq. m		- Rental growth p.a.	0.5% - 2.2%
Segment – Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2017		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	11.7
<b>Duetto II, Vilnius (Lithuania)</b>	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,636 sq. m		- Rental growth p.a.	0.8% - 2.2%
Segment – Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2018		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	12.4
<b>Vainodes I, Riga (Latvia)*</b>	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 8,052 sq. m		- Rental growth p.a.	0.0% - 2.8%
Segment – Office		- Long term vacancy rate	1.0% - 5.0%
Year of construction/renovation – 2014		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.2
<b>Postimaja, Tallinn (Estonia)*</b>	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 9,145 sq. m		- Rental growth p.a.	1.5% - 2.2%
Segment – Retail		- Long term vacancy rate	2.0%
Year of construction/renovation – 1980		- Exit yield	6.0%
		- Average rent (EUR/sq. m.)	16.4
<b>LNK Centre, Riga (Latvia)</b>	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 7,453 sq. m		- Rental growth p.a.	1.4% - 2.8%
Segment – Office		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2006 / 2014		- Exit yield	6.5%
		- Average rent (EUR/sq. m.)	12.0

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<b>Galerija Centrs, Riga (Latvia)</b>	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 20,291 sq. m		- Rental growth p.a.	2.0% - 2.8%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 1939 / 2006		- Exit yield	6.75%
		- Average rent (EUR/sq. m.)	22.7
<b>Meraki land, Vilnius (Lithuania)</b>	Sales comparison approach	- Discount rate	-%
Net leasable area (NLA) – n/a		- Rental growth p.a.	-%
Segment – n/a		- Long term vacancy rate	-%
Year of acquisition – 2018		- Exit yield	-%
		- Average rent (EUR/sq. m.)	-

\*Postimaja, G4S and Vainodes I property valuations also include building expansion rights. The market value of the additional building rights is EUR 5.2 million for Postimaja, EUR 0.5 million for G4S and EUR 3.1 million for Vainodes I.

The table below sets out information about significant unobservable inputs used at 30 September 2019 in measuring investment properties categorised to Level 3 in the fair value hierarchy.

Type of asset class	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	Discounted cash flow	Exit yield	2019: 6.0% - 7.8%	An increase in exit yield in isolation would result in a lower value of Investment property.
		Discount rate	2019: 7.8% - 8.2%	An increase in discount rate in isolation would result in a lower value of Investment property.
		Rental growth p.a.	2019: 0.0% - 3.0%	An increase in rental growth in isolation would result in a higher value of Investment property.
		Long term vacancy rate	2019: 1.0% - 5.0%	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 30 September 2019 were as follows:

Euro '000	Value
Lithuania – Europa (retail)	40,403
Estonia – Postimaja (retail)	32,140
Lithuania – Domus Pro (retail/office)	24,053
Lithuania – Meraki (land)	1,700
Latvia – SKY (retail)	5,424
Latvia – Upmalas Biroji (office)	25,220
Estonia – Lincona (office)	17,513
Estonia – Coca-Cola Plaza (leisure)	14,980
Estonia – G4S (office)	17,133
Estonia – Pirita (retail)	9,835
Lithuania – Duetto I (office)	16,020
Lithuania – Duetto II (office)	17,900
Latvia – Vainodes I (office)	21,497
Latvia – LNK Centre (office)	16,830
Latvia - Galerija Centrs (retail)	75,840
<b>Total</b>	<b>336,488</b>

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

#### 12. Trade and other receivables

<i>Euro '000</i>	<b>30.09.2019</b>	<b>31.12.2018</b>
Trade receivables, gross	1,763	1,709
Less impairment allowance for expected credit losses	(288)	(221)
Accrued income	435	614
Other accounts receivable	48	127
<b>Total</b>	<b>1,958</b>	<b>2,229</b>

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

As at 30 September 2019, trade receivables at a nominal value of EUR 288 thousand were fully impaired (EUR 221 thousand as at 31 December 2018).

Movements in the impairment allowance for expected credit losses of trade receivables were as follows:

<i>Euro '000</i>	<b>2019</b>	<b>2018</b>
<b>Balance at 1 January</b>	<b>(221)</b>	<b>(84)</b>
Acquisitions of subsidiaries	(190)	-
Charge for the period	(111)	(152)
Amounts written off	167	6
Reversal of allowances recognised in previous periods	67	9
<b>Balance at end of period</b>	<b>(288)</b>	<b>(221)</b>

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

<i>Euro '000</i>	Total	Neither past due nor impaired		Past due but not impaired			
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	
30.09.2019	1,475	828	319	107	25	65	131
31.12.2018	1,488	635	339	78	27	73	336

#### 13. Other current assets

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

#### 14. Cash and cash equivalents

<i>Euro '000</i>	<b>30.09.2019</b>	<b>31.12.2018</b>
Cash at banks and on hand	5,545	12,225
<b>Total cash</b>	<b>5,545</b>	<b>12,225</b>

As at 30 September 2019, the Group had to keep at least EUR 350 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

#### 15. Equity

##### 15a. Paid in capital

The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 30 September 2019, the total number of the Fund's units was 100,915,202 (as at 31 December 2018: 78,752,800). Units issued are presented in the table below:

Euro '000	Number of units	Amount
<b>As at 1 January 2019</b>	<b>78,752,800</b>	<b>93,673</b>
Cancelled own units	(255,969)	(335)
Units issued in April 2019	18,839,239	23,742
Units issued in May 2019	627,974	803
Units issued in July 2019	2,951,158	4,000
<b>Total change during the period</b>	<b>22,162,402</b>	<b>28,210</b>
 <b>As at 30 September 2019</b>	 <b>100,915,202</b>	 <b>121,883</b>

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 30 September 2019 and 31 December 2018.

The Fund did not hold its own units as at 30 September 2019. On 1 August 2018, the Fund commenced a unit buy-back program, which lasted until 19 June 2019. During the buy-back program, the Fund could acquire up to 5 million units for up to EUR 5 million. Until 31 December 2018, the Fund bought back 660,263 units for EUR 860 thousand and held 255,969 units as at that date. On 25 October 2018, the Fund cancelled and deleted 404,294 units that were held on its own account. On 1 February 2019, the remaining 255,969 units were cancelled and deleted.

##### 15b. Cash flow hedge reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 30 September 2019 and 31 December 2018.

Euro '000	2019	2018
<b>Balance at the beginning of the year</b>	<b>(1,005)</b>	<b>(56)</b>
Movement in fair value of existing hedges	(1,397)	(1,013)
Recognition of initial interest rate cap costs	-	(33)
Movement in deferred income tax (note 10)	92	97
<b>Net variation during the period</b>	<b>(1,305)</b>	<b>(949)</b>
 <b>Balance at the end of the period</b>	 <b>(2,310)</b>	 <b>(1,005)</b>

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

#### 15c. Dividends (distributions)

<i>Euro '000</i>	<b>2019</b>	<b>2018</b>
Declared during the period	(7,192)	(5,658)
<b>Total distributions made</b>	<b>(7,192)</b>	<b>(5,658)</b>

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

On 4 May 2018, the Fund declared a cash distribution of EUR 1,900 thousand (EUR 0.024 per unit).

On 16 August 2018, the Fund declared a cash distribution of EUR 1,977 thousand (EUR 0.025 per unit).

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

On 17 May 2019, the Fund declared a cash distribution of EUR 2,449 thousand (EUR 0.025 per unit).

On 2 August 2019, the Fund declared a cash distribution of EUR 2,624 thousand (EUR 0.026 per unit).

#### 16. Interest bearing loans and borrowings

<i>Euro '000</i>	<b>Maturity</b>	<b>Effective interest rate</b>	<b>30.09.2019</b>	<b>31.12.2018</b>
<b>Non-current borrowings</b>				
Bonds	May 2023	4.25%	49,753	39,755
Bank 1	Jul 2022	3M EURIBOR + 1.40%	20,871	20,863
Bank 1	Aug 2021	3M EURIBOR + 1.75%	2,307	2,386
Bank 1	Aug 2021	6M EURIBOR + 1.40%	7,745	7,743
Bank 1	Feb 2022	6M EURIBOR + 1.40%	4,939	4,937
Bank 1	Dec 2022	6M EURIBOR + 1.40%	7,179	7,178
Bank 1	Nov 2024	3M EURIBOR + 1.55%	9,842	9,842
Bank 1	May 2022	3M EURIBOR + 1.55%	7,326	7,325
Bank 1	May 2022	6M EURIBOR + 1.55%	3,654	3,649
Bank 1	Sep 2023	3M EURIBOR + 1.75%	9,179	662
Bank 2 <sup>1</sup>	May 2022	6M EURIBOR + 2.75%	29,920	-
Bank 3	Aug 2023	1M EURIBOR + 1.55%	11,725	11,722
Bank 4 <sup>2</sup>	Mar 2023	6M EURIBOR + 2.15%	15,341	7,287
Bank 4	Feb 2023	6M EURIBOR + 1.18%	17,166	17,158
Less current portion			(388)	(106)
<b>Total non-current debt</b>			<b>196,559</b>	<b>140,401</b>
<b>Current borrowings</b>				
Current portion of non-current borrowings			388	106
<b>Total current debt</b>			<b>388</b>	<b>106</b>
<b>Total</b>			<b>196,947</b>	<b>140,507</b>

1. In June 2019, the Fund drew down a bank loan of EUR 30 million.
2. In May 2019, the Fund drew down an additional EUR 8.1 million bank loan under an existing bank loan facility agreement.

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

#### Loan securities

Borrowings received were secured with the following pledges and securities as of 30 September 2019:

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

\*Please refer to note 11 for the carrying amounts of assets pledged at period end.

	<b>Suretyship</b>	<b>Pledges of receivables</b>	<b>Pledges of bank accounts</b>	<b>Share pledge</b>
<b>Bank 1</b>	Europa for Domus Pro bank loan Vainodes I for LNK bank loan, LNK for Vainodes I bank loan	Lincona, SKY, Europa, and Domus Pro	Europa, SKY	BH Domus Pro UAB, Vainodes Krasti SIA, BH S27 SIA
<b>Bank 3</b>		Duetto I and II	Duetto I and II	BH Duetto UAB
<b>Bank 4</b>			Upmalas Biroji	

#### 17. Trade and other payables

<i>Euro '000</i>	<b>30.09.2019</b>	<b>31.12.2018</b>
Trade payables	832	733
Accrued expenses	784	418
Management fee payable	444	354
Accrued financial expenses	387	313
Tax payables	359	431
Other payables	84	148
<b>Total trade and other payables</b>	<b>2,890</b>	<b>2,397</b>

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.

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**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

#### **18. Commitments and contingencies**

##### **18a. Litigation**

As at 30 September 2019, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

##### **18b. Contingent assets**

On 18 December 2018, the Fund signed an additional agreement to the sales and purchase agreement with the seller of the Duetto II property. The seller agreed to provide a rental income guarantee in the aggregate amount of EUR 1,300 thousand per annum (EUR 108 thousand per month) of the effective net operating income from the Building for the first 24 months starting from 27 February 2019. An asset of EUR 1 thousand has been recognised in the financial statements based on NOI generated by the property until 30 September 2019.

##### **18c. Contingent liabilities**

The Group did not have any contingent liabilities as at 30 September 2019.

#### **19. Related parties**

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

##### 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 nine-month period ended 30 September 2019 and 2018 were the following:

	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018
<b>Euro '000</b>		
<b>Northern Horizon Capital AS group</b>		
Management fees	1,205	1,037
Performance fees	310	78

The Group's balances with related parties as at 30 September 2019 and 31 December 2018 were the following:

	30.09.2019	31.12.2018
<b>Euro '000</b>		
<b>Northern Horizon Capital AS group</b>		
Management fees payable	444	354
Accrued performance fees	476	166

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

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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The fee is based on the following rates and in the following tranches:

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

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

Northern Horizon Capital AS Group owns 8,908 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 30 September 2019 and 31 December 2018 are presented in the tables below:

#### As at 30 September 2019

	<b>Number of units</b>	<b>Percentage</b>
Nordea Bank AB clients	47,013,009	46.59%
Raiffeisen Bank International AG clients	17,644,209	17.48%

#### As at 31 December 2018

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

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

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

#### 20. Financial instruments

##### Fair values

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

Euro '000	Carrying amount		Fair value	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
<b>Financial assets</b>				
Trade and other receivables	1,958	2,229	1,958	2,229
Cash and cash equivalents	5,545	12,225	5,545	12,225
Derivative financial instruments	33	9	33	9
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings				
Bank loans	(147,194)	(100,752)	(146,302)	(100,794)
Bonds	(49,753)	(39,755)	(50,740)	(41,100)
Trade and other payables	(2,890)	(2,397)	(2,890)	(2,397)
Derivative financial instruments	(2,491)	(1,069)	(2,491)	(1,069)

##### Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 30 September 2019 and 31 December 2018:

Period ended 30 September 2019 Euro '000	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Trade and other receivables	-	-	1,958	<b>1,958</b>
Cash and cash equivalents	-	5,545	-	<b>5,545</b>
Derivative financial instruments	-	33	-	<b>33</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings				
Bank loans	-	-	(146,302)	<b>(146,302)</b>
Bonds	-	-	(50,740)	<b>(50,740)</b>
Trade and other payables	-	-	(2,890)	<b>(2,890)</b>
Derivative financial instruments	-	(2,491)	-	<b>(2,491)</b>

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

Period ended 31 December 2018 Euro '000	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Trade and other receivables	-	-	2,229	<b>2,229</b>
Cash and cash equivalents	-	12,225	-	<b>12,225</b>
Derivative financial instruments	-	9	-	<b>9</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings				
Bank loans	-	-	(100,794)	<b>(100,794)</b>
Bonds	-	-	(41,100)	<b>(41,100)</b>
Trade and other payables	-	-	(2,397)	<b>(2,397)</b>
Derivative financial instruments	-	(1,069)	-	<b>(1,069)</b>

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 30 September 2019 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by discounting the expected future cash flows at prevailing interest rates.
- Cash and cash equivalents are attributed to Level 2 in the fair value hierarchy.

### 21. Derivative financial instruments

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

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

IFRS 9 allows hedge accounting provided that the hedge is effective. In such cases, any gain or loss recorded on the fair value changes of the financial instrument is recognised in an equity reserve rather than the income statement. The ineffective part of the change in the fair value of the hedging instrument (if any) is recognised in the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles. Please refer to note 15b for more information.

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

Derivative type Euro '000	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						30.09.2019	31.12.2018
CAP	May 2018	Feb 2023	17,200	6M EURIBOR	3.5%*	33	8
CAP	Nov 2017	Mar 2022	7,200	6M EURIBOR	1.0%*	-	1
<b>Derivative financial instruments, assets</b>						<b>33</b>	<b>9</b>
IRS	Mar 2018	Aug 2024	18,402	3M EURIBOR	0.73%	(1,084)	(529)
IRS	Mar 2018	Nov 2022	6,860	6M EURIBOR	0.46%	(200)	(113)
IRS	Sep 2017	May 2022	7,250	3M EURIBOR	0.26%	(148)	(85)
IRS	Nov 2016	Aug 2023	10,575	1M EURIBOR	0.26%	(349)	(123)
IRS	Aug 2017	Feb 2022	6,148	6M EURIBOR	0.305%	(111)	(69)
IRS	Aug 2016	Aug 2021	7,750	6M EURIBOR	0.05%	(75)	(34)
IRS	May 2018	Apr 2024	4,920	3M EURIBOR	0.63%	(261)	(116)
IRS	July 2019	May 2022	30,000	6M EURIBOR	-0.37%	(65)	-
IRS	Jan 2019	Sep 2023	5,800	3M EURIBOR	0.32%	(198)	-
<b>Derivative financial instruments, liabilities</b>						<b>(2,491)</b>	<b>(1,069)</b>
<b>Net value of financial derivatives</b>						<b>(2,458)</b>	<b>(1,060)</b>

\*Interest rate cap

Derivative financial instruments were accounted for at fair value as at 30 September 2019 and 31 December 2018. The maturity of the derivative financial instruments of the Group is as follows:

Classification according to maturity Euro '000	Liabilities		Assets	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Non-current	(2,491)	(1,069)	33	9
Current	-	-	-	-
<b>Total</b>	<b>(2,491)</b>	<b>(1,069)</b>	<b>33</b>	<b>9</b>

### 22. Subsequent events

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

On 11 October 2019, the Fund closed a transaction with UAB Prosperus Strategic RE Fund and acquired North Star Business Centre located in Vilnius, Lithuania. The agreed property purchase price was EUR 20.7 million, which corresponds to an entry yield of approx. 7.3%. As part of the transaction, the seller subscribed for 3,772,731 Baltic Horizon Fund units for the amount of EUR 5 million.

On 18 October 2019, the Fund declared a cash distribution of EUR 3,061 thousand (EUR 0.027 per unit).

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

## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

#### 23. List of consolidated companies

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

## Baltic Horizon Fund

## **MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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

**Tarmo Karotam**  
**Chairman of the Management Board**

**Aušra Stankevičienė**  
**Member of the Management Board**

**Algirdas Jonas Vaitiekūnas**  
**Member of the Management Board**