



# BALTIC HORIZON

## PRESENTATION

STRICTLY PRIVATE AND CONFIDENTIAL



BALTIC  
HORIZON

Q3 UPDATE 2016



# Baltic Horizon Fund

- **Long term strategy with focus on high-quality properties** in the Baltic capitals – investing into developed properties in city centres with strong Nordic and international tenants and stable cash flows, creating a well diversified and cash generating portfolio at a **conservative 50 per cent LTV**.
- High initial dividend capacity with growth potential – Targets quarterly **pay-outs of 7–9 per cent per annum**.
- The management has successfully built-up and managed the portfolio since 2010. More than **90 per cent of the initial investors** including the **Swedish Church reinvested in Baltic Horizon**.
- Efficient and investor friendly REIT like structure – Baltic Horizon is a regulated and transparent **Estonian real estate investment fund** (REIF) under the supervision of **Estonian FSA**.
- Liquidity through stock market listing – Baltic Horizon fund units are listed on **Nasdaq Tallinn** and plans for a dual listing on **Nasdaq Stockholm**.



Baltic Horizon has a strong portfolio with a total value of EUR 129 million in Tallinn, Riga, Vilnius.

## Q3 financials

Net lettable area: ~70,000 sq.m.  
 Vacancies<sup>1)</sup>: 1.9%  
 WAULT: ~5 years  
 LTV: 54%  
 Property value: MEUR 129  
 NAV<sup>2)</sup>: MEUR 57  
 EPRA NAV<sup>3)</sup>: MEUR 64  
 Net initial yield: ~7%

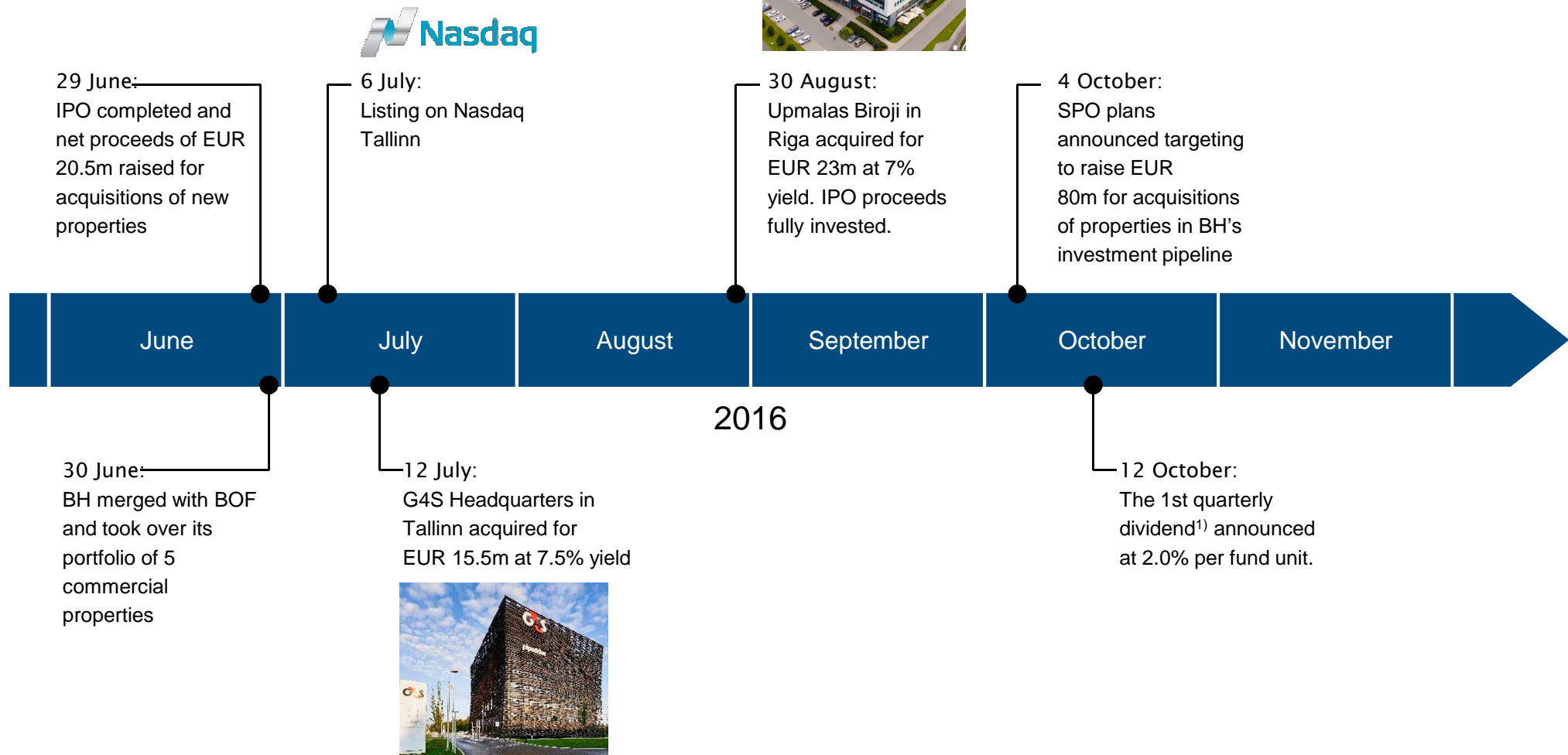
## Financial targets

**LTV: 50 %**  
**RoE: 12–15 % per annum**  
**Quarterly pay-out: 7–9 % p.a**  
**Dividend policy: ≥80 % of distributable cash flow**  
**GAV<sup>4)</sup>: MEUR 1,000**

<sup>1)</sup>Net lettable area <sup>2)</sup>Net Asset Value of the Fund or a Unit as calculated in accordance with the Fund Rules <sup>3)</sup> EPRA NAV measure is designed to reflect the fair value of net assets of an entity that invests in real estate with a long-term investment strategy. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation gains are therefore excluded.

<sup>4)</sup> The gross asset value shall be determined based on the aggregate of the Gross Property Value and the market value of all other consolidated assets of the Fund and the SPVs (excluding shares of SPVs holding real estate)

## Recent developments in 2016



# Baltic Horizon – Strong anchor investors, experienced supervisory board and management with deep knowledge of the local property market and exchanges

## 1 Unitholders – Investors

The largest investor is the Swedish church pension fund (Svenska Kyrkans Pensionskassa) that currently holds approximately 20 per cent of the capital.

## 2 Supervisory board – Elected by the Unitholders



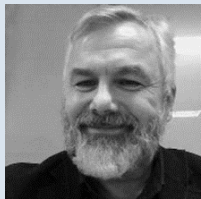
**Raivo Vare**  
*Chairman of Supervisory Board*

Chairman Board of Directors at Estonian Railways Ltd. Former minister of the transitional government 1990–1992 and vice-chairman of the Estonian Cooperation Assembly.



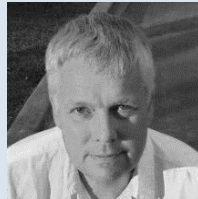
**David Bergendahl**  
*Member of Supervisory Board*

Founder and CEO of Hammarplast AB. Member of the board of Torstana Property Investment AB (publ), Link Prop Investment AB (publ). Previous experience also from the Russian real estate market. B.Sc. in Economics from Gothenburg University.



**Andris Kraujins**  
*Member of Supervisory Board*

Extensive experience of the Baltic property market, in real estate since 2001 with managing positions in NHC. Previous Chairman of BOF investment Committee.



**Per Møller**  
*Member of Supervisory Board*

Ex Chairman of the Board Dansk Farm Management (DFM), holds the management mandate for Dansk Farmland K/S (the fund vehicle fully owned by AP Pension)

## 3 Management – Northern Horizon Capital



**Tarmo Karotam, MRICS**  
*CEO, Fund manager*

In real estate and with NHC since 2006. Fund manager of BOF since its inception in 2010. Responsible for the portfolio management of the assets as well as the coordination of the fund investments. B.Sc. in Hospitality Management & Corporate Finance from École Hôtelière de Lausanne.



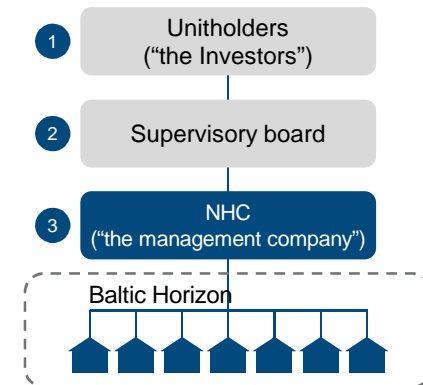
**Algis Vaitiekunas, FRICS**  
*Business Development Director*

In real estate and with NHC since 2000. Responsible for investor relations and communications. Fund manager of NHC's private Baltic real estate funds BPT Secura and BPT A/S (exited in 2007). Previous experience includes senior positions at PwC in Melbourne, Hong Kong and Vilnius. Chairman of the RICS Baltics. Member of the ICAA, Institute Chartered Accountants Australia.



**Aušra Stankevičienė, CFA**  
*Head of Fund Administration and risk*

In real estate since 2007. Head of fund administration, financial control, reporting, treasury and financial risk management in NHC. Previously treasury positions in Swedbank. MBA in Banking from Vilnius University.

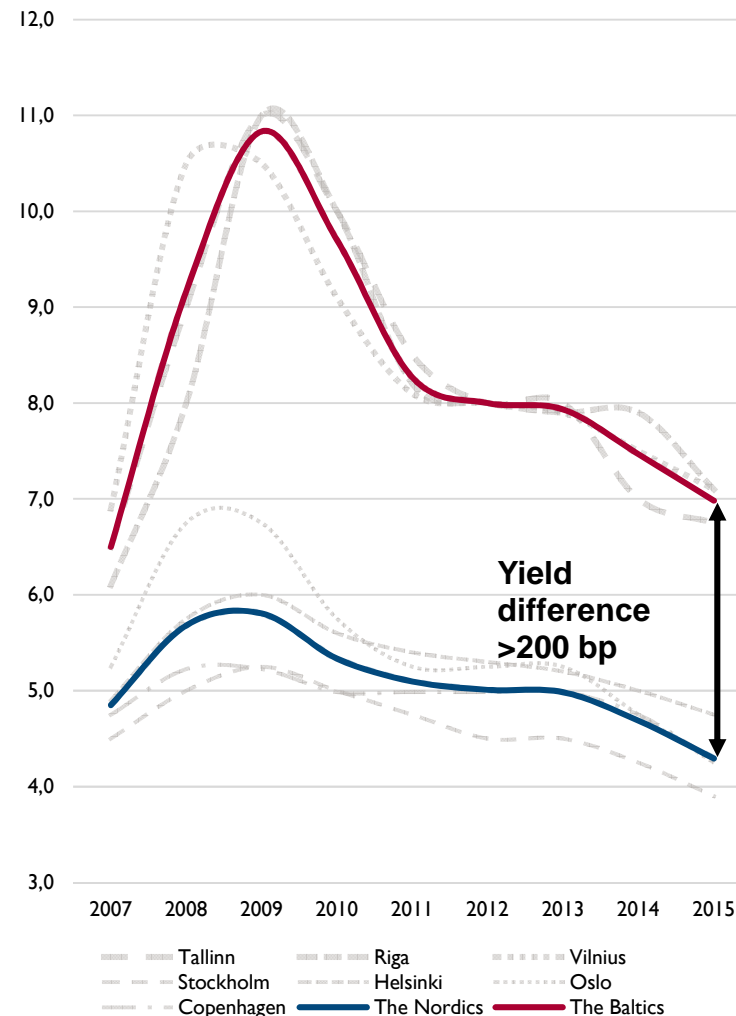




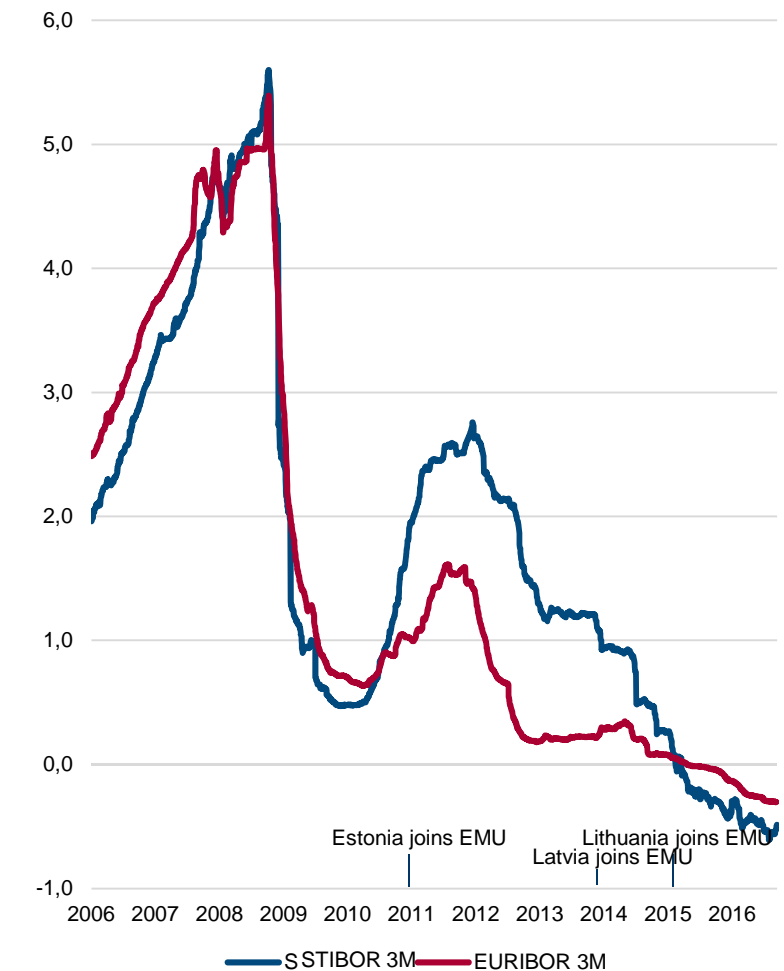
# Attractive yields compared to the Nordics and low interest rates from ECB

- Core properties in the Baltics are still priced attractively compared to similar properties in the Nordics. Comparing core office yields there is a yield difference of more than 2 per cent.
- All Baltic countries have now joined the euro and benefit from the Euro area's low interest rates (similar to the interest rates in the Nordics).
- This provides a strong potential for return on equity from both operations and debt leverage, while still investing in core properties in capitals where the strongest growth takes place.**

Prime properties in the Baltics still attractively priced  
Prime office yields, %



...and now enjoys low Euro-area interest rates  
Interest rates, %

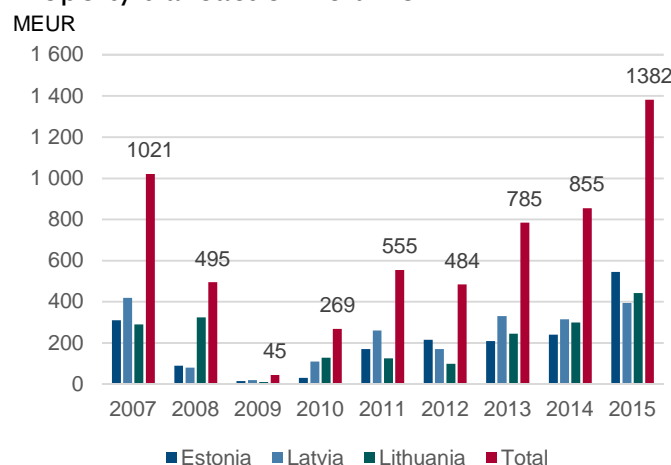


# The property market has recovered from the crisis and remains fundamentally attractive

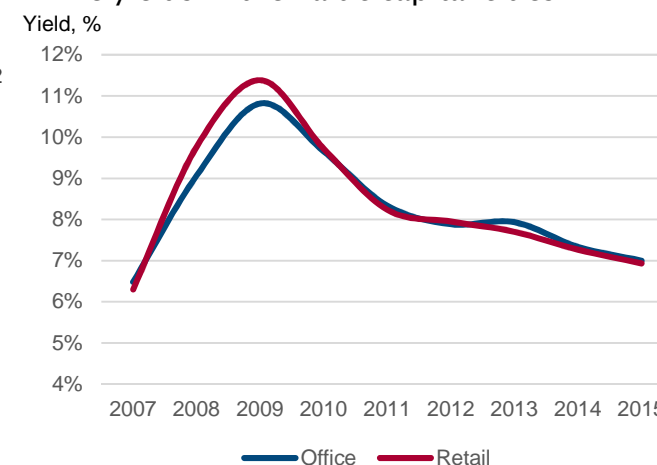
Property market is driven by healthy fundamentals

- The market are currently driven by healthy fundamentals and generate strong cash flows compared to before the crisis when speculation was the main driver.
- Improving Baltic economies have brought the real estate market back to life. Property transaction volume reached EUR 1,382 million in 2015, which was the highest figure recorded in the region's history.
- Prime yields for office and retail space have come down to around 7 per cent since the crisis.
- The rent- and price levels are growing stably but are still below peak levels in 2007.

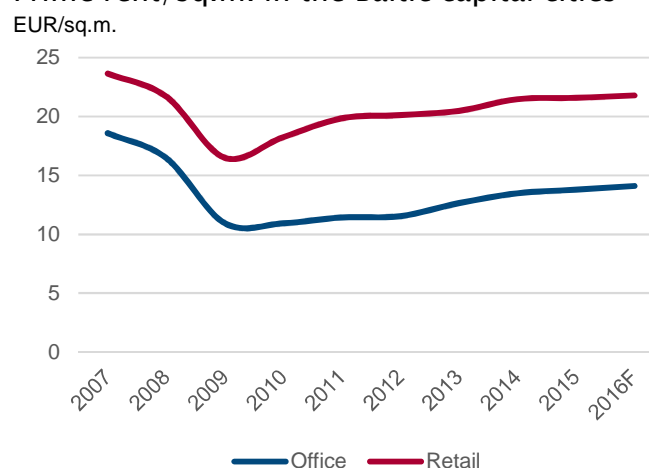
Property transaction volume<sup>1</sup>



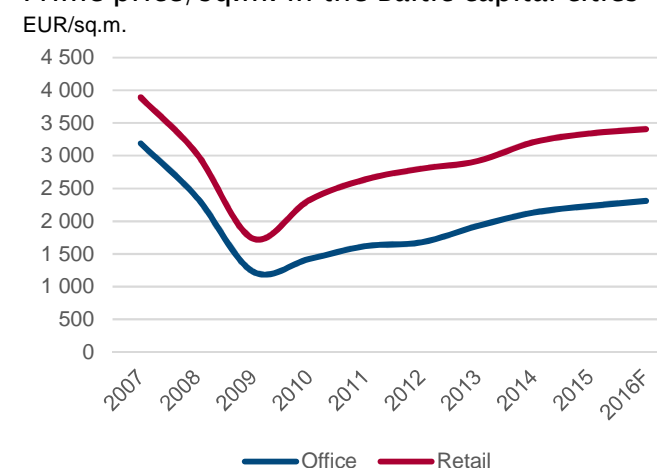
Prime yields in the Baltic capital cities<sup>2</sup>



Prime rent/sq.m. in the Baltic capital cities<sup>3</sup>



Prime price/sq.m. in the Baltic capital cities<sup>3</sup>



<sup>1</sup>Deals over EUR 0.4m

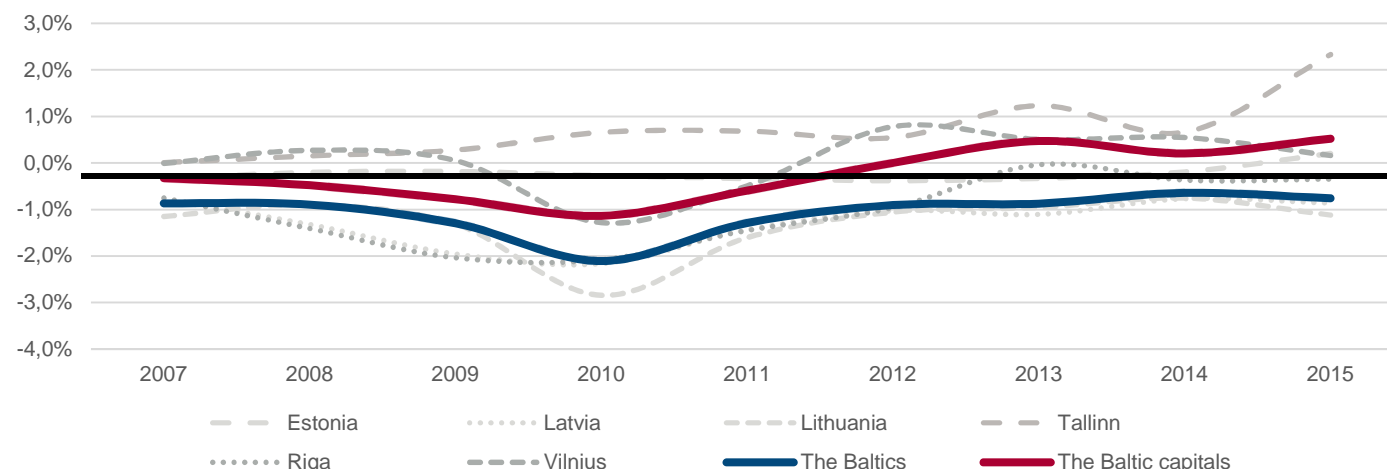
<sup>2</sup>Average yield weighted by percentage of total area in the cities Riga, Tallinn and Vilnius

<sup>3</sup>Average values of Riga, Tallinn and Vilnius

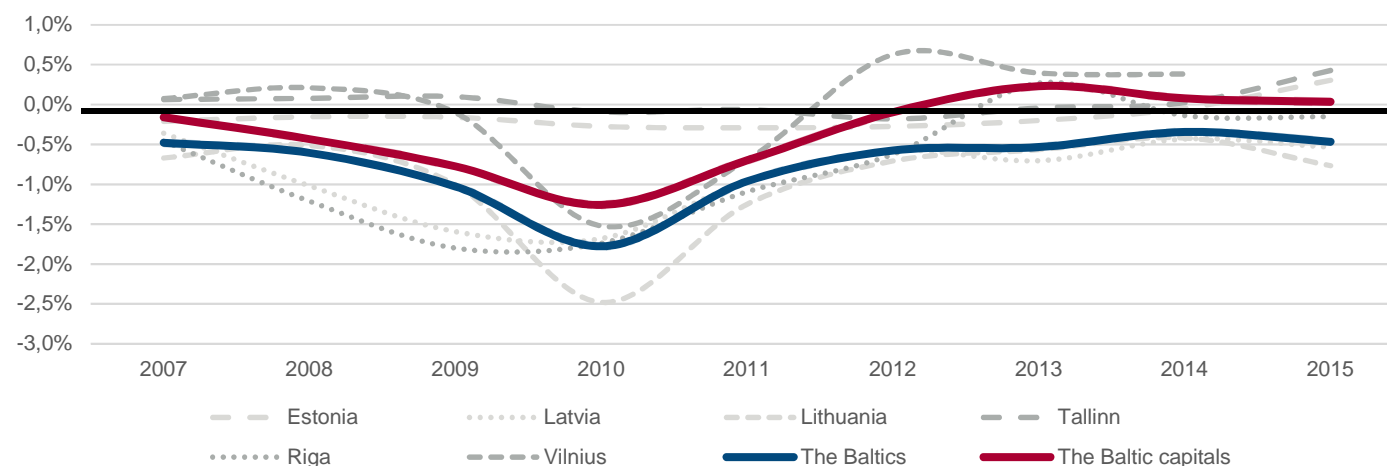
# Challenging Baltic demographics are currently improving

- Population growth is in a positive trend and the population in the Baltics decreased by approximately 0.8 per cent in 2014. The capital cities are doing better, benefiting from urbanization, and has been growing since 2013.
- Net migration is the main explanation for the decreasing population and the variable has also improved since the financial crisis. Net migration is currently around zero per cent in the capital cities, while it is still negative on the countryside.
- As the economic situation improves in the Baltic countries less people are expected to go abroad to work and with time many of the current emigrants expects to return due to strong cultural ties.

Population growth, %



Net migration, % of population



## Strong portfolio with a total value of EUR 129 million



Lincona Office  
Complex

Coca-Cola Plaza

Sky Supermarket















Domus Pro

Europa Shopping  
Center

G4S Headquarters

Upmalas Biroji

### Details of existing property portfolio, 30 September 2016

Property	Lincona Office Complex	Coca-Cola Plaza	Sky Supermarket	Domus Pro	Europa Shopping Center	G4S Headquarters	Upmalas Biroji	Total
City	Tallinn	Tallinn CBD <sup>1)</sup>	Riga	Vilnius	Vilnius CBD <sup>1)</sup>	Tallinn	Riga	N/A
Type	Office/Retail	Other (cinema)	Retail	Retail	Retail	Office	Office	N/A
Rentable area, sq.m	10,859	8,664	3,263	11,247	16,856	9,179	10,846	<b>70,914</b>
Vacancy	7.9%	0.0%	0.1%	1.5%	2.1%	0%	0%	<b>1.9%</b>
Rent/sq.m. mo. EUR	10.3	9.5	11.7	9.6	13.6	11	12.4	<b>11.0</b>
NOI, EURM	1.2	1.0	0.4	1.2	2.4	1.2	1.6	<b>~9.0</b>
Fair value, EURM	15.7	13.0	5.4	16.7	38.0	16.8	23.5	<b>129.2</b>
No. of leases	14	1	24	25	73	1	13	<b>151</b>
WAULT	4.4	6.5	4.4	6.1	3.8	6.1	4.6	<b>4.9</b>
Major tenants	 		 	 	  		  	

<sup>1)</sup>Central Business District

8 Source: Northern Horizon Capital



# Well-balanced tenant mix with major Nordic and multinational tenants

## Strong tenants and long lease agreements

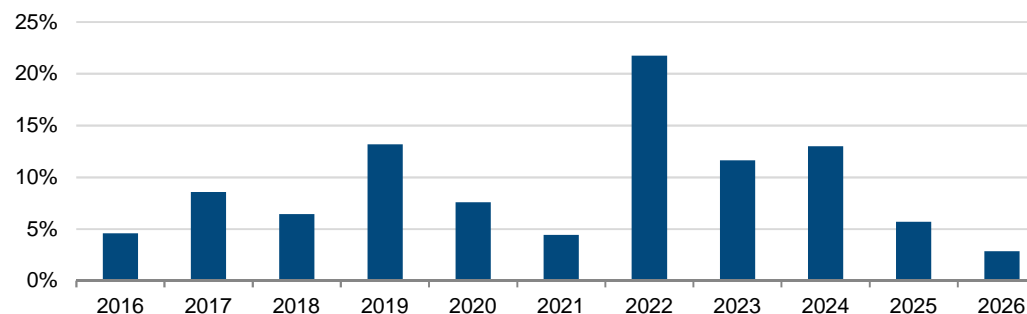
- Baltic Horizon has **151 tenants**, mainly large Nordic and multinational firms.
- The fund aims to have strong tenants with long leases and has a **WAULT of at least five years**.
- The ten largest leases comprise **52.3 per cent** of total annualised rental income.
  - G4S** is the largest tenant and accounts for **11.9 per cent** of total annualised rental income, closely followed by Forum Cinema (10.6 per cent).
- Successful property management** is an important value driver for the Fund and the Management Company closely oversees the property managers and signs off all new leases covering space of at least 100 sq.m
- The maturities of **existing leases are fairly evenly distributed** over the next ten years. Only one year, 2022, has leases worth more than 15 per cent of annualised rental income reaching maturity.

## 10 largest tenants, 30 Sep 2016

No	Tenant	Industry	Property	% of total annualised rental income	WAULT, years
1		Security	G4S Headquarters	11.9%	6.1
2	 (same owner as SF Bio)	Cinema	Coca Cola Plaza	10.6%	6.5
3		Banking	Upmalas Biroji	5.7%	6.3
4		Grocery	Domus Pro	5.7%	7.3
5		Banking	Lincona	4.5%	0.9
6		Specialty chemicals	Upmalas Biroji	3.5%	2.8
7		Fashion	Europa SC	3.2%	1.6
8		Grocery	Sky Supermarket	2.6%	6.3
9		Public institution	Lincona	2.5%	7.8
10		Grocery	Europa SC	2.2%	7.3
Total of 10 largest tenants				<b>52.3%</b>	<b>5.5</b>

## Maturities of existing leases, 30 Sep 2016

% of total annualised rental income



# Identified operational, financial and liquidity risk factors and mitigating factors

## IDENTIFIED RISK FACTORS

## MITIGATING FACTORS

### Operational risk

Examples of operational risks include:

- Ability to identify and acquire commercial properties at attractive levels.
- Availability of debt capital at attractive terms.
- Vacancies, loss or delayed rental payments.
- Liquidity.

Operational risks are implicit in all property investments and although difficult to avoid, they can be reduced. Northern Horizon has been established since 2001 and has a proven track-record of handling property funds, this forms a stable platform for Baltic Horizon which also will be managed by an experienced team, see page 24 and 25. Healthy fundamentals have brought the real estate market back to life and the property transaction volume reached record heights of EUR 1,382 million in 2015 in the Baltics.

### Financial risk

Examples of financial risks include:

- Interest and refinancing risk
- Value of the Fund's property portfolio is also subject to fluctuations which directly affect the NAV.

The risk of large fluctuations in the fund portfolio value is largely reduced by the funds strategy to invest in core properties which are more resilient to a downturn in the market. Baltic Horizon's targets a LTV of 50 per cent which reduces the financial risk of costs occurring from a potential increase in interest rates and upcoming refinancing. Debt is also denominated in euro and thus match the euro denominated rental income.

### Liquidity risk

Examples of liquidity risks include:

- Difficulties to sell fund units.

As per July 2016 the Baltic Horizon fund units are publicly traded on Nasdaq Tallinn fund list, making them accessible to wide investor base. In conjunction with the IPO the ownership base was also broaden. Further liquidity will be provided by listing the fund units on Nasdaq Stockholm.

## Interim financial results (Q3 2016) financial performance

- NOI increased by 36%, mainly due to new properties acquired in July and August.
- The listing related costs charged in Q3 2016 - EUR 125 thousand.
- New property values reflected already in Q3 2016 that increased the net profit for the period by EUR 2.8 million.

'000 Euro	Q3 2016	Q3 2015	Change (%)
Rental income	2,058	1,621	27%
Expenses reimbursement revenue	617	582	6%
Cost of rental activities	(747)	(784)	-5%
<b>Net rental income</b>	<b>1,928</b>	<b>1,419</b>	<b>36%</b>
Administrative expenses	(482)	(186)	159%
Other operating income	17	266	-94%
Valuation gains / (loss) on investment properties	2,802	-	n/a
<b>Operating profit</b>	<b>4,265</b>	<b>1,499</b>	<b>185%</b>
Financial income	3	6	-50%
Financial expenses	(307)	(281)	9%
<b>Net financing costs</b>	<b>(304)</b>	<b>(275)</b>	<b>11%</b>
<b>Profit before tax</b>	<b>3,961</b>	<b>1,224</b>	<b>224%</b>
Income tax charge	(253)	(120)	111%
<b>Profit for the period</b>	<b>3,708</b>	<b>1,104</b>	<b>236%</b>

# Interim financial results (Q3 2016)

## Financial position

- IFRS NAV per unit EUR  
1.3619 (+6.9% since June 2016)
- EPRA NAV per unit EUR  
1.5298 (+8.9% since June 2016)
- Loan to value ratio as at 30/09/2016 was 53.9% (59.0% as at 31/12/2015).
- Weighted average cost of debt as at 30/09/2016 was 2.1%.
- Weighted average maturity of debt as at 30/09/2016 was 2.09 years.

'000 Euro	30.06.2016	31.12.2015	Change (%)
<b>Assets</b>			
Investment properties	129,200	86,810	48.8%
Other non-current assets	376	263	43.0%
Trade and other receivables	722	840	-14.0%
Prepayments	154	81	90.1%
Cash and cash equivalents	3,245	1,677	93.5%
<b>Total assets</b>	<b>133,697</b>	<b>89,671</b>	<b>49.1%</b>
<b>Equity</b>			
Paid in capital	46,636	25,674	81.6%
Cash flow hedge reserve	(265)	(199)	33.2%
Retained earnings	10,798	6,218	73.7%
<b>Total equity</b>	<b>57,169</b>	<b>31,693</b>	<b>80.4%</b>
<b>Liabilities</b>			
Interest bearing loans and borrowings	69,703	51,194	36.2%
Deferred tax liabilities	4,050	3,673	10.3%
Derivative financial instruments	297	232	28.0%
Trade and other payables	1,183	2,036	-41.9%
Other liabilities	1,295	843	53.6%
<b>Total liabilities</b>	<b>76,528</b>	<b>57,978</b>	<b>32.0%</b>
<b>Total equity and liabilities</b>	<b>133,697</b>	<b>89,671</b>	<b>49.1%</b>

## Q3 2016 STATEMENT OF PROFIT OR LOSS ZOOMED IN

- September is the first month when all 7 properties are earning full rent since last acquisition was closed in August.
- In September, valuations to update fair value of the portfolio were done by Colliers and DTZ. Gross increase of ~2,5%.
- Market capitalization as of end of October equals EUR 55,7 million
- Profit before tax (excluding valuation gains) equals EUR 486 thousand in September i.e. 8,7% to market cap

Euro '000	Jul 2016	Aug 2016	Sep 2016	Q3 2016
<b>Rental income</b>	<b>631</b>	<b>644</b>	<b>783</b>	<b>2,058</b>
Expenses reimbursement revenue	199	194	224	617
Cost of rental activities	(241)	(233)	(273)	(747)
<b>Net rental income</b>	<b>589</b>	<b>605</b>	<b>734</b>	<b>1,928</b>
Monthly change in %	20.0%	2.7%	21.3%	
Expenses related to IPO	(65)	(11)	(49)	(125)
Administrative expenses	(155)	(125)	(77)	(357)
Other operating income / (expenses)	7	-	10	17
Valuation gains / (loss) on investment properties	-	-	2,802	2,802
<b>Operating profit</b>	<b>376</b>	<b>469</b>	<b>3,420</b>	<b>4,265</b>
Financial income	3	-	-	3
Financial expenses	(85)	(90)	(132)	(307)
Net financing costs	(82)	(90)	(132)	(304)
<b>Profit before tax</b>	<b>294</b>	<b>379</b>	<b>3,288</b>	<b>3,961</b>
Current income tax for the period	(5)	(5)	(4)	(14)
Deferred tax for the period	(38)	(35)	(171)	(244)
<b>Profit for the period</b>	<b>251</b>	<b>344</b>	<b>3,113</b>	<b>3,708</b>



## Sensitivity analysis of Catella's estimate shows relatively stable ROE at 11–16% as nominal rental growth varies from 2–3.5% and interest rates from 1.5–4.0%

- Theoretical dividend capacity: Sensitivity analysis shows that total cash return to equity is between 6.3-9.1 per cent as the vacancy rate varies from the current situation of 1.9 per cent to 5 per cent.
- ROE: Sensitivity analysis shows relatively stable ROE of 11–16 per cent as interest rates varies from 1.5-4 per cent.
- In the tables to the right, investor ROE and the fund's maximum dividend capacity are analysed in different market conditions. BH currently has an average cost of debt of approximately 2 per cent. When calculating long-term ROE, Catella has assumed 1 per cent real annual rental growth, 2 per cent inflation and an average cost of debt of 2.5 per cent.
- Potential upside:
  - Yield contraction
  - Expansion of existing properties

### Dividend capacity given long-term assumptions (Theoretical cash returns from operations to equity)

		Vacancy rate					
		0.0	1.9	5.0	10	25	30
Interest rate	1.5	9.3	9.0	8.5	7.5	4.3	3.1
	2.0	8.9	8.6	8.1	7.0	3.8	2.6
	2.5	8.5	8.2 <sup>1)</sup>	7.7	6.5	3.3	2.1
	3.0	8.1	7.8	7.2	6.0	2.8	1.6
	4.0	7.2	6.8	6.2	5.0	1.8	0.6
	5.0	6.2	5.8	5.2	4.0	0.8	-0.4

### ROE given long-term assumptions

		Annual rental growth (including inflation)					
		0.0	1.0	2.0	3.0	3.5	4.0
Interest rate	1.5	9.0	11.0	13.0	15.0	16.0	17.0
	2.0	8.7	10.5	12.5	14.5	15.6	16.6
	2.5	8.3	10.1	12.1	14.1	15.1	16.1
	3.0	7.8	9.7	11.6	13.6	14.6	15.6
	4.0	6.8	8.8	10.7	12.7	13.7	14.7
	5.0	5.8	7.8	9.8	11.8	12.8	13.8

The estimate provided here is not a forecast and must be viewed only as a theoretical snapshot of ROE and dividend capacity given the stated assumptions.

<sup>1)</sup> The theoretical cash returns from operations to equity of 8.4%-0.3%=8.1% (shown on previous page) differs from 8.2% because management fee will be reduced as the fund grows and performance fee increases from 0.1% to 0.4% of NAV, 8.2% refers to the initial year of the long term assumptions.

## Key terms in the Offering in November

### The Offering

Issuer	Baltic Horizon Fund
Listing	Nasdaq Tallinn and Nasdaq Stockholm
ISIN	EE3500110244
Number of Units	59,410,000 (37,131,000 + 22,279,000 upsizing option)
Nominal amount	Maximum EUR 81,391,700
Subscription price	EUR 1,3456
Subscription period	8 November 2016 – 30 November 2016
Minimum subscription volume	1 unit or according to each distributor
Fee	Approximately 2.6 per cent of NAV + EUR 200,000 if all units are issued, see section 8.3 in the prospectus
Allocation	1 December 2016



# BALTIC HORIZON

**Tarmo Karotam, MRICS**

Northern Horizon Capital AS  
CEO, Baltic Horizon Fund manager

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**Täna tähelepanu eest!**

