Baltic Horizon Fund

Unaudited Interim Condensed Consolidated Financial Statements for the 12-month period ended 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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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2016

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.

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.

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 guard 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 to, 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

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. 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. 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 29 December 2016, Baltic Horizon signed a non-binding preliminary sales and purchase agreement to acquire Duetto I office property in Vilnius, Lithuania. The agreement became binding on 18 January 2017 and the Fund has the obligation to enter into the sales and purchase agreement by 31 March 2017 when the construction is fully completed. Ownership of the building will be transferred to the Fund after the notarized sales and purchase agreement is concluded. Under the agreement, the purchase price is EUR 14.6 million (excluding VAT) resulting in a 7.22% entry yield. The seller also provides a 2-year guarantee for starting net operating income.

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 Lithuania and Latvia rebounded strongly in Q4. According to the released national statistics, the Lithuanian and Latvian GDP growth rates were 3% and 2.1% respectively in Q4 2016 compared to the corresponding period of 2015. The Estonian GDP growth in Q3 was 1.3%, driven by transportation, trade and energy sector (Estonian GDP growth rate for Q4 is not released yet). Improvement was also seen in the construction and industrial trade confidence.

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 occupancies. 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 are 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 and locked in low financing costs.

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 133.7 million as at 30 September 2016). The increase is mainly related to the acquisition of Pirita shopping centre 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 57.2 million as at 30 September 2016. The increase in NAV is mainly related to the new capital raised during the second public offering (approx. EUR 19.5 million net of subscription fees) and the performance of the Fund.

During Q4 2016, the Fund recorded a net profit of EUR 1.2 million (EUR 3.2 million during Q4 2015) which had a positive effect on the Fund NAV. The net result was positively affected by the quarter-end revaluation of Domus Pro and the operational performance of the properties. Since the valuation of the properties took place in September, the Fund did not commission new valuations for the entire portfolio as of the year-end. The next valuations are planned to be conducted in June 2017. Net profit in Q4 2015 was higher because of property valuation gains.

In Q4 2016, the net rental operating income (NOI) earned by the Group amounted to EUR 2.3 million (EUR 7.2 million during twelve months ended December 2016) and was higher than in Q4 2015 when the Group earned EUR 1.6 million (EUR 5.3 million during twelve months ended December 2015). Compared to 2015, the increase in NOI is mainly related to rental income earned by the new acquisitions G4S Headquarters, Upmalas Biroji and Pirita shopping centre.

Table 1: Quarterly Key Figures

Euro '000	**Q4 2016**	**Q3 2016**	**Change (%)**
Rental income	2,540	2,058	23.4%
Expenses reimbursement revenue	784	617	27.1%
Cost of rental activities	(1,014)	(747)	35.7%
Net rental income	**2,310**	**1,928**	**19.8%**
Expenses related to public offerings	(313)	(125)	150.4%
Administrative expenses	(415)	(357)	16.2%
Other operating income / (expenses)	2	17	-88.2%
Valuation gains / (loss) on investment properties	201	2,802	-92.8%
Valuation gains / (loss) on investment property under construction	175	-	n/a
Operating profit	**1,960**	**4,265**	**-54.0%**
Financial income	3	3	-%
Financial expenses	(413)	(307)	34.5%
Net financing costs	**(410)**	**(304)**	**34.9%**
Profit before tax	**1,550**	**3,961**	**-60.9%**
Income tax charge	(370)	(253)	46.2%
Profit for the period	**1,180**	**3,708**	**-68.2%**
Weighted number of units outstanding	47,350,881	39,163,520	20.9%
Earnings per unit (EUR)	**0.02**	**0.09**	**-77.6%**

Euro '000	**31.12.2016**	**30.09.2016**	**Change (%)**
Investment property in use	141,740	129,200	9.7%
Gross asset value (GAV)	154,946	133,697	15.9%
Interest bearing loans	69,172	69,703	-0.8%
Total liabilities	78,129	76,528	2.1%
Net asset value (NAV)	76,817	57,169	34.4%
Number of units outstanding	57,264,743	41,979,150	36.4%
Net asset value (NAV) per unit (EUR)	**1.3414**	**1.3619**	**-1.5%**
Loan-to-Value ratio (LTV)	**48.8%**	**53.9%**	

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	**76,817**
Exclude deferred tax liability on investment properties	7,493
Exclude fair value of financial instruments	345
Exclude deferred tax on fair value of financial instruments	(51)
EPRA NAV*	**84,604**
Amount of units	57,264,743
EPRA NAV per unit	**1.4774**

***** 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 from December consists 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.

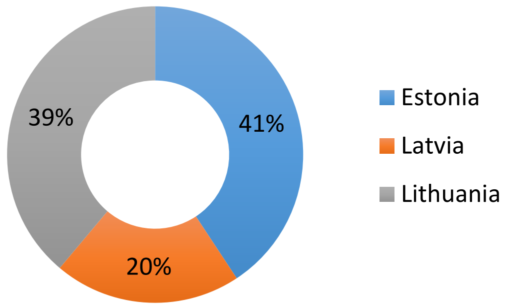
With the absence of traditional high streets in the Baltic capitals, shopping is concentrated in shopping centres. The established centres in the market have all been focusing on growing through expansion with only a few new stand-alone centres being panned. However in Q4 2016 many large-scale shopping 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.

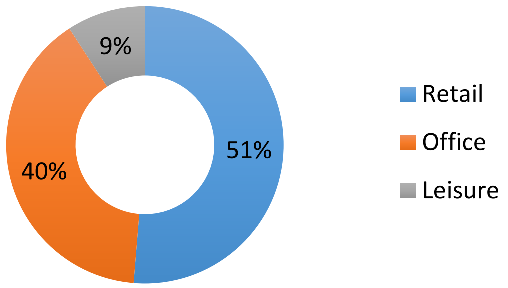
In the Baltic retail sector in Q4 2016, rents for small spaces remained in the range of EUR 21-60 sq. m. per month. Average retail rents in the Baltic capitals were EUR 13-22 sq. m for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 6-11 sq. m. Rent rates for medium and larger retail units 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.

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 Q4 2016, the average occupancy of the portfolio was 98.2% (97.4% during Q3 2016) and average Direct Property Yield 7.3% (7.2% during Q3 2016). The level of property operating costs was stable throughout the whole period.

<u>Lincona</u>
The average occupancy level of the property remains stable at 92.1% at the end of Q4. The vacancy created by Liewenthal Electronics OU in Q3 is expected to be absorbed by another tenant in the office complex in Q1 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.

<u>Domus PRO</u>
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 has been achieved. The building is expected to be completed within 12 months by Q4 2017.

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

<u>SKY Supermarket</u>
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.

<u>Coca-Cola Plaza</u>
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 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.

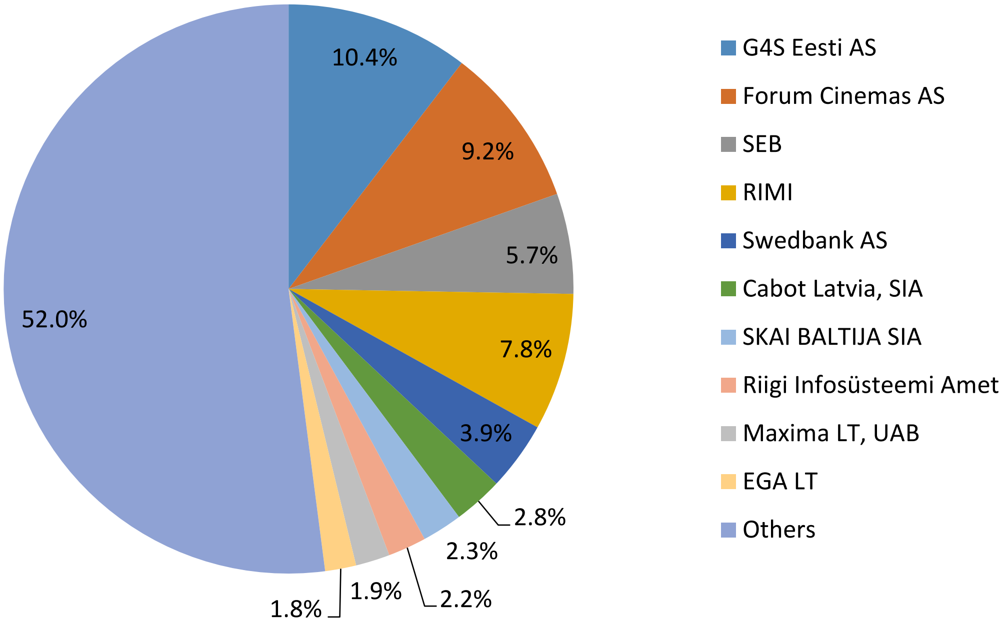
Upmalas Biroji
Upmala Biroji is an office complex built in 2008 with NLA of 10,599 sq, m. The property currently accommodates a mix of 13 quality tenants of which 8 could be regarded as international blue chip tenants (77% of total NLA). Upmala is positioned as a Shared Service Center/Back office destination 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.

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 constantly 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%.

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” and by organizing committed and uncommitted credit lines.

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. Also, derivative instruments may be used to reduce liquidity risk.

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 acquisition of the Pirita center with the proceeds of the second public offering during Q4, the portfolio of Baltic Horizon Fund has increased to hold 8 established cash flow properties located in the Baltic capitals with a gross asset value above EUR 141 million. In Q1 2017, the Fund is planning to complete the acquisition of the Duetto I office building in Vilnius and potentially close one more acquisitions with the proceeds of the second public offering. In 2017 the management team is planning to continue making quarterly income distributions to its investors from the portfolio's rental activities.

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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Euro '000	**Note**	**01.10.2016-31.12.2016**	**01.10.2015-31.12.2015**	**01.01.2016-31.12.2016**	**01.01.2015-31.12.2015**
Rental income		2,540	1,748	7,874	6,073
Expenses reimbursement revenue		784	594	2,594	2,062
Cost of rental activities	4	(1,014)	(792)	(3,315)	(2,796)
Net rental income	3	**2,310**	**1,550**	**7,153**	**5,339**
Administrative expenses	5	(728)	(363)	(2,190)	(984)
Other operating income / (expenses)		2	1	97	267
Net loss on disposal of investment property	9	-	-	-	(10)
Valuation gains / (loss) on investment properties	3, 9	201	2,886	2,562	2,886
Valuation gains / (loss) on investment property under construction	10	175	-	175	-
Operating profit		**1,960**	**4,074**	**7,797**	**7,498**
Financial income		3	3	14	17
Financial expenses	6	(413)	(286)	(1,253)	(1,100)
Net financing costs		**(410)**	**(283)**	**(1,239)**	**(1,083)**
Profit before tax		**1,550**	**3,791**	**6,558**	**6,415**
Income tax charge	3, 8	(370)	(602)	(798)	(890)
Profit for the period	3	**1,180**	**3,189**	**5,760**	**5,525**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Net gains (losses) on cash flow hedges	13b	(48)	(37)	(113)	(23)
Income tax relating to net gains (losses) on cash flow hedges	13b, 8	19	7	18	18
Other comprehensive income/ (expense), net of tax, to be reclassified to profit or loss in subsequent periods		**(29)**	**(30)**	**(95)**	**(5)**
Total comprehensive income/ (expense) for the period, net of tax		**1,151**	**3,159**	**5,665**	**5,520**
Basic and diluted earnings per unit (Euro)	7	**0.02**	**13.33**	**0.12**	**23.10**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2016

Euro '000	Note	31.12.2016	31.12.2015
Non-current assets			
Investment properties	3, 9	141,740	86,810
Investment property under construction	10	1,580	-
Other non-current assets		288	263
Total non-current assets		**143,608**	**87,073**
Current assets			
Trade and other receivables	11	1,277	840
Prepayments		178	81
Cash and cash equivalents	12	9,883	1,677
Total current assets		**11,338**	**2,598**
Total assets	3	**154,946**	**89,671**
Equity			
Paid in capital	13a	66,224	25,674
Cash flow hedge reserve	13b	(294)	(199)
Retained earnings		10,887	6,218
Total equity		**76,817**	**31,693**
Non-current liabilities			
Interest bearing loans and borrowings	14	58,981	39,586
Deferred tax liabilities		4,383	3,673
Derivative financial instruments	19	345	215
Other non-current liabilities		935	451
Total non-current liabilities		**64,644**	**43,925**
Current liabilities			
Interest bearing loans and borrowings	14	10,191	11,608
Trade and other payables	15	2,876	2,036
Income tax payable		46	112
Derivative financial instruments	19	-	17
Other current liabilities		372	280
Total current liabilities		**13,485**	**14,053**
Total liabilities	3	**78,129**	**57,978**
Total equity and liabilities		**154,946**	**89,671**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2016

Euro '000	Notes	Paid in capital	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	13a	3,623	-	-	**3,623**
Profit distribution to unit holders		-	-	(1,764)	**(1,764)**
Cash flow hedge reserve in acquired subsidiaries	13b	-	(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	13a	40,550	-	-	**40,550**
Profit distribution to unit holders		-	-	(1,091)	**(1,091)**
As at 31 December 2016		**66,224**	**(294)**	**10,887**	**76,817**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2016

Euro '000	Note	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Cash flows from core activities			
Profit (loss) before tax		**6,558**	**6,415**
Adjustments for non-cash items:			
Value adjustment of investment properties	9	(2,562)	(2,886)
(Gain)/loss on property disposal	9	(175)	10
Value adjustment of investment property under construction	10		
Value adjustment of derivative financial instruments		-	18
Allowance for bad debts		17	22
Financial income		(14)	(17)
Financial expenses	6	1,253	1,100
Working capital adjustments:			
Decrease/(increase) in trade and other accounts receivable		(212)	(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		**4,277**	**4,966**
Cash flows from investing activities			
Interest received		14	17
Acquisition of subsidiaries, net of cash acquired	9	(20,098)	(6,324)
Disposal of investment properties	9	-	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	13	40,550	3,160
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		**41,707**	**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 (further "Fund" or “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 listed on the Fund List of the Nasdaq Tallinn Stock Exchange.

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

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

Name	31.12.2016	31.12.2015
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 interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 31 December 2015. These condensed interim financial statements do not include all of the information required in the complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last financial statements.

Going concern assessment

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

2. 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 reported item in the future. The assumptions and judgements applied in these interim financial statement are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2015.

Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2015.

New standards, amendments and interpretations not yet effective

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

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 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 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 operating lease contracts under the currently effective IAS 17.

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.

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 interim 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. 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.

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**
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	(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**

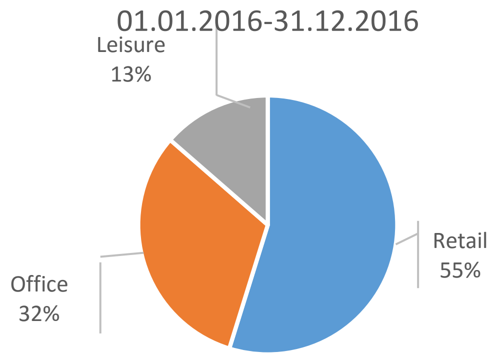
1. External revenue includes rental income and expense reimbursement revenue. The segments do not have inter-segment revenue.

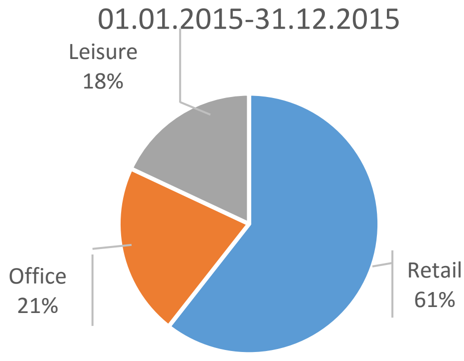
Operating segments – 31 December 2015

’000 Euro	Retail	Office	Leisure	Total
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	(632)	(208)	(236)	(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**

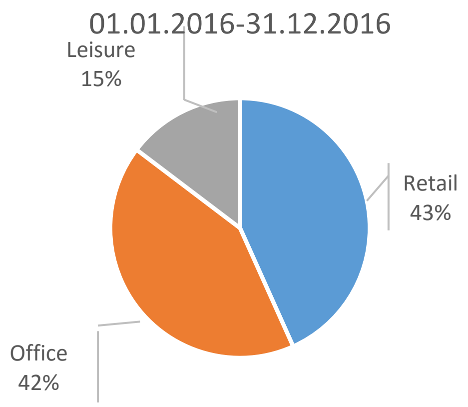
1. External revenue includes rental income and expense reimbursement revenue. The segments do not have inter-segment revenue.

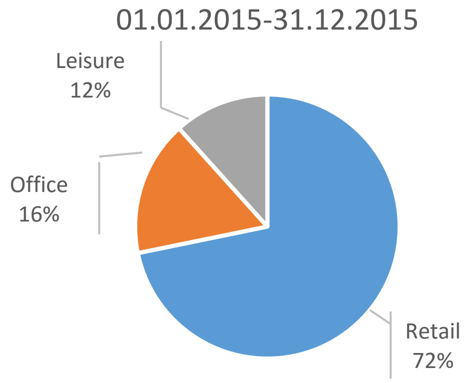
Segment net rental income*



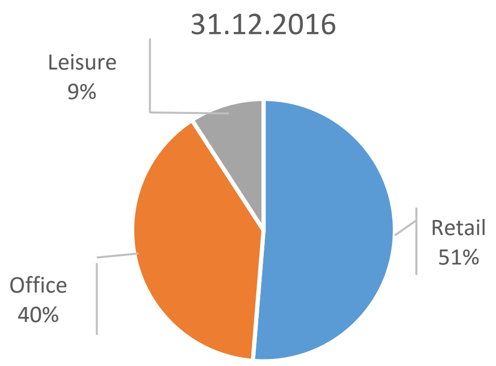


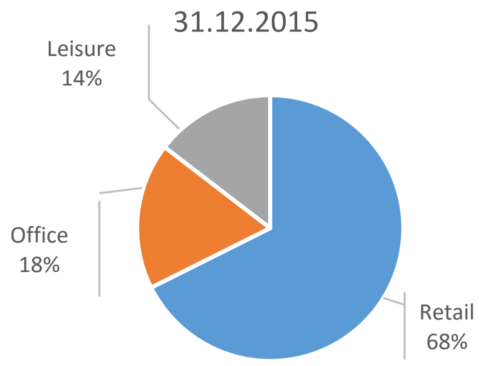
Segment net profit (loss)*





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**	**7,413[2]**	**154,946**
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). Also, EUR 175 thousand of valuation gain of Domus Pro stage III was transferred to "Other comprehensive income".
2. Segment assets do not include cash, which is held at the Fund level (EUR 7,394 thousand) and Fund units acquired during the stabilization period (EUR 19 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	**01.01.2016-31.12.2016**	**01.01.2015-31.12.2015**	**31.12.2016**	**31.12.2015**
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).

4. Cost of rental activities

'000 Euro	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Utilities	472	334	1,512	1,228
Repair and maintenance	212	185	806	621
Property management expenses	97	124	383	407
Real estate taxes	71	63	252	215
Sales and marketing expenses	101	69	250	240
Property insurance	9	8	29	28
Allowance / (reversal of allowance) for bad debts	17	(1)	17	22
Other	35	10	66	35
Total cost of rental activities	**1,014**	**792**	**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).

5. Administrative expenses

'000 Euro	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Public offering related expenses	313	-	938	-
Management fee	211	214	724	602
Consultancy fees	37	23	125	54
Performance fee	-	79	81	79
Legal fees	99	31	156	165
Audit fee	38	-	73	28
Custodian fees	7	4	20	15
Property valuation fee	7	3	14	24
Other administrative expenses	16	9	59	17
Total administrative expenses	**728**	**363**	**2,190**	**984**

Up to 30 June 2016, the Management Company (Note 17) 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).

6. Financial expenses

'000 Euro	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Interest on bank loans	334	287	1,163	1,075
Foreign currency exchange (gain)/loss	-	(3)	-	1
Loan refinancing expenses	75	-	75	-
Loan arrangement fee amortisation	4	2	15	24
Total financial expenses	**413**	**286**	**1,253**	**1,100**

7. 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	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Profit for the period, attributed to the unit holders of the Fund	1,180	3,189	5,760	5,525
Profit for the period, attributed to the unit holders of the Fund	**1,180**	**3,189**	**5,760**	**5,525**

Weighted-average number of units:

	Note	31.12.2016	31.12.2015
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		-	218
Effect of conversion from BOF to Baltic Horizon Fund		24,766,505	-
Effect of units issued in June 2016*	13a	21,035,981	-
Effect of units issued in November 2016*	13a	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

	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Basic and diluted earnings per unit*	**0.02**	**13.33**	**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.

8. Income tax

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where the real estate is situated. The Fund's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income. The Group's consolidated effective tax rate in respect of continuing operations for the twelve months ended 31 December 2016 was 12.1% (twelve months ended 31 December 2015: 25.0%). The change in the effective tax rate was caused mainly by the deferred tax accumulation in BOF Europa Holding UAB for the full year (BOF Europa Holding UAB was acquired together with the Europa property on 2 March 2015).

The major components of income tax for the periods ended 31 December 2016 and 31 December 2015 were as follows:

'000 Euro	01.10.2016-31.12.2016	01.10.2015-31.12.2015	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Consolidated statement of profit or loss				
Current income tax for the period	(10)	(12)	(43)	(42)
Deferred tax for the period (Note 13b)	(360)	(590)	(755)	(848)
Income tax expense reported in profit or loss	**(370)**	**(602)**	**(798)**	**(890)**
Consolidated statement of other comprehensive income				
Deferred income tax related to items charged or credited to equity:				
Revaluation of derivative instruments to fair value	19	7	18	18
Income tax expense reported in other comprehensive income	**19**	**7**	**18**	**18**

9. Investment property

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

'000 Euro	31.12.2016	31.12.2015
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	**23,939**
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)**

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 16b).

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)**

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.

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 10). 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.

Acquisition of Duetto

On 29 December 2016, Baltic Horizon signed a non-binding preliminary sales and purchase agreement to acquire Duetto I office property in Vilnius, Lithuania. The agreement became binding on 18 January 2017 and the Fund has the obligation to enter into the sales and purchase agreement by 31 March 2017 when the construction is fully completed. Ownership of the building will be transferred to the Fund after the notarized sales and purchase agreement is concluded. Under the agreement, the purchase price is EUR 14.6 million (excluding VAT) resulting in a 7.22% entry yield. The seller also provides a 2-year guarantee for starting net operating income.

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 – 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 amount to gain of EUR 2,562 thousand as at 31 December 2016 (2015: EUR 2,886 thousand) and are presented in the consolidated income statement 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%
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%
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%
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%
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%
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%
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%
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%

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 to this, an appropriate, market-derived discount rate is applied 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.

10. 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	**31.12.2016**	**31.12.2015**
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 presented in the other comprehensive income on the line 'Valuation gain on investment property under construction'.

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%

11. Trade and other receivables

’000 Euro	31.12.2016	31.12.2015
Trade receivables, gross	752	570
Less impairment allowance for doubtful receivables	(37)	(22)
Accrued income	285	174
Other accounts receivable	274	118
Total	**1,277**	**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	31.12.2016	31.12.2015
Balance at 1 January	(22)	-
Charge for the period	(17)	(22)
Balance at end of period	**(37)**	**(22)**

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

’000 Euro	Total	Neither past due nor impaired	Past due but not 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

12. Cash and cash equivalents

’000 Euro	31.12.2016	31.12.2015
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.

13. Equity
13a. 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 consists 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.

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

The Fund held 15,000 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 1.3086 EUR per unit, which equalled the IPO price. No more trades were made during the stabilization period as part of the stabilization.

13b. 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	31.12.2016	31.12.2015
Balance at the beginning of the year	**(199)**	-
Fair value of hedge acquired*	-	(194)
Movement in fair value of existing hedges	(112)	(23)
Movement in deferred income tax (Note 8)	17	18
Net variation during the period	**(95)**	**(5)**
Balance at the end of the period	**(294)**	**(199)**

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

13c. Dividends (distributions)

In Q4 2016, the Fund made a distribution of EUR 1,091,458 (EUR 0.026 per unit) to its investors.

14. Interest bearing loans and borrowings

'000 Euro	Maturity	Effective interest rate	31.12.2016	31.12.2015
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	

15. Trade and other payables

'000 Euro	31.12.2016	31.12.2015
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.

16. Commitments and contingencies

16a. Litigation

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

16b. 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 recognized 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.

16c Contingent liabilities

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

17. 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 5).

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	**01.01.2016-31.12.2016**	**01.01.2015-31.12.2015**
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	**31.12.2016**	**31.12.2015**
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 paid, there were no transactions with the unitholders disclosed in the tables above.

18. 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	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Financial assets				
Trade and other receivables	1,277	840	1,277	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	-	-	1,277	**1,277**
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.

19. 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 (Note 13b).

Derivative type	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						31.12.2016	31.12.2015
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	6,832	3M Euribor	0.50 %	(73)	(99)
IRS	Sep 2015	Mar 2018	18,938	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	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Non-current	(345)	(215)	-	-
Current	-	(17)	-	-
Total	**(345)**	**(232)**	**-**	**-**

20. Subsequent events

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

There were no other significant events after period end.

21. 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 interim condensed consolidated financial statements for the period ended 31 December 2016 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. The interim condensed consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company.

The interim management report gives a true and fair view of the main events which occurred during the 12 months of the financial year and of their effect on the condensed interim financial statements.

The financial statements of Baltic Horizon Fund were approved by the Management Board of the Management Company on 17 February 2017.

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