



BALTIC HORIZON

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018**

Baltic Horizon Fund

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

Baltic Horizon Fund

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Baltic Horizon Fund

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.

Baltic Horizon Fund

MANAGEMENT REVIEW

GENERAL INFORMATION ABOUT THE FUND

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

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

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

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

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

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

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

Structure and governance

The Fund is a tax transparent and cost efficient vehicle. The management fee is linked to the market capitalisation of the tradable units. It is also 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.

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

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

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

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

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

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

MANAGEMENT REPORT

On 4 May 2018, the Fund declared a EUR 1.9 million quarterly cash distribution to investors, which represents a 0.024 distribution per unit. The cash distribution is for the Q1 2018 results.

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

On 27 April 2018, the Fund completed subscription for its 5-year unsecured notes (hereafter "bonds") of EUR 30 million. The bonds bear a fixed rate coupon of 4.25% payable quarterly. The transaction took place under the private placement regime and was subscribed for by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks. Baltic Horizon applied for a listing of the bonds on Nasdaq Tallinn.

On 16 May 2018, the Fund completed acquisition of 0.87 hectares of land next to the Domus Pro complex in Vilnius, Lithuania, currently owned by the Fund. The total purchase price for three land plots was EUR 1.7 million. The plots were acquired with the goal to further expand the Domus Pro complex.

MACROECONOMIC FACTORS IN THE BALTIC STATES

According to the report released by International Monetary Fund (IMF) in April 2018, global growth is expected to tick up to 3.9% in 2018, supported by strong momentum, favourable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in United States. The core inflation in most advanced countries remains below target but appears to be rising due to stronger demand. Euro-area inflation accelerated to 1.4% in March 2018 and is expected to move toward the European Central Bank (ECB) goal of 2%. The ECB forecasts inflation in the euro area will rise to 1.5% for the remainder of the year. On the negative side, the trade tensions that are caused by the tariffs imposed by United States are now threatening this positive momentum. The US protectionism may push up inflation in the short term, while worsening long-term growth prospects.

Baltic Horizon Fund

MANAGEMENT REVIEW

Last year all three Baltic countries had impressive growth rates of between 3.8% and 4.9%. This is not likely to be seen in 2018, but the growth rates will remain high, between 3% and 4%. Labour shortages and minimum wage hikes will continue increasing wage growth, which in turn supports consumption.

According to Statistics Estonia, in Q1 2018 the year-on-year GDP growth rate in Estonia was 3.6%. One of the most important drivers of growth was the construction sector. Other main contributors to growth were the transportation and storage, manufacturing, and information and communication sectors. According to Swedbank's forecast, annual GDP growth in Estonia will be 3.9% in 2018 and 3% in 2019.

Based on published statistics for Latvia, in Q1 2018 the year-on-year GDP growth rate in Latvia was 4.2%. Compared to the corresponding period of last year, construction production increased by 36%. The growth in the construction sector promoted development of associated sectors, for example quarrying increased by 32%, manufacturing of building materials increased by 12%, and architecture and civil engineering services grew by 49% compared to Q1 2017. According to Swedbank's forecast, annual GDP growth in Latvia will be 3% in 2018 and 3.2% in 2019.

In Q1 2018, Lithuania's GDP grew by 3.7% compared to the same period last year. The main contributor to growth was fixed investments, which increased by 9.1% in Q1 2018. The growth is most likely related to inflows from the Cohesion fund and other EU structural and investment funds. The economy is projected to maintain healthy growth during the remaining year due to easing inflationary pressure, booming investment activity and funds from the EU. According to Swedbank's forecast, annual GDP growth in Lithuania will be 3.2% in 2018 and 2.5% in 2019.

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

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

The Baltic countries continue to attract real estate investors due to their investment returns which are higher than in the Western European or Scandinavian countries. In H1 2018, average yields for prime retail and office assets in the Baltic capitals remained around 6.5%, with the most attractive properties being bought at yields up to 50 basis points lower than the average yield. Secondary properties are producing yields of around 7.5%. Local Baltic, Nordic and Eastern European investors are still the key players. The square-meter prices of commercial buildings are still 3-4 times less than those seen in the Nordic capitals. In Estonia the most active segments were office, retail and logistics. In Latvia retail was the strongest followed by office and in Lithuania the most active segments were logistics and retail.

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FINANCIAL REPORT

Financial position and performance of the Fund

Gross Asset Value (GAV)

As of 30 June 2018, the GAV increased to EUR 248.2 million (EUR 234.5 million as at 31 March 2018). During Q2 2018, the Group completed acquisition of land next to the Domus Pro complex for a purchase price of EUR 1.7 million. Increase is also related to the issue of EUR 30 million bond.

Net Asset Value (NAV)

In Q2 2018, the Fund NAV increased from EUR 109.0 million to EUR 109.3 million. The increase is related to the Group's operational performance over the quarter. The Fund also made a EUR 1.9 million cash distribution to its unitholders (EUR 0.024 per unit).

Net Profit

In Q2 2018, the Fund earned a net profit of EUR 2,262 thousand (EUR 1,542 thousand during Q2 2017). The net result was positively affected by revaluation gains and the operational performance of the properties. During the quarter, the Group recognised a EUR 480 thousand revaluation gain.

Net Operating Income (NOI)

In Q2 2018, the Fund recorded a EUR 3.6 million NOI (EUR 2.7 million in Q2 2017). The increase is related to new acquisitions that were made following the capital raisings at the end of 2017 and the beginning of 2018 (Vainodes I and Postimaja shopping centre).

Cash Distributions (dividends)

The Fund declared a cash distribution of EUR 1,979 thousand (EUR 0.025 per unit) to the Fund unitholders for Q2 2018 results (EUR 1,900 thousand or EUR 0.024 per unit for Q1 2018). During Q2 2018, the Generated Net Cash Flow (GNCF) was EUR 2,267 thousand or EUR 0.029 per unit (EUR 2,125 thousand or EUR 0.027 per unit for Q1 2018). The higher GNCF gives a potential for the Fund to distribute higher dividends in Q3 and Q4 2018.

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Table 1: Quarterly Key Figures

<i>Euro '000</i>	Q2 2018	Q2 2017 (restated)*	Change (%)
Rental income	3,958	2,940	34.6%
Service charge income	608	382	59.2%
Cost of rental activities	(940)	(640)	46.9%
Net rental income	3,626	2,682	35.2%
Expenses related to public offerings	-	(171)	(100.0)%
Administrative expenses	(621)	(499)	24.4%
Other operating income / (expenses)	39	-	n/a
Valuation gains / (loss) on investment properties	480	339	41.6%
Operating profit	3,524	2,351	49.9%
Financial income	2	2	-%
Financial expenses	(716)	(443)	61.6%
Net financing costs	(714)	(441)	61.9%
Profit before tax	2,810	1,910	47.1%
Income tax charge	(234)	(368)	(36.4)%
Profit for the period	2,576	1,542	67.1%
Weighted average number of units outstanding	79,157,094	58,004,446	36.5%
Earnings per unit (EUR)	0.03	0.03	-%

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

<i>Euro '000</i>	30.06.2018	31.12.2017	Change (%)
Investment property in use	226,160	189,317	19.5%
Gross asset value (GAV)	248,241	215,785	15.0%
Interest bearing loans	129,900	98,087	32.4%
Total liabilities	138,920	108,809	27.7%
Net asset value (NAV)	109,321	106,976	2.2%
Number of units outstanding	79,157,094	77,440,638	2.2%
Net asset value (NAV) per unit (EUR)	1.3811	1.3814	(0.02)%
Loan-to-Value ratio (LTV)	57.4%	51.8%	
Average effective interest rate	2.3%	1.7%	

EPRA REPORTING

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

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Table 2: Key performance indicators – definition and use

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

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

Table 3: EPRA earnings

<i>Euro '000</i>	Q2 2018	Q2 2017	H1 2018	H1 2017
Net result IFRS	2,576	1,542	4,260	2,492
I. Exclude changes in fair value of investment properties	(480)	(339)	(480)	(339)
II. Exclude deferred tax	230	358	367	915
EPRA earnings	2,326	1,561	4,147	3,068
Weighted number of units during the period	79,157,094	57,630,694	78,661,229	57,630,694
EPRA earnings per unit	0.03	0.03	0.05	0.05

Table 4: EPRA NAV and NNNAV

<i>Euro '000</i>	30.06.2018	31.12.2017
IFRS NAV	109,320	106,976
I. Exclude deferred tax liability on investment properties	7,231	6,763
II. Exclude fair value of financial instruments	678	14
III. Exclude deferred tax on fair value of financial instruments	(38)	2
EPRA NAV	117,191	113,755
EPRA NAV per unit (in EUR)	1.4805	1.4689
I. Include fair value of financial instruments	(678)	(14)
II. Include deferred tax on fair value of financial instruments	38	2
III. Include revaluation at fair value of fixed-rate loans	(688)	(36)
EPRA NNNAV	115,863	113,707
EPRA NNNAV per unit (in EUR)	1.4637	1.4683

PROPERTY REPORT

On 4 July 2018, the Fund signed a sales-purchase agreement to acquire LNK Centre office property in Riga, Latvia. The purchase price is EUR 17 million, which corresponds to an entry yield of 6.5%. The transaction was closed on 15 August 2018.

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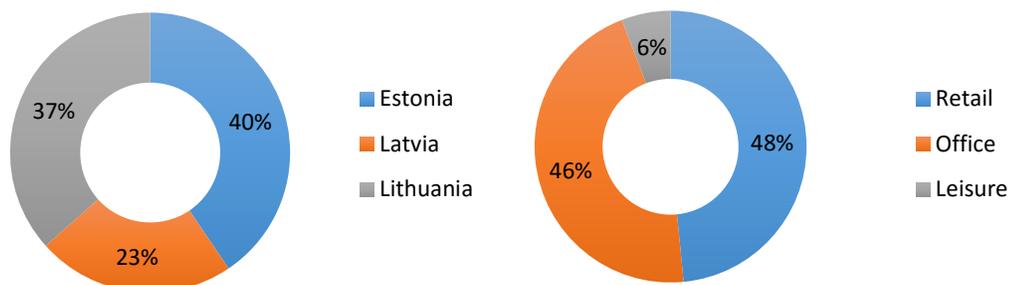
The diversified property portfolio of Baltic Horizon Fund consists of 12 properties in the Baltic capitals. High occupancy is supported by the expectations that the Baltic economic growth is largely driven by domestic consumption and stronger export prospects. Baltic Horizon believes it has established 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.

In the Baltic retail sector during H1 2018, rents for small spaces were in the range of EUR 13.5-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 10.5-38 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-12 per sq. m. The spread between low and high rents has widened as compared to a year ago due to new supply of retail centres in the markets. Rental rates for medium and larger retail units are forecasted to be rather stable. The average rental range of retail assets in the Fund's portfolio was EUR 9.4-17 per sq. m. per month, therefore well in line with average market brackets. Top rent levels are charged in CBD shopping centres Europa and Postimaja.

Capital city office rents during 2017 and the first half of 2018 stood at EUR 13-16.5 per sq. m. per month for class A premises and EUR 8.6 - 13.5 sq. m. for modern class B offices. For comparison, the average monthly rental level in Lincona was approx. EUR 10 per sq. m., in Duetto I approx. EUR 11.5 per sq. m. in Upmalas Biroji EUR 12.6 per sq. m. and in newly acquired LNK office approx. EUR 11.8 per sq. m, therefore also well in line with average market brackets. Overall the rental levels depend highly on the competitiveness of the buildings' locations, layout and level of surcharges. When comparing the three capitals, competition is the highest in Tallinn whereas in Riga, due to lack of new supply, landlords' negotiating positions are the strongest.

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

Picture 1: Fund segment and country distribution as of 30.06.2018



Property performance

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

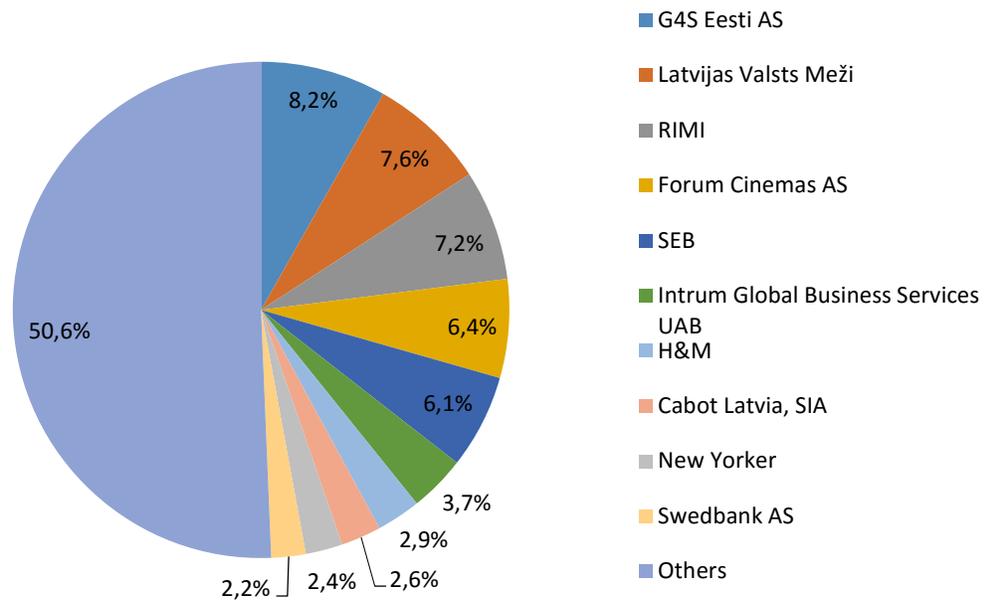
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During Q2 2018, the average actual occupancy of the portfolio was 97.3% (Q1 2018: 97.4%). When all rental guarantees are considered, the effective occupancy rate is 97.6% (Q1 2018: 97.7%). Due to temporary vacancies the average direct property yield during Q2 2018 was 6.8% (Q1 2018: 6.9%). The net initial yield for the whole portfolio for Q2 2018 was 6.5% (Q1 2018: 6.4%).

The tenant base of the Fund is well diversified. The rental concentration of the 10 largest tenants of the Fund's subsidiaries is shown in picture 2 with the largest tenant G4S accounting for 8.2% of the annualized rental income. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

Picture 2: Rental concentration of 10 largest tenants of the Fund's subsidiaries as of 30.06.2018



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Table 5: Overview of the Fund's investment properties as of 30.06.2018

Property name	City	Country	Market value ¹ Euro'000	NLA	Direct property yield ²	Net initial yield ³	Occupancy rate for Q2 2018
Duetto I	Vilnius	Lithuania	16,240	8,327	7.5%	6.9%	100.0% ⁴
Pirita SC	Tallinn	Estonia	10,950	5,400	7.4%	8.2%	100.0% ⁴
Upmalas Biroji BC	Riga	Latvia	24,660	10,600	7.3%	7.1%	99.8%
G4S Headquarters	Tallinn	Estonia	16,900	8,363	7.7%	7.0%	100.0%
Europa SC	Vilnius	Lithuania	40,310	16,900	6.2%	5.7%	94.1%
Domus Pro Retail Park	Vilnius	Lithuania	17,350	11,247	7.4%	6.7%	98.4%
Domus Pro Office	Vilnius	Lithuania	7,290	4,759	7.9%	6.9%	94.1%
Domus Pro Land	Vilnius	Lithuania	1,670	-	-	-	-
CC Plaza	Tallinn	Estonia	13,190	8,664	8.4%	7.6%	100.0%
Sky SC	Riga	Latvia	5,360	3,263	8.3%	7.7%	99.3%
Lincona	Tallinn	Estonia	16,650	10,859	7.3%	6.8%	91.8%
Vainodes I	Riga	Latvia	21,610	8,052	7.0%	6.9%	100.0%
Postimaja	Tallinn	Estonia	33,980	9,141	4.6%	4.7%	96.0%
Total portfolio			226,160	105,575	6.8%	6.5%	97.6%

1. Based on the latest valuation as at 30 June 2018.
2. Direct property yield (DPY) is calculated by dividing NOI by the acquisition value and subsequent capital expenditure of the property.
3. The net initial yield (NIY) is calculated by dividing NOI by the market value of the property.
4. Effective occupancy rate is 100% due to a rental guarantee.

During H1 2018, the Fund's portfolio produced EUR 7.0 million of net operating income (NOI) and EUR 3.6 million during Q2 2018 (during H1 2017: EUR 5.2 million and during Q2 2017: EUR 2.7 million).

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

Table 6: Breakdown of NOI development

Property Euro'1000	Date of acquisition	2014	2015	2016	2017	Jan-Jun 2017	Jan-Jun 2018
Lincona	1 Jul 2011	898	1,143	1,202	1,172	598	577
CC Plaza	8 Mar 2013	953	962	972	985	491	498
Sky SC	7 Dec 2013	404	415	425	410	205	206
Domus Pro Retail	1 May 2014	445	857	1,103	1,185	598	591
Domus Pro Office	1 Oct 2017	-	-	-	35	-	235
Europa SC	2 Mar 2015	-	1,962	2,360	2,365	1,174	1,148
G4S Headquarters	12 Jul 2016	-	-	546	1,149	576	591
Upmalas Biroji BC	30 Aug 2016	-	-	515	1,693	824	847
Pirita SC	16 Dec 2016	-	-	30	900	450	450
Duetto I	22 Mar 2017	-	-	-	799	292	559
Vainodes I	12 Dec 2017	-	-	-	75	-	732
Postimaja	13 Feb 2018	-	-	-	-	-	602
Total portfolio		2,700	5,339	7,153	10,768	5,208	7,036

Lincona Office Complex, Tallinn (Estonia)

The average occupancy level was 91.8% during Q2 2018 (Q1 2018: 94.1%). The occupancy is expected to increase in Q3 as Rimi express convenience store will open its doors on the ground floor. During Q2 2018, the average direct property yield decreased to 7.3% (Q1 2018: 7.6%). The net initial yield during Q2 2018

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was 6.8% (Q1 2018: 7.4%). The fair value of the property increased from EUR 16,050 thousand measured at the end of 2017 to EUR 16,650 thousand as of 30 June 2018.

Domus Pro, Vilnius (Lithuania)

The average occupancy rate for the retail part remained stable at 98.4% (Q1 2018: 98.4%). During Q2 2018, the average occupancy rate for the business centre increased to 98.4% (Q1 2018: 89.5%). During Q2 the average direct property yield for the retail part was 7.4% (Q1 2018: 7.7%) and the net initial yield was 6.7% (Q1 2018: 6.9%). The fair value of the retail part has increased from EUR 17,280 thousand measured at the end of 2017 to EUR 17,350 thousand as of 30 June 2018. During Q2 2018 the average direct property yield of the business centre was 7.9% (Q1 2018: 6.8%) and the net initial yield was 6.9% (Q1 2018: 6.1%). The fair value of the business centre increased from EUR 7,150 thousand measured at the end of 2017 to EUR 7,290 thousand as of 30 June 2018.

On 16 May 2018, the Fund completed the acquisition of 0.87 hectares of land next to the Domus Pro complex. The total purchase price for three land plots was EUR 1.7 million. The plots were acquired with the goal to further expand the Domus Pro complex.

SKY Supermarket, Riga (Latvia)

The average occupancy level remained stable at 99.3% for Q2 2018 (Q1 2018: 99.3%). The average direct property yield during Q2 2018 was 8.3% (Q1 2018: 8.3%). The net initial yield for Q2 2018 was 7.7% (Q1 2018: 7.5%). The fair value of the property decreased from EUR 5,448 thousand measured at the end of 2017 to EUR 5,360 thousand as of 30 June 2018.

Coca-Cola Plaza / Post House, 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% (Q1 2018: 8.3%). The net initial yield for Q2 2018 was 7.6% (Q1 2018: 7.5%). The fair value of the cinema decreased slightly, dropping from EUR 13,240 thousand measured at the end of 2017 to EUR 13,190 thousand as of 30 June 2018. The fair value of the Postimaja shopping centre without valuing the expansion potential was EUR 33,980 thousand, which is close to its acquisition value of EUR 34,400 thousand.

For the Fund, the key strategic considerations of the transaction were the synergy potential arising from the Postimaja immovable property located next to Coca-Cola Plaza, already belonging to the Fund's portfolio and Tallinn's Main Street project. To achieve that synergy, HG Arhitektuur OÜ with its work the "Rotermann Passage" has been selected as the partner to work out the architectural solution. The project includes developing a new exterior design as well as considerably increasing the leasable area and aims to improve functionality between the two buildings as well as the Rotermann Quarter.

Europa Shopping centre, Vilnius (Lithuania)

The average occupancy level slightly decreased to 94.1% for Q2 2018 (Q1 2018: 95.8%). Average direct property yield during Q2 2018 was 6.2% (Q1 2018: 6.3%). The net initial yield for Q2 2018 was 5.7% (Q1 2018: 5.8%). The fair value of the property increased significantly, from EUR 39,600 thousand measured at the end of 2017 to EUR 40,310 thousand as of 30 June 2018.

G4S Headquarters, Tallinn (Estonia)

The building has one key tenant – G4S, who has rented the whole building under a long-term agreement. Two floors of the building are sub-leased to a leading Estonian software company Pipedrive and there are also some smaller sub-tenants. The average direct property yield during Q2 was 7.7% (Q1 2018: 7.6%). The net initial yield for Q2 2018 was 7.0% (Q1 2018: 7.1%). The fair value of the property increased from EUR 16,570 thousand measured at the end of 2017 to EUR 16,900 thousand as of 30 June 2018.

Baltic Horizon Fund

MANAGEMENT REVIEW

Upmalas Biroji, Riga (Latvia)

The average occupancy rate remained stable at 99.8% (Q1 2018: 99.8%). The average direct property yield during Q2 2018 was 7.3% (Q1 2018: 7.0%). The net initial yield for Q2 2018 was 7.3% (Q1 2018: 6.8%). The fair value of the property increased from EUR 24,269 thousand measured at the end of 2017 to EUR 24,660 thousand as of 30 June 2018.

Pirita Shopping centre, Tallinn (Estonia)

The average occupancy rate for Q2 2018 remained stable at 95.6% (100% NOI is covered by a 2-year rental guarantee). A 7.4% direct property yield is guaranteed by the seller of this property until the end of 2018. The net initial yield for Q2 2018 was 8.2% (Q1 2018: 7.4%). The fair value of the property decreased due to vacancy buffer from re-tenanting activities from EUR 11,630 thousand measured at the end of 2017 to EUR 10,950 thousand as of 30 June 2018.

Duetto I Office building, Vilnius (Lithuania)

Duetto I net rental is covered by a rental guarantee provided by YIT Kausta for two years after its acquisition on 22 March 2017. The actual average occupancy level was 98.1% for Q2 2018. The average direct property yield during Q2 2018 was 7.5% (Q1 2018: 7.5%). The net initial yield for Q2 2018 was 6.9% (Q1 2018: 6.5%). The fair value of the property increased from EUR 16,210 thousand measured at the end of 2017 to EUR 16,650 thousand as of 30 June 2018.

Vainodes I Office building, Riga (Latvia)

There are no vacancies in the property. The average direct property yield for Q2 2018 was 7.3% (Q1 2018: 6.8%). The net initial yield for Q2 2018 was 7.1% (Q1 2018: 6.6%). The fair value of the property decreased slightly from EUR 21,870 thousand measured at the end of 2017 to EUR 21,610 thousand as of 30 June 2018.

LNK Centre office building, Riga (Latvia)

LNK property transaction was closed on 15 August 2018. It is an A class office building with a net leasable area of 7,455 sq. m. located in Skanste area, which is a well-known modern business district of Riga. The asset is fully leased to five tenants, of which Exigen Services and LNK Group occupy approx. 90% of the leasable area. LNK Group is one of the largest local real estate and infrastructure development and construction companies in Latvia. As part of the transaction LNK Group extended its lease agreement in the property for 10 years. Starting net initial yield for the property is 6.5%. Acquisition value of the property was approx. EUR 17,065 thousand.

FINANCING

The Fund aims to use a 50% long-term leverage strategy. At no point in time may the Fund's leverage exceed 65%. The ability to borrow on attractive terms plays a major role in the investment strategy and cash distributions to unitholders.

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

On 27 April 2018, the Fund completed subscription for its 5-year unsecured bonds of EUR 30 million (30,000 bonds with a nominal value of EUR 1,000 each). The bonds bear a fixed rate coupon of 4.25% payable quarterly. The proceeds in the amount of EUR 15.9 million were used for bank loan refinancing. The remaining bond proceeds will be used to finance new acquisitions.

Baltic Horizon Fund

MANAGEMENT REVIEW

After the bond issue, the weighted average interest rate increased from 1.8% to 2.3% in Q2 2018. The bond issue reduced regular bank loan amortisation from 1.7% to 0.1%.

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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Regular quarterly bank loan amortisation, EUR'1000	489	523	222	243	345	106
Regular annual bank loan amortisation from the loans outstanding, %	2.7%	2.7%	1.2%	1.6%	1.7%	0.1%
Average interest rate, %	1.7%	1.7%	1.7%	1.7%	1.8%	2.3%
LTV, %	53.3%	47.6%	46.0%	51.8%	51.9%	57.4%

The table below provides a detailed breakdown of the structure of the Fund's consolidated financial debt as of 30 June 2018. Interest bearing debt was comprised of bank loans with a total carrying value of EUR 100.1 million and bonds with a carrying value of EUR 29.8 million. 100% of the debt instruments were denominated in euros. Bank loans have been obtained by subsidiaries that hold the Fund's properties and the properties have been pledged as loan collateral. The parent entity holds the 5-year unsecured bonds.

Table 8: Financial debt structure of the Fund

Property	Maturity	Currency	Carrying amount Euro'1000	% of total	Fixed rate portion
Lincona	31 Dec 2022	EUR	7,189	5.5%	95%
CC Plaza and Postimaja	12 Feb 2023	EUR	17,200	13.2%	100% ¹
Sky SC	1 Aug 2021	EUR	2,440	1.9%	-%
Europa SC	5 Jul 2022	EUR	20,900	16.0%	88%
G4S Headquarters	16 Aug 2021	EUR	7,750	5.9%	100%
Upmalas Biroji BC	31 Aug 2023	EUR	11,750	9.0%	90%
Pirita SC	20 Feb 2022	EUR	4,944	3.8%	126%
Duetto I	20 Mar 2022	EUR	7,300	5.6%	99% ²
Domus Pro	31 May 2022	EUR	11,000	8.4%	67%
Vainodes I	13 Mar 2024	EUR	9,842	7.6%	50%
Total bank loans		EUR	100,315	77.0%	86%
Less capitalized loan arrangement fees ³		EUR	(197)		
Total bank loans recognised in the statement of financial position		EUR	116,198		
5 year-unsecured bonds		EUR	30,000	23.0%	100%
Less capitalized bond arrangement fees ³			(218)		
Total debt recognised in the statement of financial position		EUR	129,900	100%	89%

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

Weighted average time to maturity was 4.6 years at the end of Q2 2018.

As of 30 June 2018, 89% of total debt had fixed interest rates while the remaining 11% had floating interest rates. The Fund fixes interest rates on a portion of its debt by acquiring IRS-type hedging instruments or limits the impact of rising interest rates with interest cap instruments (CAP). During the quarter the Group fixed the interest rate for the Vainodes I bank loan (50% hedge ratio) and CC Plaza and Postimaja bank loan (the full loan interest rate has been capped at 3.5%). The unsecured bonds have a fixed coupon rate of 4.25%.

Baltic Horizon Fund

MANAGEMENT REVIEW

COVENANT REPORTING

On 27 April 2018, the Fund completed subscription for its 5-year unsecured bonds of EUR 30 million. The bonds bear a fixed rate coupon of 4.25% payable quarterly. The transaction took place under the private placement regime and was subscribed for by Baltic institutional investors, mainly comprised of pension funds, asset managers, insurance companies and banks.

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

Table 9: Financial covenants

Financial covenant	Definition	Requirement	Ratio
Equity Ratio	Equity adjusted for the cash flow hedge reserve divided by total assets excluding financial assets and cash equivalents as defined in the accounting policies.	> 35.0%	48.2%
Debt Service Coverage Ratio	EBITDA divided by the principal payments and interest expenses of interest-bearing debt obligations, on a rolling 12 month basis.	> 1.20	3.58

DIVIDEND CAPACITY

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

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

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

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

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

Baltic Horizon Fund

MANAGEMENT REVIEW

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

Table 11: Dividend capacity calculation

<i>EUR'1000</i>	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
(+) Net rental income	2,682	2,638	2,922	3,409	3,626
(-) Fund administrative expenses	(670)	(535)	(839)	(640)	(621)
(-) External interest expenses	(438)	(340)	(405)	(489)	(680)
(-) CAPEX expenditure ¹	(197)	(547)	(290)	(155)	(58)
(+) Added back listing related expenses	170	61	203	-	-
(+) Added back acquisition related expenses	65	-	97	-	-
<i>Generated net cash flow (GNCF)</i>	1,612	1,277	1,688	2,125	2,267
<i>GNCF per weighted unit</i>	0.028	0.020	0.024	0.027	0.029
<i>12-months rolling GNCF yield</i>	8.1%	7.7%	7.6%	7.9%	7.9%
<i>Dividends declared</i>	1,164	1,293	1,781	1,900	1,979
<i>Dividends declared per weighted unit</i>	0.020	0.020	0.026	0.024	0.025
<i>12-months rolling dividend yield</i>	7.4%	7.0%	6.8%	7.2%	7.5%

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

Distributions to unitholders for Q1-Q2 2018 Fund results

- On 04 May 2018, the Fund declared a cash distribution of EUR 1,900 thousand (EUR 0.024 per unit) to the Fund unitholders for Q1 2018 results. This represents a 1.76% return from the weighted average Q1 net asset value to its unitholders.
- On 16 August 2018, the Fund declared a cash distribution of EUR 1,979 thousand (EUR 0.025 per unit) to the Fund unitholders for Q2 2018 results. This represents a 1.81% return from the weighted average Q2 net asset value to its unitholders.

RISK MANAGEMENT

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

Baltic Horizon Fund

MANAGEMENT REVIEW

Principal risks faced by the Fund

Market risk

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

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

Interest rate risk

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

Credit risk

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

Liquidity risk

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

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

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

Operational risk

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

OUTLOOK FOR 2018

At the end of August 2018, Baltic Horizon Fund has 12 established cash flow properties located in the Baltic capitals with a gross property value of above EUR 248 million and an annualized full NOI of approx. EUR 15 million. The Fund aims to grow its asset base by acquiring carefully selected investment properties that best

Baltic Horizon Fund

MANAGEMENT REVIEW

fit the Fund's very long-term strategy. Growing by acquiring established properties with long-term tenants allows the Fund to become more efficient and diversify its risks further across segments, tenants and geographical locations. The Fund is increasingly critical about acquiring properties with high rents and square meter prices much higher than replacement cost.

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

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

Despite demographic challenges, Baltic economies remain 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 six 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 six months of the financial year and their effect on the condensed consolidated accounts.

Baltic Horizon Fund
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

<i>Euro '000</i>	Note	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017 (restated)*	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017 (restated)*
Rental income		3,958	2,940	7,564	5,667
Service charge income		608	382	1,193	740
Cost of rental activities	6	(940)	(640)	(1,722)	(1,199)
Net rental income	4	3,626	2,682	7,035	5,208
Administrative expenses	7	(621)	(670)	(1,261)	(1,400)
Other operating income / (expenses)		39	-	45	13
Valuation gains / (loss) on investment properties		480	339	480	339
Operating profit		3,524	2,351	6,299	4,160
Financial income		2	2	4	43
Financial expenses	8	(716)	(443)	(1,205)	(775)
Net financing costs		(714)	(441)	(1,201)	(732)
Profit before tax		2,810	1,910	5,098	3,428
Income tax charge	4, 10	(234)	(368)	(838)	(936)
Profit for the period	4	2,576	1,542	4,260	2,492
<i>Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods</i>					
Net gains (losses) on cash flow hedges	14b	(315)	82	(630)	220
Termination of interest rate swap agreement		-	57	-	57
Recognition of initial interest rate cap costs		(33)	-	(33)	-
Income tax relating to net gains (losses) on cash flow hedges	14b, 10	34	(23)	79	(40)
Other comprehensive income/ (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods		(314)	116	(584)	237
Total comprehensive income for the period, net of tax		2,262	1,658	3,676	2,729
Basic and diluted earnings per unit (Euro)	9	0.03	0.03	0.05	0.04

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

<i>Euro '000</i>	Note	30.06.2018	31.12.2017
Non-current assets			
Investment properties	4, 11	226,160	189,317
Derivative financial instruments	20	52	89
Other non-current assets		138	146
Total non-current assets		226,350	189,552
Current assets			
Trade and other receivables	12	1,820	1,568
Prepayments		224	108
Cash and cash equivalents	13	19,847	24,557
Total current assets		21,891	26,233
Total assets	4	248,241	215,785
Equity			
Paid in capital	14a	94,198	91,848
Cash flow hedge reserve	14b	(640)	(56)
Retained earnings		15,763	15,184
Total equity		109,321	106,976
Non-current liabilities			
Interest bearing loans and borrowings	15	129,794	96,497
Deferred tax liabilities		5,493	5,206
Derivative financial instruments	20	729	88
Other non-current liabilities		846	859
Total non-current liabilities		136,862	102,650
Current liabilities			
Interest bearing loans and borrowings	15	106	1,590
Trade and other payables	16	1,658	4,202
Income tax payable		-	14
Derivative financial instruments	20	-	15
Other current liabilities		294	338
Total current liabilities		2,058	6,159
Total liabilities	4	138,920	108,809
Total equity and liabilities		248,241	215,785

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

Baltic Horizon Fund
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

<i>Euro '000</i>	Notes	Paid in capital	Own units	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2017		66,224	(8)	(294)	10,887	76,809
Net profit for the period		-	-	-	2,492	2,492
Termination of interest rate swap				57	-	57
Other comprehensive income		-	-	180	-	180
Total comprehensive income		-	-	237	2,492	2,729
Paid in capital – units issued	14a	9,381	-	-	-	9,381
Repurchase of units	14a	(8)	8	-	-	-
Profit distribution to unitholders	14a	-	-	-	(2,691)	(2,691)
As at 30 June 2017		75,597	-	(57)	10,688	86,228
As at 1 January 2018		91,848	-	(56)	15,184	106,976
Net profit for the period		-	-	-	4,260	4,260
Other comprehensive expense		-	-	(584)	-	(584)
Total comprehensive income		-	-	(584)	4,260	3,676
Paid in capital – units issued	14a	2,350	-	-	-	2,350
Profit distribution to unitholders	14a	-	-	-	(3,681)	(3,681)
As at 30 June 2018		94,198	-	(640)	15,763	109,321

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

<i>Euro '000</i>	Note	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Cash flows from core activities			
Profit (loss) before tax		5,098	3,428
Adjustments for non-cash items:			
Value adjustment of investment properties		(480)	(339)
Allowance for bad debts		97	22
Financial income		(4)	(43)
Financial expenses	8	1,205	775
Working capital adjustments:			
(Increase)/decrease in trade and other accounts receivable		(192)	(167)
(Increase)/decrease in other current assets		(276)	(106)
(Decrease)/Increase in other non-current liabilities		(13)	(129)
(Decrease)/increase in trade and other accounts payable		(613)	(349)
Increase/(decrease) in other current liabilities		413	(71)
(Paid)/refunded income tax		(500)	(20)
Total cash flows from core activities		4,735	3,001
Cash flows from investing activities			
Interest received		4	5
Acquisition of subsidiaries, net of cash acquired		(181)	-
Acquisition of investment property		(34,477)	(14,362)
Acquisition of land		(1,661)	-
Investment property development expenditure		(2,237)	(1,296)
Capital expenditure on investment properties		(213)	(326)
Total cash flows from investing activities		(38,765)	(15,979)
Cash flows from financial activities			
Proceeds from the issue of bonds		30,000	-
Proceeds from bank loans		25,300	14,730
Repayment of bank loans		(23,246)	(8,955)
Proceeds from issue of units	14a	2,350	9,381
Profit distribution to unitholders	14c	(3,681)	(2,691)
Transaction costs related to loans and borrowings		(291)	(69)
Interest paid		(1,112)	(673)
Total cash flows from financing activities		29,320	11,723
Net change in cash and cash equivalents		(4,710)	(1,255)
Cash and cash equivalents at the beginning of the year		24,557	9,883
Cash and cash equivalents at the end of the period		19,847	8,628

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

1. Corporate information

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

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

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

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

Name	30.06.2018	31.12.2017
BH Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BH CC Plaza OÜ	100%	100%
BH Domus Pro UAB	100%	100%
BH Europa UAB	100%	100%
BH P80 OÜ	100%	100%
Kontor SIA	100%	100%
Pirita Center OÜ	100%	100%
BH Duetto UAB	100%	100%
ZM Development	100%	100%
Vainodes Krasti SIA	100%	100%

Baltic Horizon Fund merger with Baltic Opportunity Fund

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

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

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

2. Basis of preparation

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

These interim condensed consolidated financial statements were authorised for issue by the Management Company's Board of Directors on 31 August 2018.

Going concern assessment

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

New standards, amendments and interpretations

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

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

IFRS 16 Leases

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

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

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

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

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

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Other Changes

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

3. Use of judgements and estimates

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

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

Measurement of fair values

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

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation

Baltic Horizon Fund

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

(based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4. Changes in significant accounting policies

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

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

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

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

IFRS 15 Revenue from contracts with customers

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

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

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

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

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

<i>Euro '000</i>	Impact of adopting IFRS 15		
	As reported at 30 June 2017	Adjustments due to adoption of IFRS 15	Adjusted balances as at 30 June 2017
01.04.2017 – 30.06.2017:			
Service charge income	919	(537)	382
Cost of rental activities	(1,177)	537	(640)
01.01.2017 – 30.06.2017:			
Service charge income	1,843	(1,103)	740
Cost of rental activities	(2,302)	1,103	(1,199)

Baltic Horizon Fund

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

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

5. Operating segments

The Group's reportable segments are as follows:

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

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

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

Operating segments – 30 June 2018

<i>Euro '000</i>	Retail	Office	Leisure	Total segments
01.04.2018 – 30.06.2018:				
External revenue ¹	2,246	2,067	253	4,566
Segment net rental income	1,511	1,865	250	3,626
Net gains or losses from fair value adjustment	(605)	1,135	(50)	480
Interest expenses ²	(265)	(206)	(29)	(500)
Income tax expenses	(207)	(27)	-	(234)
Segment net profit	640	2,602	17	3,259
01.01.2018 – 30.06.2018:				
External revenue ¹	4,380	3,873	504	8,757
Segment net rental income	2,997	3,540	498	7,035
Net gains or losses from fair value adjustment	(605)	1,135	(50)	480
Interest expenses ²	(493)	(430)	(46)	(969)
Income tax expenses	(310)	(528)	-	(838)
Segment net profit	1,581	3,519	398	5,498
As at 30.06.2018:				
Segment assets	112,102	105,205	13,427	230,734
Investment properties	109,620	103,350	13,190	226,160
Segment liabilities	54,967	48,719	4,834	108,520

1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.

2. Interest expenses include only external bank loan interest expenses.

Baltic Horizon Fund
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Operating segments – 30 June 2017

'000 Euro	Retail	Office	Leisure	Total segments
01.04.2017 – 30.06.2017:				
External revenue ¹	1,752	1,320	250	3,322
Segment net rental income	1,180	1,258	244	2,682
Net gains or losses from fair value adjustment	(12)	171	180	339
Interest expenses ²	(192)	(156)	(33)	(381)
Income tax expenses	(190)	(178)	-	(368)
Segment net profit / (loss)	660	1,110	384	2,154
01.01.2017 – 30.06.2017:				
External revenue ¹	3,508	2,402	497	6,407
Segment net rental income	2,427	2,290	491	5,208
Net gains or losses from fair value adjustment	(12)	171	180	339
Interest expenses ²	(421)	(277)	(67)	(765)
Income tax expenses	(264)	(672)	-	(936)
Segment net profit / (loss)	1,594	1,548	591	3,733
As at 31.12.2017:				
Segment assets	78,929	105,838	13,284	198,051
Investment properties	73,958	102,119	13,240	189,317
Segment liabilities	46,502	54,811	6,840	108,153

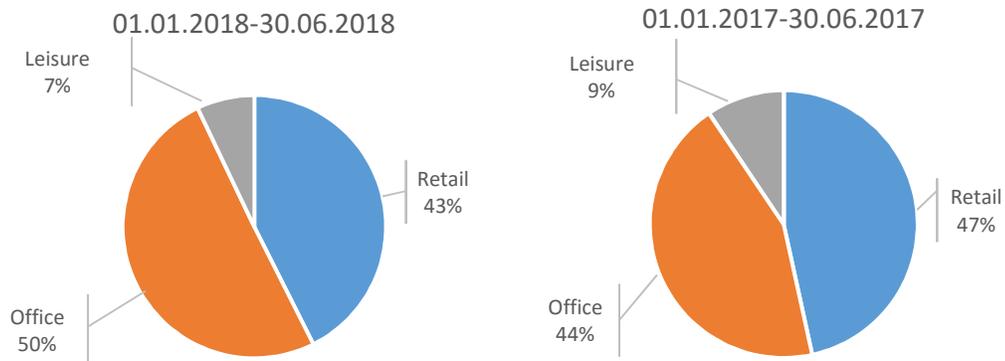
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external bank loan interest expenses and expenses in relation to terminated swap.

Baltic Horizon Fund

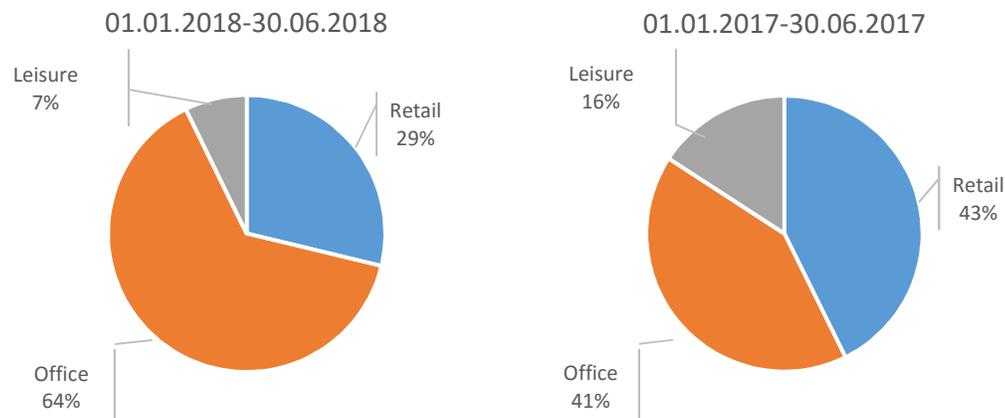
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

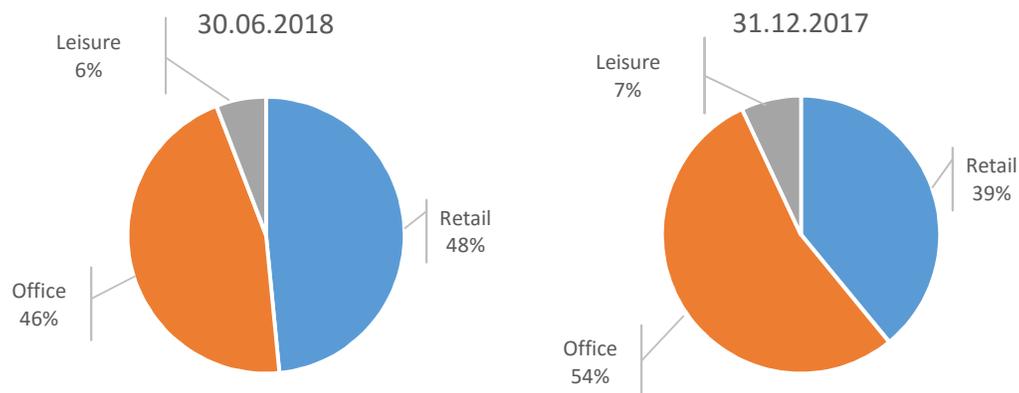
Segment net rental income*



Segment net profit (loss)*



Investment properties*



*As a percentage of the total for all reportable segments

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Reconciliation of information on reportable segments to IFRS measures

Operating segments – 30 June 2018

<i>Euro '000</i>	Total reportable segments	Adjustments	Consolidated
01.04.2018 – 30.06.2018:			
Net profit / (loss)	3,259	(683) ¹	2,576
01.01.2018 – 30.06.2018:			
Net profit / (loss)	5,498	(1,238) ²	4,260
As at 30.06.2018:			
Segment assets	230,734	17,507 ³	248,241
Segment liabilities	108,520	30,400 ⁴	138,920

1. Segment net profit for Q2 2018 does not include Fund management fee (EUR 346 thousand), bond interest expenses (EUR 180 thousand), Fund performance fee accrual (EUR 29 thousand), Fund custodian fees (EUR 12 thousand), and other Fund-level administrative expenses (EUR 116 thousand).
2. Segment net profit for six months ended 30 June 2018, does not include Fund management fee (EUR 687 thousand), bond interest expenses (EUR 180 thousand), Fund performance fee accrual (EUR 29 thousand), Fund custodian fees (EUR 22 thousand), and other Fund-level administrative expenses (EUR 320 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 17,475 thousand) and other receivables at Fund level (EUR 32 thousand).
4. Segment liabilities do not include liabilities related to a bond issue at Fund level (EUR 29,782 thousand), accrued bond coupon expenses (EUR 181 thousand), management fee payable (EUR 376 thousand), and other short-term payables (EUR 61 thousand) at Fund level.

Operating segments – 30 June 2017

<i>Euro '000</i>	Total reportable segments	Adjustments	Consolidated
01.04.2017 – 30.06.2017:			
Net profit (loss)	2,154	(612) ¹	1,542
01.01.2017 – 30.06.2017:			
Net profit (loss)	3,733	(1,241) ²	2,492
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 the quarter does not include listing related expenses (EUR 171 thousand), Fund management fee (EUR 285 thousand), performance fee (EUR 3 thousand), and other Fund-level administrative expenses (EUR 153 thousand).
2. Segment net profit for six months ended on 30 June 2017 does not include listing related expenses (EUR 373 thousand), Fund management fee (EUR 543 thousand), performance fee (EUR 9 thousand), Fund custodian fee (EUR 14 thousand), other Fund-level administrative expenses (EUR 309 thousand), and other income received at Fund level (EUR 9 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Geographic information

Segment net rental income

Euro '000	External revenue				Investment property value	
	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017 (restated)*	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017 (restated)*	30.06.2018	31.12.2017
Lithuania	1,769	1,608	3,527	1,608	82,860	80,240
Latvia	1,068	574	2,100	1,176	51,630	51,587
Estonia	1,729	1,140	3,130	2,268	91,670	57,490
Total	4,566	3,322	8,757	6,407	226,160	189,317

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

Major tenant

Rental income from one tenant in the leisure segment represented EUR 504 thousand of the Group's total rental income for six months ended 30 June 2018 and EUR 253 thousand for Q2 2018 (EUR 497 thousand for six months ended 30 June 2017 and EUR 250 thousand for Q2 2017).

6. Cost of rental activities

Euro '000	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017 (restated)*	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017 (restated)*
Repair and maintenance	344	157	676	355
Property management expenses	143	108	309	235
Real estate taxes	145	178	268	275
Sales and marketing expenses	119	123	208	190
Utilities	62	30	104	65
Property insurance	15	14	33	25
Allowance / (reversal of allowance) for bad debts	97	19	97	22
Other	15	11	27	32
Total cost of rental activities	940	640	1,722	1,199

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

Part of the total cost of rental activities was recharged to tenants: EUR 1,193 thousand during the six-month period ended 30 June 2018 and EUR 608 thousand during Q2 2018 (EUR 740 thousand during the six-month period ended 30 June 2017 and EUR 382 thousand during Q2 2017).

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

7. Administrative expenses

<i>Euro '000</i>	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Management fee	346	285	687	543
Fund marketing expenses	43	96	133	112
Legal fees	38	8	101	111
Consultancy fees	49	29	88	45
Audit fee	27	14	50	36
Supervisory board fees	12	13	25	55
Custodian fees	12	7	22	14
Public offering related expenses	-	171	-	373
Performance fee	29	3	29	9
Other administrative expenses	65	44	126	102
Total administrative expenses	621	670	1,261	1,400

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

8. Financial expenses

<i>Euro '000</i>	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Interest on external loans and borrowings	680	381	1,149	708
Loan arrangement fee amortisation	36	57	55	57
Foreign exchange loss	-	5	1	10
Total financial expenses	716	443	1,205	775

9. Earnings per unit

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

Profit attributable to the unitholders of the Fund:

<i>Euro '000</i>	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Profit for the period, attributed to the unitholders of the Fund	2,576	1,542	4,260	2,492
Profit for the period, attributed to the unitholders of the Fund	2,576	1,542	4,260	2,492

Baltic Horizon Fund
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Weighted-average number of units:

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Issued units at 1 January	77,440,638	57,264,743	77,440,638	57,264,743
Effect of own units cancelled in March 2017 ¹	-	-	-	(3,901)
Effect of units issued in June 2017 ²	-	739,703	-	369,851
Effect of units issued in February 2018 ³	1,716,456	-	1,220,591	-
Weighted-average number of units issued	79,157,094	58,004,446	78,661,229	57,630,694

1. In March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account.
2. In June 2017, the Fund registered 7,397,027 new units issued through a secondary public offering.
3. In February 2018, the Fund issued 1,716,456 units through a private placement, which was part of the Postimaja acquisition deal.

Basic and diluted earnings per unit

	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Basic and diluted earnings per unit*	0.03	0.03	0.05	0.04

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

10. Income tax

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

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2018 was 16.5% (six months ended 30 June 2017: 27.3%).

The major components of income tax for the periods ended 30 June 2018 and 2017 were as follows:

<i>Euro '000</i>	01.04.2018- 30.06.2018	01.04.2017- 30.06.2017	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Consolidated statement of profit or loss				
Current income tax for the period	(4)	(10)	(471)	(21)
Deferred tax for the period	(230)	(358)	(367)	(915)
Income tax expense reported in profit or loss	(234)	(368)	(838)	(936)
Consolidated statement of other comprehensive income				
Deferred income tax related to items charged or credited to equity:				
Revaluation of derivative instruments to fair value	34	(23)	79	(40)
Income tax expense reported in other comprehensive income	34	(23)	79	(40)

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

11. Investment property

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

As at 30 June 2018, new external valuations were performed by independent property valuator Newsec.

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

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

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

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

<i>Euro '000</i>	2018	2017
Balance at 1 January	189,317	141,740
Acquisition of investment property	34,477	35,938
Acquisition of land	1,661	-
Investment property under construction reclassified*	-	6,592
Additions (subsequent expenditure)	225	1,371
Net revaluation gain	480	3,676
Closing balance	226,160	189,317

*Domus Pro, stage III

Acquisition of Postimaja Shopping Centre

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

Valuation techniques used to derive Level 3 fair values

As at 30 June 2018, the valuations of investment properties were performed by Newsec.

The table below presents the following for each investment property:

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

As of 30 June 2018:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania) Net leasable area (NLA) – 16,900 sq. m. Segment – Retail Year of construction/renovation – 2004	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 0.0% - 2.5% 1.9% 6.5% 14.0
Domus Pro, Vilnius (Lithuania) Net leasable area (NLA) – 16,073 sq. m. Segment – Retail/Office Year of construction/renovation – 2013	DCF / Sales comparison approach for land	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 0.0% - 2.5% 2.0% - 5.0% 7.5% 9.4
Lincona Office Complex, Tallinn (Estonia) Net leasable area (NLA) – 10,859 sq. m. Segment – Office Year of construction/renovation – 2002 / 2008	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 1.9% - 2.0% 2.0% - 5.0% 7.5% 9.9
Coca-Cola Plaza , Tallinn (Estonia) Net leasable area (NLA) – 8,664 sq. m. Segment – Leisure Year of construction/renovation – 1999	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 1.9% - 2.0% 5.0% 7.5% 9.7
G4S Headquarters, Tallinn (Estonia)* Net leasable area (NLA) – 8,363 sq. m. Segment – Office Year of construction/renovation – 2013	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 0.0% - 2.0% 5.0% 7.25% 10.6
SKY Supermarket, Riga (Latvia) Net leasable area (NLA) – 3,263 sq. m. Segment – Retail Year of construction/renovation – 2000 / 2010	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 1.9% - 2.1% 2.0% - 5.0% 7.5% 11.2
Upmalas Biroji, Riga (Latvia) Net leasable area (NLA) – 10,600 sq. m. Segment – Office Year of construction/renovation – 2008	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	7.8% 1.9% - 2.1% 2.0% - 5.0% 7.0% 12.6
Pirita Shopping centre, Tallinn (Estonia) Net leasable area (NLA) – 5,516 sq. m Segment – Retail Year of construction/renovation - / 2016	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	9.0% 2.0% 2.0% 7.5% 13.3
Duetto I, Vilnius (Lithuania) Net leasable area (NLA) – 8,327 sq. m Segment – Office Year of construction/renovation - 2017	DCF	- Discount rate - Rental growth p.a. - Long term vacancy rate - Exit yield - Average rent (EUR/sq. m.)	8.2% 0.0% - 2.9% 5.0% 7.25% 11.4

Baltic Horizon Fund
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Property	Valuation technique	Key unobservable inputs	Range
Vainodes I, Riga (Latvia)*	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 8,052 sq. m		- Rental growth p.a.	0.0% - 2.0%
Segment – Office		- Long term vacancy rate	1.0% - 5.0%
Year of construction/renovation - 2014		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.3
Postimaja, Tallinn (Estonia)	DCF	- Discount rate	7.8%
Net leasable area (NLA) – 9,141 sq. m		- Rental growth p.a.	0.0% - 2.1%
Segment – Retail		- Long term vacancy rate	2.0%
Year of construction/renovation - 1980		- Exit yield	6.0%
		- Average rent (EUR/sq. m.)	17.3

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

The table below sets out information about significant unobservable inputs used at 30 June 2018 in measuring investment properties categorised to Level 3 in the fair value hierarchy.

Type of asset class	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	Discounted cash flow	Exit yield	2018: 6.0% - 7.5% 2017: 7.0% - 7.8%	An increase in exit yield in isolation would result in a lower value of Investment property.
		Discount rate	2018: 7.8% – 8.2% 2017: 7.2% - 9.0%	An increase in discount rate in isolation would result in a lower value of Investment property.
		Rental growth p.a.	2018: 0% - 2.9% 2017: 0% - 4.4%	An increase in rental growth in isolation would result in a higher value of Investment property.
		Long term vacancy rate	2018: 1% - 5% 2017: 0% – 10.0%	An increase in long-term vacancy rate in isolation would result in a lower value of Investment property.

The book values of investment properties as at 30 June 2018 were as follows:

<i>Euro '000</i>	Total
Lithuania – Europa (retail)	40,310
Estonia – Postimaja (retail)	33,980
Lithuania – Domus Pro (retail/office)	24,640
Lithuania – Domus Pro (land)	1,670
Latvia – SKY (retail)	5,360
Latvia – Upmalas Biroji (office)	24,660
Estonia – Lincona (office)	16,650
Estonia – Coca-Cola Plaza (leisure)	13,190
Estonia – G4S (office)	16,900
Estonia – Pirita (retail)	10,950
Lithuania – Duetto I (office)	16,240
Latvia – Vainodes I (office)	21,610
Total	226,160

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

12. Trade and other receivables

<i>Euro '000</i>	30.06.2018	31.12.2017
Trade receivables, gross	1,348	1,323
Less impairment allowance for doubtful receivables	(181)	(84)
Accrued income	408	222
Other accounts receivable	245	107
Total	1,820	1,568

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

As at 30 June 2018, trade receivables at a nominal value of EUR 181 thousand were impaired and fully provisioned.

Movements in the impairment allowance for receivables were as follows:

<i>Euro '000</i>	2018	2017
Balance at 1 January	(84)	(39)
Charge for the period	(97)	(45)
Balance at end of period	(181)	(84)

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

<i>Euro '000</i>	Total	Neither past due	Past due but not impaired				
		nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
30.06.2018	1,167	503	149	64	142	15	294
31.12.2017	1,239	653	178	73	48	60	227

13. Cash and cash equivalents

<i>Euro '000</i>	30.06.2018	31.12.2017
Cash at banks and on hand	19,847	24,557
Total cash	19,847	24,557

As at 30 June 2018, the Group had to keep at least EUR 375 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

14. Equity

14a. Paid in capital

The units are dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges. As at 30 June 2018, the total number of the Fund's units was 79,157,094 (as at 31 December 2017: 77,440,638).

Units issued are presented in the table below:

<i>Euro '000</i>	Number of units	Amount
As at 1 January 2018	77,440,638	91,848
Units issued in February 2018	1,716,456	2,350
Total change during the period	1,716,456	2,350
As at 30 June 2018	79,157,094	94,198

A unit represents the investor's share in the assets of the Fund. The Fund has one class of units. The investors have the following rights deriving from their ownership of units:

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

Subsidiaries did not hold any units of the Fund as at 30 June 2018 and 31 December 2017.

The Fund did not hold its own units as at 30 June 2018 and 31 December 2017.

14b. Cash flow hedge reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 30 June 2018 and 31 December 2017.

<i>Euro '000</i>	2018	2017
Balance at the beginning of the year	(56)	(294)
Movement in fair value of existing hedges	(630)	274
Termination of interest rate swap	-	57
Recognition of initial interest rate cap costs	(33)	(43)
Movement in deferred income tax (Note 10)	79	(50)
Net variation during the period	(584)	238
Balance at the end of the period	(640)	(56)

Baltic Horizon Fund

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

14c. Dividends (distributions)

<i>Euro '000</i>	2018	2017
Declared during the period	(3,681)	(2,691)
Total distributions made	(3,681)	(2,691)

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

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

15. Interest bearing loans and borrowings

<i>Euro '000</i>	Maturity	Effective interest rate	30.06.2018	31.12.2017
Non-current borrowings				
Bonds	May 2023	4.25%	29,782	-
Bank 1	Jul 2022	3M EURIBOR + 1.50%	20,860	20,852
Bank 1	Aug 2021	3M EURIBOR + 1.75%	2,440	2,493
Bank 1	Aug 2021	6M EURIBOR + 1.45%	7,742	7,742
Bank 1	Feb 2022	6M EURIBOR + 1.40%	4,936	6,580
Bank 1	Dec 2022	6M EURIBOR + 1.40%	7,175	8,231
Bank 1	Nov 2024	3M EURIBOR + 1.55%	9,842	12,870
Bank 1	May 2022	3M EURIBOR + 1.55%	7,413	7,463
Bank 1	May 2022	6M EURIBOR + 1.55%	3,557	5,403
Bank 2 ¹	Mar 2019	3M EURIBOR + 1.90%	-	6,805
Bank 3	Aug 2023	1M EURIBOR + 1.55%	11,715	11,715
Bank 4	Mar 2022	6M EURIBOR + 1.75%	7,285	7,933
Bank 4 ²	Feb 2023	6M EURIBOR + 1.18%	17,153	-
Less current portion			(106)	(1,590)
Total non-current debt			129,794	96,497
Current borrowings				
Current portion of non-current borrowings			106	1,590
Total current debt			106	1,590
Total			129,900	98,087

1. The loan was refinanced in February 2018.

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Loan securities

Borrowings received were secured with the following pledges and securities as of 30 June 2018:

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

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

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

16. Trade and other payables

<i>Euro '000</i>	30.06.2018	31.12.2017
Accrued expenses related to Domus Pro development	-	1,974
Trade payables	513	921
Accrued expenses	384	243
Tax payables	285	365
Accrued financial expenses	64	41
Other payables	412	658
Total trade and other payables	1,658	4,202

Terms and conditions of trade and other payables:

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

17. Commitments and contingencies

17a. Litigation

As at 30 June 2018, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

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 recognised in the financial statements as the management of the Fund expects that Upmalas Biroji will be able to earn the guaranteed amount of rent.

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

17c. Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2018.

18. Related parties

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

Northern Horizon Capital AS

As set out in Baltic Horizon Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund pays management fees for it (Note 7).

The Group's transactions with related parties during the six-month period ended 30 June 2018 and 2017 were the following:

<i>Euro '000</i>	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Northern Horizon Capital AS group		
Management fees	687	543
Performance fees	29	6

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

The Group's balances with related parties as at 30 June 2018 and 31 December 2017 were the following:

'000 Euro	30.06.2018	31.12.2017
Northern Horizon Capital AS group		
Management fees payable	346	311

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

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

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

Northern Horizon Capital Group owns 499,171 units of the Fund.

Entities having control or significant influence over the Fund

The holders of units owning more than 5% of the units in total as of 30 June 2018 and 31 December 2017 are presented in the tables below:

As at 30 June 2018

	Number of units	Percentage
Nordea Bank AB clients	34,788,202	43.95%
Clearstream Banking Luxembourg S.A.A clients	18,292,325	23.11%
Skandinaviska Enskilda Banken SA clients	4,565,556	5.77%

As at 31 December 2017

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

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

Baltic Horizon Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

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:

<i>Euro '000</i>	Carrying amount		Fair value	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Financial assets				
Trade and other receivables	1,820	1,568	1,820	1,568
Cash and cash equivalents	19,847	24,557	19,847	24,557
Derivative financial instruments	52	89	52	89
Financial liabilities				
Interest-bearing loans and borrowings	(129,900)	(98,087)	(130,588)	(98,123)
Trade and other payables	(1,658)	(4,202)	(1,658)	(4,202)
Derivative financial instruments	(729)	(103)	(729)	(103)

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 30 June 2018 and 31 December 2017:

Period ended 30 June 2018	Level 1	Level 2	Level 3	Total fair value
<i>Euro '000</i>				
Financial assets				
Trade and other receivables	-	-	1,820	1,820
Cash and cash equivalents	-	19,847	-	19,847
Derivative financial instruments	-	52	-	52
Financial liabilities				
Interest-bearing loans and borrowings	-	-	(130,588)	(130,588)
Trade and other payables	-	-	(1,658)	(1,658)
Derivative financial instruments	-	(729)	-	(729)
Period ended 31 December 2017				
<i>Euro '000</i>	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Trade and other receivables	-	-	1,568	1,568
Cash and cash equivalents	-	24,557	-	24,557
Derivative financial instruments	-	89	-	89
Financial liabilities				
Interest-bearing loans and borrowings	-	-	(98,123)	(98,123)
Trade and other payables	-	-	(4,202)	(4,202)
Derivative financial instruments	-	(103)	-	(103)

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Management assessed that the carrying amounts of cash and short-term deposits, rent and other receivables, trade payables and other current liabilities approximate their fair values largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to estimate the fair values:

- Trade and other receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses on these receivables. As at 30 June 2018 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by discounting the expected future cash flows at prevailing interest rates.
- Cash and cash equivalents are attributed to level 2 in the fair value hierarchy.

20. Derivative financial instruments

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

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

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

Derivative type <i>Euro '000</i>	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						30.06.2018	31.12.2017
CAP	May 2018	Nov 2023	17,200	6M EURIBOR	3.5%*	45	-
CAP	Nov 2017	Mar 2022	7,200	6M EURIBOR	1.0%*	7	83
IRS	Aug 2016	Aug 2021	7,750	6M EURIBOR	0.05%	-	6
Derivative financial instruments, assets						52	89
*Interest rate cap							
IRS	Mar 2018	Aug 2024	18,402	3M EURIBOR	0.73%	(437)	-
IRS	Mar 2018	Nov 2022	6,860	6M EURIBOR	0.46%	(90)	-
IRS	Sep 2017	May 2022	7,413	3M EURIBOR	0.05%	(64)	(37)
IRS	Nov 2016	Aug 2023	10,575	1M EURIBOR	0.26%	(63)	(4)
IRS	Aug 2017	Feb 2022	6,211	6M EURIBOR	0.305%	(57)	(47)
IRS	Aug 2016	Aug 2021	7,750	6M EURIBOR	0.05%	(18)	-
IRS	Sep 2015	Mar 2018	18,223	3M EURIBOR	0.15%	-	(15)
Derivative financial instruments, liabilities						(729)	(103)
Net value of financial derivatives						(677)	(14)

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

Derivative financial instruments were accounted for at fair value as at 30 June 2018 and 31 December 2017. The maturity of the derivative financial instruments of the Group is as follows:

Classification according to maturity <i>Euro '000</i>	Liabilities		Assets	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Non-current	(729)	(88)	52	89
Current	-	(15)	-	-
Total	(729)	(103)	52	89

21. Subsequent events

On 4 July 2018, the Fund signed a sales-purchase agreement to acquire LNK Centre office property in Riga, Latvia. The purchase price is EUR 17 million, which corresponds to an entry yield of 6.5%. The transaction was closed on 15 August 2018.

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

22. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Interest in capital
BH Lincona OÜ ¹	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BH Domus Pro UAB	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BH CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BH Europa UAB	Gynėjų 16, Vilnius, Lithuania	300059140	2 March 2015	Asset holding company	100%
BH P80 OÜ	Hobujaama 5, 10151 Tallinn, Estonia	14065606	6 July 2016	Asset holding company	100%
Kontor SIA	Mūkusalas iela 101, LV-1004, Rīga, Latvia	40003771618	30 August 2016	Asset holding company	100%
BH MT24 OÜ	Hobujaama 5, 10151 Tallinn, Estonia	14169458	14 December 2016	Holding company	0%
Pirita Center OÜ	Hobujaama 5, 10151 Tallinn, Estonia	12992834	16 December 2016	Asset holding company	100%
BH Duetto UAB	Jogailos 9, Vilnius, Lithuania	304443754	13 January 2017	Asset holding company	100%
ZM Development	Kuldigas 51, LV-1004 Riga, Latvia	40003673853	12 December 2017	Asset holding company	100%
Vainodes Krasti SIA	Agenskalna 33 LV-1046, Riga, Latvia	50103684291	12 December 2017	Asset holding company	100%

Baltic Horizon Fund

MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

The interim condensed consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 31 August 2018.

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