BALTIC HORIZON

ANNUAL REPORT

AND

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

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
Fund Supervisory Board	Raivo Vare (Chairman) Andris Kraujins Per Moller David Bergendahl
Fund Supervisory Board remuneration	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 Reimo Hammerberg
Depositary, Fund Administrator and Registrar	Swedbank AS

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DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

AIFM	Alternative Investment Fund Manager
AFFO	Adjusted Funds From Operations means the net operating income of properties less fund administration expenses, less external interest expenses and less all capital expenditures including tenant fit-out expenses invested into existing properties by the Fund. New investments and acquisitions and follow-on investments into properties are not considered to be capital expenditures.
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 of a property
Net Initial Yield	NOI divided by market value of a 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.

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.

Following a successful capital raising Baltic Horizon Fund 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 raised proceeds were allocated according to the investment strategy of the Fund within weeks after listing into the acquisition pipeline that was built throughout the process. The trading of Baltic Horizon Fund units on the Nasdaq Tallinn Stock Exchange began on 6 July 2016. In total approx. 42 million of fund units were listed on the exchange. On 4 October 2016, the Fund declared its aspiration to raise additional capital and target a second listing on the Nasdaq Stockholm Stock Exchange. In total, approx. 15 million units were subscribed. As a result of the offering of the new units, the total number of Fund units increased to 57,264,743.

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 will focus 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, the Northern Horizon Capital Group has been able to build a strong and a cohesive team from diverse backgrounds with a focus on being conservative and thorough, yet dynamic in real estate acquisitions and management.

MANAGEMENT REVIEW

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. Business units are 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 issued by the Group.

The Fund has an independent Investment Committee which consists of qualified members with recognized experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education.

Swedbank is appointed to provide depositary and administration responsibilities in accordance with Estonian legislation. The administrator provides the independent NAV calculations, the Fund accounting and together with the Estonian Central Register of Securities Unit Holder services such as transfer agency, paying agency and registry maintenance services.

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, the Investment Committee, and the Fund administrator and depositary bank Swedbank.

MANAGEMENT REPORT

In March, BOF investors approved the listing and merging of BOF into the Baltic Horizon Fund conditional to a successful and sufficient capital raising. In Q2 the public offering started in Sweden and private placement in other jurisdictions. In total, investors who participated in the Combined Offering subscribed for 22,709,723 offer units that corresponds approximately to EUR 30 million. In total, 16,962,475 new units were issued, and together with the sale units, a total of 22,709,723 offer units were allocated to the investors in the combined offering.

Following a successful capital raising Baltic Horizon Fund closed and took over P80 Property (G4S Headquarters) in Tallinn just days after listing on the Tallinn Nasdaq Stock Exchange. P80 property was built in 2013. The property is located on the arterial Paldiski road and has 9.1 thousand sq. m. of gross area. The property is leased on a long-term basis to the global Danish security company G4S. The property was acquired at an approx. 7.5% yield.

On 30 August 2016, Baltic Horizon acquired an office building from Bauplan Nord in Riga, Latvia. Upmala Biroji is an office building built in 2008 by the German developer Bauplan Nord. The building is anchored by SEB and CABOT under medium- to long-term leases and the property is fully leased out. The net leasable area is 10,419 sq. m.. The property was acquired at an approx. 7.25% yield based on a full year basis.

MANAGEMENT REVIEW

On 4 October 2016, the Fund declared its aspiration to raise additional capital and target a second listing on the Nasdaq Stockholm Stock Exchange. During the second public offering, approx. 15 million units were subscribed that corresponds to approx. EUR 20.6 million of gross capital raised. As a result of the offering of the new units, the total number of Fund units increased to 57,264,743.

In November, the Fund continued to make preparations for the start of the construction of Domus Pro stage III in Vilnius, Lithuania. The contractual prelease level of the final expansion stage of the property had reached 52%. It is expected that construction will be completed by end of 2017 allowing the first tenants to move into the building at the end of 2017. The net leasable area of stage III is approx. 4,380 sq. m. After the expansion, the total net leasable area of Domus Pro will be more than 15,000 sq. m.

On 16 December 2016, Baltic Horizon acquired Pirita shopping centre in Tallinn, Estonia. The net leasable area of the property is approximately 5,500 sq. m. The property has Rimi and MyFitness as anchor tenants. Under the agreement, the purchase price was EUR 12.2 million. Acquisition yield was approximately 7.4%. The acquisition was financed with the capital raised in the course of the second public offering of the Fund. The seller provided a 2-year guarantee for starting net operating income.

On 22 March 2017, the Fund acquired Duetto property located in Vilnius, Lithuania, in an asset deal for a purchase price of EUR 14.6 million which represents 7.22% acquisition yield. The seller also provides a 2-year guarantee for starting net operating income. Additionally, the Fund also obtained a call option to acquire neighbouring Duetto II when the building is constructed in the future.

Based on the trading data available from Nasdaq stock exchanges, Baltic Horizon Fund is the 7th most traded security on Baltic exchanges according to February 2017 data with a monthly turnover of approx. EUR 1 million. Approximately 65% of the trading takes place in Stockholm and 35% in Tallinn.

MACROECONOMIC FACTORS IN THE BALTIC STATES

The Baltic countries, which are part of the Northern European economic region, continue to attract investors due to their investment returns which are higher than in the Western European or Scandinavian countries. The most attractive segments are still office and retail properties with stable cash flows located in core locations. However, the yields of prime office and retail properties continue to decline, following the yield decrease trends seen in the Nordic countries. Given the lack of attractive alternatives, the return expectations for core property investments in the Baltic capitals have therefore been lowering.

GDP growth in all three Baltic countries rebounded strongly in Q4. According to the released updated national statistics, the GDP growth rates in the Baltic countries were between 2.6% and 3.2% compared to the corresponding period of 2015.

New offices are being completed one after the other for expanding near shoring tenants such as Nordic banks. Developers are continuously ready to build new buildings for major tenants secured through prelease contracts. In the Baltic office development market, at least a 50% prelease level continues to be the main prerequisite for receiving bank financing and getting projects started. All in all, market players seem to accept a longer period for achieving 100% occupancies when leasing markets grow down the road. It is expected that tenants have more choice in new premises and that they continue to move up the quality curve from old buildings and B2/C class locations. It is clear that supply exceeds demand in the office segment. Therefore rents will experience downward pressures and competition between office buildings will increase.

Retail spending remained robust across the Baltics in Q4 2016. Larger established shopping centres have enjoyed low vacancies. However new large-scale projects will start to threaten the status quo down the road. New neighbourhood supermarkets are being built to compete in the micro locations, taking into account new road developments and residential development plans. All in all, every shopping centre owner is focused on providing more leisure and entertainment services for attracting more customers and address vacancies created by those tenants that have moved online. The stiffest competition has been noted among sports clubs which are now found in many major shopping centres.

The compression of prime yields continued in 2016, driven by cheap debt capital, a limited number of established investment grade products and strong investor appetite. In office and retail segments which is the predominant focus of Baltic Horizon, the prime yields in Latvia and Lithuania were between 6.75%-7.25% whereas in Estonia the prime yields have dropped another 20-30 bps. It is however important to note that the spread of prime yields to cost of debt is still a healthy 400-450 bps, leaving ample room to earn an attractive cash dividend of 7-10% on commercial real estate investments given full occupancy of the buildings.

By end of Q4 2016 it was clear that the record number of deals and the total turnover of 2015 would not be reached in 2016. This was mainly due to decreasing yields and buyers being more careful and selecting only the most suitable properties for their portfolios. The larger deals were mostly made by established investment managers and only a few newcomers entered the investment market.

FINANCIAL REPORT

Financial position and performance of the fund

As at 31 December 2016 the GAV of the Fund increased to EUR 154.9 million (EUR 89.7 million as at 31 December 2015). The increase is mainly related to new acquisitions during the year and the increase in cash as a result of the second public offering.

As of 31 December 2016, the Fund NAV was EUR 76.8 million, compared to EUR 31.7 million as at 31 December 2015. The increase in NAV is mainly related to the new capital raised during the initial and second public offerings (approx. EUR 40.5 million net of subscription fees) and the performance of the Fund.

During 2016, the Fund recorded a net profit of EUR 5.8 million (EUR 5.5 million during 2015) which had a positive effect on the Fund NAV. The net result was positively affected by the revaluation gains and the operational performance of the properties. On the other hand, the net profit was highly affected by the costs related to the initial and secondary public offerings (EUR 938 thousand during the year).

In 2016, the net rental operating income (NOI) earned by the Group amounted to EUR 7.2 million and was higher than in 2015 when the Group earned EUR 5.3 million. Compared to 2015, the increase in NOI is mainly related to rental income earned by the new acquisitions P80 (formerly known as *G4S*), Upmalas Biroji and Pirita shopping centre.

MANAGEMENT REVIEW

Table 1: Key Figures

Euro '000	**2016**	**2015**	**Change (%)**
Rental income	7,874	6,073	29.7%
Service charge income	2,594	2,062	25.8%
Cost of rental activities	(3,315)	(2,796)	18.6%
Net rental income	**7,153**	**5,339**	**34.0%**
Expenses related to public offerings	(938)	-	n/a
Administrative expenses	(1,252)	(984)	27.2%
Other operating income / (expenses)	97	267	(63.7)%
Net loss on disposal of investment property	-	(10)	(100)%
Valuation gains / (loss) on investment properties	2,562	2,886	(11.2)%
Valuation gains / (loss) on investment property under construction	175	-	n/a
Operating profit	**7,797**	**7,498**	**4.0%**
Financial income	14	17	(17.6)%
Financial expenses	(1,253)	(1,100)	13.9%
Net financing costs	**(1,239)**	**(1,083)**	**14.4%**
Profit before tax	**6,558**	**6,415**	**2.2%**
Income tax charge	(798)	(890)	(10.3)%
Profit for the period	**5,760**	**5,525**	**4.3%**
Weighted number of units outstanding	47,350,881	23,914,800*	98.0%
Earnings per unit (EUR)	**0.12**	**0.23***	**(47.8)%**

* On June 30, 2016, BOF was merged with Baltic Horizon Fund. Unit holders of BOF received 100 units in Baltic Horizon Fund for each 1 unit in BOF (ratio of 1:100). The units were adjusted for comparison reasons.

Euro '000	**31.12.2016**	**31.12.2015**	**Change (%)**
Investment property in use	141,740	86,810	63.3%
Gross asset value (GAV)	154,938	89,671	72.8%
Interest bearing loans	69,172	51,194	35.1%
Total liabilities	78,129	57,978	34.8%
Net asset value (NAV)	76,809	31,693	142.4%
Number of units outstanding	57,264,743	25,016,700*	128.9%
Net asset value (NAV) per unit (EUR)	**1.3413**	**1.2669***	**5.9%**
Loan-to-Value ratio (LTV)	**48.8%**	**59.0%**	

* On June 30, 2016, BOF was merged with Baltic Horizon Fund. Unit holders of BOF received 100 units in Baltic Horizon Fund for each 1 unit in BOF (ratio of 1:100). The units were adjusted for comparison reasons.

MANAGEMENT REVIEW

The Fund also calculates EPRA NAV, which was EUR 84.6 million as at 31 December 2016. EPRA NAV is calculated according to EPRA Best practice recommendations that were issued in December 2014. EPRA NAV is calculated adjusting IFRS NAV for the items summarised in the table below:

Table 2: Adjustments for recalculating NAV to EPRA NAV

Euro '000	**31.12.2016**
IFRS NAV as of 31 December 2016	**76,809**
Exclude deferred tax liability on investment properties	7,652
Exclude fair value of financial instruments	345
Exclude deferred tax on fair value of financial instruments	(51)
EPRA NAV*	**84,755**
Amount of units	57,264,743
EPRA NAV per unit	**1.4801**

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

PROPERTY REPORT

The property portfolio, which in December consisted of 8 properties in the Baltic capitals, continues to be virtually fully let producing very attractive cash flows. This is supported by the expectations that the Baltic economic growth is largely being driven by domestic consumption and expected stronger export prospects for the Baltics. 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 and the back offices or the Baltic headquarters of leading Nordic companies. The management team has negotiated 2-year NOI guarantees from the sellers of three new properties in the portfolio: Upmalas Biroji, Pirita Center and Duetto I office building.

With the absence of traditional high streets in the Baltic capitals, shopping is concentrated in shopping centres. The established centres in the market have all been focusing on growing through expansion with only a few new stand-alone centres being planned. However in Q4 2016 many large-scale shopping centre projects were pushed forward. Thus, the retail scene in the Baltic capitals may be expected to change in the next few years. For the time being, vacancies remain between 1-3% in established centres. In addition to global leaders such as H&M, Debenhams, Subway, and Sports Direct entering the market over the past years, more new retail companies are expected to look for ways to take advantage of the growing spending power of the Baltic people as new shopping centres are being planned.

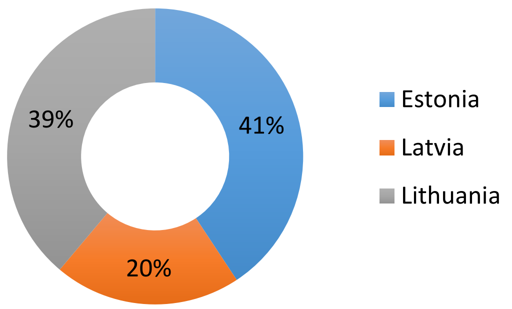
In the Baltic retail sector in Q4 2016, rents for small spaces remained in the range of EUR 21-60 sq. m. per month. Average retail rents in the Baltic capitals were EUR 13-22 sq. m for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 6-11 sq. m. Rent rates for medium and larger retail units are forecasted to be rather stable. The average rent range of retail assets in the Fund's portfolio was EUR 9.3-13 per sq. m. per month, therefore well in line with average market brackets.

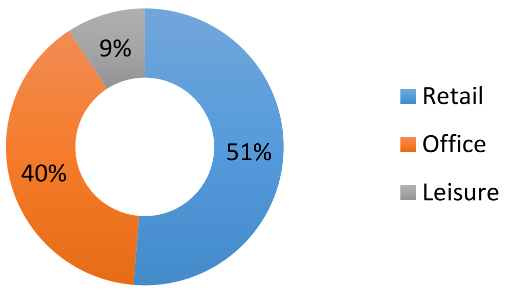
Capital city office rents in Q4 2016 remained at EUR 12.5-17.4 EUR per sq. m. per month for class A premises and EUR 8.0-13.0 sq. m. for modern class B offices. For comparison, the average rental level in Lincona was EUR 10.3 sq. m, therefore also well in line with average market brackets. The trend of expanding back office tenants from the Nordic countries continues as they are still looking to take up tens of thousands of square meters of new office space, however mainly in Vilnius.

MANAGEMENT REVIEW

The Baltic property yields in both office and retail segments decreased during 2016 by approx. 75 bp to 6.5% – 7.25% depending on the exact micro location, age, rent level and history of the property. At the same time the Baltic States continue to maintain a yield value gap of 200-250 bps compared to the Western European and the Nordic countries and 100-150 bps to Poland.

Picture 1: Fund segment and country distribution





Property performance

During 2016, the average occupancy of the portfolio was 97.1% (97.2% during 2015) and average Direct Property Yield 7.2% (7.2% during 2015). The level of property operating costs was stable throughout the whole year.

Lincona
The average occupancy level of the property remained stable at 92.1% at the end of Q4. The vacancy created by Liewenthal Electronics OU (4% of the building) in Q3 is expected to be absorbed by another tenant in the office complex in H1 2017. Average net yield during Q4 was 7.8% and with no debts the tenant payment discipline was very good. In the coming quarters, the management team continues to maintain the attractiveness of the property by upgrading its façade in order to keep the building attractive for tenants and their employees.

Domus PRO
In addition to well working stage I and II, the plan is to build a mixed use building of 4,380 sq. m. of net leasable area on 6 floors (ground floor for retail) with an additional 2 floors of underground parking. The construction preparations were started in Q4 2016 as the required level of pre-leases had been achieved. The building is expected to be completed within 12 months by the end of 2017.

Pursuing pre-leased expansions is a good example of the value adding activities of the Fund.

SKY Supermarket
SKY supermarket continues to produce good net cash flows as expected despite the fact that Maxima retail centre was opened nearby. This proves that established neighbourhood shopping centres surrounded by dwelling houses are one of the most resilient investment properties.

During the year, the management team developed a new architectural project to modernize the façade of the building in cooperation with the main tenant SKY. The total investment of EUR 200 thousand will be executed in H1 2017. Further investments are planned by the tenant SKY supermarket on their premises.

In Q4 it became known to the market that IKEA will be opening its first store in Riga near by the SKY supermarket, making the eastern part of Riga an attractive retail destination in its own right.

Coca-Cola Plaza
In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. In addition, the team has continued to test the feasibility of the vision to expand the property and connect it to the neighbouring shopping centre. With further support from the neighbours, the tenants and the city of Tallinn, the management team will undertake an architectural competition to find the best and most economical solution for all stakeholders within the course of the coming year. This potential is not yet priced into the valuation of the property as the building rights are yet to be established. In Q4 it was announced that the neighbouring Postimaja shopping centre will be put for sale in Q1 2017.

Europa Shopping Centre
Located in the heart of Vilnius central business district on Konstitucijos Prospektas, the shopping centre caters to the higher end of the market with a focus on having an A-class mix of fashion tenants. In the immediate neighbourhood there are a number of new office buildings being built which is expected to contribute to the success of the centre in the long term. The largest office complex Quadrum opened its first stage of 24,000 sq. m. and positive signs in Europa SC footfall were also seen in Q4 .

Management kept a 5% tactical vacancy in the building for new attractive tenants during Q4 and continued negotiations to improve the tenant mix with internationally renowned brands. Negotiations continued in Q4 also with Fortas restaurant to redesign their restaurant and therefore complete the repositioning and modernization of the food offering in the shopping centre for its visitors. A new parking system was installed for the parking house in Q4, which has significantly increased the quality of the parking service for both visitors of the Europa shopping centre and the office complex.

P80 (former *G4S*)
The building was built in 2013 as the regional headquarters of the global security company G4S. The cash management centre for Northern Estonia is also located on the underground floor of the building. The property has good visibility and access from the arterial Paldiski road. The land plot allows for future development of an additional office building with a GLA of 13,000 sq. m.

The total gross space of the G4S headquarters is 9,179 sq. m. It maintains one key tenant – G4S, who has rented out the whole building under a long-term agreement. G4S together with the landlord sub-leases 2 floors of the building to a leading Estonian software company Pipedrive and works with other smaller sub-tenants as well.

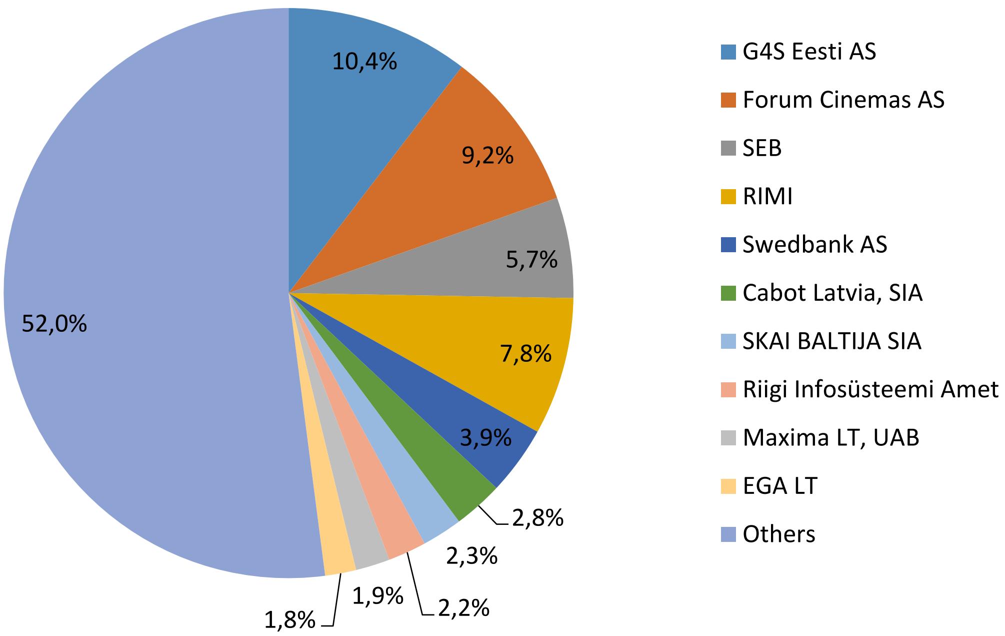
Upmalas Biroji
Upmala Biroji is an office complex built in 2008 with NLA of 10,599 sq. m. The property currently accommodates a mix of 13 quality tenants of which 8 could be regarded as international blue chip tenants (77% of total NLA). Upmala is positioned as a Shared Service Center/Back office destination and accommodates such tenants as SEB, CABOT, Bosch, Johnson&Johnson, Strabag and others. The property was built by the German developer Bauplan Nord and the quality has been maintained throughout its life. The property was elected the most energy efficient building in Latvia in 2013 and remains among tenants as one of the most preferred office buildings in Riga with its 2,000 sq. m. floor plates. In Q4 the preparation of the expansion of SEB in the building continued and management is looking to further strengthen the tenant mix in the building by focusing on keeping only the strongest tenants after the SEB expansion.

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

MANAGEMENT REVIEW

The property has Rimi and MyFitness as anchor tenants. The net leasable area of the Pirita shopping centre is close to 5,500 sq. m. The management team negotiated a 2-year NOI guarantee from the seller from the moment of acquisition in order to ensure stable cash- flows also during the opening period.
The tenant base of the Fund is well diversified. The rental concentration of the 10 largest tenants of the Fund's subsidiaries are shown in picture 2. 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 subsidiaries



RISK MANAGEMENT

The risk management function of the Fund is the responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying the Fund's market risk portfolio, preparing proposals regarding market risk limits, monitoring the limit utilization and producing overall market risk analyses. The 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. The manager assessed at the end of the reporting period that the Fund is currently in compliance with the intended risk management framework.

Principal risks faced by the Fund

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

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

MANAGEMENT REVIEW

Interest rate risk
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 to floating 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 purely for cash flow hedge 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 to 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 means the risk of failure to liquidate open positions, to realise assets by the due time at the prescribed fair price or to refinance loan obligations.

Many of the investments will be highly illiquid and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicality, downturns in demand, market disruptions and the lack of available capital for potential purchasers and are 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" or have available funding through an adequate amount of committed credit facilities.

In order to minimise liquidity risk, a part of the Fund's assets may be invested in deposits with credit institutions, short-term debt securities and other securities with a high level of liquidity.

The Fund's policy is to maintain sufficient cash and cash equivalents within the Fund and its controlled entities or have available funding through an adequate amount of committed credit facilities to meet commitments at a given date in accordance with its strategic plans.

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 competences, and active dialogue with investors help the Fund to identify and reduce the risks related to its operation.

OUTLOOK FOR 2017

After completing the acquisitions of the Pirita centre and Duetto I office building with the proceeds of the second public offering in Q4 2016 and Q1 2017 respectively, the portfolio of Baltic Horizon Fund has increased to hold 9 established cash flow properties located in the Baltic capitals with a gross asset value above EUR 156 million. In 2017 the management team is planning to continue making quarterly distributions to its investors from the portfolio's operating income.

In 2017 growth in Europe and the US is expected to be resilient amid global uncertainties. The effects of the financial crisis are falling into history and despite all odds an uptick in global growth in 2017 is expected. The effects of the Brexit vote and the Trump victory will start to materialise. Upcoming European elections and geopolitical tensions mean that political risks will remain high. Still, the Trump victory may well mean an increase in employment, investments and asset prices in the US with global spill-over effects. A low cost interest rate environment and quantitative easing in Europe are expected to prevail in 2017. However, any kind of major economic or political shock may cause interest rates to increase abruptly and that is one of the main risks for property prices also in the Baltic region.

The average import demand of Estonia's major trade partners is expected to improve in 2017, thus creating more favourable export opportunities for Estonian companies. In Latvia and Lithuania, more rapid implementation of EU-funded projects will facilitate investment growth, which will speed up economic growth together with robustly increasing consumer spending. As long as the cost of debt is locked in at low levels, the dividend potential of Baltic cash-flow real estate investments is expected to remain attractive.

MANAGEMENT BOARD'S CONFIRMATION

The Management Board confirms that to the best of their knowledge the management report of Baltic Horizon Fund for the 2016 financial year presents a true and fair view of significant events and their impact on the Group's results and financial position and includes an overview of the main risks and uncertainties.

Independent Auditors' Report

To the Unitholders of Baltic Horizon Fund

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Baltic Horizon Fund as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the consolidated financial statements of Baltic Horizon Fund (the Fund or the Group) as set out on pages from 20 to 62. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated of statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Approach

- Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of our work to be performed on the financial information of the entities (components) within the group based on their financial significance and other risk characteristics.
- We, as group auditors, performed full scope audits in five of the group entities, including the Fund's separate accounts.

- KPMG audit teams in Latvia and Lithuania (component auditors) performed full scope audits in the remaining group entities located in those countries. We, among other things, discussed with component auditors those of the components' business activities that are significant to the group and the susceptibility of the components to material misstatement of the financial information due to fraud or error, and also determined the information required to be reported to us. We had other regular communication with component auditors and reviewed the component auditors' audit documentation, as deemed necessary.
- In total, the procedures performed by the KPMG group engagement team and KPMG component auditors for the purpose of supporting our opinion on the consolidated financial statements covered 100% of the Fund's consolidated total assets and consolidated gross revenues.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of investment properties

The carrying amount of investment properties in the consolidated financial statements as at 31 December 2016: EUR 143,320 thousand; upward revaluation recognised in 2016: EUR 2,737 thousand.

We refer to the consolidated financial statements: Note 2d (accounting policy), Notes 12 and 13 (financial disclosures).

The key audit matter	How the matter was addressed in our audit
The Fund's primary activity is investing in commercial real estate. Consequently, investment properties represent the single largest category of assets on the Fund's statement of financial position as at 31 December 2016. The investment properties are measured at fair value, estimated by the Fund with the assistance of external appraisers, using the discounted cash flow method. We have assessed this area to be a key audit matter as the valuation process involves significant judgement in determining the appropriate valuation methodology, and in selecting and estimating the underlying assumptions to be applied. The valuations are highly sensitive to these key assumptions, including those relating to the capitalization rates and estimated net income, and a change in the assumptions may have a material impact on the valuation. Additional complexity in our current year audit related to the fact that for certain of the investment properties, management's estimates were based	As part of our audit in the area, we, among other things, performed the following procedures: • We assessed the process applied by management in selecting, reviewing and assessing the work of the external appraisers engaged by the Fund; • We assessed the competence and objectivity of the external appraisers, and also inspected the terms of their engagement with the Fund, to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; • Assisted by our own valuation specialists, we: - evaluated the appropriateness of the valuation methodology applied by the Fund's external appraisers against relevant financial reporting standards, and against those applied by other appraisers for similar properties; - challenged the reasonableness of the key assumptions and inputs used by the Fund in estimating the fair values of investment

KPMG

on external appraisers' valuation reports prepared as at 30 September 2016, which is a date prior to the reporting date.	properties (including market rent rates, exit yield, inflation and vacancy rates) by reference to our independent expectations developed based on our experience with the Fund's industry and external sources (such as publicly available market research by leading real estate appraisal agencies); - compared the estimated cash inflows to the terms of rental agreements; - made alternative calculations for discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the Fund's calculations. • Where management had used valuation reports prepared as at 30 September 2016 as a basis for their estimate of the year-end fair values, we assessed whether the key assumptions used in those valuation reports were still appropriate at 31 December 2016. • We assessed the appropriateness and sufficiency of disclosures (including in respect of sensitivities to key assumptions) in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Management Review, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tallinn, 31 March 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Euro '000	Note	31.12.2016	31.12.2015
Rental income		7,874	6,073
Service charge income		2,594	2,062
Cost of rental activities	7	(3,315)	(2,796)
Net rental income	6	**7,153**	**5,339**
Administrative expenses	8	(2,190)	(984)
Other operating income / (expenses)		97	267
Net loss on disposal of investment property		-	(10)
Valuation gains / (loss) on investment properties	6, 12	2,562	2,886
Valuation gains / (loss) on investment property under construction	13	175	-
Operating profit		**7,797**	**7,498**
Financial income		14	17
Financial expenses	9	(1,253)	(1,100)
Net financing costs		**(1,239)**	**(1,083)**
Profit before tax		**6,558**	**6,415**
Income tax charge	6, 11	(798)	(890)
Profit for the period	6	**5,760**	**5,525**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net gains (losses) on cash flow hedges	16b	(113)	(23)
Income tax relating to net gains (losses) on cash flow hedges	16b, 11	18	18
Other comprehensive income/ (expense), net of tax, to be reclassified to profit or loss in subsequent periods		**(95)**	**(5)**
Total comprehensive income/ (expense) for the period, net of tax		**5,665**	**5,520**
Basic and diluted earnings per unit (Euro)	10	**0.12**	**23.10**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Euro '000	Note	2016	2015
Non-current assets			
Investment properties	6, 12	141,740	86,810
Investment property under construction	13	1,580	-
Other non-current assets		288	263
Total non-current assets		**143,608**	**87,073**
Current assets			
Trade and other receivables	14	1,269	840
Prepayments		178	81
Cash and cash equivalents	15	9,883	1,677
Total current assets		**11,330**	**2,598**
Total assets	6	**154,938**	**89,671**
Equity			
Paid in capital	16a	66,224	25,674
Own units	16a	(8)	-
Cash flow hedge reserve	16b	(294)	(199)
Retained earnings		10,887	6,218
Total equity		**76,809**	**31,693**
Non-current liabilities			
Interest bearing loans and borrowings	17	58,981	39,586
Deferred tax liabilities		4,383	3,673
Derivative financial instruments	22	345	215
Other non-current liabilities		935	451
Total non-current liabilities		**64,644**	**43,925**
Current liabilities			
Interest bearing loans and borrowings	17	10,191	11,608
Trade and other payables	18	2,876	2,036
Income tax payable		46	112
Derivative financial instruments	22	-	17
Other current liabilities		372	280
Total current liabilities		**13,485**	**14,053**
Total liabilities	6	**78,129**	**57,978**
Total equity and liabilities		**154,938**	**89,671**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Euro '000	Notes	Paid in capital	Own units	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2015		**22,051**	**-**	**-**	**2,263**	**24,314**
Net profit for the period		-	-	-	5,525	**5,525**
Other comprehensive income / (expense)		-	-	(5)	-	**(5)**
Total comprehensive income / (expense)		**-**	**-**	**(5)**	**5,525**	**5,520**
Paid in capital – units issued	16a	3,623	-	-	-	**3,623**
Profit distribution to unit holders		-	-	-	(1,764)	**(1,764)**
Cash flow hedge reserve in acquired subsidiaries	16b	-	-	(194)	194	-
As at 31 December 2015		**25,674**	**-**	**(199)**	**6,218**	**31,693**
As at 1 January 2016		**25,674**	**-**	**(199)**	**6,218**	**31,693**
Net profit for the period		-	-	-	5,760	**5,760**
Other comprehensive income / (expense)		-	-	(95)	-	**(95)**
Total comprehensive income / (expense)		**-**	**-**	**(95)**	**5,760**	**5,665**
Paid in capital – units issued	16a	40,550	-	-	-	**40,550**
Repurchase of units	16a	-	(8)	-	-	**(8)**
Profit distribution to unit holders		-	-	-	(1,091)	**(1,091)**
As at 31 December 2016		**66,224**	**(8)**	**(294)**	**10,887**	**76,809**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Euro '000	Note	2016	2015
Cash flows from core activities			
Profit (loss) before tax		**6,558**	**6,415**
Adjustments for non-cash items:			
Value adjustment of investment properties	12	(2,562)	(2,886)
(Gain)/loss on property disposal		-	10
Value adjustment of investment property under construction	13	(175)	-
Value adjustment of derivative financial instruments		-	18
Allowance for bad debts		17	22
Financial income		(14)	(17)
Financial expenses	9	1,253	1,100
Working capital adjustments:			
Decrease/(increase) in trade and other accounts receivable		(204)	(156)
(Increase)/decrease in other current assets		(106)	(82)
(Decrease)/Increase in other non-current liabilities		69	120
(Decrease)/increase in trade and other accounts payable		(398)	69
(Decrease)/increase in other current liabilities		(50)	407
Refunded/(paid) income tax		(103)	(54)
Total cash flows from core activities		**4,285**	**4,966**
Cash flows from investing activities			
Interest received		14	17
Acquisition of subsidiaries, net of cash acquired	12	(20,098)	(6,324)
Disposal of investment properties	12	-	990
Acquisition of investment property		(15,454)	-
Advance payment on investment property		(200)	-
Investment property development expenditure		(1,660)	(1,643)
Capital expenditure on investment properties		(380)	(570)
Total cash flows from investing activities		**(37,778)**	**(7,530)**
Cash flows from financial activities			
Proceeds from bank loans		8,211	4,831
Repayment of bank loans		(4,722)	(2,684)
Proceeds from issue of units	16	40,550	3,160
Repurchase of units		(8)	-
Profit distribution to unit holders		(1,091)	(1,302)
Transaction costs related to loans and borrowings		(127)	(27)
Interest paid		(1,114)	(1,030)
Total cash flows from financing activities		**41,699**	**2,948**
Net change in cash and cash equivalents		**8,206**	**384**
Cash and cash equivalents at the beginning of the year		**1,677**	**1,293**
Cash and cash equivalents at the end of the period		**9,883**	**1,677**

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

ACCOUNTING POLICIES

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.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by investing in primarily commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring and managing a portfolio of high quality cash flow-generating commercial properties, thereby creating a stable stream of high yielding current income combined with capital gains at exit. Although the objective of the Fund is to generate positive returns to investors, the profitability of the Fund is not guaranteed to investors.

The financial Statements of Baltic Horizon Fund were approved for issue by the management board of the Management Company on 31 March 2017.

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

Name	2016	2015
BOF Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BOF CC Plaza OÜ	100%	100%
BOF Domus Pro UAB	100%	100%
BOF Europa Holding UAB*	-	100%
BOF Europa UAB	100%	100%
BH P80 OÜ**	100%	-
Kontor SIA	100%	-
BH MT24 OÜ	100%	-
Pirita Center OÜ	100%	-

*the company merged with BOF Europa UAB in November 2016.
**formerly known as *BH G4S OÜ*.

Basis of preparation

The Group’s consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (the “IFRS”) as adopted for use in the European Union.

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

The Fund applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. These new standards and amendments did not have a material impact on the consolidated annual financial statements of the Fund. The nature of the new standards and amendments is as follows:

IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

These amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

IAS 19 – Defined Benefit Plans: Employee Contributions

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

IAS 27 – Separate Financial Statements

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these interim consolidated financial statements. Those which may be relevant to the Group as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Group does not plan to adopt these amendments, standards and interpretations early.

IFRS 9 Financial Instruments (2014)

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

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

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

IFRS 15 Revenue from contracts with customers

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

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

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

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

The Group does not expect that the new standard, when initially applied, will have a material impact on the financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 16 "Leases"

(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted. Not yet adopted by the EU.)

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

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

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

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

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

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated in the following text.

The significant accounting policies applied by the Fund are as follows:

2a. Presentation currency
The consolidated financial statements have been presented in thousand euros (EUR), which is the Fund's functional and presentation currency.

2b. Consolidated financial statements

The consolidated financial statements include the Fund and its subsidiaries (together „the Group").The Fund controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated in consolidation.

Assets are recognised in the consolidated statement of financial position when it is probable that future economic benefits will flow to the Group and the value of the assets can be measured reliably.

Liabilities are recognised in the consolidated statement of financial position when it is probable that an outflow of resources will be required to settle the obligation and they can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item below.

2c. Foreign currency translation

The functional currency of each Group company is determined with reference to the currency of the primary economic environment in which the entity operates. Transactions in other currencies than the functional currency are transactions in foreign currencies.

Foreign currency transactions are translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the date of the initial transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the reporting date.

The cumulative effect of exchange differences on cash transactions are considered as realised gains and losses in the consolidated statement of profit or loss and other comprehensive income in the period in which they are settled.

On consolidation, where the functional currency of a foreign operation is different from the functional currency of the parent, the assets and liabilities are translated at the rate of exchange ruling at the reporting date. The consolidated statements of profit or loss and other comprehensive income of such subsidiaries are translated at the rate in effect at the transaction date. The exchange differences arising on the currency translation are recorded as a separate component of equity reserves under the heading of "Foreign currency translation reserve". On the disposal of a foreign operation, accumulated exchange differences are recognised in other comprehensive income as a component of the gain or loss on disposal.

Fair value adjustments and goodwill arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity and are recorded at the exchange rate at the date of the transaction.

2d. Investment properties

Investment properties are real estate properties (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for the use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Investment property is initially recorded at cost including costs directly resulting from the acquisition such as transfer taxes and legal fees. Costs, adding new or improved qualities to an investment property compared to the date of acquisition, and which thereby improve the future yield of the property, are added to cost as an improvement. Costs, which do not add new or improved qualities to an investment property, are expensed in profit or loss under operating expenses.

Under IAS 40, investment properties are subsequently measured at fair value, as determined by independent appraisers, being the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Value adjustments are recognised in profit or loss under the items "Valuation gains / losses on investment properties".

2e. Dividends (distributions)

Proposed distributions are recognised as a liability at the time of declaration.

2f. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The provisions are reviewed at each reporting date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability.

2g. Derivative financial instruments

The Group engages in interest rate swap contracts for interest rate risk management purposes. Derivative financial instruments are carried in the consolidated statement of financial position at fair value. The estimated fair values of these contracts are reported as financial assets for contracts having a positive fair value; and financial liabilities for contracts with a negative fair value.

Gains or losses from changes in the fair value of derivative financial instruments, which are not classified as hedging instruments, are recognised in profit or loss as they arise.

2h. Hedge accounting

The Group is applying hedge accounting for all the interest rate swap contracts. The effectiveness of a hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instruments being used in the hedge.

For the purposes of hedge accounting, hedges are classified as cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other comprehensive income and the ineffective portion is recognised in profit or loss. The gains or losses on effective cash flow hedges recognised initially in other comprehensive income are either transferred to the income statement in the period in which the hedged transaction impacts the income statement or in which the hedge instrument or hedge relationship terminates.

2i. Interest bearing loans and borrowings

Debts to banks and financial institutions are initially recognised at fair value less transaction costs incurred. Subsequently, these debts items are measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Group classifies its financial liabilities as current when they are due to be settled within twelve months after reporting date, even if:

(a) the original term was for a period longer than twelve months; and
(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the consolidated financial statements are authorised for issue.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2j. Other liabilities

Other liabilities, comprising payables to suppliers, guarantee deposits received from tenants and other payables, are measured at amortised cost using the effective interest rate method.
Deferred income is recognised under liabilities and includes received payments for future income.

2k. Financial assets

The Group recognises financial assets on its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.
All "regular way" purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised at trade date (the date that the Group commits to purchase or sell the asset), otherwise such transactions are treated as derivatives until the settlement day.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2l. Accounts receivable

Receivables are measured at amortised cost less impairment allowances for doubtful debts, if any. The management assesses specific impairment on a customer by customer basis throughout the year.

2m. Cash and cash equivalents

Cash includes cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2n. Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow or economic benefits is possible.

2o. Subsequent events

Post-reporting date events that provide additional information about the Group’s position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-reporting date events that are not adjusting events are disclosed in the notes when material.

2p. Rental income

Rental income from operating leases represents rents charged to customers and is recognised on a straight line basis, net of any sales taxes, over the lease term. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Service charge income is recognised on a gross basis in profit or loss when the Group is not acting as an agent on behalf of third parties and charging commissions for the collections. Otherwise, recharge revenue is recognised in the amount of the commissions earned.

2q. Expense recognition

Expenses are accounted for an accrual basis. Expenses are charged to the consolidated income statement, except for those incurred in the acquisition of an investment property which are capitalised as part of the cost the investment property and costs incurred to acquire borrowings which are capitalised. Operating expenses comprise costs incurred to earn rental revenue during the financial year to cover operations and maintenance of the investment properties.

2r. Administrative expenses

Administrative expenses include costs and expenses which were incurred for the management of the investment properties and the Group during the year.

2s. Current taxation

Taxation of the Group subsidiaries

The consolidated subsidiaries of the Group are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

Taxation of the Fund

Gains from transfer of property

Income tax is charged on gains derived from the transfer of property by a contractual investment fund if:
1) the transferred immovable is located in Estonia or
2) the transferred real right or right of claim is related to an immovable or a structure as a movable, which is located in Estonia, or
3) the transferred or returned holding is a holding in a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or return or during a period within two years prior to that, more than 50 per cent was directly or indirectly made up of immovable or structures as movables located in Estonia and in which the transferor had a holding of at least 10 per cent at the time of conclusion of the specified transaction.
4) gains were derived on the conditions specified in clause 3) upon liquidation of a company, contractual investment fund or other pool of assets specified in the same clause.

Income tax is not charged on the part of the gains derived from the return of holding specified in clause 3) or liquidation specified in clause 4) above if the income constituting the basis thereof has been taxed with income tax pursuant to the provisions of the Income Tax Act or at the level of a company that has repurchased the holding or paid the liquidation proceeds.

2t. Deferred taxation

Deferred taxes are calculated in the Fund subsidiaries as follows:

Deferred income tax is provided using the liability method on temporary differences at the reporting date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

i) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and

ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss or directly in equity.

Under Estonian laws, corporate profit for the year is not subject to income tax. Income tax is levied on dividends, gifts, donations, entertainment expenses, non-business expenditures and transfer price adjustments.

Because of the specific nature of the taxation system in Estonia, there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and therefore deferred tax assets and liabilities do not arise.
Income tax payable on dividends is recognised as income tax expense and a liability at the time the dividend is declared, regardless of the period for which the dividend is declared or the period in which the dividend is actually distributed. The obligation to pay income tax arises on the 10th day of the month following the distribution of the dividend.

2u. Fair value measurements

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

- In the principal market for the asset or liability

Or

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

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

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

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

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

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

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

2v. Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Applying the acquisition method

The acquisition method is applied in the acquisition of new subsidiaries which qualify as business, under which the identifiable assets and liabilities and contingent liabilities of these companies are measured at fair value at the acquisition date. Cost of the acquired company consists of fair value of the paid consideration (cash or own shares). If the final determination of the consideration is conditioned by one or several future events, these are only recognised in cost if the relevant event is likely and the effect in cost can be calculated reliably. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

When the transaction has not been identified as being a business combination, it is hence accounted for as an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separate assets and liabilities acquired, based on the price paid for them.
Assets are recognised in the consolidated statement of financial position when it is probable that future economic benefits will flow to the Group and the value of the assets can be measured reliably.

Liabilities are recognised in the consolidated statement of financial position when it is probable that an outflow of resources will be required to settle the obligation and they can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item above.

Business combinations between entities under common control

A business combination is a combination between entities under common control if:

- The combining entities are ultimately controlled by the same party (or parties) both before and after the combination
- Common control is not transitory (not short-lived).

If a business combination is treated as a combination between entities under common control, then such transactions are accounted under predecessor values method. Under this method, the acquired assets and liabilities are recorded at their pre-acquisition fair values and no goodwill is recorded. The consolidated financial statements will reflect both entities' combined full year's results, even though a business combination may have occurred part way through the year. The corresponding amounts for the previous years also reflect the combined results of both entities.

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 is treated as a group restructuring under common control. During the merger of Baltic Horizon Fund and Baltic Opportunity Fund, the assets and liabilities of the involved parties were shown based on the Baltic Opportunity Fund's book values. As a result of this merger, no goodwill was created. 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 annual consolidated financial statements, Baltic Opportunity Fund's financial results prior to the merger are presented as those of the Fund.

During the second public offering in November, the Fund raised additional gross capital of EUR 20.6 million. As a result of the offering of the new units, the total number of the Fund's units increased to 57,264,743 and the units are now dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

3. Significant accounting judgments, estimates and assumptions

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 asset or liability affected in the future.

Judgments

Management considers the following indicators that a Group entity is acting as a principal in the agreement with the tenants in regards to service charge income:

- the entity is primarily responsible for fulfilling the contract and has the right to terminate, freeze or amend the utilities and other services contracts, to enter into contracts with other providers or to switch to other supply types at any time;
- the entity is exposed to credit risk for the amount receivable from a tenant in exchange for the otheparty's goods or services; if the tenant defaults, the entity is responsible to pay a supplier regardless of whether payment is collected from the tenant.

Also, the tenants have the right to contract directly with the utility service companies from their suppliers upon prior written consent of the entities. In such cases, the Fund is treated as an agent.

When the Group acts as a principal, service charge income is recognised on a gross basis in the consolidated statement of profit or loss and other comprehensive income. When the Group acts as an agent, both expenses and income are netted in the consolidated statement of profit or loss and other comprehensive income and recharge revenue is recognised in the amount of the commissions earned.

Business combinations
The Group has acquired ownership interests in subsidiaries which hold real estate properties. When the acquisition of a subsidiary does not represent "an integrated set of activities and assets" in accordance with IFRS 3, the acquisition of the subsidiary is accounted for as an asset acquisition, in which the cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill and no deferred tax assets or liabilities resulting from the allocation of the cost of acquisition is recognised. The Group will account for the acquisition as a business combination where an integrated set of activities is acquired in addition to the properties.

The following recognition criteria are considered as indicators of business combination:

- Multiple items of land and buildings;
- Existence of ancillary services to tenants (e.g. maintenance, cleaning, security, bookkeeping etc.);
- Existence of employees to have processes in operation (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information);
- Management of the acquired properties is a complex process.

Operating lease contracts – Group as lessor
Leases in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases. One of the Fund's assets Coca-Cola Plaza has only one tenant with a long-term tenancy agreement acquired via a sale-lease back transaction. Based on the terms and conditions, the lease arrangement is treated as an operating lease due to the following reasons:

- all significant risks and rewards of the ownership of this property are retained by the Group;
- the ownership of the property will remain to the Group by the end of the lease term;
- there is no agreement with the lessee that would allow the lessee to purchase the property at a discount or significantly lower amount than the fair value of the property;
- the initial rent period agreed was for 10 years with a lease expiration on 18 March 2023. Therefore, the lease term does not comprise the major part of the economic life of the property;
- there is no agreement with the lessee that would allow for the lessee to continue the lease for a secondary period at a rent that is substantially lower than market rent;
- at the inception of the lease the present value of the minimum lease payments does not amount to all of the fair value of the leased property.

Estimates and assumptions

Deferred tax
The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. In particular, the effective tax rate applicable on the temporary differences on investment properties depends on the way and timing the investment property will be disposed of. The Group recognises liabilities for anticipated tax provisions based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the net profit and deferred tax provisions in the period in which the determination is made.

Fair value of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. The Group engaged independent valuation specialists to determine fair value. Information about valuation techniques and assumptions are disclosed in Note 12.

4. Financial risk management

The risk management function of the Fund is the responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying the Fund's market risk portfolio, prepare proposals regarding market risk limits, monitor the limit utilization and produce overall risk analyses of the market risk. The 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. The manager assessed at the end of the financial year that the Fund is currently in compliance with the intended risk management framework.

4a. Credit risk

The Group has procedures in place to ensure that rental agreements are concluded with customers with an appropriate credit history and acceptable credit exposure limits are not exceeded. Credit risk related to tenants is also reduced by collecting rental deposits and taking rental guarantees. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimised by making agreements only with such domestic and international banks and financial institutions which have a high credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position.

There are no significant concentrations of credit risk within the Group. As at 31 December 2016, the total credit risk exposure was as follows:

'000 Euro	**2016**	**2015**
Cash and cash equivalents	9,883	1,677
Trade and other receivables	1,269	840
Total exposure to credit risk	**11,152**	**2,517**

During 2016 provisions for bad debts in all properties of the Group amounted to EUR 17 thousand.

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 to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with such domestic and international banks and financial institutions which have a high credit rating.

4b. Interest rate risk

The Group's interest rate risk is related to interest-bearing borrowings. Fluctuations in interest rates affect interest expense (note 16b). The Group's exposure to interest rate cash flow risk is mitigated by the use of interest rate swaps.

At 31 December 2016, after taking into account the effect of interest rate swaps, 63% of the Group's borrowings had a fixed rate of interest (2015: 66%). Please refer to note 4c for the exposure to credit risk.

The following table demonstrates the sensitivity of the Group's profit before tax and equity (through the impact on interest rate swap values) to a reasonably possible change in interest rates, with all other variables held constant):

	2016		2015	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Increase in basis points, +50	(122)	704	(88)	307
Decrease in basis points, -50	122	(704)	88	(307)

The Group's uses interest rate swaps to fix the interest rate of long term loans with floating interest rates. 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 using interest rate derivatives. As 1) the Fund seeks to obtain financing at 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 Group acquire swaps purely for cash flow hedge purposes and not for trading.

4c. Liquidity risk

The Fund's objectives are to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below summarises the contractual maturity profile of the Group's financial liabilities at 31 December 2016. The amounts are gross and undiscounted, and include contractual interest payments.

'000 Euro	Less than 3 months	3 months - 1 year	1-2 years	2-5 years	More than 5 years	Total	Carrying amount
Year ended 31 December 2016							
Interest bearing loans and borrowings	816	10,670	31,177	17,271	12,118	**72,052**	**69,172**
Derivative financial instruments	-	-	168	5	172	**345**	**345**
Trade and other payables	1,749	1,127	-	-	-	**2,876**	**2,876**
Total current and non-current	**2,565**	**11,797**	**31,345**	**17,276**	**12,290**	**75,272**	**72,393**

As of 31 December 2016, current liabilities of the Fund exceeded current assets by EUR 2,147 thousand. This was mainly because of two bank loans of EUR 7,016 thousand and EUR 1,453 thousand expiring in December 2017. The management of the Fund is confident that expiring loans can be extended or refinanced with other banks. Assuming this, the cash flow budget of the Fund for the year 2017 indicates that Fund will be able to cover other current liabilities with existing current assets and operating cash flow.

4d. Foreign exchange risk

The Fund's primary currency is the euro. The currency risk has been removed in all Baltic States as Lithuania joined the euro zone on 1 January 2015. In 2015 and 2016 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than the euro from this date. Estonia and Latvia already adopted the euro in 2011 and 2014 respectively.

5. Capital management

The Group monitors capital using the loan-to-value ratio, which is borrowings divided by property value. The Group's target loan to value ratio is 50%. As at 31 December 2016, the Group complied with all externally imposed capital requirements.

'000 Euro	**2016**	**2015**
Interest bearing loans and borrowings	69,172	51,194
Investment properties	141,740	86,810
Gearing ratio (loan-to-value)	**48.8%**	**59.0%**

6. Operating segments

The Group's reportable segments are as follows:

- Retail segment – includes Europa Shopping Centre (Lithuania), Domus Pro Retail Park (Lithuania), SKY Supermarket (Latvia), Pirita Shopping centre (Estonia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia), P80 (former *G4S*) (Estonia), and Upmalas Biroji (Latvia) investment properties.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment property.

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

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

Operating segments – 31 December 2016

’000 Euro	Retail	Office	Leisure	Total segments
01.01.2016 – 31.12.2016:				
External revenue[1]	6,678	2,806	984	10,468
Segment net rental income	**3,920**	**2,261**	**972**	**7,153**
Net gains or losses from fair value adjustment	897	1,490	350	2,737
Interest expenses[2]	(703)	(297)	(163)	(1,163)
Income tax expenses	(722)	(76)	-	(798)
Segment net profit / (loss)	**3,353**	**3,257**	**1,138**	**7,748**
As at 31.12.2016:				
Segment assets	**77,010**	**57,291**	**13,232**	**147,533**
Investment properties	72,710	56,030	13,000	141,740
Investment property under construction	-	1,580	-	1,580
Segment liabilities	**41,732**	**28,781**	**7,075**	**77,588**

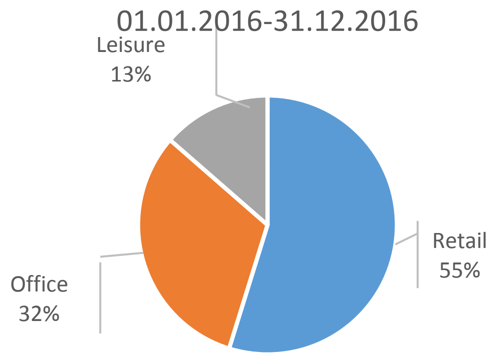
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external interest expenses.

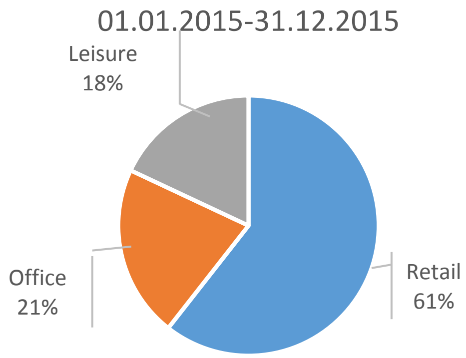
Operating segments – 31 December 2015

’000 Euro	Retail	Office	Leisure	Total segments
01.01.2015 – 31.12.2015:				
External revenue[1]	5,587	1,574	974	8,135
Segment net rental income	**3,234**	**1,143**	**962**	**5,339**
Net gains or losses from fair value adjustment	2,961	(105)	30	2,886
Interest expenses[2]	(632)	(208)	(235)	(1,075)
Income tax expenses	(890)	-	-	(890)
Segment net profit	**4,549**	**1,050**	**738**	**6,337**
As at 31.12.2015:				
Segment assets	**61,077**	**15,611**	**12,759**	**89,447**
Investment properties	58,700	15,460	12,650	86,810
Segment liabilities	**41,480**	**8,870**	**7,353**	**57,703**

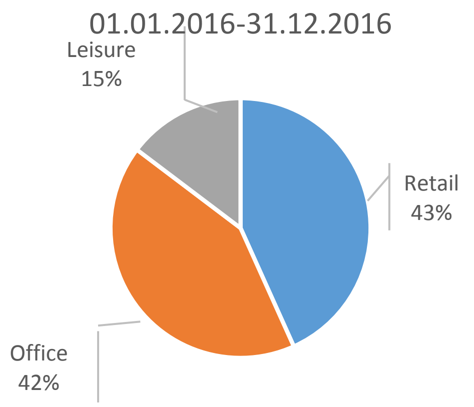
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses were adjusted for comparison reasons. Prior to adjustments, the interest expense included intercompany interest expenses.

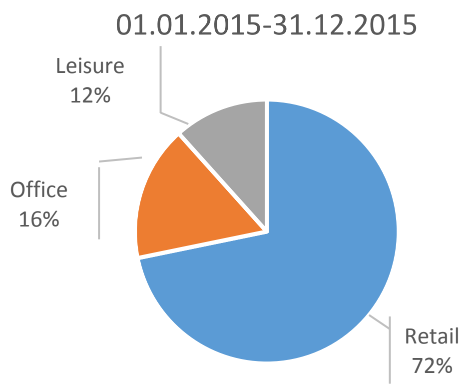
Segment net rental income*



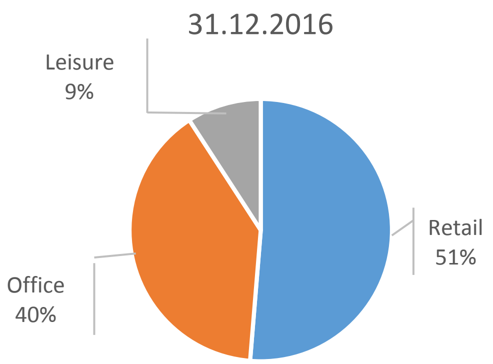


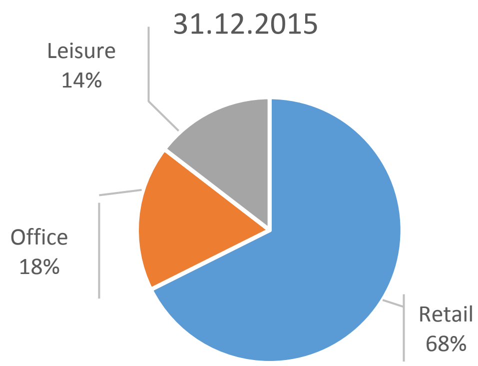
Segment net profit (loss)*





Investment properties*





*As a percentage of the total for all reportable segments

Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2016

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

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

Operating segments – 31 December 2015

'000 Euro	Total reportable segments	Adjustments	Consolidated
01.01.2015 – 31.12.2015:			
Net profit (loss)	**6,337**	**(812)[1]**	**5,525**
As at 31.12.2015:			
Segment assets	**89,447**	**261[2]**	**89,708**
Segment liabilities	**57,703**	**312[3]**	**58,015**

1. Segment net profit does not include Fund management fee (EUR 602 thousand), performance fee (EUR 80 thousand), fund custodian fee (EUR 15 thousand) and other administrative expenses (EUR 115 thousand).
2. Segment assets do not include cash, which is held at the Fund level (EUR 261 thousand).
3. Segment liabilities do not include management fee payable (EUR 214 thousand), performance fee accrual (EUR 80 thousand) and other short term payables (EUR 18 thousand) at Fund level.

Geographic information
Segment net rental income

	External revenue		*Investment property value*	
'000 Euro	**2016**	**2015**	**2016**	**2015**
Lithuania	5,791	4,787	55,080	53,550
Latvia	1,486	800	28,960	5,150
Estonia	3,191	2,548	57,700	28,110
Total	**10,468**	**8,135**	**141,740**	**86,810**

Major tenant
In 2016, rental income from one tenant in the leisure segment represented EUR 984 thousand of the Group's total rental income (EUR 974 thousand in 2015).

7. Cost of rental activities

’000 Euro	2016	2015
Utilities	1,512	1,228
Repair and maintenance	806	621
Property management expenses	383	407
Real estate taxes	252	215
Sales and marketing expenses	250	240
Property insurance	29	28
Allowance / (reversal of allowance) for bad debts	17	22
Other	66	35
Total cost of rental activities	**3,315**	**2,796**

Part of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants: EUR 2,594 thousand during 2016 (EUR 2,062 thousand during 2015) and EUR 784 thousand during Q4 2016 (EUR 594 thousand during Q4 2015).

8. Administrative expenses

’000 Euro	2016	2015
Public offering related expenses	938	-
Management fee	724	602
Consultancy fees	125	54
Performance fee	81	79
Legal fees	156	165
Audit fee	73	28
Custodian fees	20	15
Property valuation fee	14	24
Other administrative expenses	59	17
Total administrative expenses	**2,190**	**984**

Up to 30 June 2016, the Management Company (Note 20) was entitled to receive an annual management fee, which was calculated as 1.9% of the Net Asset Value (NAV) per annum of the Fund’s portfolio, determined as NAV at certain dates (the last Banking Day of each calendar month). As from 1 July 2016, the Management Company is entitled to receive an annual management fee which is calculated quarterly, based on the 3-month average market capitalisation of the Fund.

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

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

9. Financial expenses

’000 Euro	2016	2015
Interest on bank loans	1,163	1,075
Foreign currency exchange (gain)/loss	-	1
Loan refinancing expenses	75	-
Loan arrangement fee amortisation	15	24
Total financial expenses	**1,253**	**1,100**

10. Earnings per unit

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

Profit attributable to the unit holders of the Fund:

’000 Euro	2016	2015
Profit for the period, attributed to the unit holders of the Fund	5,760	5,525
Profit for the period, attributed to the unit holders of the Fund	**5,760**	**5,525**

Weighted-average number of units:

	Note	2016	2015
Issued units at 1 January		250,167	217,197
Effect of units issued in February 2015		-	20,573
Effect of units issued in August 2015		-	1,159
Effect of units issued in December 2015		-	219
Effect of conversion from BOF to Baltic Horizon Fund		24,766,505	-
Effect of units issued in June 2016*	16a	21,035,981	-
Effect of units issued in November 2016*	16a	1,298,228	-
Weighted-average number of units issued		**47,350,881**	**239,148**

*On June 30, 2016, BOF was merged with Baltic Horizon Fund. Unit holders of BOF received 100 units in Baltic Horizon Fund for each 1 unit in BOF (ratio of 1:100). During the initial public offering 41,979,150 units were listed on the NASDAQ Tallinn stock exchange. This change was taken into account by restating the weighted-average number of units.

Basic and diluted earnings per unit

	2016	2015
Basic and diluted earnings per unit*	**0.12**	**23.10**

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

11. 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 major components of income tax for the years ended 31 December 2016 and 2015 are:

'000 Euro	2016	2015
Consolidated statement of profit or loss and other comprehensive income		
Current income tax for the year	(135)	-
Deferred tax for the year	(663)	(890)
Income tax expense reported profit or loss	**(798)**	**(890)**
Consolidated statement of profit or loss and other comprehensive income		
Deferred income tax related to items charged or credited to equity:		
Revaluation of derivative instruments to fair value	18	18
Income tax expense reported in other comprehensive income	**18**	**18**

Deferred income tax as at 31 December 2016 and 2015 relates to the following:

	Consolidated statement of financial position		Recognised in profit or loss	
'000 Euro	2016	2015	2016	2015
Tax losses brought forward	3,236	1,341	263	(17)
Revaluation of derivative instruments to fair value	51	33	-	-
Deferred income tax assets	**3,287**	**1,374**		
Investment property	(7,652)	(5,027)	(930)	(861)
Other tax liability	(18)	(20)	4	(12)
Deferred income tax liabilities	**(7,670)**	**(5,047)**		
Deferred income tax income / (expense)			**(663)**	**(890)**
Deferred tax liabilities net	**(4,383)**	**(3,673)**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	-	-		
Deferred tax liabilities	(4,383)	(3,673)		
Deferred tax liabilities net	**(4,383)**	**(3,673)**		

The reconciliation of effective tax rate for the years ended 31 December 2016 and 2015 is as follows:

'000 Euro	2016		2015	
(Loss) / profit before income tax		6,558		6,415
At statutory tax rate	(0.0)%	-	(0.0)%	-
Effect of tax rates in foreign jurisdictions	(9.5)%	(626)	(13.2)%	(849)
Tax effect of non-deductible expenses	(0.0)%	-	(0.2)%	(16)
Change in unrecognized deferred tax	(2.6%)	(172)	(0.4)%	(25)
Total income tax expenses	**(12.2)%**	**(798)**	**(13.9)%**	**(890)**

As at 31 December 2016, the Group had tax losses of EUR 3,236 thousand that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Summary of taxation rates by country is presented below:

	2016	2015
Lithuania	15%	15%
Latvia	15%	15%
Estonia*	0%	0%

*20 % income tax rate applies on income distributions.

12. Investment property

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

As at 31 December 2016, new external valuations were performed for Domus Pro retail park and Pirita shopping centre. Domus Pro valuation was updated due to the changes related to the construction of Domus Pro stage III office building (note 13). No external valuations were performed for the remaining 6 properties due to the fact that the valuations had already been performed at the end of Q3 2016. Management assessed the key valuation assumptions used as at 30 September 2016 and concluded that the fair values of the investment properties as at 31 December 2016 did not differ significantly from those as at 30 September 2016.

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.

'000 Euro	2016	2015
Balance at 1 January	**86,810**	**-**
Acquisition of investment property	15,454	-
Investment property acquired in business combination	35,773	81,957
Additions (subsequent expenditure)	1,141	2,967
Disposals	-	(1,000)
Net revaluation gain / (loss)	2,562	2,886
Closing balance	**141,740**	**86,810**

Acquisition of P80 (former *G4S*)
On 12 July 2016, the Fund acquired G4S property located in Tallinn, Estonia, in an asset deal for a purchase price of EUR 15.4 million. Transaction costs related to the acquisition amounted to EUR 29 thousand.

Acquisition of Upmalas Biroji
On 30 August 2016, the Group acquired 100% of the voting shares of Kontor SIA, an unlisted company based in Latvia. Kontor SIA owns Upmalas Biroji property. The management of the Group was of the opinion that this acquisition qualifies as a business combination because of the following reasons:

- Complex property management process.
- Acquired property was with tenants and related processes;
- No employees exist to manage the processes, however, these processes are outsourced to the external property management company.

The fair value of the identifiable assets and liabilities of Kontor SIA as at the date of acquisition were:

'000 Euro	Fair value recognized on acquisition
Investment property	23,573
Deferred tax asset	33
Trade and other receivables	106
Cash and cash equivalents	230
Total assets	**23,942**
Interest bearing loans and borrowings	14,539
Trade and other payable	487
Total liabilities	**15,026**
Net assets	**8,916**
Total consideration	**8,916**

The total cost of the acquisition was EUR 8,916 thousand. EUR 8,758 thousand was paid in cash in August 2016 and the remaining EUR 158 thousand was paid to the seller in October 2016.

Cash outflow on acquisition:

’000 Euro	Total
Net cash acquired with the subsidiary	230
Cash paid for the acquisition	(8,916)
Net cash outflow on acquisition	**(8,686)**

Acquisition-related costs amounted to EUR 51.6 thousand, which were recognised in the consolidated statement of profit or loss and other comprehensive income within “Administrative expenses”. Additionally, the Group incurred bank loan refinancing expenses of EUR 75 thousand and new loan arrangement fee of EUR 41 thousand. The refinancing fee was recognised in the consolidated statement of profit or loss and other comprehensive income within “Financial expenses”. The loan arrangement fee was capitalised and is being amortised through the loan maturity term.

From the date of acquisition on 30 August 2016 until 31 December 2016, Kontor SIA contributed EUR 522 thousand to the rental income of the Group and EUR 37 thousand to the net profit of the Group. If the combination had taken place at the beginning of 2016, the revenue contribution would have been 1,531 thousand and the net profit for the Group would have been EUR 820 thousand for the period from 1 January to 31 December 2016.

Acquisition of Pirita shopping centre

On 16 December 2016, the Fund indirectly acquired 100% of the voting shares of Pirita Center OÜ, an unlisted company based in Estonia. Pirita Center OÜ owns Pirita shopping centre. The management of the Group was of the opinion that this acquisition qualifies as a business combination because of the following reasons:

- Complex property management process.
- Acquired property was with tenants and related processes;
- No employees exist to manage the processes, however, these processes are outsourced to the external property management company.

The fair value of the identifiable assets and liabilities of Pirita Center OÜ as at the date of acquisition were:

’000 Euro	Fair value recognized on acquisition
Investment property	12,200
Trade and other receivables	206
Cash and cash equivalents	-
Total assets	**12,406**
Trade and other payable	844
Total liabilities	**844**
Net assets	**11,562**
Total consideration	**11,562**

The total cost of the acquisition was EUR 11,562 thousand. EUR 11,412 thousand was paid in cash in December 2016 and the remaining EUR 150 thousand is a deferred payment that is contingent on the performance of the property (note 19b).

Cash outflow on acquisition:

’000 Euro	Total
Net cash acquired with the subsidiary	-
Cash paid for the acquisition	(11,412)
Net cash outflow on acquisition	**(11,412)**

Acquisition-related costs amounted to EUR 31.5 thousand, which was recognised in the consolidated statement of profit or loss and other comprehensive income within “Administrative expenses”.

From the date of acquisition on 16 December 2016 until 31 December 2016, Pirita Center OÜ contributed EUR 31 thousand to the rental income of the Group and EUR 4 thousand to the net profit of the Group. If the combination had taken place at the beginning of 2016, the revenue contribution would have been 141 thousand and the net loss for the Group would have been EUR 124 thousand for the period from 1 January to 31 December 2016.

Acquisition of Duetto
On 22 March 2017, the Fund acquired Duetto property located in Vilnius, Lithuania, in an asset deal for a purchase price of EUR 14.6 million. As of 31 December 2016, no acquisition related expenses were incurred.

Fair value hierarchy
The following table shows an analysis of the fair values of investment properties recognised in the statement of financial position by level of the fair value hierarchy:

31 December 2016	Level 1	Level 2	Level 3	Total	Total gain or (loss) for 12 months of 2016 in the income statement
Lithuania – Europa (retail)	-	-	38,000	38,000	491
Lithuania – Domus Pro (retail)	-	-	17,080	17,080	(34)
Latvia – SKY (retail)	-	-	5,430	5,430	265
Latvia – Upmalas Biroji (office)	-	-	23,530	23,530	(61)
Estonia – Lincona (office)	-	-	15,700	15,700	205
Estonia – Coca-Cola Plaza (leisure)	-	-	13,000	13,000	350
Estonia – P80 (former *G4S*) (office)	-	-	16,800	16,800	1,346
Estonia – Pirita (retail)	-	-	12,200	12,200	-
Total	**-**	**-**	**141,740**	**141,740**	**2,562**

There were no transfers between levels during the years. Gains and losses recorded in profit or loss for fair value measurements categorised within Level 3 of the fair value hierarchy amounted to a net gain of EUR 2,562 thousand as at 31 December 2016 (2015: EUR 2,886 thousand) and are presented in the consolidated statement of profit or loss and other comprehensive income on the line ‘Valuation gains / (loss) on investment properties’.

Valuation techniques used to derive Level 3 fair values
In 2016 valuations of investment properties were performed by Colliers International, DTZ Kinnisvaraekspert and BPT Real Estate AS.
The table below presents the following for each investment property:
- A description of the valuation techniques applied;
- The inputs used in the fair value measurement;
- Quantitative information about the significant unobservable inputs used in the fair value measurement.

As of 31 December 2016:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	7.5%
Net leasable area (NLA) – 16,900 sq. m.		- Rental growth p.a.	0.0% - 2.4%
Segment – Retail		- Long term vacancy rate	3.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	14.2
Domus Pro Retail Park, Vilnius (Lithuania)	DCF	- Discount rate	8.075%
Net leasable area (NLA) – 11,247 sq. m.		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail		- Long term vacancy rate	2.0% - 7.0%
Year of construction/renovation – 2013		- Exit yield	8.0%
		- Average rent (EUR/sq. m.)	9.5
Lincona Office Complex, Tallinn (Estonia)**	DCF	- Discount rate	8.6%
Net leasable area (NLA) – 10,859 sq. m.		- Rental growth p.a.	0.0% - 2.3%
Segment – Office		- Long term vacancy rate	5.0% - 10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	10.3
Coca-Cola Plaza , Tallinn (Estonia)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	0.8% - 1.5%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 1999		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	9.5
P80 (former *G4S*), Tallinn (Estonia)	DCF	- Discount rate	8.5%
Net leasable area (NLA) – 8,363 sq. m.		- Rental growth p.a.	0.2% - 2.70%
Segment – Office		- Long term vacancy rate	3.0%
Year of construction/renovation – 2013		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	10.3
SKY Supermarket, Riga (Latvia)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 3,263 sq. m.		- Rental growth p.a.	1.4% - 1.7%
Segment – Retail		- Long term vacancy rate	1.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	11.6
Upmalas Biroji, Riga (Latvia)	DCF	- Discount rate	7.3%
Net leasable area (NLA) – 10,600 sq. m.		- Rental growth p.a.	0.5% - 4.4%
Segment – Office		- Long term vacancy rate	1.5%
Year of construction/renovation – 2008		- Exit yield	7.2%
		- Average rent (EUR/sq. m.)	12.5
Pirita Shopping centre, Tallinn (Estonia)	DCF	- Discount rate	9.0%
Net leasable area (NLA) – 5,516 sq. m		- Rental growth p.a.	2.0% - 3.1%
Segment – Retail		- Long term vacancy rate	5.0%
Year of construction/renovation - / 2016		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	13.5

As of 31 December 2015:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	7.5%
Net leasable area (NLA) – 16,900 sq. m.		- Rental growth p.a.	0.0% - 2.4%
Segment – Retail		- Long term vacancy rate	3.0% - 5.0%
Year of construction/renovation – 2004		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	13.6
Domus Pro Retail Park, Vilnius (Lithuania)	DCF	- Discount rate	8.4%
Net Leasable area (NLA) – 7,505 sq. m.		- Rental growth p.a.	0.0% - 3.0%
Segment – Retail		- Long term vacancy rate	2.0% - 14.0%
Year of construction/renovation – 2013		- Exit yield	8.0%
		- Average rent (EUR/sq. m.)	10.4
Lincona Office Complex, Tallinn (Estonia) Net	DCF	- Discount rate	8.6%
Leasable area (NLA) – 10,859 sq. m.		- Rental growth p.a.	0.0% - 2.4%
Segment – Office		- Long term vacancy rate	5.0% - 10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%
		- Average rent (EUR/sq. m.)	10.2
Coca-Cola Plaza , Tallinn (Estonia)	DCF	- Discount rate	8.2%
Net Leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	0.8-1.7%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 1999		- Exit yield	8.0%
		- Average rent (EUR/sq. m.)	9.4
SKY Supermarket, Riga (Latvia)	DCF	- Discount rate	8.2%
Net Leasable area (NLA) – 3,240 sq. m.		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail		- Long term vacancy rate	2.5%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	11.3

The table below sets out information about significant unobservable inputs used at 31 December 2016 in measuring investment properties categorised as Level 3 in the fair value hierarchy.

Type of asset class	Fair value at 31 December	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	2016: 141,740 2015: 86,810	Discounted cash flow	Exit yield	2016: 7.2%-8.0% 2015: 7.25%-8.0%	An increase in exit yield in isolation would result in a lower value of Investment property.
			Discount rate	2016: 7.3%-9.0% 2015: 7.5% - 8.6%	An increase in discount rate in isolation would result in a lower value of Investment property.
			Rental growth p.a.	2016: 0 - 3.1% 2015: 0 - 3.0%	An increase in rental growth in isolation would result in a higher value of Investment property.
			Long term vacancy rate	2016: 0 – 10.0% 2015: 0 – 14.0%	An increase in long-term vacancy rate in isolation would result in a lower value of Investment property.

Sensitivity analysis of investment properties portfolio as at 31 December 2016 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

		Movement in discount rate				
Movement in Exit yield		*-0.50%*	*-0.25%*	*0.00%*	*+0.25%*	*+0.5%*
	-0.50%	152,072,500	149,972,500	148,040,000	146,115,000	144,255,000
	-0.25%	148,682,500	146,712,500	144,790,000	142,885,000	141,145,000
	0.00%	145,502,500	143,652,500	**141,740,000**	139,855,000	138,135,000
	+0.25%	142,627,500	140,797,500	138,915,000	137,140,000	135,330,000
	+0.5%	139,812,500	138,132,500	136,270,000	134,515,000	132,715,000

Descriptions and definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values:

Discounted Cash Flows (DCF)
Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and applying to this an appropriate, market-derived discount rate to establish the present value of the income stream. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment.

Rental growth
The estimated average increase in rent based on both market estimations and contractual indexations.

Long term vacancy rate
Long-term vacancy rate is determined based on the percentage of estimated vacant space divided by the total lettable area.

Discount rate
Rate used to discount the net cash flows generated from rental activities during the period of analysis.

Exit yield
A rate used to estimate the resale value of a property at the end of the holding period. The expected net operating income per year is divided by the terminal cap rate to get the terminal value. The exit yield is calculated according to the growth rate of the stabilized net operating income or based on forecast.

Highest and best use
For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

13. Investment property under construction

On 1 December 2015, the Group entered into an agreement with TK Development to expand Domus Pro retail park by constructing and developing an office and commercial building (stage III) on the land plot nearby Domus Pro stage II. The Group started construction in December 2016.

'000 Euro	**2016**	**2015**
Balance at 1 January	-	-
Additions	1,405	-
Net revaluation gain	175	-
Closing balance	**1,580**	**-**

The net revaluation gain recorded is categorised within Level 3 of the fair value hierarchy as at 31 December 2016 and are presented in the consolidated statement of profit or loss and other comprehensive income on the line 'Valuation gains / (loss) on investment properties'.

Valuation techniques used to derive Level 3 fair values
Valuation of investment property under construction was performed by Colliers International.
The table below presents the main information about the significant unobservable inputs used in the fair value measurement.

Domus Pro Retail Park, Vilnius (Lithuania)	DCF	-	Discount rate	8.075%
Net leasable area (NLA) – 4,380 sq. m.		-	Rental growth p.a.	0.0% - 2.1%
Segment – Office		-	Long term vacancy rate	5.45%
Currently under construction		-	Exit yield	8.0%

Sensitivity analysis of investment property under construction as at 31 December 2016 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

		Movement in discount rate				
		-0.50%	*-0.25%*	*0.00%*	*+0.25%*	*+0.5%*
Movement in Exit yield	*-0.50%*	2,000,000	1,890,000	1,790,000	1,680,000	1,580,000
	-0.25%	1,890,000	1,780,000	1,680,000	1,580,000	1,480,000
	0.00%	1,780,000	1,680,000	**1,580,000**	1,480,000	1,390,000
	+0.25%	1,680,000	1,580,000	1,480,000	1,390,000	1,300,000
	+0.5%	1,590,000	1,490,000	1,390,000	1,300,000	1,210,000

14. Trade and other receivables

'000 Euro	**2016**	**2015**
Trade receivables, gross	757	570
Less impairment allowance for doubtful receivables	(39)	(22)
Accrued income	285	174
Other accounts receivable	266	118
Total	**1,269**	**840**

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

As at 31 December 2016, trade receivables at a nominal value of EUR 15 thousand were impaired and fully provisioned.

Movements in the impairment allowance for receivables were as follows:

'000 Euro	2016	2015
Balance at 1 January	(22)	-
Charge for the period	(17)	(22)
Balance at end of period	**(39)**	**(22)**

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

		Neither past due	Past due but not impaired				
'000 Euro	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
31.12.2016	**718**	293	362	18	10	1	34
31.12.2015	**548**	241	93	29	24	6	155

15. Cash and cash equivalents

'000 Euro	2016	2015
Cash at banks and on hand	9,883	1,677
Total cash	**9,883**	**1,677**

As at 31 December 2016, the Group had to keep at least EUR 430 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

16. Equity

16a. Paid in capital

New units were offered through a public offering from 8 June 2016 until 29 June 2016. During the initial 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.

During the second public offering in November, the Fund raised additional gross capital of EUR 20.6 million. As a result of the offering of the new units, the total number of the Fund's units increased to 57,264,743 and the units are now dual-listed on the NASDAQ Stockholm and the NASDAQ Tallinn stock exchanges.

As at 31 December 2016, the paid in capital of Baltic Horizon Fund consisted of 57,264,743 units (as at 31 December 2015: 250,167).

Units issued are presented in the table below:

'000 Euro	**Number of units**	**Amount**
As at 1 January 2016	**250,167**	**25,674**
Effect of conversion from BOF to Baltic Horizon Fund*	24,766,508	-
Units issued in June 2016**	22,709,723	28,483
Units redeemed in June 2016	(5,747,248)	(7,521)
Units issued in November 2016***	15,285,593	19,588
Total issued during the year	**57,014,576**	**40,550**
As at 31 December 2016	**57,264,743**	**66,224**

*On June 30, 2016, BOF was merged with Baltic Horizon Fund. Unit holders of BOF received 100 units in Baltic Horizon Fund for each 1 unit in BOF (ratio of 1:100).
**net of subscription fees of EUR 1,235 thousand.
*** net of subscription fees of EUR 981 thousand.

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

Subsidiaries did not hold any units of the Fund as at 31 December 2016 and 2015.

The Fund held 5,900 its own units as at 31 December 2016 that were acquired during the stabilization period. The stabilization was undertaken for the Baltic Horizon Fund during 30 days after its listing on the Nasdaq Tallinn Stock Exchange. The Fund units were purchased on 7 July 2016 on the Nasdaq Tallinn at EUR 1.3086 per unit, which equalled the IPO price. On 3 March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account. After the cancellation the total amount of units is 57,258,843.

16b. Cash flow hedge valuation reserve

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

’000 Euro	2016	2015
Balance at the beginning of the year	**(199)**	**-**
Fair value of hedge acquired*	-	(194)
Movement in fair value of existing hedges	(113)	(23)
Movement in deferred income tax (Note 11)	18	18
Net variation during the period	**(95)**	**(199)**
Balance at the end of the period	**(294)**	**(199)**

*Starting as from 1 January 2015 the Fund ceased to be treated as an investment entity and consequently is required to consolidate all of its subsidiaries.

16c. Dividends (distributions)

’000 Euro	2016	2015
Declared during the year*	(1,091)	(1,764)
Total distributions made	**(1,091)**	**(1,764)**

* EUR 463 thousand of distributions in 2015 were reinvested back into the Fund by the unit holders in exchange for additional units of the Fund.

In November 2015, the Fund declared a distribution of EUR 7.17 per unit.
In October 2016, the Fund declared a distribution of EUR 0.026 per unit.

17. Interest bearing loans and borrowings

'000 Euro	Maturity	Effective interest rate	2016	2015
Non-current borrowings				
Bank 1	Dec 2017	1M EURIBOR + 1.45%	-	7,169
Bank 1	Dec 2017	3M EURIBOR + 3.00%	-	1,533
Bank 3	May 2018	3M EURIBOR + 2.50%	8,162	8,141
Bank 1	Mar 2018	3M EURIBOR + 1.50%	23,444	24,331
Bank 1	Aug 2021	3M EURIBOR + 1.75%	2,599	-
Bank 2	Mar 2019	3M EURIBOR + 1.90%	7,049	-
Bank 1	Aug 2021	6M EURIBOR + 1.45%	7,739	-
Bank 4	Aug 2023*	1M EURIBOR + 1.55%	11,710	-
Less current portion			(1,722)	(1,588)
Total non-current debt			**58,981**	**39,586**
Current borrowings				
Bank 1	Dec 2017	1M EURIBOR + 1.45%	7,016	-
Bank 1	Dec 2017	3M EURIBOR + 3.00%	1,453	-
Bank 1	Aug 2016	3M EURIBOR + 2.10%	-	2,708
Bank 2	Mar 2016	3M EURIBOR + 2.60%	-	7,312
Current portion of non-current borrowings			1,722	1,588
Total current debt			**10,191**	**11,608**
Total			**69,172**	**51,194**

*The loan was refinanced in October 2016.

Loan securities

Borrowings received were secured with the following pledges and securities as of 31 December 2016:

	Mortgages of the property	Second rank mortgages for derivatives	Pledges of receivables	Pledges of bank accounts	Share pledge
Bank 1	Lincona, SKY, P80 (former *G4S*) and Europa	Europa	Lincona, SKY and Europa	Europa, SKY	
Bank 2	Coca-Cola Plaza		Coca-Cola Plaza	Coca-Cola Plaza	
Bank 3	Domus Pro	Domus Pro	Domus Pro		BOF Domus Pro UAB
Bank 4	Upmalas Biroji			Upmalas Biroji	

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18. Trade and other payables

'000 Euro	2016	2015
Accrued expenses related to Domus Pro development	1,127	745
Trade payables	804	686
Accrued expenses	199	235
Accrued financial expenses	28	17
Tax payables	174	120
Other payables	544	233
Total trade and other payables	**2,876**	**2,036**

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.

19. Commitments and contingencies

19a. Operating leases– Group as a lessor

The Group leases real estate under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate.

The leasing arrangements entered into or in relation with the Group's investment properties portfolio which include a clause authorising tenants to terminate the leasing arrangements with up to six-month notice are not considered as non-cancellable leases.
Lease payments receivable under non-cancellable leases are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

'000 Euro	2016		2015	
Year of expiry or first break option	**Amount receivable**	**%**	**Amount receivable**	**%**
Within 1 year	9,054	19 %	5,179	19 %
Between 2 and 5 years	26,326	62 %	15,154	56 %
5 years and more	7,070	17 %	6,955	25 %
Total	**42,450**	**100 %**	**27,288**	**100 %**

19b. Litigation

As at 31 December 2016, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

19c. Contingent assets

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 rent guarantee is valid for a period of 24 months from 30 August 2016 (Umplas Biroji acquisition date). An asset has not been recognized in the financial statements as the management of the Fund expects that Upmalas Biroji will be able to earn the guaranteed amount of rent.

On 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.

19d. Contingent liabilities

The Group did not have any contingent liabilities at the end of 31 December 2016.

20. 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 8).

TK Development Lietuva UAB
In an agreement entered into on 30 July 2013, TK Development Lietuva UAB acts as the development project manager of Domus Pro Retail Park.

The Group's transactions with related parties during the 12-month period ended 31 December 2016 and 2015 were the following:

'000 Euro	2016	2015
Northern Horizon Capital AS group		
Management fees	(724)	(602)
Performance fees	(81)	(79)

The Group's balances with related parties as at 31 December 2016 and 2015 were the following:

'000 Euro	2016	2015
Northern Horizon Capital AS group		
Management fees payable	211	214
Performance fees payable	-	79
TK Development Lietuva UAB		
Accrued expenses related to Domus Pro development	1,127	745

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

Up to 30 June 2016, the Management Company was entitled to calculate a performance fee of 20% of the average annual return on paid in capital if the average annual return on paid in capital of the Fund exceeds 11% per annum. As from 1 July 2016, the Management Company is entitled to calculate the performance fee based on the annual adjusted funds from operations (AFFO) of the Fund. If AFFO divided by paid in capital during the year exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%. The performance fee based on this formula will be calculated starting from 1 January 2017. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020).
Northern Horizon Capital Group owns 1,099,332 units of the Fund.
TK Development Lietuva UAB owns 1,225,022 units of the Fund.

Entities having control or significant influence over the Fund
The holders of units owning more than 5% of the units in total as of 31 December 2016 and 31 December 2015 are provided in the tables below:

As at 31 December 2016

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

On 30 June 30 2016, BOF was merged with Baltic Horizon Fund. Unit holders of BOF received 100 units in Baltic Horizon Fund for 1 unit in BOF (ratio of 1:100).

As at 31 December 2015

	Number of units	Percentage
Svenska Kyrkans Pensionskassa	115,165	46.0 %
Skandinaviska Enskilda Banken SA clients	41,703	16.7 %
SEB Pank Clients AS	20,554	8.2 %

Except for distributions made, there were no transactions with the unit holders disclosed in the tables above.

21. Financial instruments

Fair values

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

	Carrying amount		Fair value	
'000 Euro	**2016**	**2015**	**2016**	**2015**
Financial assets				
Trade and other receivables	1,269	840	1,269	840
Cash and cash equivalents	9,883	1,677	9,883	1,677
Financial liabilities				
Interest-bearing loans and borrowings	(69,172)	(51,194)	(69,351)	(51,670)
Trade and other payables	(2,876)	(2,036)	(2,876)	(2,036)
Derivative financial instruments	(345)	(232)	(345)	(232)

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2016 and 2015:

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

Year ended 31 December 2015 '000 Euro	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Trade and other receivables	-	-	840	**840**
Cash and cash equivalents	-	1,677	-	**1,677**
Financial liabilities				
Interest-bearing loans and borrowings	-	-	(51,670)	**(51,670)**
Trade and other payables	-	-	(2,036)	**(2,036)**
Derivative financial instruments	-	(232)	-	**(232)**

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

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

- Trade and other receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses on these receivables. As at 31 December 2016 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.

22. Derivative financial instruments

The Group has entered into a number of interest rate swaps ('IRS') with DnB Nord, SEB and Nordea banks. The purpose of interest rate swaps 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.

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 16b for more information.

Derivative type	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						2016	2015
IRS	Sep 2013	Aug 2016	1,100	3M Euribor	0.60 %	-	(4)
IRS	Sep 2013	Mar 2016	5,975	3M Euribor	0.74 %	-	(13)
IRS	Dec 2014	May 2018	6,736	3M Euribor	0.50 %	(73)	(99)
IRS	Sep 2015	Mar 2018	18,759	3M Euribor	0.15 %	(95)	(116)
IRS	Aug 2016	Aug 2021	7,750	6M Euribor	0.05 %	(5)	-
IRS	Oct 2016	Aug 2023	10,575	1M Euribor	0.26 %	(172)	-
Derivative financial instruments, liabilities						**(345)**	**(232)**

Derivative financial instruments were accounted for at fair value as at 31 December 2016 and 2015. The maturity of the derivative financial instruments of the Group is as follows:

	Liabilities		Assets	
Classification according to maturity	**2016**	**2015**	**2016**	**2015**
Non-current	(345)	(215)	-	-
Current	-	(17)	-	-
Total	**(345)**	**(232)**	**-**	**-**

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23. Subsequent events

On 20 January 2017, the Fund declared a distribution of EUR 1,374,212 (EUR 0.024 per unit).

On 3 March 2017, the Fund cancelled and deleted all 5,900 units of Baltic Horizon Fund that were held on its own account. After the cancellation the total amount of units is 57,258,843.

On 22 March 2017, the Fund acquired Duetto property located in Vilnius, Lithuania, in an asset deal for a purchase price of EUR 14.6 million. The Fund also obtained a call option to acquire the neighbouring Duetto II when the building is constructed in the future.

There were no other significant events after period end.

24. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Interest in capital
BOF Lincona OÜ	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BOF 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%
BOF CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BOF 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	14169458	14 December 2016	Holding company*	100%
Pirita Center OÜ	Hobujaama 5, 10151 Tallinn	12992834	16 December 2016	Asset holding company	100%

*formerly known as *BH G4S OÜ*.

BH MT 24 holds OÜ 100% of Pirita Center OÜ. Pirita Center OÜ is owned by the Fund indirectly.

MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 31 March 2017.

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	