BALTIC HORIZON

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017**

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

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## DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

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

## MANAGEMENT REVIEW

### GENERAL INFORMATION ABOUT THE FUND

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

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

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

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

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

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

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

#### Structure and governance

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

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

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

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

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

**MANAGEMENT REVIEW**

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

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

The fund administration services were outsourced to Swedbank AS, a public limited company (in Estonian: *aktsiaselts*) registered in the Estonian Commercial Register under the registry code 10060701 under a Fund Administration Agreement. Currently the fund administration services are being taken over by the Management Company and by the end of December 2017 will be provided in-house. Accounting and depository services will continue to be provided by Swedbank AS.

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

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

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

**MANAGEMENT REPORT**

On 31 October 2017, the Fund declared an approximately EUR 1.3 million quarterly cash distribution to investors, which represents a 0.020 distribution per unit. The cash distribution is for Q3 2017 results and compared to the cash distribution for Q2 period, the slight increase is related to improved financing conditions.

On 1 November 2017, the Fund declared its intention to raise additional capital through a secondary public offering. In total, approx. 12.8 million new units were subscribed. As a result of the offering of the new units, the total number of Fund units increased to 77,440,638.

On 12 December 2017, the Fund completed the acquisition of Vainodes I office building and the neighbouring land plot located at Telts 1, both in Riga, Latvia. The total purchase price for the properties was EUR 21.3 million corresponding to an approximate acquisition yield of 7%.

On 27 December 2017, the Fund signed a sales-purchase agreement to acquire the Postimaja Shopping Centre located at Narva road 1, Tallinn, Estonia. The transaction was closed on 13 February 2018. The rounded total purchase price paid at closing was EUR 34.4 million of which EUR 30.8 million was paid for the existing cash flow from Postimaja and EUR 3.6 million was paid for the potential additional cash flow deriving from the possible extension. The expected acquisition yield for the existing cash flow is approximately 6%, the expected acquisition yield for the total purchase price is approximately 5.4%. The total current leasable area of Postimaja is 9,141 sq. m. The anchor tenants are Rimi, H&M, New Yorker, Estonian Post and MyFitness.

## MACROECONOMIC FACTORS IN THE BALTIC STATES

According to the Swedbank economic outlook released in January 2018, global growth is on a stronger footing. Euro area growth keeps improving. The global cyclical upswing benefits the Nordic and Baltic economies. Growth has become more broad based, both across sectors and countries, picking up across the Eurozone's four largest economies despite the diverging maturity of business cycles. Firms are investing and exports have picked up. The euro has strengthened and is expected to continue appreciating and oil prices are no longer expected to increase significantly from the current levels. From 2013 till the end of 2016, annual inflation in the Baltics hovered around 0% however for 2017 it had accelerated above 4% in Estonia and Lithuania and 3% in Latvia. It is also expected that ECB will continue with asset purchases until the end of 2018 albeit in gradually decreasing amounts in order to avoid a too abrupt euro appreciation and a rise in government bond yields.

An upturn continues also in the Nordic countries, where the Norwegian economy has recovered from the oil sector downturn and the Danish economy is supported by household demand and a stronger labour market. In Finland, the economy is expanding and growth is finally picking up strongly from the low levels of the years before. Notably, Finland is growing at 3%. After impressive growth, the Swedish economy is now beginning to slow down but will still continue to expand at around 2% p.a.

Economic growth in Estonia accelerated to 4.4% in 2017, the fastest pace since 2011. It is expected that GDP growth in Estonia will remain strong in 2018, increasing to close to 4% in real terms. In Latvia, the strong upswing continued throughout 2017 and into 2018. Real GDP growth accelerated to 5.8% in 2017. Exports of both goods and services continue to increase at double digit rates, covering a wide range of countries and product/service groups. Latvia has benefitted from strong external demand, investments have finally recovered from a very low base, and a rebound in consumer confidence has lifted household consumption. It is forecasted that the economy will expand by more 2.5-3% in 2018-2019. For similar reasons, in 2017 Lithuania's GDP growth remains close to 4%. Exports have jumped and long-lagging investments are also rebounding. Inflation in the Baltics is expected to accelerate in 2018-2019 due to higher commodity prices and excise taxes and growing labour costs. Upcoming elections in Estonia and Latvia in 2018-2019 are expected to keep their fiscal policy expansionary.

The Baltic countries, which are part of the Northern European economic region, continue to attract real estate investors due to their investment returns which are higher than in the Western European or Scandinavian countries. In Q4 2017, average yields for prime retail and office assets in the Baltic capitals remained around 6.5%, with the most attractive properties being bought at yields up to 50 basis points lower than the average yield. Secondary properties are producing yields of around 7.5%. Local Baltic, Nordic and Eastern European investors are still the key players. The square-meter prices of commercial buildings are still 3-4 times less than those seen in the Nordic capitals. In Estonia the most active segments were office, retail and logistics. In Latvia retail was the strongest followed by office and in Lithuania the most active segments were logistics and retail.

New offices are being built for expanding nearshoring tenants such as Danske Bank Global Services, Swedbank and Telia, just to name a few. In Vilnius it is expected that over the next two years, 140,000 sq. m. of new office space will be commissioned. The average vacancy rate has risen to approx. 5% and is expected to increase slightly due to new openings. The average office rent in Vilnius has risen to 14-17 EUR/sq. m. in CBD (central business district) locations and 11-14 EUR/sq. m. in other central locations. After several years, Riga has also started to see new office buildings of superior efficiency and quality and a further 100,000 sq. m. of office space is in the pipeline. Vacancy rates in the Riga A-class segment are around 3% and tenants lack good alternatives. This is why in selected high-quality properties rents have increased to the levels of 14-15 EUR/sq. m. In Tallinn, top rents are expected to remain stable between 15-17.5 EUR/sq. m. Due to a large supply of new office premises of approx. 120,000 sq. m., downward pressures exist especially for B-class office buildings and rents are expected to range between 8-13 EUR/sq. m. with the higher end of the range in new developments. Vacancy in the A-class segment is currently almost non-existent but with the new supply it is expected to start increasing as it will take several years before demand absorbs the new supply.

In the Tallinn retail segment rents and vacancies have been stable for years. For anchor tenants rents are between 8-13 EUR/sq. m. and for smaller tenants in busy locations as high as 50 EUR/sq. m. In Tallinn retail space per capita is above the EU average (approx. 1.1 sq. m. per capita) which can largely be explained by the vast number of Finnish shoppers in Tallinn per year. However, if the T1 and Porto Franco projects are finalized in 2018 the gross lettable area in Tallinn will increase considerably, by 90,000 sq. m. Such a big increase will affect the low vacancy rates and put pressure on rents, especially in weaker and smaller retail centres. All in all new shopping centres and expansions are aiming to win over customers by offering stronger concepts focusing on entertainment, various activities and restaurants.

After more than five years, there will also be a new retail development in Riga. Akropolis Group has announced the initiation of the construction of a 60,000 sq. m. shopping centre. In addition, Linstow is planning the expansion of Alfa and Origo. Due to its sheer size, when completed, Akropolis is likely to have an impact on the hitherto stable retail scene in Riga with an expected increase in vacancies from the current 0% levels. In Vilnius where retail space per capita is as low as in Riga (approx. 0.7 sq. m. per capita) investors have updated their ambitious plans to start the development of Central Mall (60,000 sq. m.) and the second Akropolis shopping centre (up to 70,000 sq. m.) in Vilnius, but not before 2018–2019. Until then the retail market is expected to remain stable with low vacancies and rental levels comparable to Tallinn.

In regard to new large-scale tenants in the three capitals, new neighbourhood supermarkets are being built by Lidl who has re-entered the Lithuanian and Estonian markets. Furthermore, after the opening of an IKEA store in Vilnius in 2013, the building of IKEA's first flagship store in Riga is well under way and is expected to open in 2018. Due to increased competition coming from the new supply, tenants under long term fixed contracts and well conceptualized office and retail properties have become increasingly important for real estate investors looking to achieve superior yields.

Both Latvia and Estonia have made some changes to their tax laws but these are not expected to have any direct or marked impact on the performance of the Fund.

## FINANCIAL REPORT

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

At the end of Q4 2017, the GAV increased by 31.8% from EUR 169.7 million to EUR 215.8 million as compared to the end of Q3 2017. During the quarter, the Group closed Vainodes I acquisition and raised additional gross equity of EUR 17 million through a secondary public offering in November.

In Q4 2017, the Fund NAV increased from EUR 86.7 million to EUR 107 million. The increase is related to new equity raised in November and the Group's operational performance over the quarter. The Fund also made a EUR 1.3 million cash distribution to its unitholders (EUR 0.020 per unit).

In Q4 2017, the Fund earned a net profit of EUR 5,277 thousand (EUR 1,180 thousand during Q4 2016). During Q4 2017, the Fund's performance was positively affected by year-end valuations. During the quarter, the Fund recorded a fair value gain of EUR 3,337 thousand. Last year, the Fund's investment property valuations were mainly performed in Q3 2016. Starting from 2017 onwards properties are being revalued every 6 months, in June and December.

In Q4 2017, the Fund recorded a EUR 2.9 million NOI (EUR 2.3 million in Q4 2016). The increase is related to new acquisitions that were made following the capital raisings at the end of 2016 and the beginning of 2017.

## MANAGEMENT REVIEW

The Fund has completed the acquisition of Postimaja Shopping Centre on 13th of February 2018 and thus has deployed majority of the new capital raised in November 2017.

**Table 1: Quarterly Key Figures**

| *Euro '000* | **Q4 2017** | **Q4 2016** | **Change (%)** |
|---|---|---|---|
| Rental income | 3,217 | 2,540 | 26.7% |
| Service charge income | 1,029 | 784 | 31.3% |
| Cost of rental activities | (1,324) | (1,014) | 30.6% |
| **Net rental income** | **2,922** | **2,310** | **26.5%** |
| Expenses related to public offerings | (203) | (313) | (35.1)% |
| Administrative expenses | (636) | (415) | 53.3% |
| Other operating income / (expenses) | (63) | 2 | (>100.0)% |
| Valuation gains / (loss) on investment properties | 3,337 | 376 | 787.5% |
| **Operating profit** | **5,357** | **1,960** | **173.3%** |
| Financial income | 2 | 3 | (33.3)% |
| Financial expenses | (405) | (413) | (1.9)% |
| **Net financing costs** | **(403)** | **(410)** | **(1.7)%** |
| **Profit before tax** | **4,954** | **1,550** | **219.6%** |
| Income tax charge | 323 | (370) | (187.3)% |
| **Profit for the period** | **5,277** | **1,180** | **347.2%** |
| Weighted average number of units outstanding | 62,270,694 | 47,350,881 | 31.5% |
| **Earnings per unit (EUR)** | **0.08** | **0.02** | **300.0%** |

| *Euro '000* | **31.12.2017** | **31.12.2016** | **Change (%)** |
|---|---|---|---|
| Investment property in use | 189,317 | 141,740 | 33.6% |
| Gross asset value (GAV) | 215,785 | 154,938 | 39.3% |
| Interest bearing loans | 98,087 | 69,172 | 41.8% |
| Total liabilities | 108,809 | 78,129 | 39.3% |
| Net asset value (NAV) | 106,976 | 76,809 | 39.3% |
| Number of units outstanding | 77,440,638 | 57,264,743 | 35.2% |
| **Net asset value (NAV) per unit (EUR)** | **1.3814** | **1.3413** | **3.0%** |
| **Loan-to-Value ratio (LTV)** | **51.8%** | **48.8%** | |
| **Average effective interest rate** | **1.7%** | **1.8%** | |

**MANAGEMENT REVIEW**

The Fund also calculates EPRA NAV, which was EUR 113.7 million as at 31 December 2017. EPRA NAV is calculated according to EPRA Best practice recommendations that were issued in December 2014. EPRA NAV is calculated by adjusting IFRS NAV for the items summarised in the table below:

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

| *Euro '000* | **31.12.2017** |
|---|---|
| **IFRS NAV as of 31 December 2017** | **106,977** |
| Exclude deferred tax liability on investment properties | 6,710 |
| Exclude fair value of financial instruments | 14 |
| Exclude deferred tax on fair value of financial instruments | 41 |
| **EPRA NAV*** | **113,742** |
| Amount of units | 77,440,638 |
| **EPRA NAV per unit** | **1.4688** |

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

**PROPERTY REPORT**

The property portfolio of Baltic Horizon Fund, which consists of 10 properties in the Baltic capitals, continues to be virtually fully let producing very attractive cash flows. High occupancy is supported by the expectations that the Baltic economic growth is largely driven by domestic consumption and stronger export prospects. Baltic Horizon believes it has established a portfolio of strong retail and office assets with well-known and long term tenants including local commercial leaders, governmental tenants, nearshoring shared service centres and the Baltic headquarters of leading international companies. The management team has negotiated 2-year NOI guarantees from the sellers of three new properties in the portfolio: Upmalas Biroji, Pirita Centre and Duetto I office building.

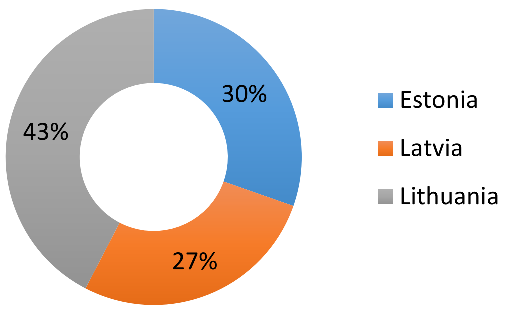
On 12 December 2017, the Fund closed the acquisition of Vainodes I office building located in Riga, Latvia. The total purchase price for the properties under agreement is approx. EUR 21.3 million corresponding to an approximate acquisition yield of 7%. Vainodes I office building is situated on the left bank of the river Dauguva next to one of the main arterial roads of Riga – Karla Ulmana avenue. The office building is fully occupied and located within 10 minutes' drive from the city centre of Riga. The complex consists of a new office building, built in 2014, which is connected to a smaller reconstructed building. The total leasable area of the building is 8,052 sq. m. The anchor tenant is JSC Latvian State Forests (about 90% of GLA), other tenants include pharmaceutical company Abbvie and a cafeteria. The current detailed plan for the land plots includes an opportunity to construct an additional space and a parking house. Due to tax changes in Latvia from 1 January 2018 extensive additional due diligence was conducted to secure maximum tax efficiency for the property company post acquisition.

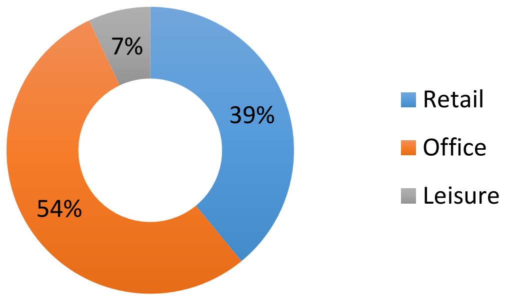
In the Baltic retail sector during 2017, rents for small spaces remained in the range of EUR 23-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 15-35 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-11 per sq. m. Rental rates for medium and larger retail units are forecasted to be rather stable. The average rental range of retail assets in the Fund's portfolio was EUR 9.4-14.8 per sq. m. per month, therefore well in line with average market brackets.

Capital city office rents during 2017 stood at EUR 13 - 19 EUR per sq. m. per month for class A premises and EUR 8.0 - 13.0 sq. m. for modern class B offices. For comparison, the average rental level in Lincona and Duetto I was approx. EUR 10.6 per sq. m. and in Upmalas Biroji EUR 12.5 per sq. m., therefore also well in line with average market brackets. Overall the rental levels depend highly on the competitiveness of the buildings' locations, layout and level of surcharges. When comparing the three capitals, competition is the highest in Tallinn whereas in Riga, due to lack of new supply, landlords' negotiating positions are the strongest.

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

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




***Property performance***

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

During Q4 2017, the average actual occupancy of the portfolio was 96.6% (Q3 2017: 97.5%). When all rental guarantees are considered, the effective occupancy rate is 97.2% (Q3 2017: 98.0%). Average direct property yield during Q4 was 7.1% (Q3 2017: 7.2%). The net initial yield for the whole portfolio for Q4 2017 was 6.7% (Q3 2017: 6.9%).

The tenant base of the Fund is well diversified. The rental concentration of the 10 largest tenants of the Fund's subsidiaries is shown in picture 2 with the largest tenant G4S accounting for 9.1% of the annual rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

MANAGEMENT REVIEW

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

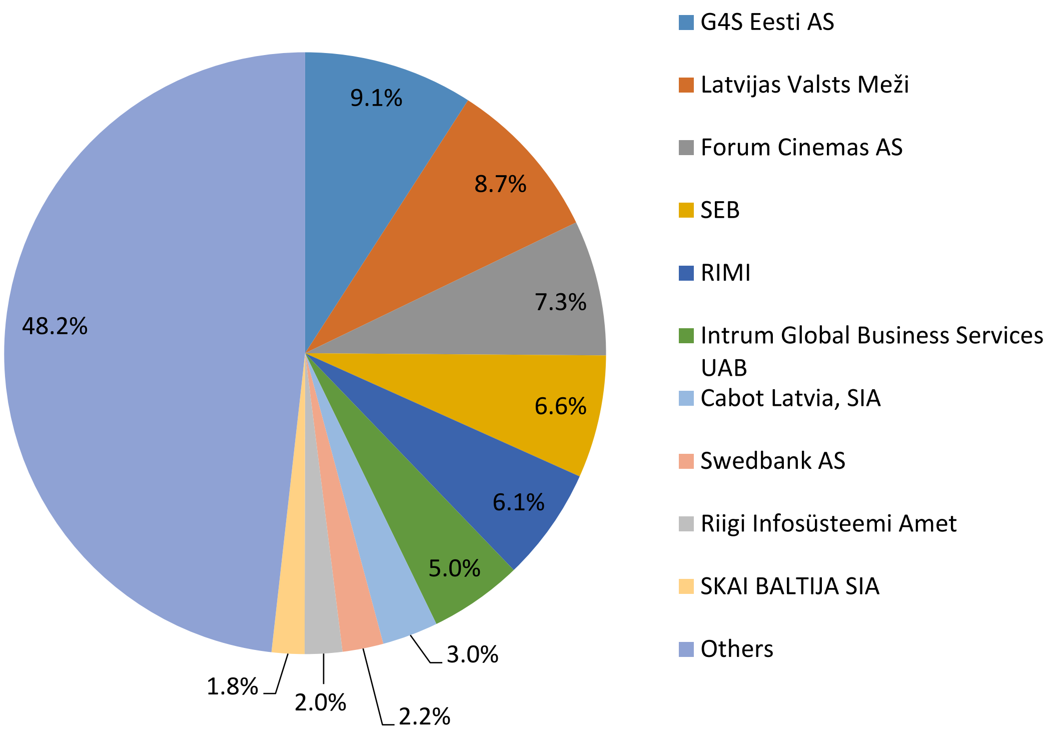



**Table 3: Overview of the Fund's investment properties**

| Property name | City | Country | Market value[1] *Euro'000* | NLA | Direct property yield | Net initial yield | Occupancy rate for Q4 2017 |
|---|---|---|---|---|---|---|---|
| Duetto I | Vilnius | Lithuania | 16,210 | 8,327 | 6.5% | 6.4% | 100.0%[2] |
| Pirita SC | Tallinn | Estonia | 11,630 | 5,436 | 7.4% | 7.8% | 100.0%[2] |
| Upmalas Biroji BC | Riga | Latvia | 24,269 | 10,419 | 6.9% | 6.7% | 99.8% |
| G4S Headquarters | Tallinn | Estonia | 16,570 | 8,363 | 7.4% | 7.0% | 100.0% |
| Europa SC | Vilnius | Lithuania | 39,600 | 16,856 | 6.9% | 6.5% | 95.5% |
| Domus Pro Retail Park | Vilnius | Lithuania | 17,280 | 11,247 | 8.4% | 6.9% | 98.0% |
| Domus Pro Office | Vilnius | Lithuania | 7,150 | 4,759 | 3.9%[3] | 2.8% | 73.4% |
| CC Plaza | Tallinn | Estonia | 13,240 | 8,664 | 8.3% | 7.5% | 100.0% |
| Sky SC | Riga | Latvia | 5,448 | 3,263 | 8.4% | 7.5% | 99.3% |
| Lincona | Tallinn | Estonia | 16,050 | 10,859 | 7.6% | 7.3% | 94.1% |
| Vainodes I | Riga | Latvia | 21,870 | 8,052 | 4.3%[3] | 4.2% | 100.0% |
| **Total portfolio** | | | **189,317** | **96,245** | **7.1%** | **6.7%** | **97.2%** |

1. Based on the latest valuation as at 31 December 2017.
2. Effective occupancy rate is 100% due to a rental guarantee.
3. Domus Pro stage III was opened in October, however, it was not fully occupied during Q4 2017. It is expected to be fully occupied by the end of Q1 2018. The property development yield and annualized direct property yield is 7.9%.
4. Vainodes I acquisition was closed on 12 December 2017. The annualized direct property yield is 7.0%.

During 2017, the Fund's portfolio produced approx. EUR 10.8 million of net operating income (NOI) (approx. EUR 7.2 million during 2016). The NOI of Domus Pro has improved due to stage III opening in October 2017. The full potential of Domus Pro should be noticed in 2018. Please refer to the table below for a breakdown of NOI development by each property, which has been generating stable rental income over the years.

**Table 4: Breakdown of NOI development**

| Property<br>*Euro'1000* | Date of acquisition | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Lincona | 1 Jul 2011 | 898 | 1,143 | 1,202 | 1,172 |
| CC Plaza | 8 Mar 2013 | 953 | 962 | 972 | 985 |
| Sky SC | 7 Dec 2013 | 404 | 415 | 425 | 410 |
| Domus Pro Retail Park | 1 May 2014 | 445 | 857 | 1,103 | 1,220 |
| Europa SC | 2 Mar 2015 | - | 1,962 | 2,360 | 2,365 |
| G4S Headquarters | 12 Jul 2016 | - | - | 546 | 1,149 |
| Upmalas Biroji BC | 30 Aug 2016 | - | - | 515 | 1,693 |
| Pirita SC | 16 Dec 2016 | - | - | 30 | 900 |
| Duetto I | 22 Mar 2017 | - | - | - | 799 |
| Vainodes I | 12 Dec 2017 | - | - | - | 75 |
| **Total portfolio** | | **2,700** | **5,339** | **7,153** | **10,768** |

Lincona Office Complex, Tallinn (Estonia)
The average occupancy level decreased slightly to 94.1% at the end of Q4 (Q3 2017: 96.6%). During Q4 2017, the average direct property yield increased from 7.4% to 7.6%. The net initial yield during Q4 was 7.3% (Q3 2017: 7.1%). The increase in both direct and net initial yields is related to improved cost coverage due to the new lease agreement with Swedbank AS and adjustments of the lease agreements with Telco AS and Kiired Käärid OÜ. The fair value of the property has increased from EUR 15,920 thousand measured in the Q2 valuation to EUR 16,050 thousand as of 31 December 2017.

Domus Pro, Vilnius (Lithuania)
The occupancy rate for the retail part remains high at 98.0% (Q3 2017: 98.2%). Stage III is completed and many tenants have already moved in. During Q4 2017, the average occupancy rate for the business centre was 73.4% (the occupancy rate at the end of December reached 90.8%). The business centre has received strong interest from the market to lease the remaining space. During Q4 the average direct property yield for the retail part was 8.4% (Q3 2017: 7.5%). The net initial yield for Q4 2017 was 6.9% (Q3 2017: 7.0%). The value of the retail building increased from EUR 17,180 thousand to EUR 17,280 thousand. The business centre just started its operation in Q4 2017, the development yield for the business centre is 7.9%. The fair value of the business centre has increased from EUR 3,390 thousand measured in the Q2 valuation to EUR 7,150 thousand.

SKY Supermarket, Riga (Latvia)
During 2017, the management team started a new architectural project to modernize the façade of the building in cooperation with the main tenant SKY. The central entrance of the shopping centre was renewed and opened at the beginning of December. Average direct property yield during Q4 was 8.4% (Q3 2017: 8.4%). The net initial yield for Q4 2017 was 7.5% (Q3 2017: 7.2%). The fair value of the property has decreased slightly from EUR 5,582 thousand measured in the Q2 valuation to EUR 5,448 thousand.

Coca-Cola Plaza , Tallinn (Estonia)
In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. Average direct property yield remains stable and stands at 8.3% (Q3 2017: 8.3%). The net initial yield for Q4 2017 was 7.5% (Q3 2017: 7.5%). The fair value of the property has increased from EUR 13,180 thousand measured in the Q2 valuation to EUR 13,240 thousand.

On 27 December 2017, the Management Company of Baltic Horizon Fund announced the signing of an agreement with OÜ Letona Properties for acquisition of the neighbouring Postimaja shopping centre. For the Fund, the key strategic considerations of the transaction are the synergy potential arising from the Postimaja immovable property located next to Coca-Cola Plaza, already belonging to the Fund's portfolio and Tallinn's Main Street project. To achieve that synergy, HG Arhitektuur OÜ with its work The "Rotermann

Passage“ has been selected as the partner to work out the architectural solution. The project includes developing a new exterior design as well as increasing the leasable area and aims to improve functionality between the two buildings as well as the Rotermann Quarter.

Europa Shopping centre, Vilnius (Lithuania)
Located in the heart of Vilnius central business district on Konstitucijos Prospektas, the shopping centre continues strong performance by delivering EUR 110 thousand above the budgeted NOI since the beginning of the year. The main reasons for the higher NOI are higher than expected rental income from the key tenants and an increase in income from the renewed and fully implemented electronic parking system operated by ADC. The modern parking system has significantly increased the quality of the parking service for both visitors of the Europa shopping centre and the office complex. Average direct property yield during Q4 was 6.9% (Q3 2017: 6.0%). The net initial yield for Q4 2017 was 6.5% (Q3 2017: 5.7%). The increase is related to additional rental income received from tenant turnover. The occupancy of the property during Q4 2017 was 95.5% (Q3 2017: 94.2%). During the quarter, new redesigned premises were reopened for restaurant Fortas. Also, a number of other small tenants opened their premises in the property. Furthermore, the property manager is currently negotiating further expansion with a few current tenants. The fair value of the property has increased from EUR 38,800 thousand measured in the Q2 valuation to EUR 39,600 thousand.

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

The total gross space of the G4S headquarters is 8,363 sq. m. It has one key tenant – G4S, who has rented the whole building under a long-term agreement. Two floors of the building are sub-leased to a leading Estonian software company Pipedrive and there are also some smaller sub-tenants. Average direct property yield during Q4 was 7.4% (Q3 2017: 7.5%). The net initial yield for Q4 2017 was 7.0% (Q3 2017: 7.2%). The fair value of the property has increased from EUR 16,080 thousand measured in the Q2 valuation to EUR 16,570 thousand.

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

The property was built by the German developer Bauplan Nord and the quality has been maintained through attentive facility management. The property was elected the most energy efficient building in Latvia in 2013 and remains among tenants as one of the most preferred office buildings in Riga with its 2,000 sq. m. floor plates. Average direct property yield during Q4 was 6.9% (Q3 2017: 7.1%). The net initial yield for Q4 2017 was 6.7% (Q3 2017: 7.0%). The fair value of the property has increased from EUR 24,052 thousand measured in the Q2 valuation to EUR 24,269 thousand.

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

The property has Rimi and MyFitness as anchor tenants. The net leasable area of the Pirita shopping centre is close to 5,500 sq. m. The management team negotiated a 2-year NOI guarantee from the seller from the date of acquisition in order to ensure stable cash flows also during the property's establishment period. Since the opening of the centre in December 2016, the management team together with the original developer have been working on establishing the centre as the principal community centre with the right tenant mix catering primarily to the Pirita district residents. After a poll was conducted in the Pirita district in Q2, in Q3 some satellite tenant agreements were terminated and new lease agreements were signed in Q4 2017. A 7.4% direct property yield is guaranteed by the seller of this property until the end of 2018. The net initial yield for Q4 2017 was 7.8% (Q3 2017: 7.8%). The fair value of the property has increased from EUR 11,590 thousand measured in the Q2 valuation to EUR 11,630 thousand.

Duetto I Office building, Vilnius (Lithuania)

Duetto I is a newly built 10-floor office centre with an underground parking lot. It is located in the western part of Vilnius, next to the recently constructed Vilnius western ring road. The property has an A class in energy efficiency and will have a BREEAM certification. Duetto I was developed by a Lithuanian subsidiary of YIT, a listed Finnish real estate and construction company. The anchor tenant in the building is Lindorff. The effective vacancy rate of Duetto I was zero because YIT Kausta, the seller of the property, granted a 2-year guarantee (starting from the acquisition date) of full-occupancy net rental income. Any shortage between the actual rental income and the guaranteed amount is paid to the Fund by YIT Kausta on a monthly basis. In September Vilnius vandenys, the Vilnius municipal water supply company, moved into the building decreasing the de facto vacancy to 3.5%. The Fund also has a call option to acquire the neighbouring Duetto II for which the anchor tenant search has already begun. Duetto I delivered a 6.5% direct property yield for the quarter (Q2 2017: 7.2%). The net initial yield for Q4 2017 was 6.4% (Q3 2017: 7.1%). The decrease is related to bad debt provisions formed for two small tenants (total area of 456 sq. m). The tenants are willing to pay the rent. Part of the bad debt was already recovered in January 2018. The fair value of the property has increased from EUR 14,890 thousand measured in the Q2 valuation to EUR 16,210 thousand.

Vainodes I Office building, Riga (Latvia)

The complex consists of a new office building, built in 2014, which is connected to a smaller reconstructed building. The total leasable area of the building is 8,052 sq. m. The anchor tenant is JSC Latvian State Forests (about 90% of GLA), other tenants include pharmaceutical company Abbvie and a cafeteria. There are no vacancies in the property. As of 31 December 2017, the fair value of the property was EUR 21,870 thousand.

MANAGEMENT REVIEW

## FINANCING

The Fund aims to use a 50% long-term leverage strategy. At no point in time may the Fund's leverage exceed 65%. The ability to borrow on attractive terms plays a major role in the investment strategy and cash distributions to unitholders. Following Baltic Horizon Fund's successful initial capital raising on 30 June 2016, the management team was highly focused on improving the financing terms of the Fund's assets. The main focus was on decreasing the average interest rate of the loans and seeking financing with minimum monthly loan amortization. The weighted average interest rate remains low at 1.7% in Q4 2017. The monthly loan principal amortization has increased slightly from 1.2% to 1.6% due to a new loan which was taken for the acquisition of Vainodes I and new loans drawn down for Domus Pro. The management team is working on maintaining a low average interest rate and a low regular bank loan principal amortisation rate.

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

| | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
|---|---|---|---|---|---|---|
| **Regular quarterly bank loan amortisation, EUR'1000** | **490** | **489** | **489** | **523** | **222** | **243** |
| Regular annual bank loan amortisation from the loans outstanding, % | 2.8% | 2.8% | 2.7% | 2.7% | 1.2% | 1.6% |
| Average interest rate, % | 1.8% | 1.8% | 1.7% | 1.7% | 1.7% | 1.7% |
| LTV, % | 53.9% | 48.8% | 53.3% | 47.6% | 46.0% | 51.8% |

The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 31 December 2017. Interest bearing debt was fully comprised of bank loans with a total carrying value of EUR 98.3 million. 100% of them were denominated in euros. All of the bank loans have been obtained by subsidiaries that hold the Fund's properties and the properties have been pledged as loan collateral. The parent entity, the Fund, had no financial debt at the reporting date.

**Table 6: Financial debt structure of the Fund, 31 December 2017**

| Property | **Maturity** | **Currency** | **Carrying amount *Euro'1000*** | **% of total** | **Fixed rate portion** |
|---|---|---|---|---|---|
| Lincona | 31 Dec 2022 | EUR | 8,271 | 8.4% | -% |
| CC Plaza | 8 Mar 2019 | EUR | 6,812 | 6.9% | -% |
| Sky SC | 1 Aug 2021 | EUR | 2,493 | 2.5% | -% |
| Europa SC | 5 Jul 2022 | EUR | 20,900 | 21.3% | 87% |
| G4S Headquarters | 16 Aug 2021 | EUR | 7,750 | 7.9% | 100% |
| Upmalas Biroji BC | 31 Aug 2023 | EUR | 11,750 | 11.9% | 90% |
| Pirita SC | 20 Feb 2022 | EUR | 6,588 | 6.7% | 95% |
| Duetto I [1] | 20 Mar 2022 | EUR | 7,950 | 8.1% | 100% |
| Domus Pro | 31 May 2022 | EUR | 12,900 | 13.1% | 58% |
| Vainodes I | 31 Oct 2022 | EUR | 12,914 | 13.2% | -% |
| **Total bank loans** | | | **98,328** | **100%** | **59%** |
| Less capitalized loan arrangement fees[2] | | | **(241)** | | |
| **Total bank loans recognized in the statement of financial position** | | | **98,087** | | |

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

**MANAGEMENT REVIEW**

During Q4 2017, the Group successfully refinanced the loan related to the Lincona property. The loan was extended until 31 December 2022. The management expects to fix the interest rate during Q1 2018.

In November and December 2017, new loans amounting to EUR 12.9 million in total were drawn down for the Domus Pro property. According to the agreement, the maturity of the loans is 31 May 2022.

The new loan for the acquisition of Vainodes I was taken at the end of November in an amount of EUR 12.9 million. The maturity date of the loan is 31 October 2022. The management is in the process of fixing the interest rate during Q1 2018.

Weighted average time to maturity lengthened from 3.9 years at the end of Q3 2017 to 4.6 years on 31 December 2017 (the weighted average time to maturity at the end of 2016 was 2.7 years). During Q4 2017, the average time to maturity lengthened due to refinancing activities and new loans drawn down for Vainodes I acquisition.

As of 31 December 2017, 59% of total bank loans had fixed interest rates while the remaining 41% had floating interest rates. During the quarter the Group acquired an interest rate cap at 1% for the Duetto property loan and partially fixed the interest rate of the bank loan related to the Domus Pro property. The management of the Fund is focused on further fixing the remaining floating interest rates.

**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.

Previously, the Management Company targeted to pay out to unitholders at least 80% of adjusted funds from operations (AFFO) which are defined as net rental income of properties less fund administration expenses, less external interest expenses and less capital expenditures excluding acquisitions of properties and investments in developments. Going forward, the management has decided to amend the dividend distribution policy in order to provide more stable and predictable cash flow to the Fund’s unitholders. According to the new dividend policy, the Fund sets a target of dividend distributions to its unitholders in the range between 80% of generated net cash flow (GNCF) and a net profit after unrealized P&L items are adjusted. The distribution is based on the Fund’s short-term and long-term performance projections. The Management has a discretion to distribute lower dividends than 80% of generated net cash flow (GNCF) if the liquidity of the Fund is endangered.

**Table 7: Generated net cash flow (GNCF) calculation formula**

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

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

**Table 8: Dividend capacity calculation**

| *EUR'1000* | **Q3 2016** | **Q4 2016** | **Q1 2017** | **Q2 2017** | **Q3 2017** | **Q4 2017** |
|---|---|---|---|---|---|---|
| (+) Net rental income | 1,928 | 2,310 | 2,526 | 2,682 | 2,638 | 2,922 |
| (-) Fund administrative expenses | (482) | (728) | (730) | (670) | (535) | (839) |
| (-) External interest expenses | (302) | (408) | (327) | (438) | (340) | (405) |
| (-) CAPEX expenditure[1] | (211) | (233) | (129) | (197) | (547) | (290) |
| (+) Added back listing related expenses | 125 | 313 | 202 | 170 | 61 | 203 |
| (+) Added back acquisition related expenses | - | - | 32 | 65 | - | 97 |
| ***Generated net cash flow (GNCF)*** | **1,058** | **1,254** | **1,574** | **1,612** | **1,277** | **1,689** |
| Weighted average number of units during the quarter | 41,979,150 | 47,186,330 | 57,262,887 | 57,998,546 | 64,655,870 | **69,011,121** |
| Paid-in-capital since listing on stock exchange | 53,698 | 73,286 | 73,278 | 82,659 | 82,659 | **98,910** |
| Average paid-in-capital during the quarter | 53,698 | 63,492 | 73,282 | 77,969 | 82,659 | **90,785** |
| ***GNCF per weighted unit*** | **0.025** | **0.027** | **0.027** | **0.028** | **0.020** | **0.024** |
| ***Annualized GNCF return from average quarterly paid-in-capital*** | **7.9%** | **7.9%** | **8.6%** | **8.3%** | **6.2%** | **7.4%** |
| ***Dividends declared*** | **1,091** | **1,374** | **1,317** | **1,164** | **1,293** | **1,781** |
| ***Dividends declared per weighted unit*** | **0.026** | **0.029** | **0.023** | **0.020** | **0.020** | **0.026** |
| ***Annualized dividend return from average quarterly paid-in-capital*** | **8.1%** | **8.7%** | **7.2%** | **6.0%** | **6.3%** | **7.8%** |

1. The table provides actual capital expenditures for the quarter. Future dividend distributions to unitholders will be based on the annual budgeted capital expenditure plans equalized for each quarter. This will reduce the quarterly volatility of cash distributions to unitholders.

## RISK MANAGEMENT

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

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

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

Currently, the yields of prime office and retail properties in the Baltic countries are decreasing as competition between real estate investors is consistently increasing. Investment yields in the Baltic countries are on average around 7.0% and 7.5% in the office and retail segments, with prime office yields having declined to approx. 6.5%.

<u>Interest rate risk</u>
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.

<u>Credit risk</u>
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.

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

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

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

Operational risk

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

**OUTLOOK FOR 2018**

At the end of Q4, Baltic Horizon Fund had 10 established cash flow properties located in the Baltic capitals with a gross property value of above EUR 189 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 euro area in general is likely to see several more years of decent economic growth. The ECB is going to continue asset purchases through 2018, although in reduced volumes. This will pave ground for a first rate hike from Sweden's central bank in 2018. Overall the Nordic economies are gaining from the upswing in the euro area, and positive developments are spilling over to their Baltic neighbours. Still, some people fear that a levelling out of the property market might be the reason for a crash, especially in Sweden as first signs of cooling down have been noticed. Restraining measures for private home owners such as debt ratio ceilings, limits on interest deductions and more stringent amortisation, is noticeably affecting the Swedish private housing market. It will be closely monitored to which extent, if any, this would have an effect on the Baltic markets and the availability of financing in the coming quarters.

Economic growth is likely to be strong in all three Baltic countries in 2018. Stronger external demand will lift exports and investments. GDP is expected to grow above its potential also in 2018. In addition, Baltic economies remain quite balanced and well prepared for external shocks as the trade deficit remains small, corporate and household financial leverage is moderate with sufficient financial reserves, and public finances are continuously stable.

**MANAGEMENT BOARD'S CONFIRMATION**

Members of the Management Board of the Management Company Tarmo Karotam, Algirdas Vaitiekūnas and Aušra Stankevičienė confirm that according to their best knowledge, the condensed consolidated interim financial statements for the 12 months of the financial year, prepared in accordance with IFRS as adopted by the European Union, present a correct and fair view of the assets, liabilities, equity, financial position, financial performance and cash flows of the Fund and its subsidiaries, taken as a whole, and the management report gives a true and fair view of the development, the results of the business activities and the financial position of the Fund and its subsidiaries, taken as a whole, as well as of the significant events which took place during the twelve months of the financial year and their effect on the condensed consolidated accounts.

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017

| *Euro '000* | Note | 01.10.2017-31.12.2017 | 01.10.2016-31.12.2016 | 01.01.2017-31.12.2017 | 01.01.2016-31.12.2016 |
|---|---|---|---|---|---|
| Rental income | | 3,217 | 2,540 | 11,839 | 7,874 |
| Service charge income | | 1,029 | 784 | 3,692 | 2,594 |
| Cost of rental activities | 5 | (1,324) | (1,014) | (4,763) | (3,315) |
| **Net rental income** | 4 | **2,922** | **2,310** | **10,768** | **7,153** |
| Administrative expenses | 6 | (839) | (728) | (2,774) | (2,190) |
| Other operating income / (expenses) | | (63) | 2 | 14 | 97 |
| Valuation gains / (loss) on investment properties | | 3,337 | 376 | 3,676 | 2,737 |
| **Operating profit** | | **5,357** | **1,960** | **11,684** | **7,797** |
| Financial income | | 2 | 3 | 47 | 14 |
| Financial expenses | 7 | (405) | (413) | (1,528) | (1,253) |
| **Net financing costs** | | **(403)** | **(410)** | **(1,481)** | **(1,239)** |
| **Profit before tax** | | **4,954** | **1,550** | **10,203** | **6,558** |
| Income tax charge | 4, 9 | 323 | (370) | (759) | (798) |
| **Profit for the period** | 4 | **5,277** | **1,180** | **9,444** | **5,760** |
| *Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods* | | | | | |
| Net gains (losses) on cash flow hedges | 14b | 148 | (48) | 274 | (113) |
| Termination of interest rate swap agreement reclassified to profit or loss | 20 | - | - | 57 | - |
| Recognition of initial interest rate cap costs | 14b | (43) | - | (43) | - |
| Income tax relating to net gains (losses) on cash flow hedges | 14b, 9 | (18) | 19 | (50) | 18 |
| **Other comprehensive income/ (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods** | | **87** | **(29)** | **238** | **(95)** |
| **Total comprehensive income/ (expense) for the period, net of tax** | | **5,364** | **1,151** | **9,682** | **5,665** |
| **Basic and diluted earnings per unit (Euro)** | 8 | **0.08** | **0.02** | **0.15** | **0.12** |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017

| *Euro '000* | Note | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 4, 10 | 189,317 | 141,740 |
| Investment property under construction | 11 | - | 1,580 |
| Derivative financial instruments | 20 | 89 | - |
| Other non-current assets | | 146 | 288 |
| **Total non-current assets** | | **189,552** | **143,608** |
| **Current assets** | | | |
| Trade and other receivables | 12 | 1,568 | 1,269 |
| Prepayments | | 108 | 178 |
| Cash and cash equivalents | 13 | 24,557 | 9,883 |
| **Total current assets** | | **26,233** | **11,330** |
| **Total assets** | 4 | **215,785** | **154,938** |
| **Equity** | | | |
| Paid in capital | 14a | 91,848 | 66,224 |
| Own units | 14a | - | (8) |
| Cash flow hedge reserve | 14b | (56) | (294) |
| Retained earnings | | 15,184 | 10,887 |
| **Total equity** | | **106,976** | **76,809** |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 96,497 | 58,981 |
| Deferred tax liabilities | | 5,206 | 4,383 |
| Derivative financial instruments | 20 | 88 | 345 |
| Other non-current liabilities | | 859 | 935 |
| **Total non-current liabilities** | | **102,650** | **64,644** |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | 15 | 1,590 | 10,191 |
| Trade and other payables | 16 | 4,202 | 2,876 |
| Income tax payable | | 14 | 46 |
| Derivative financial instruments | 20 | 15 | - |
| Other current liabilities | | 338 | 372 |
| **Total current liabilities** | | **6,159** | **13,485** |
| **Total liabilities** | 4 | **108,809** | **78,129** |
| **Total equity and liabilities** | | **215,785** | **154,938** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017

| *Euro '000* | **Notes** | **Paid in capital** | **Own units** | **Cash flow hedge reserve** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | | **25,674** | **-** | **(199)** | **6,218** | **31,693** |
| Net profit for the period | | - | - | - | 5,760 | **5,760** |
| Other comprehensive income / (expense) | | - | - | (95) | - | **(95)** |
| **Total comprehensive income / (expense)** | | **-** | **-** | **(95)** | **5,760** | **5,665** |
| Units issued/ redeemed | | 40,550 | - | - | - | **40,550** |
| Repurchase of units | | - | (8) | - | - | **(8)** |
| Profit distribution to unitholders | | - | - | - | (1,091) | **(1,091)** |
| **As at 31 December 2016** | | **66,224** | **(8)** | **(294)** | **10,887** | **76,809** |
| **As at 1 January 2017** | | **66,224** | **(8)** | **(294)** | **10,887** | **76,809** |
| Net profit for the period | | - | - | - | 9,444 | **9,444** |
| Termination of interest rate swap | 14b | - | - | 57 | - | **57** |
| Other comprehensive income | | - | - | 181 | - | **181** |
| **Total comprehensive income** | | **-** | **-** | **238** | **9,444** | **9,682** |
| Paid in capital – units issued | 14a | 25,632 | - | - | - | **25,632** |
| Cancellation of own units | 14a | (8) | 8 | - | - | **-** |
| Profit distribution to unitholders | 14c | - | - | - | (5,147) | **(5,147)** |
| **As at 31 December 2017** | | **91,848** | **-** | **(56)** | **15,184** | **106,976** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017

| *Euro '000* | Note | 01.01.2017-31.12.2017 | 01.01.2016-31.12.2016 |
|---|---|---|---|
| **Cash flows from core activities** | | | |
| **Profit (loss) before tax** | | **10,203** | **6,558** |
| Adjustments for non-cash items: | | | |
| Value adjustment of investment properties | 10 | (3,676) | (2,562) |
| Value adjustment of investment properties under construction | 11 | - | (175) |
| Allowance for bad debts | | 45 | 17 |
| Financial income | | (47) | (14) |
| Financial expenses | 7 | 1,528 | 1,253 |
| Working capital adjustments: | | | |
| (Increase)/decrease in trade and other accounts receivable | | (241) | (204) |
| (Increase)/decrease in other current assets | | (39) | (106) |
| (Decrease)/Increase in other non-current liabilities | | (150) | 69 |
| (Decrease)/increase in trade and other accounts payable | | (100) | (398) |
| Increase/(decrease) in other current liabilities | | (6) | (50) |
| (Paid)/refunded income tax | | (42) | (103) |
| **Total cash flows from core activities** | | **7,475** | **4,285** |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 8 | 14 |
| Acquisition of subsidiaries, net of cash acquired | | (8,614) | (20,098) |
| Acquisition of investment property | | (14,362) | (15,454) |
| Advance payment for investment property | | - | (200) |
| Investment property development expenditure | | (3,996) | (1,660) |
| Capital expenditure on investment properties | | (1,163) | (380) |
| **Total cash flows from investing activities** | | **(28,127)** | **(37,778)** |
| | | | |
| **Cash flows from financial activities** | | | |
| Proceeds from bank loans | | 40,566 | 8,211 |
| Repayment of bank loans | | (24,112) | (4,722) |
| Proceeds from issue of units | 14a | 25,632 | 40,550 |
| Repurchase of units | | - | (8) |
| Profit distribution to unitholders | 14c | (5,148) | (1,091) |
| Transaction costs related to loans and borrowings | | (222) | (127) |
| Interest paid | | (1,390) | (1,114) |
| **Total cash flows from financing activities** | | **35,326** | **41,699** |
| | | | |
| **Net change in cash and cash equivalents** | | **14,674** | **8,206** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | | **9,883** | **1,677** |
| **Cash and cash equivalents at the end of the period** | | **24,557** | **9,883** |

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

## 1. Corporate information

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

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

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

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

| Name | 31.12.2017 | 31.12.2016 |
|---|---|---|
| BH Lincona OÜ[1] | 100% | 100% |
| BOF SKY SIA | 100% | 100% |
| BH CC Plaza OÜ[2] | 100% | 100% |
| BH Domus Pro UAB[3] | 100% | 100% |
| BH Europa UAB[4] | 100% | 100% |
| BH P80 OÜ | 100% | 100% |
| Kontor SIA | 100% | 100% |
| BH MT24 OÜ[5] | 0% | 100% |
| Pirita Center OÜ | 100% | 100% |
| BH Duetto UAB | 100% | - |
| ZM Development | 100% | - |
| Vainodes Krasti SIA | 100% | - |

[1]formerly known as *BOF Lincona OÜ*.
[2]formerly known as *BOF CC Plaza OÜ.*
[3]formerly known as *BOF Domus Pro UAB.*
[4]formerly known as *BOF Europa UAB.*
[5]BH MT 24 OÜ merged with Pirita Center OÜ on 6 April 2017.

**Baltic Horizon Fund merger with Baltic Opportunity Fund**

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

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

During three additional secondary public offerings in November 2016, June 2017, and November 2017 the Fund raised additional gross capital of EUR 47 million. As a result of the offering of the new units, the total number of the Fund's units increased to 77,440,638 and the units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

## 2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's latest consolidated annual financial statements as at and for the year ended 31 December 2016. 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 February 2018.

### Going concern assessment

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

### New standards, amendments and interpretations

A number of new standards and amendments to standards are not effective for annual periods beginning on 1 January 2017 but their earlier application is permitted; however, the Group has not early adopted any of the following new or amended standards in preparing these interim condensed consolidated financial statements.

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

*IFRS 9 Financial Instruments (2014)*

(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. )

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

The Group does not expect IFRS 9 (2014) to have a material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds.

*IFRS 15 Revenue from contracts with customers*

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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

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

In accordance to IFRS 15 initial assessment, the Group has determined that it acts in the capacity of an agent for certain transactions.

Under IFRS 15, the assessment will be based on whether the Group controls the specific goods before transferring them to the end customer, rather than whether it has exposure to the significant risks and rewards associated with the sale of goods.

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using retrospective approach. As a result, the Group will apply all the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.

The Group is currently performing a detailed assessment of the impact of the application of IFRS 15 and expects to disclose additional quantitative information before it adopts IFRS 15.

*IFRS 16 "Leases"*

(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.)

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

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

## 3. Summary of significant accounting policies

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the reported item in the future. The assumptions and judgements applied in these interim condensed consolidated financial statement are similar as those applied in the Group's consolidated financial statements for the year ended 31 December 2016.

**The significant accounting policies**

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2016.

**Fair value measurements**

The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, the fair values of financial instruments measured at amortised cost are disclosed in the financial statements.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

## 4. 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) investment properties.
- Office segment – includes Lincona Office Complex (Estonia), G4S Headquarters (Estonia), Upmalas Biroji (Latvia), Duetto I (Lithuania), Domus Pro stage III (Lithuania), and Vainodes I (Latvia) investment properties.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment property.

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

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

Operating segments – 31 December 2017

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

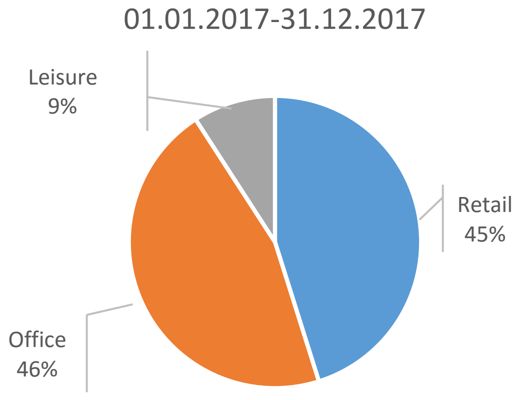
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external interest expenses and the interest costs of a terminated swap.

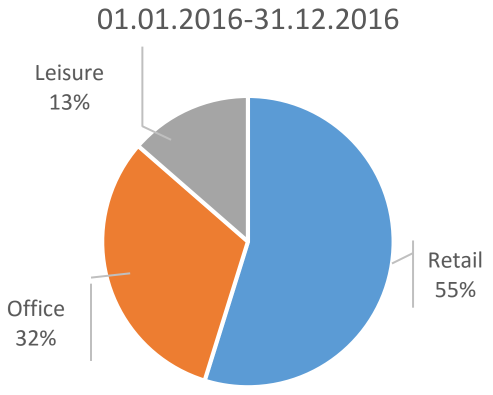
Operating segments – 31 December 2016

| *Euro '000* | **Retail** | **Office** | **Leisure** | **Total segments** |
|---|---|---|---|---|
| ***01.10.2016 – 31.12.2016:*** | | | | |
| External revenue[1] | 1,876 | 1,201 | 247 | 3,324 |
| **Segment net rental income** | **1,105** | **962** | **243** | **2,310** |
| Net gains or losses from fair value adjustment | 390 | (14) | - | 376 |
| Interest expenses[2] | (169) | (130) | (35) | (334) |
| Income tax expenses | (292) | (78) | - | (370) |
| **Segment net profit** | **971** | **621** | **204** | **1,796** |
| | | | | |
| ***01.01.2016 – 31.12.2016:*** | | | | |
| External revenue[1] | 6,678 | 2,806 | 984 | 10,468 |
| **Segment net rental income** | **3,920** | **2,261** | **972** | **7,153** |
| Net gains or losses from fair value adjustment | 897 | 1,490 | 350 | 2,737 |
| Interest expenses[2] | (703) | (297) | (163) | (1,163) |
| Income tax expenses | (722) | (76) | - | (798) |
| **Segment net profit** | **3,353** | **3,257** | **1,138** | **7,748** |
| | | | | |
| ***As at 31.12.2016:*** | | | | |
| **Segment assets** | **77,010** | **57,291** | **13,232** | **147,533** |
| Investment properties | 72,710 | 56,030 | 13,000 | 141,740 |
| Investment property under construction | - | 1,580 | - | 1,580 |
| **Segment liabilities** | **41,732** | **28,781** | **7,075** | **77,588** |

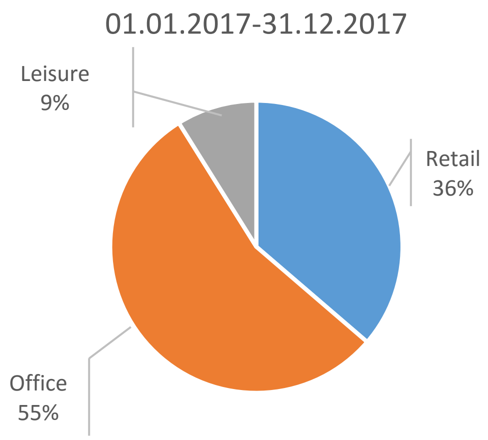
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses have been adjusted to make them comparable. Prior to adjustment, interest expenses included intercompany interest expenses.

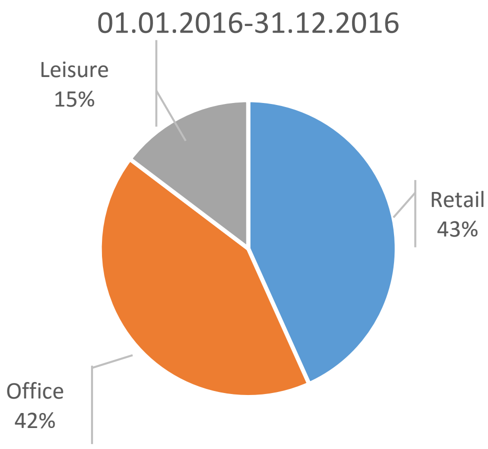
***Segment net rental income****



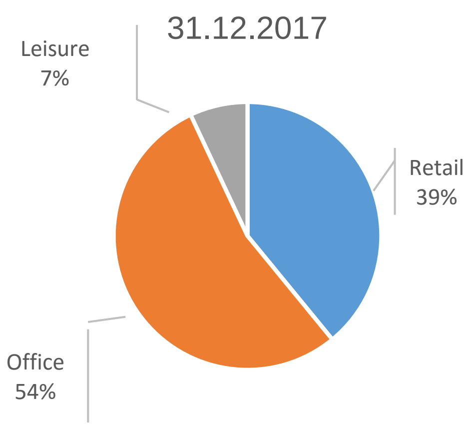



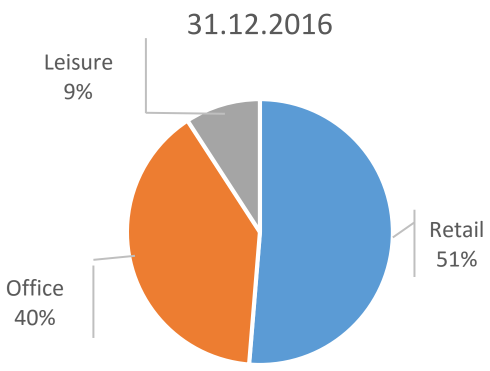

***Segment net profit (loss)****




***Investment properties****




*As a percentage of the total for all reportable segments

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

Operating segments – 31 December 2017

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

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

Operating segments – 31 December 2016

| *Euro '000* | **Total reportable segments** | **Adjustments** | **Consolidated** |
|---|---|---|---|
| ***01.10.2016 – 31.12.2016:*** | | | |
| **Net profit (loss)** | **1,796** | **(616)[1]** | **1,180** |
| ***01.01.2016 – 31.12.2016:*** | | | |
| **Net profit (loss)** | **7,748** | **(1,988)[2]** | **5,760** |
| | | | |
| ***As at 31.12.2016:*** | | | |
| **Segment assets** | **147,533** | **7,405[3]** | **154,938** |
| **Segment liabilities** | **77,588** | **541[4]** | **78,129** |

1. Segment net profit for the quarter does not include public listing related expenses (EUR 313 thousand), Fund management fee (EUR 211 thousand), and other Fund-level administrative expenses (EUR 92 thousand).
2. Segment net profit does not include public offering related expenses (EUR 938 thousand), Fund management fee (EUR 724 thousand), performance fee (EUR 81 thousand), fund custodian fee (EUR 20 thousand) and other administrative expenses (EUR 225 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 7,394 thousand) and other receivables at Fund level (EUR 11 thousand).
4. Segment liabilities do not include management fee payable (EUR 211 thousand) and other short-term payables (EUR 330 thousand) at Fund level.

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

| | *External revenue* | | | | *Investment property value* | |
|---|---|---|---|---|---|---|
| *Euro '000* | **01.10.2017-31.12.2017** | **01.10.2016-31.12.2016** | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** | **31.12.2017** | **31.12.2016** |
| Lithuania | 2,008 | 1,598 | 7,113 | 5,791 | 80,240 | 55,080 |
| Latvia | 890 | 718 | 2,992 | 1,486 | 51,587 | 28,960 |
| Estonia | 1,348 | 1,008 | 5,426 | 3,191 | 57,490 | 57,700 |
| **Total** | **4,246** | **3,324** | **15,531** | **10,468** | **189,317** | **141,740** |

**Major tenant**
Rental income from one tenant in the leisure segment represented EUR 996 thousand of the Group's total rental income for 2017 and EUR 250 thousand for Q4 2017 (EUR 984 thousand for 2016 and EUR 247 thousand for Q4 2016).

**5. Cost of rental activities**

| *Euro '000* | **01.10.2017-31.12.2017** | **01.10.2016-31.12.2016** | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** |
|---|---|---|---|---|
| Utilities | 421 | 472 | 2,065 | 1,512 |
| Repair and maintenance | 372 | 212 | 999 | 806 |
| Property management expenses | 207 | 97 | 549 | 383 |
| Real estate taxes | 113 | 71 | 498 | 252 |
| Sales and marketing expenses | 147 | 101 | 434 | 250 |
| Property insurance | 15 | 9 | 56 | 29 |
| Allowance / (reversal of allowance) for bad debts | 23 | 17 | 45 | 17 |
| Other | 26 | 35 | 117 | 66 |
| **Total cost of rental activities** | **1,324** | **1,014** | **4,763** | **3,315** |

Part of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants: EUR 3,692 thousand during the twelve-month period ended 31 December 2017 (EUR 2,594 thousand during the twelve-month period ended 31 December 2016) and EUR 1,029 thousand during Q4 2017 (EUR 784 thousand during Q4 2016).

### 6. Administrative expenses

| *Euro '000* | **01.10.2017-31.12.2017** | **01.10.2016-31.12.2016** | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** |
|---|---|---|---|---|
| Management fee | 310 | 211 | 1,153 | 724 |
| Public offering related expenses | 203 | 313 | 637 | 938 |
| Consultancy fees | 173 | 44 | 297 | 139 |
| Fund marketing expenses | 59 | - | 204 | - |
| Legal fees | - | 99 | 115 | 156 |
| Audit fee | 24 | 38 | 83 | 73 |
| Supervisory board fees | 12 | - | 80 | - |
| Custodian fees | 9 | 7 | 31 | 20 |
| Performance fee | - | - | - | 81 |
| Other administrative expenses | 49 | 16 | 174 | 59 |
| **Total administrative expenses** | **839** | **728** | **2,774** | **2,190** |

Up to 30 June 2016, the Management Company (Note 18) was entitled to receive an annual management fee, which was calculated as 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as NAV at certain dates (the last Banking Day of each calendar month). As from 1 July 2016, the Management Company is entitled to receive an annual management fee which is calculated quarterly, based on the 3-month average market capitalisation of the Fund.

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

After the Baltic Opportunity Fund's merger with Baltic Horizon Fund starting from 1 July 2016, the Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula is calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020).

### 7. Financial expenses

| *Euro '000* | **01.10.2017-31.12.2017** | **01.10.2016-31.12.2016** | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** |
|---|---|---|---|---|
| Interest on bank loans | 398 | 334 | 1,446 | 1,163 |
| Termination of interest rate SWAP* | - | - | 57 | - |
| Loan refinancing expenses | - | 75 | - | 75 |
| Loan arrangement fee amortisation | 7 | 4 | 24 | 15 |
| Foreign exchange loss | - | - | 1 | - |
| **Total financial expenses** | **405** | **413** | **1,528** | **1,253** |

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

## 8. Earnings per unit

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

Profit attributable to the unitholders of the Fund:

| *Euro '000* | 01.10.2017-31.12.2017 | 01.10.2016-31.12.2016 | 01.01.2017-31.12.2017 | 01.01.2016-31.12.2016 |
|---|---|---|---|---|
| Profit for the period, attributed to the unitholders of the Fund | 9,444 | 1,180 | 5,277 | 5,760 |
| **Profit for the period, attributed to the unitholders of the Fund** | **9,444** | **1,180** | **5,277** | **5,760** |

Weighted-average number of units:

| | 2017 | 2016 |
|---|---|---|
| Issued units at 1 January | 57,264,743 | 250,167 |
| Effect of conversion from BOF to Baltic Horizon Fund | - | 24,766,533 |
| Effect of units issued in June 2016[1] | - | 21,035,981 |
| Effect of units issued in November 2016[2] | - | 1,298,228 |
| Effect of own units cancelled in March 2017[3] | (4,911) | - |
| Effect of units issued in June 2017[4] | 3,922,050 | - |
| Effect of units issued in November 2017[5] | 1,088,813 | - |
| **Weighted-average number of units issued** | **62,270,694** | **39,163,520** |

1. On June 30, 2016, BOF was merged with Baltic Horizon Fund. Unitholders of BOF received 100 units in Baltic Horizon Fund for 1 unit in BOF (ratio of 1:100). During the public offering 41,979,150 units were listed on the NASDAQ Tallinn stock exchange. This change was taken into account by restating the weighted-average number of units.
2. In November 2016, the Fund issued 15,285,593 new units through a secondary public offering.
3. In March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account.
4. In June 2017, the Fund issued 7,397,027 new units through a secondary public offering.
5. In November 2017, the Fund issued 12,784,768 new units through a secondary public offering.

Basic and diluted earnings per unit

| | 01.10.2017-31.12.2017 | 01.10.2016-31.12.2016 | 01.01.2017-31.12.2017 | 01.01.2016-31.12.2016 |
|---|---|---|---|---|
| Basic and diluted earnings per unit* | **0.08** | **0.02** | **0.15** | **0.12** |

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

## 9. 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 twelve months ended 31 December 2017 was 7.4% (twelve months ended 31 December 2016: 12.2%). The change in the effective tax rate was caused mainly by the tax law change in Latvia. According to the new income tax law reform, the corporate income tax payment may be deferred until the time the profits is distributed or otherwise spent to cover expense which does not facilitate further development of the company. It is no longer possible to adjust taxable income. Due to these changes, all deferred tax assets and liabilities were removed from the statement of financial position.

The major components of income tax for the periods ended 31 December 2017 and 2016 were as follows:

| *Euro '000* | **01.10.2017-31.12.2017** | **01.10.2016-31.12.2016** | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** |
|---|---|---|---|---|
| **Consolidated statement of profit or loss** | | | | |
| Current income tax for the period | (2) | (10) | (31) | (43) |
| Deferred tax for the period | 325 | (360) | (728) | (755) |
| **Income tax expense reported in profit or loss** | **323** | **(370)** | **(759)** | **(798)** |
| | | | | |
| **Consolidated statement of other comprehensive income** | | | | |
| Deferred income tax related to items charged or credited to equity: | | | | |
| Revaluation of derivative instruments to fair value | (18) | 7 | (50) | 18 |
| **Income tax expense reported in other comprehensive income** | **(18)** | **7** | **(50)** | **18** |

## 10. Investment property

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

As at 31 December 2017, new external valuations were performed by independent property valuators Newsec and Colliers International.

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

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

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

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

| *Euro '000* | **2017** | **2016** |
|---|---|---|
| **Balance at 1 January** | **141,740** | **86,810** |
| Acquisition of investment property | 35,938 | 15,454 |
| Investment property acquired in business combination | - | 35,773 |
| Investment property under construction reclassified (Note 11) | | |
| Additions (subsequent expenditure) | 1,371 | 1,141 |
| Net revaluation gain | 3,676 | 2,562 |
| **Closing balance** | **189,317** | **141,740** |

Acquisition of Duetto

On 22 March 2017, the Fund acquired the Duetto property located in Vilnius, Lithuania, in an asset deal for a purchase price of EUR 14.6 million. Transaction costs related to the acquisition amounted to EUR 42 thousand. The Fund also obtained a call option to acquire the neighbouring Duetto II property when the building is constructed. The option is valid for four months after at least 65% of the lettable office area of Duetto II has been leased.

Acquisition of Vainodes I

On 14 November 2017, the Fund signed a sales-purchase agreement to acquire Vainodes I office building located in Riga, Latvia, for a purchase price of EUR 21.3 million. The transaction was closed on 12 December 2017. In accordance to IFRS 3, this acquisition is treated as an asset deal.

Acquisition of Postimaja Shopping Centre

On 27 December 2017, the Fund signed a sales-purchase agreement to acquire the Postimaja Shopping Centre located at Narva road 1, Tallinn, Estonia. The total purchase price for the property is EUR 34.4 million corresponding to an approximate acquisition yield of 5.4%. The transaction was closed on 13 February 2018. In accordance to IFRS 3, this acquisition is treated as an asset deal.

Valuation techniques used to derive Level 3 fair values

As of 31 December 2017, the valuations of investment properties were performed by Colliers International and Newsec.

The table below presents the following for each investment property:

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

As of 31 December 2017:

| **Property** | **Valuation technique** | **Key unobservable inputs** | **Range** |
|---|---|---|---|
| **Europa Shopping centre, Vilnius (Lithuania)** | DCF | - Discount rate | 7.2% |
| Net leasable area (NLA) – 16,900 sq. m. | | - Rental growth p.a. | 0.0% - 2.4% |
| Segment – Retail | | - Long term vacancy rate | 3.0% |
| Year of construction/renovation – 2004 | | - Exit yield | 7.0% |
| | | - Average rent (EUR/sq. m.) | 14.6 |
| **Domus Pro, Vilnius (Lithuania)** | DCF | - Discount rate | 7.9% |
| Net leasable area (NLA) – 16,073 sq. m. | | - Rental growth p.a. | 0.0% - 2.5% |
| Segment – Retail/Office | | - Long term vacancy rate | 2.5% - 5.0% |
| Year of construction/renovation – 2013 | | - Exit yield | 7.75% |
| | | - Average rent (EUR/sq. m.) | 9.4 |

| Property | Valuation technique | Key unobservable inputs | Range |
|---|---|---|---|
| **Lincona Office Complex, Tallinn (Estonia)** Net | DCF | - Discount rate | 8.6% |
| leasable area (NLA) – 10,859 sq. m. | | - Rental growth p.a. | 1.0% - 2.7% |
| Segment – Office | | - Long term vacancy rate | 5.0% |
| Year of construction/renovation – 2002 / 2008 | | - Exit yield | 7.8% |
| | | - Average rent (EUR/sq. m.) | 10.2 |
| **Coca-Cola Plaza , Tallinn (Estonia)** | DCF | - Discount rate | 8.2% |
| Net leasable area (NLA) – 8,664 sq. m. | | - Rental growth p.a. | 1.3% - 1.9% |
| Segment – Leisure | | - Long term vacancy rate | 1.5% |
| Year of construction/renovation – 1999 | | - Exit yield | 7.8% |
| | | - Average rent (EUR/sq. m.) | 9.6 |
| **G4S Headquarters, Tallinn (Estonia)*** | DCF | - Discount rate | 8.2% |
| Net leasable area (NLA) – 8,363 sq. m. | | - Rental growth p.a. | 0.0% - 3.2% |
| Segment – Office | | - Long term vacancy rate | 2.0% |
| Year of construction/renovation – 2013 | | - Exit yield | 7.25% |
| | | - Average rent (EUR/sq. m.) | 11.2 |
| **SKY Supermarket, Riga (Latvia)** | DCF | - Discount rate | 7.9% |
| Net leasable area (NLA) – 3,263 sq. m. | | - Rental growth p.a. | 1.4% - 1.7% |
| Segment – Retail | | - Long term vacancy rate | 1.0% - 3.0% |
| Year of construction/renovation – 2000 / 2010 | | - Exit yield | 7.75% |
| | | - Average rent (EUR/sq. m.) | 11.3 |
| **Upmalas Biroji, Riga (Latvia)** | DCF | - Discount rate | 7.3% |
| Net leasable area (NLA) – 10,600 sq. m. | | - Rental growth p.a. | 2.8% - 3.4% |
| Segment – Office | | - Long term vacancy rate | 1.0% |
| Year of construction/renovation – 2008 | | - Exit yield | 7.1% |
| | | - Average rent (EUR/sq. m.) | 11.7 |
| **Pirita Shopping centre, Tallinn (Estonia)** | DCF | - Discount rate | 8.4% |
| Net leasable area (NLA) – 5,516 sq. m | | - Rental growth p.a. | 0.1% - 2.0% |
| Segment – Retail | | - Long term vacancy rate | 2.0% |
| Year of construction/renovation - / 2016 | | - Exit yield | 7.4% |
| | | - Average rent (EUR/sq. m.) | 14.8 |
| **Duetto I, Vilnius (Lithuania)** | DCF | - Discount rate | 7.9% |
| Net leasable area (NLA) – 8,327 sq. m | | - Rental growth p.a. | 0.0% - 2.1% |
| Segment – Office | | - Long term vacancy rate | 2.5% |
| Year of construction/renovation - 2017 | | - Exit yield | 7.25% |
| | | - Average rent (EUR/sq. m.) | 11.6 |
| **Vainodes I, Riga (Latvia)*** | DCF | - Discount rate | 8.2% |
| Net leasable area (NLA) – 8,052 sq. m | | - Rental growth p.a. | 0.0% - 2.0% |
| Segment – Office | | - Long term vacancy rate | 0.0% - 5.0% |
| Year of construction/renovation - 2014 | | - Exit yield | 7.0% |
| | | - Average rent (EUR/sq. m.) | 13.3 |

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

As of 31 December 2016:

| Property | Valuation technique | Key unobservable inputs | Range |
|---|---|---|---|
| **Europa Shopping centre, Vilnius (Lithuania)** | DCF | - Discount rate | 7.5% |
| Net leasable area (NLA) – 16,900 sq. m. | | - Rental growth p.a. | 0.0% - 2.4% |
| Segment – Retail | | - Long term vacancy rate | 3.0% - 5.0% |
| Year of construction/renovation – 2004 | | - Exit yield | 7.25% |
| | | - Average rent (EUR/sq. m.) | 14.2 |
| **Domus Pro Retail Park, Vilnius (Lithuania)** | DCF | - Discount rate | 8.075% |
| Net leasable area (NLA) – 11,247 sq. m. | | - Rental growth p.a. | 0.0% - 2.5% |
| Segment – Retail | | - Long term vacancy rate | 2.0% - 7.0% |
| Year of construction/renovation – 2013 | | - Exit yield | 8.0% |
| | | - Average rent (EUR/sq. m.) | 9.5 |
| **Lincona Office Complex, Tallinn (Estonia)** Net | DCF | - Discount rate | 8.6% |
| leasable area (NLA) – 10,859 sq. m. | | - Rental growth p.a. | 0.0% - 2.3% |
| Segment – Office | | - Long term vacancy rate | 5.0% - 10.0% |
| Year of construction/renovation – 2002 / 2008 | | - Exit yield | 7.8% |
| | | - Average rent (EUR/sq. m.) | 10.3 |
| **Coca-Cola Plaza , Tallinn (Estonia)** | DCF | - Discount rate | 8.2% |
| Net leasable area (NLA) – 8,664 sq. m. | | - Rental growth p.a. | 0.8% - 1.5% |
| Segment – Leisure | | - Long term vacancy rate | 0.0% |
| Year of construction/renovation – 1999 | | - Exit yield | 7.8% |
| | | - Average rent (EUR/sq. m.) | 9.5 |
| **G4S Headquarters, Tallinn (Estonia)** | DCF | - Discount rate | 8.5% |
| Net leasable area (NLA) – 8,363 sq. m. | | - Rental growth p.a. | 0.2% - 2.70% |
| Segment – Office | | - Long term vacancy rate | 3.0% |
| Year of construction/renovation – 2013 | | - Exit yield | 7.25% |
| | | - Average rent (EUR/sq. m.) | 10.3 |
| **SKY Supermarket, Riga (Latvia)** | DCF | - Discount rate | 7.9% |
| Net leasable area (NLA) – 3,263 sq. m. | | - Rental growth p.a. | 1.4% - 1.7% |
| Segment – Retail | | - Long term vacancy rate | 1.0% |
| Year of construction/renovation – 2000 / 2010 | | - Exit yield | 7.75% |
| | | - Average rent (EUR/sq. m.) | 11.6 |
| **Upmalas Biroji, Riga (Latvia)** | DCF | - Discount rate | 7.3% |
| Net leasable area (NLA) – 10,600 sq. m. | | - Rental growth p.a. | 0.5% - 4.4% |
| Segment – Office | | - Long term vacancy rate | 1.5% |
| Year of construction/renovation – 2008 | | - Exit yield | 7.2% |
| | | - Average rent (EUR/sq. m.) | 12.5 |
| **Pirita Shopping centre, Tallinn (Estonia)** | DCF | - Discount rate | 9.0% |
| Net leasable area (NLA) – 5,516 sq. m | | - Rental growth p.a. | 2.0% - 3.1% |
| Segment – Retail | | - Long term vacancy rate | 5.0% |
| Year of construction/renovation - / 2016 | | - Exit yield | 7.75% |
| | | - Average rent (EUR/sq. m.) | 13.5 |

The table below sets out information about significant unobservable inputs used at 31 December 2017 in measuring investment properties categorised to Level 3 in the fair value hierarchy.

| **Type of asset class** | **Valuation technique** | **Significant unobservable input** | **Range of estimates** | **Fair value measurement sensitivity to unobservable inputs** |
|---|---|---|---|---|
| Investment property | Discounted cash flow | Exit yield | 2017: 7.0%-7.8%<br>2016: 7.25%-8.0% | An increase in exit yield in isolation would result in a lower value of Investment property. |
| | | Discount rate | 2017: 7.2%-9.0%<br>2016: 7.5% - 8.6% | An increase in discount rate in isolation would result in a lower value of Investment property. |
| | | Rental growth p.a. | 2017: 0 - 4.4%<br>2016: 0 - 3.0% | An increase in rental growth in isolation would result in a higher value of Investment property. |
| | | Long term vacancy rate | 2017: 0 – 10.0%<br>2016: 0 – 14.0% | An increase in long-term vacancy rate in isolation would result in a lower value of Investment property. |

The carrying book values of investment properties as at 31 December 2017 were as follows:

| *Euro '000* | **Total** |
|---|---|
| Lithuania – Europa (retail) | 39,600 |
| Lithuania – Domus Pro (retail/office) | 24,430 |
| Latvia – SKY (retail) | 5,448 |
| Latvia – Upmalas Biroji (office) | 24,269 |
| Estonia – Lincona (office) | 16,050 |
| Estonia – Coca-Cola Plaza (leisure) | 13,240 |
| Estonia – G4S (office) | 16,570 |
| Estonia – Pirita (retail) | 11,630 |
| Lithuania – Duetto I (office) | 16,210 |
| Latvia – Vainodes I (office) | 21,870 |
| **Total** | **189,317** |

### 11. Investment property under construction

On 1 December 2015, the Group entered into an agreement with TK Development to expand the Domus Pro retail park by constructing and developing an office and commercial building (stage III) on the land plot nearby Domus Pro stage II. The Group started construction in December 2016 and finished it in October 2017. As of 31 December 2017, the Domus Pro stage III has been reclassified to investment property.

| *Euro '000* | **2017** | **2016** |
|---|---|---|
| **Balance at 1 January** | 1,580 | - |
| Additions | 5,012 | 1,405 |
| Net revaluation gain / (loss) | - | 175 |
| Reclassification to Investment property (Note 10) | (6,592) | - |
| **Closing balance** | **-** | **1,580** |

## 12. Trade and other receivables

| *Euro '000* | **31.12.2017** | **31.12.2016** |
|---|---|---|
| Trade receivables, gross | 1,323 | 757 |
| Less impairment allowance for doubtful receivables | (84) | (39) |
| Accrued income | 222 | 285 |
| Other accounts receivable | 107 | 266 |
| **Total** | **1,568** | **1,269** |

Trade receivables are non-interest bearing and are generally on 30-day terms.
As at 31 December 2017, trade receivables at a nominal value of EUR 84 thousand were impaired and fully provisioned.

Movements in the impairment allowance for receivables were as follows:

| *Euro '000* | **2017** | **2016** |
|---|---|---|
| Balance at 1 January | (39) | (22) |
| Charge for the period | (45) | (17) |
| **Balance at end of period** | **(84)** | **(39)** |

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

| | | **Neither past due** | **Past due but not impaired** | | | | |
|---|---|---|---|---|---|---|---|
| *Euro '000* | **Total** | **nor impaired** | **<30 days** | **30-60 days** | **60-90 days** | **90-120 days** | **>120 days** |
| 31.12.2017 | **1,239** | 653 | 178 | 73 | 48 | 60 | 227 |
| 31.12.2016 | **718** | 293 | 362 | 18 | 10 | 1 | 34 |

## 13. Cash and cash equivalents

| *Euro '000* | **31.12.2017** | **31.12.2016** |
|---|---|---|
| Cash at banks and on hand | 24,557 | 9,883 |
| **Total cash** | **24,557** | **9,883** |

As at 31 December 2017, the Group had to keep at least EUR 100 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

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

During the secondary public offerings in June 2017 and November 2017, the Fund raised additional gross capital of EUR 26.8 million. The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 31 December 2017, the total number of the Fund's units was 77,440,638 (as at 31 December 2016: 57,264,743).

Units issued are presented in the table below:

| *Euro '000* | **Number of units** | **Amount** |
|---|---|---|
| **As at 1 January 2017** | **57,264,743** | **66,224** |
| Cancelled own units[1] | (5,900) | (8) |
| Units issued in June 2017[2] | 7,397,027 | 9,381 |
| Units issued in November 2017[3] | 12,784,768 | 16,251 |
| **Total change during the period** | **20,175,895** | **25,624** |
| **As at 31 December 2017** | **77,440,638** | **91,848** |

1. On 3 March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account. The units were acquired during the stabilization period. The stabilization was undertaken for the Baltic Horizon Fund during 30 days after its listing on the Nasdaq Tallinn Stock Exchange. The Fund's units were purchased on 7 July 2016 on the Nasdaq Tallinn at EUR 1.3086 per unit, which equalled the IPO price.
2. Net of subscription fees of EUR 453 thousand.
3. Net of subscription fees of EUR 709 thousand.

A unit represents the investor's share in the assets of the Fund. The Fund has one class of units. The investors have the following rights deriving from their ownership of units:
- to own a share of the Fund's assets corresponding to the number of units owned by the investor;
- to receive, when payments are made a share of the net income of the Fund in proportion to the number of units owned by the investor (pursuant to the Fund rules);
- to call a general meeting in the cases prescribed in the Fund rules and the law;
- to participate and vote in a general meeting pursuant to the number of votes arising from units belonging to the investor and the number of votes arising from units which have been issued and not redeemed as at ten days before the general meeting is held.

Subsidiaries did not hold any units of the Fund as at 31 December 2017 and 2016.
The Fund did not hold its own units as at 31 December 2017. The Fund held 5,900 of its own units as at 31 December 2016 that were acquired during the stabilization period. The stabilization was undertaken for the Baltic Horizon Fund during 30 days after its listing on the Nasdaq Tallinn Stock Exchange. The Fund units were purchased on 7 July 2016 on the Nasdaq Tallinn Stock Exchange at 1.3086 EUR per unit, which equalled the IPO price. No more trades were made during the stabilization period as part of the stabilization.

### 14b. Cash flow hedge valuation reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 31 December 2017 and 2016.

| *Euro '000* | **2017** | **2016** |
|---|---|---|
| **Balance at the beginning of the year** | **(294)** | **(199)** |
| Movement in fair value of existing hedges | 274 | (113) |
| Termination of interest rate swap (Note 20) | 57 | - |
| Recognition of initial interest rate cap costs (Note 9) | (43) | - |
| Movement in deferred income tax (Note 9) | (50) | 18 |
| **Net variation during the period** | **238** | **(95)** |
| **Balance at the end of the period** | **(56)** | **(294)** |

### 14c. Dividends (distributions)

On 20 January 2017, the Fund declared a cash distribution of EUR 1,374 thousand (EUR 0.024 per unit).
On 28 April 2017, the Fund declared a cash distribution of EUR 1,317 thousand (EUR 0.023 per unit).
On 4 August 2017, the Fund declared a cash distribution of EUR 1,164 thousand (EUR 0.018 per unit)
On 31 October 2017, the Fund declared a cash distribution of EUR 1,293 thousand (EUR 0.02 per unit).
On 31 January 2018, the Fund declared a cash distribution of EUR 1,781 thousand (EUR 0.023 per unit).

## 15. Interest bearing loans and borrowings

| *Euro '000* | Maturity | Effective interest rate | 31.12.2017 | 31.12.2016 |
|---|---|---|---|---|
| **Non-current borrowings** | | | | |
| Bank 1[1] | Jul 2022 | 3M EURIBOR + 1.50% | 20,852 | 23,444 |
| Bank 1 | Aug 2021 | 3M EURIBOR + 1.75% | 2,493 | 2,599 |
| Bank 1 | Aug 2021 | 6M EURIBOR + 1.45% | 7,742 | 7,739 |
| Bank 1 | Feb 2022 | 6M EURIBOR + 1.55% | 6,580 | - |
| Bank 1[2] | Dec 2022 | 6M EURIBOR + 1.55% | 8,231 | - |
| Bank 1[3] | Nov 2024 | 3M EURIBOR + 1.80% | 12,870 | - |
| Bank 1[4] | May 2022 | 3M EURIBOR + 1.75% | 7,463 | - |
| Bank 1[4] | May 2022 | 6M EURIBOR + 1.75% | 5,403 | - |
| Bank 2 | Mar 2019 | 3M EURIBOR + 1.90% | 6,805 | 7,049 |
| Bank 3[4] | May 2018 | 3M EURIBOR + 2.50% | - | 8,162 |
| Bank 4 | Aug 2023 | 1M EURIBOR + 1.55% | 11,715 | 11,710 |
| Bank 5 | Mar 2022 | 6M EURIBOR + 1.75% | 7,933 | - |
| Less current portion | | | (1,590) | (1,722) |
| **Total non-current debt** | | | **96,497** | **58,981** |
| | | | | |
| **Current borrowings** | | | | |
| Bank 1[2] | Dec 2017 | 1M EURIBOR + 1.45% | - | 7,016 |
| Bank 1[2] | Dec 2017 | 3M EURIBOR + 3.00% | - | 1,453 |
| Current portion of non-current borrowings | | | 1,590 | 1,722 |
| **Total current debt** | | | **1,590** | **10,191** |
| | | | | |
| **Total** | | | **98,087** | **69,172** |

1. The loan was refinanced on 5 July 2017 with the same bank.
2. The loans were refinanced on 15 December 2017.
3. A new loan was drawn down on 14 November 2017.
4. The loan was refinanced on 29 June 2017. The new loan proceeds were drawn down in November and December.

### Loan securities

Borrowings received were secured with the following pledges and securities as of 31 December 2017:

| | Mortgages of the property* | Second rank mortgages for derivatives | Commercial pledge of the entire assets | Pledges of receivables | Pledges of bank accounts | Share pledge |
|---|---|---|---|---|---|---|
| **Bank 1** | Lincona, SKY, G4S Headquarters, Europa, Domus Pro and Pirita | Europa, Domus Pro | Vainodes I | Lincona, SKY, Europa, and Domus Pro | Europa, SKY | BOF Domus Pro UAB, Vainodes Krasti SIA |
| **Bank 2** | Coca-Cola Plaza | | | Coca-Cola Plaza | Coca-Cola Plaza | |
| **Bank 4** | Upmalas Biroji | | | | Upmalas Biroji | |
| **Bank 5** | Duetto I | | | Duetto I | Duetto I | BH Duetto UAB |

*Please refer to Note 10 for carrying amounts of assets pledged at period end.

### 16. Trade and other payables

| *Euro '000* | **31.12.2017** | **31.12.2016** |
|---|---|---|
| Accrued expenses related to Domus Pro development | 1,974 | 1,127 |
| Trade payables | 921 | 804 |
| Accrued expenses | 243 | 199 |
| Tax payables | 365 | 174 |
| Accrued financial expenses | 41 | 28 |
| Other payables | 658 | 544 |
| **Total trade and other payables** | **4,202** | **2,876** |

Terms and conditions of trade and other payables:

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

### 17. Commitments and contingencies

#### 17a. Litigation

As at 31 December 2017, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

#### 17b. Contingent assets

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

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

On 22 March 2017, the Fund signed an additional agreement to the sales and purchase agreement with the seller of the Duetto I property. The seller agreed to provide a rental income guarantee in the aggregate amount of EUR 1,055 thousand per annum (EUR 88 thousand per month) of the effective net operating income from the Building for the first 24 months starting from 22 March 2017.

#### 17c. Contingent liabilities

The Group did not have any contingent liabilities at the end of 31 December 2017.

## 18. Related parties

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

Northern Horizon Capital AS
As set out in Baltic Horizon Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund pays management fees for it (Note 6).

The Group's transactions with related parties during the twelve-month period ended 31 December 2017 and 2016 were the following:

| *Euro '000* | **01.01.2017-31.12.2017** | **01.01.2016-31.12.2016** |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees | 1,153 | 724 |
| Performance fees | - | 81 |

The Group's balances with related parties as at 31 December 2017 and 2016 were the following:

| **'000 Euro** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| **Northern Horizon Capital AS group** | | |
| Management fees payable | 311 | 211 |

As from 1 July 2016, the Management Company is entitled to receive an annual management fee which is calculated quarterly, based on the 3-month average market capitalisation of the Fund. In case the market capitalisation is lower than 90% of the NAV of the Fund, the amount equal to 90% of the NAV of the Fund shall be used for the management fee calculation instead of the market capitalisation. The fee is based on the following rates and in the following tranches:

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

As from 1 July 2016, the Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula will be calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020).
Northern Horizon Capital Group owns 499,171 units of the Fund.

Entities having control or significant influence over the Fund
The holders of units owning more than 5% of the units in total as of 31 December 2017 and 2016 are presented in the tables below:

**As at 31 December 2017**

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

**As at 31 December 2016**

| | Number of units | Percentage |
|---|---|---|
| Nordea Bank Finland Plc. clients | 20,141,307 | 35.17% |
| Catella Bank SA on behalf of its clients | 10,133,884 | 17.70% |
| Svenska Kyrkans Pensionskassa | 8,061,604 | 14.08% |
| Skandinaviska Enskilda Banken SA clients | 4,766,470 | 8.32% |

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

## 19. Financial instruments

### Fair values

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| *Euro '000* | **31.12.2017** | **31.12.2016** | **31.12.2017** | **31.12.2016** |
| **Financial assets** | | | | |
| Trade and other receivables | 1,568 | 1,269 | 1,568 | 1,269 |
| Cash and cash equivalents | 24,557 | 9,883 | 24,557 | 9,883 |
| Derivative financial instruments | 89 | - | 89 | - |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | (98,087) | (69,172) | (85,263) | (69,351) |
| Trade and other payables | (4,202) | (2,876) | (4,202) | (2,876) |
| Derivative financial instruments | (103) | (345) | (103) | (345) |

Fair value hierarchy
Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2017 and 2016:

| **Period ended 31 December 2017** *Euro '000* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | - | - | 1,568 | **1,568** |
| Cash and cash equivalents | - | 24,557 | - | **24,557** |
| Derivative financial instruments | - | 89 | - | **89** |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | - | - | (85,263) | **(85,263)** |
| Trade and other payables | - | - | (4,202) | **(4,202)** |
| Derivative financial instruments | - | (103) | - | **(103)** |

| **Period ended 31 December 2016** *Euro '000* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | - | - | 1,269 | **1,269** |
| Cash and cash equivalents | - | 9,883 | - | **9,883** |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | - | - | (69,351) | **(69,351)** |
| Trade and other payables | - | - | (2,876) | **(2,876)** |
| Derivative financial instruments | - | (345) | - | **(345)** |

Management assessed that the carrying amounts of cash and short-term deposits, rent and other receivables, trade payables and other current liabilities approximate their fair values largely due to the short-term maturities of these instruments.
The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to estimate the fair values:

- Trade and other receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses on these receivables. As at 31 December 2017 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by discounting the expected future cash flows at prevailing interest rates.
- Cash and cash equivalents are attributed to level 2 in the fair value hierarchy.

## 20. Derivative financial instruments

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

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

| **Derivative type** *Euro '000* | **Starting date** | **Maturity date** | **Notional amount** | **Variable rate (received)** | **Fixed rate (paid)** | **Fair value 31.12.2017** | **Fair value 31.12.2016** |
|---|---|---|---|---|---|---|---|
| CAP | Nov 2017 | Mar 2022 | 7,200 | 6M EURIBOR | 1%* | 89 | - |
| **Derivative financial instruments, assets** | | | | | | **89** | **-** |

*Interest rate cap

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| IRS | Dec 2014 | Jun 2017* | - | 3M EURIBOR | 0.50 % | - | (73) |
| IRS | Sep 2015 | Mar 2018 | 18,223 | 3M EURIBOR | 0.15 % | (15) | (95) |
| IRS | Aug 2016 | Aug 2021 | 7,750 | 6M EURIBOR | 0.05 % | - | (5) |
| IRS | Nov 2016 | Aug 2023 | 10,575 | 1M EURIBOR | 0.26 % | (4) | (172) |
| IRS | Aug 2017 | Feb 2022 | 6,275 | 6M EURIBOR | 0.305 % | (47) | - |
| IRS | Sep 2017 | May 2022 | 7,500 | 3M EURIBOR | 0.05 % | (37) | - |
| **Derivative financial instruments, liabilities** | | | | | | **(103)** | **(345)** |
| **Net value of financial derivatives** | | | | | | **(14)** | **(345)** |

* The interest rate swap was closed on 29 June 2017 due to loan refinancing. The value of the IRS was EUR 57 thousand at termination date.

Derivative financial instruments were accounted for at fair value as at 31 December 2017 and 31 December 2016. The maturity of the derivative financial instruments of the Group is as follows:

| **Classification according to maturity** | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| *Euro '000* | **31.12.2017** | **31.12.2016** | **31.12.2017** | **31.12.2016** |
| Non-current | (88) | (345) | 89 | - |
| Current | (15) | - | - | - |
| **Total** | **(103)** | **(345)** | **89** | **-** |

## 21. Subsequent events

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

On 13 February 2018, the Fund completed the acquisition of the Postimaja shopping centre located at Narva road 1, Tallinn, Estonia. The total purchase price for the property is EUR 34.4 million corresponding to an approximate acquisition yield of 5.4%.

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

## 22. List of consolidated companies

| Name | Registered office | Registration Number | Date of incorporation / acquisition | Activity | Interest in capital |
|---|---|---|---|---|---|
| BH Lincona OÜ[1] | Rävala 5, Tallinn, Estonia | 12127485 | 20 June 2011 | Asset holding company | 100% |
| BH Domus Pro UAB[2] | 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[3] | Rävala 5, Tallinn, Estonia | 12399823 | 11 December 2012 | Asset holding company | 100% |
| BH Europa UAB[4] | Gynėjų 16, Vilnius, Lithuania | 300059140 | 2 March 2015 | Asset holding company | 100% |
| BH P80 OÜ | Hobujaama 5, 10151 Tallinn, Estonia | 14065606 | 6 July 2016 | Asset holding company | 100% |
| Kontor SIA | Mūkusalas iela 101, LV-1004, Rīga, Latvia | 40003771618 | 30 August 2016 | Asset holding company | 100% |
| BH MT24 OÜ[5] | Hobujaama 5, 10151 Tallinn, Estonia | 14169458 | 14 December 2016 | Holding company | 0% |
| Pirita Center OÜ | Hobujaama 5, 10151 Tallinn, Estonia | 12992834 | 16 December 2016 | Asset holding company | 100% |
| BH Duetto UAB | Jogailos 9, Vilnius, Lithuania | 304443754 | 13 January 2017 | Asset holding company | 100% |
| ZM Development | Kuldigas 51, LV-1004 Riga, Latvia | 40003673853 | 12 December 2017 | Asset holding company | 100% |
| Vainodes Krasti SIA | Agenskalna 33 LV-1046, Riga, Latvia | 50103684291 | 12 December 2017 | Asset holding company | 100% |

[1]formerly known as *BOF Lincona OÜ*.
[2]formerly known as *BOF CC Plaza OÜ.*
[3]formerly known as *BOF Domus Pro UAB.*
[4]formerly known as *BOF Europa UAB.*
[5]BH MT 24 OÜ merged with Pirita Center OÜ on 6 April 2017.

The interim condensed consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 15 February 2018.

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