BALTIC HORIZON

ANNUAL REPORT

AND

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2017

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

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DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

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

MANAGEMENT REVIEW

GENERAL INFORMATION ABOUT THE FUND

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

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

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

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

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

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

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

Structure and governance

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

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

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

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

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

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

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

The fund administration services were outsourced to Swedbank AS, a public limited company (in Estonian: *aktsiaselts*) registered in the Estonian Commercial Register under the registry code 10060701 under a Fund Administration Agreement. The fund administrative services were taken over by the Management Company on 1 January 2018. Accounting and depository services continue to be provided by Swedbank AS.

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

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

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

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

In Q2 2017, the Fund successfully completed a secondary public offering of the Fund's units. In total, approx. 7.4 million units were subscribed for that corresponds to approx. EUR 9.8 million of gross capital raised. As a result, the number of the Fund's units increased to 64,655,870.

During Q3 2017, the Fund successfully refinanced its Europa Shopping centre bank loan by repaying EUR 2.1 million of the existing bank loan. After refinancing the loan, the financing conditions of the Europa shopping centre improved substantially. This will help the Fund to make stronger cash distributions to its unitholders.

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

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

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

MACROECONOMIC FACTORS IN THE BALTIC STATES

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

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

Economic growth in Estonia accelerated to 4.9% in 2017, the fastest pace since 2011. It is expected that GDP growth in Estonia will remain strong in 2018, increasing to close to 4% in real terms. In Latvia, the strong upswing continued throughout 2017 and into 2018. Real GDP growth accelerated to 5.8% in 2017. Exports of both goods and services continue to increase at double digit rates, covering a wide range of countries and product/service groups. Latvia has benefitted from strong external demand, investments have finally recovered from a very low base, and a rebound in consumer confidence has lifted household consumption. It is forecasted that the economy will expand by more 2.5-3% in 2018-2019. For similar reasons, in 2017 Lithuania's GDP growth remains close to 4%. Exports have jumped and long-lagging investments are also rebounding. Inflation in the Baltics is expected to accelerate in 2018-2019 due to higher commodity prices and excise taxes and growing labour costs. Upcoming elections in Estonia and Latvia in 2018-2019 are expected to keep their fiscal policy expansionary.

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

New offices are being built for expanding nearshoring tenants such as Danske Bank Global Services, Swedbank and Telia, just to name a few. In Vilnius it is expected that over the next two years, 140,000 sq. m. of new office space will be commissioned. The average vacancy rate has risen to approx. 5% and is expected to increase slightly due to new openings. The average office rent in Vilnius has risen to 14-17 EUR/sq. m. in CBD (central business district) locations and 11-14 EUR/sq. m. in other central locations. After several years, Riga has also started to see new office buildings of superior efficiency and quality and a further 100,000 sq. m. of office space is in the pipeline. Vacancy rates in the Riga A-class segment are around 3% and tenants lack good alternatives. This is why in selected high-quality properties rents have increased to

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the levels of 14-15 EUR/sq. m. In Tallinn, top rents are expected to remain stable between 15-17.5 EUR/sq. m. Due to a large supply of new office premises of approx. 120,000 sq. m., downward pressures exist especially for B-class office buildings and rents are expected to range between 8-13 EUR/sq. m. with the higher end of the range in new developments. Vacancy in the A-class segment is currently almost non-existent but with the new supply it is expected to start increasing as it will take several years before demand absorbs the new supply.

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

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

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

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

FINANCIAL REPORT

Financial position and performance of the Fund

At the end of 2017, the GAV increased from EUR 154.9 million to EUR 215.8 million as compared to the end of 2016. The increase is mainly related to new acquisitions during the year and the increase in cash as a result of the latest secondary public offering in November. The Fund completed the acquisition of the Postimaja Shopping Centre on 13 February 2018 and thus has deployed most of the new capital raised in November 2017.

During 2017, the Fund NAV increased from EUR 76.8 million to EUR 107 million as compared to the end of 2016. The increase is related to new equity raised and the Group's operational performance over the year. The Fund raised EUR 25.6 million net equity during the June and November public offerings and generated EUR 9.4 million in net profit. The Fund also distributed dividends of EUR 5.1 million.

In 2017, the net profit of the Group increased from EUR 5.8 million to EUR 9.4 million as compared to 2016. During the year, the Group recorded a EUR 3.7 million fair value gain (EUR 2.7 million during 2016).

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In 2017, the Group recorded a EUR 10.8 million net rental income (EUR 7.2 million in 2016). The increase is related to new acquisitions that were made following the capital raisings at the end of 2016 and during 2017.

Table 1: Annual Key Figures

Euro '000	**2017**	**2016**	**Change (%)**
Rental income	11,839	7,874	50.4%
Service charge income	3,692	2,594	42.3%
Cost of rental activities	(4,763)	(3,315)	43.7%
Net rental income	**10,768**	**7,153**	**50.5%**
Expenses related to public offerings	(637)	(938)	(32.1)%
Administrative expenses	(2,137)	(1,252)	70.7%
Other operating income / (expenses)	14	97	(85.6)%
Valuation gain / (loss) on investment properties	3,676	2,737	34.3%
Operating profit	**11,684**	**7,797**	**49.9%**
Financial income	47	14	235.7%
Financial expenses	(1,528)	(1,253)	21.9%
Net financing costs	**(1,481)**	**(1,239)**	**19.5%**
Profit before tax	**10,203**	**6,558**	**55.6%**
Income tax charge	(759)	(798)	(4.9)%
Profit for the period	**9,444**	**5,760**	**64.0%**
Weighted average number of units outstanding	62,270,694	47,350,881	31.5%
Earnings per unit (EUR)	**0.15**	**0.12**	**25.0%**

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

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The Fund also calculates EPRA NAV, which was EUR 113.8 million as at 31 December 2017. EPRA NAV is calculated according to EPRA Best practice recommendations that were issued in December 2014. EPRA NAV is calculated by adjusting IFRS NAV for the items summarised in the table below:

Table 2: Adjustments for recalculating NAV to EPRA NAV

Euro '000	**31.12.2017**
IFRS NAV as of 31 December 2017	**106,976**
Exclude deferred tax liability on investment properties	6,763
Exclude fair value of financial instruments	14
Exclude deferred tax on fair value of financial instruments	2
EPRA NAV*	**113,755**
Amount of units	77,440,638
EPRA NAV per unit	**1.4689**

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

PROPERTY REPORT

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

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

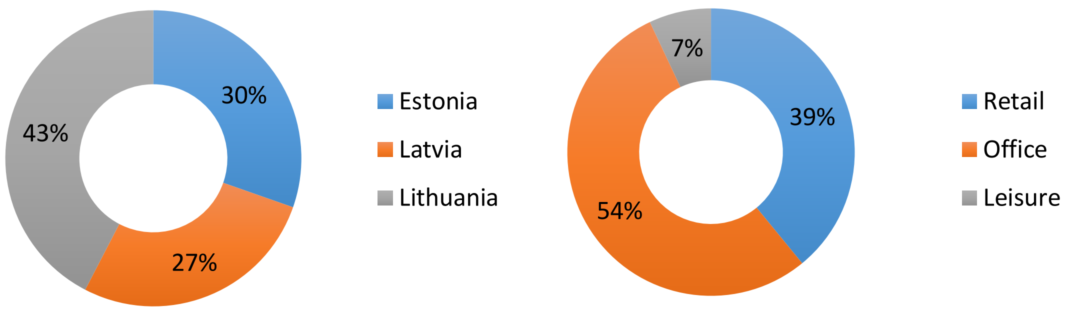
In the Baltic retail sector during 2017, rents for small spaces remained in the range of EUR 23-55 sq. m. per month. Average retail rents in the Baltic capitals were EUR 15-35 per sq. m. for 150-350 sq. m. spaces while anchor tenants mostly paid EUR 4-11 per sq. m. Rental rates for medium and larger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

Capital city office rents during 2017 stood at EUR 13 - 19 EUR per sq. m. per month for class A premises and EUR 8.0 - 13.0 sq. m. for modern class B offices. For comparison, the average rental level in Lincona and Duetto I was approx. EUR 10.6 per sq. m. and in Upmalas Biroji EUR 12.5 per sq. m., therefore also well in line with average market brackets. Overall the rental levels depend highly on the competitiveness of the

MANAGEMENT REVIEW

buildings' locations, layout and level of surcharges. When comparing the three capitals, competition is the highest in Tallinn whereas in Riga, due to lack of new supply, landlords' negotiating positions are the strongest.
The Baltic property yields in both office and retail segments continued to decrease and new deals are now closed at approx. 6% or even below. The yields depend on the exact micro location, age, rental level and history of the property. At the same time the Baltic countries continue to maintain a yield value gap of 200-300 bps compared to the Western European and the Nordic countries and 100-150 bps to Poland as yields in the real estate asset class are contracting across the board.

Picture 1: Fund segment and country distribution



Property performance

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

During 2017, the average actual occupancy of the portfolio was 96.6% (2016: 97.1%). When all rental guarantees are considered, the effective occupancy rate is 97.8% (2016: 97.1%). Average direct property yield during 2017 was 7.2% (2016: 7.2%). The net initial yield for the whole portfolio for 2017 was 6.8% (2016: 6.8%).

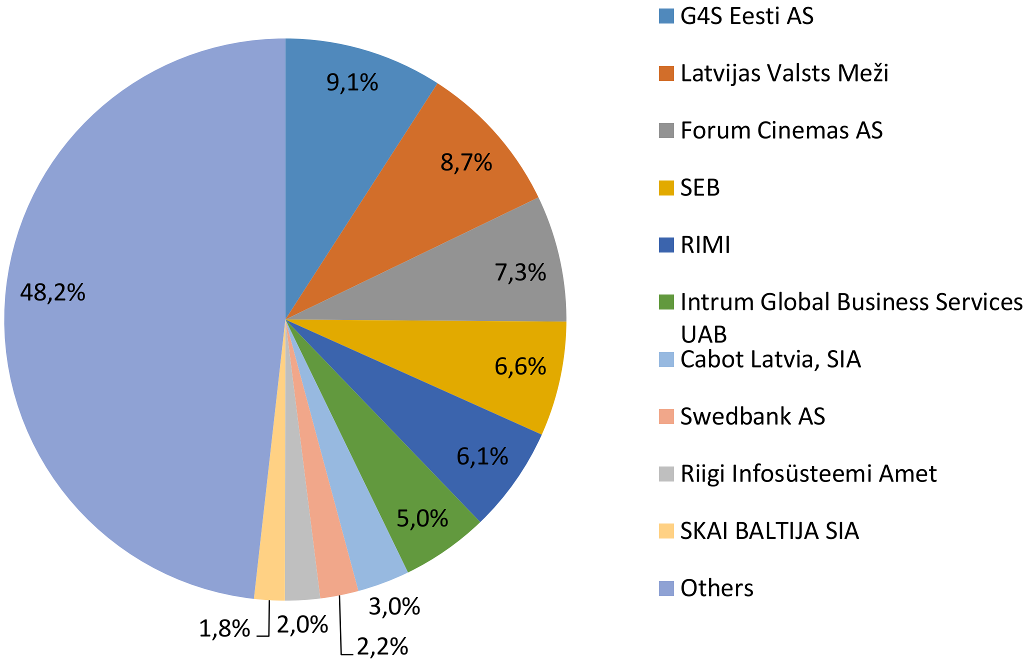
Table 3: Overview of the Fund's investment properties

Property name	City	Country	Market value[1] *Euro'000*	NLA	Direct property yield for 2017	Net initial yield for 2017	Occupancy rate for2017
Duetto I	Vilnius	Lithuania	16,210	8,327	6.5%	6.4%	100.0%[2]
Pirita SC	Tallinn	Estonia	11,630	5,436	7.5%	7.6%	100.0%[2]
Upmalas Biroji BC	Riga	Latvia	24,269	10,419	7.2%	6.7%	99.8%
G4S Headquarters	Tallinn	Estonia	16,570	8,363	7.4%	7.0%	100.0%
Europa SC	Vilnius	Lithuania	39,600	16,856	6.5%	6.5%	95.5%
Domus Pro Retail Park	Vilnius	Lithuania	17,280	11,247	7.8%	6.9%	98.0%
Domus Pro Office	Vilnius	Lithuania	7,150	4,759	3.9%[3]	2.8%	73.4%
CC Plaza	Tallinn	Estonia	13,240	8,664	8.2%	7.5%	100.0%
Sky SC	Riga	Latvia	5,448	3,263	8.6%	7.5%	99.3%
Lincona	Tallinn	Estonia	16,050	10,859	7.7%	7.4%	94.1%
Vainodes I	Riga	Latvia	21,870	8,052	4.3%[4]	4.2%	100.0%
Total portfolio			**189,317**	**96,245**	**7.2%**	**6.8%**	**97.2%**

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

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

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



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

Table 4: Breakdown of NOI development

Property *Euro '000*	**Date of acquisition**	**2014**	**2015**	**2016**	**2017**
Lincona	1 Jul 2011	898	1,143	1,202	1,172
CC Plaza	8 Mar 2013	953	962	972	985
Sky SC	7 Dec 2013	404	415	425	410
Domus Pro Retail Park	1 May 2014	445	857	1,103	1,220
Europa SC	2 Mar 2015	-	1,962	2,360	2,365
G4S Headquarters	12 Jul 2016	-	-	546	1,149
Upmalas Biroji BC	30 Aug 2016	-	-	515	1,693
Pirita SC	16 Dec 2016	-	-	30	900
Duetto I	22 Mar 2017	-	-	-	799
Vainodes I	12 Dec 2017	-	-	-	75
Total portfolio		**2,700**	**5,339**	**7,153**	**10,768**

Lincona Office Complex, Tallinn (Estonia)
The average occupancy level for 2017 was 95.0%(2016: 94.0%). During 2017, the average direct property yield decreased slightly, declining from 7.9% to 7.7% compared to 2016. The net initial yield during 2017 was 7.4% (2016: 7.7%). The decrease in both direct and net initial yields is related to capital expenditure incurred in relation to tenant improvements during the year. The fair value of the property has increased from EUR 15,700 thousand measured in the 2016 valuation to EUR 16,050 thousand as of 31 December 2017.

Domus Pro, Vilnius (Lithuania)
The average occupancy rate for 2017 for the retail part was 98.5% (2016: 98.6%). Stage III is completed and many tenants have already moved in. The office building started its operation in Q4 2017. During Q4 2017, the average occupancy rate for the business centre was 73.4% (the occupancy rate at the end of December reached 90.8%). The business centre has received strong interest from the market to lease the remaining space. During 2017 the average direct property yield for the retail part was 7.8% (2016: 7.3%). The net initial yield for 2017 was 6.9% (2016: 6.6%). The value of the retail building increased from EUR 17,080 thousand measured in the 2016 valuation to EUR 17,280 thousand as of 31 December 2017. The development yield for the business centre is 7.9%. The fair value of the business centre has increased from EUR 1,580 thousand measured in the 2016 valuation to EUR 7,150 thousand as of 31 December 2017.

SKY Supermarket, Riga (Latvia)
During 2017, the management team started a new architectural project to modernize the façade of the building in cooperation with the main tenant SKY. The central entrance of the shopping centre was renewed and opened at the beginning of December. Average direct property yield during 2017 was 8.6% (2016: 9.2%). The net initial yield for 2017 was 7.5% (2016: 8.1%). The fair value of the property has increased slightly, rising from EUR 5,430 thousand measured in the 2016 valuation to EUR 5,448 thousand as of 31 December 2017.

Coca-Cola Plaza , Tallinn (Estonia)
In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. Average direct property yield remains stable and stands at 8.2% (2016: 8.1%). The net initial yield for 2017 was 7.5% (2016: 7.6%). The fair value of the property has increased from EUR 13,000 thousand measured in the 2016 valuation to EUR 13,240 thousand as of 31 December 2017.

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On 27 December 2017, the Management Company of Baltic Horizon Fund announced the signing of an agreement with OÜ Letona Properties for acquisition of the neighbouring the Postimaja Shopping Centre. For the Fund, the key strategic considerations of the transaction are the synergy potential arising from the Postimaja property located next to Coca-Cola Plaza, already belonging to the Fund's portfolio and Tallinn's Main Street project. To achieve that synergy, HG Arhitektuur OÜ with its work the "Rotermann Passage" has been selected as the partner to work out the architectural solution. The project includes developing a new exterior design as well as increasing the leasable area and aims to improve functionality between the two buildings as well as the Rotermann Quarter.

Europa Shopping centre, Vilnius (Lithuania)

Located in the heart of Vilnius central business district on Konstitucijos Prospektas, the shopping centre continues strong performance by delivering EUR 110 thousand above the budgeted NOI since the beginning of the year. The main reasons for the higher NOI are higher than expected rental income from the key tenants and an increase in income from the renewed and fully implemented electronic parking system operated by ADC. The modern parking system has significantly increased the quality of the parking service for both visitors of the Europa shopping centre and the office complex. Average direct property yield during 2017 was 6.5% (2016: 6.5%). The net initial yield for 2017 was 6.1% (2016: 6.3%). The increase is related to additional rental income received from tenant turnover. The occupancy of the property during 2017 was 94.7% (2016: 95.1%). In Q4 2017, new redesigned premises were reopened for restaurant Fortas. Also, a number of other small tenants opened their premises in the property. Furthermore, the property manager is currently negotiating further expansion with a few current tenants. The fair value of the property has increased from EUR 38,000 thousand measured in the 2016 valuation to EUR 39,600 thousand as of 31 December 2017.

G4S Headquarters, Tallinn (Estonia)

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

The total gross space of the G4S headquarters is 8,363 sq. m. It has one key tenant – G4S, who has rented the whole building under a long-term agreement. Two floors of the building are sub-leased to a leading Estonian software company Pipedrive and there are also some smaller sub-tenants. Average direct property yield during 2017 was 7.4% (2016: 7.1%). The net initial yield for 2017 was 7.0% (2016: 6.7%). The fair value of the property has decreased from EUR 16,800 thousand measured in the 2016 valuation to EUR 16,570 thousand as of 31 December 2017. A slight reduction in value was recorded due to the revaluation of additional building rights that are held together with the property.

Upmalas Biroji, Riga (Latvia)

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

The property was built by the German developer Bauplan Nord and the quality has been maintained through attentive facility management. The property was elected the most energy efficient building in Latvia in 2013 and remains among tenants as one of the most preferred office buildings in Riga with its 2,000 sq. m. floor plates. Average direct property yield during 2017 was 7.2% (2016: 6.6%). The net initial yield for 2017 was 7.1% (2016: 6.6%). The fair value of the property has increased from EUR 23,530 thousand measured in the 2016 valuation to EUR 24,269 thousand as of 31 December 2017.

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

The property has Rimi and MyFitness as anchor tenants. The net leasable area of the Pirita shopping centre is close to 5,500 sq. m. The management team negotiated a 2-year NOI guarantee from the seller from the date of acquisition in order to ensure stable cash flows also during the property's establishment period. Since the opening of the centre in December 2016, the management team together with the original developer have been working on establishing the centre as the principal community centre with the right tenant mix catering primarily to the Pirita district residents. After a poll was conducted in the Pirita district in Q2, in Q3 some satellite tenant agreements were terminated and new lease agreements were signed in Q4 2017. A 7.4% direct property yield is guaranteed by the seller of this property until the end of 2018. The net initial yield for 2017 was 7.5%. The fair value of the property has decreased from EUR 12,200 thousand measured in the 2016 valuation to EUR 11,630 thousand as of 31 December 2017.

Duetto I Office building, Vilnius (Lithuania)
Duetto I is a newly built 10-floor office centre with an underground parking lot. It is located in the western part of Vilnius, next to the recently constructed Vilnius western ring road. The property has an A class in energy efficiency and will have a BREEAM certification. Duetto I was developed by a Lithuanian subsidiary of YIT, a listed Finnish real estate and construction company. The anchor tenant in the building is Lindorff. The effective vacancy rate of Duetto I was zero because YIT Kausta, the seller of the property, granted a 2-year guarantee (starting from the acquisition date) of full-occupancy net rental income. Any shortage between the actual rental income and the guaranteed amount is paid to the Fund by YIT Kausta on a monthly basis. In September Vilnius vandenys, the Vilnius municipal water supply company, moved into the building decreasing the de facto vacancy to 3.5%. The Fund also has a call option to acquire the neighbouring Duetto II for which the anchor tenant search has already begun. Duetto I delivered a 7.1% direct property yield for 2017. The net initial yield for 2017 was 7.0%. The fair value of the property was EUR 16,210 thousand as of 31 December 2017.

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

MANAGEMENT REVIEW

FINANCING

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

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

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

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

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

Property	Maturity	Currency	Carrying amount *Euro '000*	% of total	Fixed rate portion
Lincona	31 Dec 2022	EUR	8,243	8.4%	-%
CC Plaza	8 Mar 2019	EUR	6,812	6.9%	-%
Sky SC	1 Aug 2021	EUR	2,493	2.5%	-%
Europa SC	5 Jul 2022	EUR	20,900	21.3%	87%
G4S Headquarters	16 Aug 2021	EUR	7,750	7.9%	100%
Upmalas Biroji BC	31 Aug 2023	EUR	11,750	11.9%	90%
Pirita SC	20 Feb 2022	EUR	6,588	6.7%	95%
Duetto I [1]	20 Mar 2022	EUR	7,950	8.1%	100%
Domus Pro	31 May 2022	EUR	12,900	13.1%	58%
Vainodes I	31 Oct 2024	EUR	12,914	13.2%	-%
Total bank loans			**98,300**	**100%**	**60%**
Less capitalized loan arrangement fees[2]			**(213)**		
Total bank loans recognized in the statement of financial position			**98,087**		

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

MANAGEMENT REVIEW

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

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

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

Weighted average time to maturity lengthened from 2.7 years at the end of 2016 to 4.6 years on 31 December 2017.

As of 31 December 2017, 60% of total bank loans had fixed interest rates while the remaining 40% had floating interest rates. During Q4 2017 the Group acquired an interest rate cap at 1% for the Duetto property loan and partially fixed the interest rate of the bank loan related to the Domus Pro property. The management of the Fund is focused on further fixing the remaining floating interest rates.

DIVIDEND CAPACITY

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

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

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

MANAGEMENT REVIEW

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

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

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

Table 8: Dividend capacity calculation

EUR '000	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
(+) Net rental income	1,928	2,310	2,526	2,682	2,638	2,922
(-) Fund administrative expenses	(482)	(728)	(730)	(670)	(535)	(839)
(-) External interest expenses	(302)	(408)	(327)	(438)	(340)	(405)
(-) CAPEX expenditure[1]	(211)	(233)	(129)	(197)	(547)	(290)
(+) Added back listing related expenses	125	313	202	170	61	203
(+) Added back acquisition related expenses	-	-	32	65	-	97
Generated net cash flow (GNCF)	**1,058**	**1,254**	**1,574**	**1,612**	**1,277**	**1,689**
Weighted average number of units during the quarter	41,979,150	47,186,330	57,262,887	57,998,546	64,655,870	**69,011,121**
Paid-in-capital since listing on stock exchange	53,698	73,286	73,278	82,659	82,659	**98,910**
Average paid-in-capital during the quarter	53,698	63,492	73,282	77,969	82,659	**90,785**
GNCF per weighted unit	**0.025**	**0.027**	**0.027**	**0.028**	**0.020**	**0.024**
Annualized GNCF return from average quarterly paid-in-capital	**7.9%**	**7.9%**	**8.6%**	**8.3%**	**6.2%**	**7.4%**
Dividends declared	**1,091**	**1,374**	**1,317**	**1,164**	**1,293**	**1,781**
Dividends declared per weighted unit	**0.026**	**0.029**	**0.023**	**0.020**	**0.020**	**0.026**
Annualized dividend return from average quarterly paid-in-capital	**8.1%**	**8.7%**	**7.2%**	**6.0%**	**6.3%**	**7.8%**

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

MANAGEMENT REVIEW

RISK MANAGEMENT

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

Principal risks faced by the Fund

Market risk

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

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

Interest rate risk

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

Credit risk

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

Liquidity risk

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

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

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

MANAGEMENT REVIEW

Operational risk

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

OUTLOOK FOR 2018

At the end of 2017, Baltic Horizon Fund had 10 established cash flow properties located in the Baltic capitals with a gross property value of above EUR 189 million. The Fund aims to grow its asset base by acquiring carefully selected investment properties that best fit the Fund's very long-term strategy. Growing by acquiring established properties with long-term tenants allows the Fund to become more efficient and diversify its risks further across segments, tenants and geographical locations.

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

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

MANAGEMENT BOARD'S CONFIRMATION

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

Independent Auditors' Report

To the Unitholders of Baltic Horizon Fund

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Baltic Horizon Fund as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the consolidated financial statements of Baltic Horizon Fund (the Fund or the Group) as set out on pages from 25 to 69. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017,
- the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated of statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

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

Independence

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

Audit Approach

- Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we have determined the type of our work to be performed on the financial information of the entities (components) within the group based on their financial significance and other risk characteristics.

KPMG

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

Key Audit Matters

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

Fair value of investment properties

The carrying amount of investment properties in the consolidated financial statements as at 31 December 2017 was EUR 189,317 thousand; upward revaluation recognised in 2017 profit or loss was EUR 3,686 thousand.

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

The key audit matter	How the matter was addressed in our audit
The Fund's primary activity is investing in commercial real estate. Consequently, investment properties represent the single largest category of assets on the Fund's statement of financial position as at 31 December 2017. The investment properties are measured at fair value, estimated by the Fund with the assistance of external appraisers, using the discounted cash flow method. We have assessed this area to be a key audit matter as the valuation process involves significant judgement in determining the appropriate valuation methodology, and in selecting and estimating the underlying assumptions to be applied. The valuations are highly sensitive to these key assumptions, including those relating to the capitalization rates and estimated net income, and a change in the assumptions may have a material impact on the valuation.	As part of our audit in the area, we, among other things, performed the following procedures: • We assessed the process applied by management in selecting, reviewing and assessing the work of the external appraisers engaged by the Fund; • We assessed the competence and objectivity of the external appraisers, and also inspected the terms of their engagement with the Fund, to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; • Assisted by our own valuation specialists, we: - evaluated the appropriateness of the valuation methodology applied by the Fund's external appraisers against relevant financial reporting standards, and against those applied by other appraisers for similar properties;

KPMG

	- challenged the reasonableness of the key assumptions and inputs used by the Fund in estimating the fair values of investment properties (including market rent rates, exit yield, inflation and vacancy rates) by reference to our independent expectations developed based on our experience with the Fund's industry and external sources (such as publicly available market research by leading real estate appraisal agencies); - compared the estimated cash inflows to the terms of rental agreements; - made alternative calculations for discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the Fund's calculations. • We assessed the appropriateness and sufficiency of disclosures (including in respect of sensitivities to key assumptions) in the consolidated financial statements.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance to audit the financial statements of Baltic Horizon Fund for the year ended 31 December 2017. Our total uninterrupted period of engagement is 3 years, covering the periods ending 31 December 2015 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Fund;
- we have not provided to the Fund the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit and audit related services, we have not provided additional services to the Fund and its controlled entities.

Tallinn, 16 March 2018

Eero Kaup
Certified Public Accountant, Licence No 459

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BALTIC HORIZON

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Euro '000	**Note**	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Rental income		11,839	7,874
Service charge income		3,692	2,594
Cost of rental activities	7	(4,763)	(3,315)
Net rental income	6	**10,768**	**7,153**
Administrative expenses	8	(2,774)	(2,190)
Other operating income / (expenses)		14	97
Valuation gains / (loss) on investment properties		3,676	2,737
Operating profit		**11,684**	**7,797**
Financial income		47	14
Financial expenses	9	(1,528)	(1,253)
Net financing costs		**(1,481)**	**(1,239)**
Profit before tax		**10,203**	**6,558**
Income tax charge	6, 11	(759)	(798)
Profit for the period	6	**9,444**	**5,760**
Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods			
Net gains (losses) on cash flow hedges	16b	273	(113)
Termination of interest rate swap agreement reclassified to profit or loss	22	57	-
Recognition of initial interest rate cap costs	16b	(43)	-
Income tax relating to net gains (losses) on cash flow hedges	16b, 11	(49)	18
Other comprehensive income/ (expense), net of tax, that is or may be reclassified to profit or loss in subsequent periods		**238**	**(95)**
Total comprehensive income/ (expense) for the period, net of tax		**9,682**	**5,665**
Basic and diluted earnings per unit (Euro)	10	**0.15**	**0.12**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Euro '000	Note	31.12.2017	31.12.2016
Non-current assets			
Investment properties	6, 12	189,317	141,740
Investment property under construction	13	-	1,580
Derivative financial instruments	22	89	-
Other non-current assets		146	288
Total non-current assets		**189,552**	**143,608**
Current assets			
Trade and other receivables	14	1,568	1,269
Prepayments		108	178
Cash and cash equivalents	15	24,557	9,883
Total current assets		**26,233**	**11,330**
Total assets	6	**215,785**	**154,938**
Equity			
Paid in capital	16a	91,848	66,224
Own units	16a	-	(8)
Cash flow hedge reserve	16b	(56)	(294)
Retained earnings		15,184	10,887
Total equity		**106,976**	**76,809**
Non-current liabilities			
Interest bearing loans and borrowings	17	96,497	58,981
Deferred tax liabilities	11	5,206	4,383
Derivative financial instruments	22	88	345
Other non-current liabilities		859	935
Total non-current liabilities		**102,650**	**64,644**
Current liabilities			
Interest bearing loans and borrowings	17	1,590	10,191
Trade and other payables	18	4,202	2,876
Income tax payable		14	46
Derivative financial instruments	22	15	-
Other current liabilities		338	372
Total current liabilities		**6,159**	**13,485**
Total liabilities	6	**108,809**	**78,129**
Total equity and liabilities		**215,785**	**154,938**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Euro '000	Notes	Paid in capital	Own units	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2016		**25,674**	**-**	**(199)**	**6,218**	**31,693**
Net profit for the period		-	-	-	5,760	**5,760**
Other comprehensive income / (expense)		-	-	(95)	-	**(95)**
Total comprehensive income / (expense)		**-**	**-**	**(95)**	**5,760**	**5,665**
Units issued/ redeemed		40,550	-	-	-	**40,550**
Repurchase of units		-	(8)	-	-	**(8)**
Profit distribution to unitholders		-	-	-	(1,091)	**(1,091)**
As at 31 December 2016		**66,224**	**(8)**	**(294)**	**10,887**	**76,809**
As at 1 January 2017		**66,224**	**(8)**	**(294)**	**10,887**	**76,809**
Net profit for the period		-	-	-	9,444	**9,444**
Termination of interest rate swap	16b	-	-	57	-	**57**
Other comprehensive income		-	-	181	-	**181**
Total comprehensive income		**-**	**-**	**238**	**9,444**	**9,682**
Paid in capital – units issued	16a	25,632	-	-	-	**25,632**
Cancellation of own units	16a	(8)	8	-	-	**-**
Profit distribution to unitholders	16c	-	-	-	(5,147)	**(5,147)**
As at 31 December 2017		**91,848**	**-**	**(56)**	**15,184**	**106,976**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Euro '000	Note	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Cash flows from core activities			
Profit (loss) before tax		**10,203**	**6,558**
Adjustments for non-cash items:			
Value adjustment of investment properties	12	(3,676)	(2,562)
Value adjustment of investment properties under construction	13	-	(175)
Allowance for bad debts		45	17
Financial income		(47)	(14)
Financial expenses	9	1,528	1,253
Working capital adjustments:			
(Increase)/decrease in trade and other accounts receivable		(241)	(204)
(Increase)/decrease in other current assets		(39)	(106)
(Decrease)/Increase in other non-current liabilities		(150)	69
(Decrease)/increase in trade and other accounts payable		(100)	(398)
(Decrease)/increase in other current liabilities		(6)	(50)
(Paid)/refunded income tax		(42)	(103)
Total cash flows from core activities		**7,475**	**4,285**
Cash flows from investing activities			
Interest received		8	14
Acquisition of subsidiaries, net of cash acquired		(8,614)	(20,098)
Acquisition of investment property		(14,362)	(15,454)
Advance payment for investment property		-	(200)
Investment property development expenditure		(3,996)	(1,660)
Capital expenditure on investment properties		(1,163)	(380)
Total cash flows from investing activities		**(28,127)**	**(37,778)**
Cash flows from financial activities			
Proceeds from bank loans		40,566	8,211
Repayment of bank loans		(24,112)	(4,722)
Proceeds from issue of units	16a	25,632	40,550
Repurchase of units		-	(8)
Profit distribution to unitholders	16c	(5,147)	(1,091)
Transaction costs related to loans and borrowings		(223)	(127)
Interest paid		(1,390)	(1,114)
Total cash flows from financing activities		**35,326**	**41,699**
Net change in cash and cash equivalents		**14,674**	**8,206**
Cash and cash equivalents at the beginning of the year		**9,883**	**1,677**
Cash and cash equivalents at the end of the period		**24,557**	**9,883**

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

1. Corporate information

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

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

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

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

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the management board of the Management Company on 16 March 2018.

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

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

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

Baltic Horizon Fund merger with Baltic Opportunity Fund

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

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

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

Basis of preparation

The Group's consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") as adopted for use in the European Union.

Going concern assessment

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

New standards, amendments and interpretations

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2017 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial Instruments (2014)

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

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

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

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

IFRS 15 Revenue from contracts with customers

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

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

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

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

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

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

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

The Group has assessed the estimated impact that the initial application of IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's comparative figures may change because the Group has not finalized the analysis for some small lease agreements.

Euro '000	Estimated impact of IFRS 15		
	As reported at 31 December 2017	**Estimated adjustments due to adoption of IFRS 15**	**Estimated adjusted balances as at 31 December 2017**
Service charge income	3,692	(2,226)	1,466
Cost of rental activities	(4,763)	2,226	(2,537)

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

IFRS 16 Leases

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

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

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

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

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

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

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

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) The amendments clarify share-based payment accounting in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements because the Group does not enter into share-based payment transactions.

Annual Improvements to IFRSs 2014-2016 cycle

(Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017.)

The Improvements to IFRSs (2014-2016) contains 3 amendments to standards. The main changes were to:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to the transitional provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; the exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;
- clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and
- clarify that election of an exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

None of these changes are expected to have a material impact on the financial statements of the Group because the Group does not have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities, which are classified as held for sale or discontinued operations..

Other Changes

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

2. Summary of significant accounting policies

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

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

2a. Presentation currency

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

2b. Consolidated financial statements

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

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

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

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

2c. Foreign currency translation

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

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

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

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

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

2d. Investment properties

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

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

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

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

2e. Dividends (distributions)

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

2f. Provisions

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

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

2g. Derivative financial instruments

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

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

2h. Hedge accounting

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

For the purposes of hedge accounting, hedges are classified as cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.
In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other comprehensive income and the ineffective portion is recognised in profit or loss. The gains or losses on effective cash flow hedges recognised initially in other comprehensive income are either transferred to the income statement in the period in which the hedged transaction impacts the income statement or in which the hedge instrument or hedge relationship terminates.

2i. Interest bearing loans and borrowings

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

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

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

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

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

2j. Other liabilities

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

2k. Financial assets

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

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

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.
All "regular way" purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised at trade date (the date that the Group commits to purchase or sell the asset), otherwise such transactions are treated as derivatives until the settlement day.
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;

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

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

2l. Accounts receivable

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

2m. Cash and cash equivalents

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

2n. Contingencies

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

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

2o. Subsequent events

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

2p. Rental income

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

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

2q. Expense recognition

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

2r. Administrative expenses

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

2s. Current taxation

Taxation of the Group subsidiaries

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

Taxation of the Fund

Gains from transfer of property

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

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

2t. Deferred taxation

Deferred taxes are calculated in the Fund subsidiaries as follows:

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

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

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the

deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

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

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

2u. Fair value measurements

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

- In the principal market for the asset or liability

  Or

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

2v. Business combinations

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

Applying the acquisition method

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

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

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

Business combinations between entities under common control

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

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

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

3. Significant accounting judgments, estimates and assumptions

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

Judgments

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

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

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

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

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

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

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

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

Estimates and assumptions

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

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

4. Financial risk management

The risk management function of the Fund is the responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying the Fund's market risk portfolio, prepare proposals regarding market risk limits, monitor the limit utilization and produce overall risk analyses of the market risk. The manager maintains a list of all risk management related instructions, monitors these compared to internationally recommended best practice, and initiates changes and improvements when needed. The manager assessed at the end of the financial year that the Fund is currently in compliance with the intended risk management framework.

4a. Credit risk

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

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

There are no significant concentrations of credit risk within the Group. As at 31 December 2017, the total credit risk exposure was as follows:

Euro '000	**2017**	**2016**
Cash and cash equivalents	24,557	9,883
Trade and other receivables	1,568	1,269
Derivative financial instruments	89	-
Total exposure to credit risk	**26,214**	**11,152**

During 2017 provisions for bad debts in all properties of the Group amounted to EUR 45 thousand.

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

4b. Interest rate risk

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

At 31 December 2017, after taking into account the effect of interest rate swaps, 60% of the Group's borrowings had a fixed rate of interest (2016: 63%). Please refer to note 4a for the exposure to credit risk.

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

	2017		**2016**	
Euro '000	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Increase in basis points, +50	(89)	837	(122)	704
Decrease in basis points, -50	89	(837)	122	(704)

The Group's uses interest rate swaps to fix the interest rate of long term loans with floating interest rates. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swaps fixed interest rates for floating using interest rate derivatives. As 1) the Fund seeks to obtain financing at the best terms and conditions and 2) in the current market, fixed rate loans are often more expensive, the Fund hedges interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options.

The Group acquire swaps purely for cash flow hedge purposes and not for trading.

4c. Liquidity risk

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

The table below summarises the contractual maturity profile of the Group's financial liabilities at 31 December 2017. The amounts are gross and undiscounted, and include contractual interest payments.

Euro '000	Less than 3 months	3 months - 1 year	1-2 years	2-5 years	More than 5 years	Total	Carrying amount
Year ended 31 December 2017							
Interest bearing loans and borrowings	835	2,603	9,658	81,784	12,241	**107,121**	**98,087**
Derivative financial instruments	15	-	-	84	4	**103**	**103**
Trade and other payables	4,202	-	-	-	-	**4,202**	**4,202**
Total current and non-current	**5,052**	**2,603**	**9,658**	**81,868**	**12,245**	**111,426**	**102,392**

4d. Foreign exchange risk

The Fund's primary currency is the euro. The currency risk has been removed in all Baltic States as Lithuania joined the euro zone on 1 January 2015. In 2017 and 2016 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than the euro from this date. Estonia and Latvia already adopted the euro in 2011 and 2014 respectively.

5. Capital management

The Group seeks to maintain a strong capital base while generating a solid return over the long term to unitholders through improving the capital structure..

The capital structure of the Group consists of borrowings (as detailed in note 17) and equity. The capital structure of the Group is reviewed regularly based on the cost of capital and the risks associated with each class of capital.

Management monitors capital using the loan-to-value ratio, which is borrowings divided by property value. The Group's target loan to value ratio is 50%. As at 31 December 2017, the Group complied with all externally imposed capital requirements.

Euro '000	2017	2016
Interest bearing loans and borrowings	98,087	69,172
Investment properties	189,317	141,740
Gearing ratio (loan-to-value)	**51.8%**	**48.8%**

6. Operating segments

The Group's reportable segments are as follows:

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

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

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

Operating segments – 31 December 2017

Euro '000	**Retail**	**Office**	**Leisure**	**Total segments**
01.01.2017 – 31.12.2017:				
External revenue[1]	8,269	6,266	996	15,531
Segment net rental income	**4,861**	**4,923**	**984**	**10,768**
Net gains or losses from fair value adjustment	370	3,066	240	3,676
Interest expenses[2]	(660)	(631)	(134)	(1,425)
Income tax expenses	(528)	(231)	-	(759)
Segment net profit	**4,246**	**6,493**	**1,041**	**11,780**
As at 31.12.2017:				
Segment assets	**78,929**	**105,838**	**13,284**	**198,051**
Investment properties	73,958	102,119	13,240	189,317
Segment liabilities	**46,502**	**54,811**	**6,840**	**108,153**

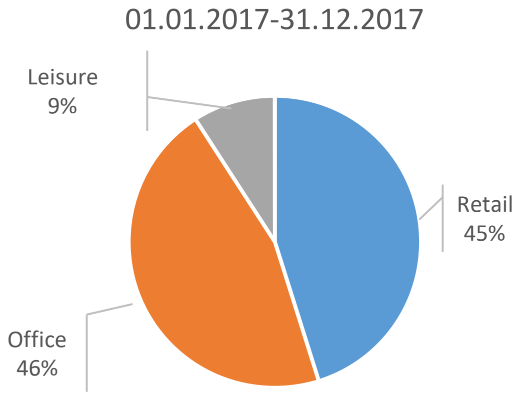
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses include only external interest expenses.

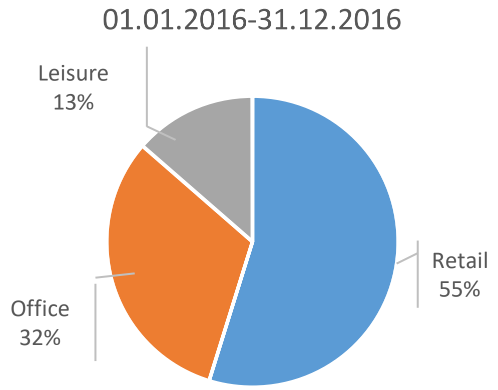
Operating segments – 31 December 2016

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

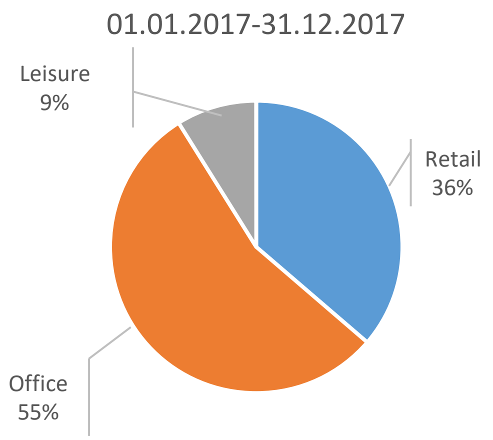
1. External revenue includes rental income and service charge income. The segments do not have inter-segment revenue.
2. Interest expenses have been adjusted to make them comparable. Prior to adjustment, interest expenses included intercompany interest expenses.

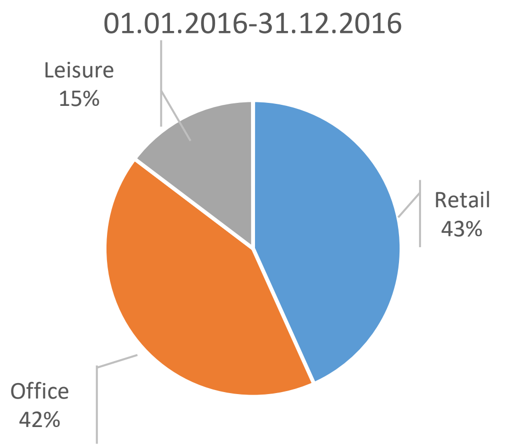
Segment net rental income*



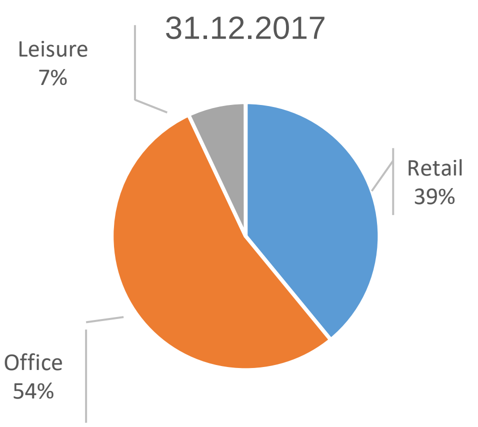


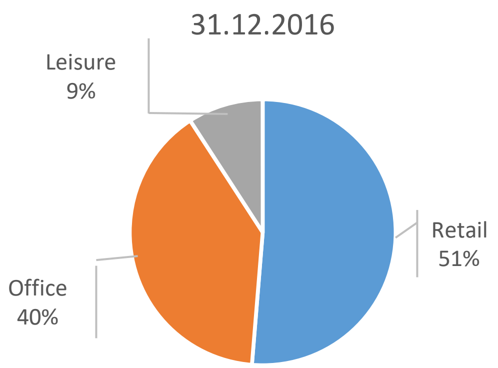
Segment net profit*





Investment properties*





*As a percentage of the total for all reportable segments

Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2017

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

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

Operating segments – 31 December 2016

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

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

Geographic information
Segment net rental income

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

Major tenant
No single tenant accounted for more than 10% of the Group's total revenue. Rental income from one tenant in the leisure segment represented EUR 996 thousand of the Group's total rental income for 2017 (EUR 984 thousand for 2016).

7. Cost of rental activities

Euro '000	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Utilities	2,065	1,512
Repair and maintenance	999	806
Property management expenses	549	383
Real estate taxes	498	252
Sales and marketing expenses	434	250
Property insurance	56	29
Allowance / (reversal of allowance) for bad debts	45	17
Other	117	66
Total cost of rental activities	**4,763**	**3,315**

Part of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants: EUR 3,692 thousand during 2017 (EUR 2,594 thousand during 2016).

8. Administrative expenses

Euro '000	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Management fee	1,153	724
Public offering related expenses	637	938
Consultancy fees	297	139
Fund marketing expenses	204	-
Legal fees	115	156
Audit fee	83	73
Supervisory board fees	80	-
Custodian fees	31	20
Performance fee	-	81
Other administrative expenses	174	59
Total administrative expenses	**2,774**	**2,190**

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

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

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

9. Financial expenses

Euro '000	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Interest on bank loans	1,425	1,163
Termination of interest rate SWAP*	57	-
Loan refinancing expenses	-	75
Loan arrangement fee amortisation	45	15
Foreign exchange loss	1	-
Total financial expenses	**1,528**	**1,253**

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

10. Earnings per unit

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

Profit attributable to the unitholders of the Fund:

Euro '000	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Profit for the period, attributed to the unitholders of the Fund	9,444	5,760
Profit for the period, attributed to the unitholders of the Fund	**9,444**	**5,760**

Weighted-average number of units:

	2017	**2016**
Issued units at 1 January	57,264,743	250,167
Effect of conversion from BOF to Baltic Horizon Fund	-	24,766,505
Effect of units issued in June 2016[1]	-	21,035,981
Effect of units issued in November 2016[2]	-	1,298,228
Effect of own units cancelled in March 2017[3]	(4,911)	-
Effect of units issued in June 2017[4]	3,922,050	-
Effect of units issued in November 2017[5]	1,088,813	-
Weighted-average number of units issued	**62,270,694**	**47,350,881**

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

Basic and diluted earnings per unit

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Basic and diluted earnings per unit*	**0.15**	**0.12**

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

11. Income tax

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

The major components of income tax for the years ended 31 December 2017 and 2016 are:

Euro '000	2017	2016
Consolidated statement of profit or loss and other comprehensive income		
Current income tax for the year	(31)	(135)
Deferred tax for the year	(728)	(663)
Income tax expense reported profit or loss	**(759)**	**(798)**
Consolidated statement of profit or loss and other comprehensive income		
Deferred income tax related to items charged or credited to equity:		
Revaluation of derivative instruments to fair value	49	18
Income tax expense reported in other comprehensive income	**49**	**18**

Deferred income tax as at 31 December 2017 and 2016 relates to the following:

	Consolidated statement of financial position		Recognised in profit or loss	
Euro '000	2017	2016	2017	2016
Tax losses brought forward	1,580	3,236	(1,610)	263
Revaluation of derivative instruments to fair value	2	51	-	-
Deferred income tax assets	**1,582**	**3,287**		
Investment property	(6,763)	(7,652)	890	(930)
Other tax liability	(25)	(18)	(8)	4
Deferred income tax liabilities	**(6,788)**	**(7,670)**		
Deferred income tax income / (expense)			**(728)**	**(663)**
Deferred tax liabilities net	**(5,206)**	**(4,383)**		
Reflected in the statement of financial position as follows:				
Deferred tax assets	-	-		
Deferred tax liabilities	(5,206)	(4,383)		
Deferred tax liabilities net	**(5,206)**	**(4,383)**		

The reconciliation of effective tax rate for the years ended 31 December 2017 and 2016 is as follows:

Euro '000	2017		2016	
(Loss) / profit before income tax		10,203		6,558
At statutory tax rate	0.0%	-	0.0%	-
Effect of tax rates in foreign jurisdictions	(10.2)%	(1,037)	(9.5)%	(626)
Tax effect of non-deductible expenses	0.0%	-	0.0%	-
Change in unrecognized deferred tax	2.7%	278	(2.6%)	(172)
Total income tax expenses	**(7.4)%**	**(759)**	**(12.2)%**	**(798)**

As at 31 December 2017, the Group had tax losses of EUR 1,598 thousand that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

On 28 July 2017, the Latvian parliament approved a tax reform. The tax reform brought substantial changes to the tax policy of Latvia. According to the new tax model, which is effective starting on 1 January 2018, the following key changes are introduced:

- The new CIT Law introduces a new CIT payment procedure, whereby the CIT payment may be deferred until the time when the profit is distributed or otherwise spent to cover expense which does not facilitate further development of the company;
- The new CIT rate is increased from 15% to 20% of gross distributed profits or 25% of net distributed profits.

Due to these changes, at the year-end the Group recognized a EUR 137 thousand gain for 2017 for a deferred tax reversal at the Latvian subsidiaries.

Summary of taxation rates by country is presented below:

	2017	2016
Lithuania	15%	15%
Latvia	15%	15%
Estonia*	0%	0%

*20% income tax rate applies on income distributions.

12. Investment property

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

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

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

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

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

Euro '000	**2017**	**2016**
Balance at 1 January	**141,740**	**86,810**
Acquisition of investment property	35,938	15,454
Investment property acquired in business combination	-	35,773
Investment property under construction reclassified (Note 13)	6,592	-
Additions (subsequent expenditure)	1,371	1,141
Net revaluation gain	3,676	2,562
Closing balance	**189,317**	**141,740**

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

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

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

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

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

31 December 2017	Level 1	Level 2	Level 3	Total	Total gain or (loss) for 2017 recognised in profit or loss
Lithuania – Europa (retail)	-	-	39,600	39,600	1,158
Lithuania – Domus Pro (retail/office)	-	-	24,430	24,430	743
Latvia – SKY (retail)	-	-	5,448	5,448	(359)
Latvia – Upmalas Biroji (office)	-	-	24,269	24,269	648
Estonia – Lincona (office)	-	-	16,050	16,050	226
Estonia – Coca-Cola Plaza (leisure)	-	-	13,240	13,240	240
Estonia – G4S (office)	-	-	16,570	16,570	(233)
Estonia – Pirita (retail)	-	-	11,630	11,630	(612)
Lithuania – Duetto I (office)			16,210	16,210	1,292
Latvia – Vainodes I (office)			21,870	21,870	573
Total	**-**	**-**	**189,317**	**189,317**	**3,676**

There were no transfers between levels during the years. Gains and losses recorded in profit or loss for fair value measurements categorised within Level 3 of the fair value hierarchy amounted to a net gain of EUR 3,676 thousand as at 31 December 2017 (2016: EUR 2,562 thousand) and are presented in the consolidated statement of profit or loss and other comprehensive income on the line 'Valuation gains / (loss) on investment properties'.

Valuation techniques used to derive Level 3 fair values

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

The table below presents the following for each investment property:

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

As of 31 December 2017:

Property	Valuation technique	Key unobservable inputs	Range
Europa Shopping centre, Vilnius (Lithuania)	DCF	- Discount rate	7.2%
Net leasable area (NLA) – 16,900 sq. m.		- Rental growth p.a.	0.0% - 2.4%
Segment – Retail		- Long term vacancy rate	3.0%
Year of construction/renovation – 2004		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	14.6
Domus Pro, Vilnius (Lithuania)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 16,073 sq. m.		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail/Office		- Long term vacancy rate	2.5% - 5.0%
Year of construction/renovation – 2013		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	9.4
Lincona Office Complex, Tallinn (Estonia) Net leasable area (NLA) – 10,859 sq. m.	DCF	- Discount rate	8.6%
		- Rental growth p.a.	1.0% - 2.7%
Segment – Office		- Long term vacancy rate	5.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	10.2
Coca-Cola Plaza , Tallinn (Estonia)	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,664 sq. m.		- Rental growth p.a.	1.3% - 1.9%
Segment – Leisure		- Long term vacancy rate	1.5%
Year of construction/renovation – 1999		- Exit yield	7.8%
		- Average rent (EUR/sq. m.)	9.6
G4S Headquarters, Tallinn (Estonia)*	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,363 sq. m.		- Rental growth p.a.	0.0% - 3.2%
Segment – Office		- Long term vacancy rate	2.0%
Year of construction/renovation – 2013		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	11.2
SKY Supermarket, Riga (Latvia)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 3,263 sq. m.		- Rental growth p.a.	1.4% - 1.7%
Segment – Retail		- Long term vacancy rate	1.0% - 3.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/sq. m.)	11.3
Upmalas Biroji, Riga (Latvia)	DCF	- Discount rate	7.3%
Net leasable area (NLA) – 10,600 sq. m.		- Rental growth p.a.	2.8% - 3.4%
Segment – Office		- Long term vacancy rate	1.0%
Year of construction/renovation – 2008		- Exit yield	7.1%
		- Average rent (EUR/sq. m.)	11.7
Pirita Shopping centre, Tallinn (Estonia)	DCF	- Discount rate	8.4%
Net leasable area (NLA) – 5,516 sq. m		- Rental growth p.a.	0.1% - 2.0%
Segment – Retail		- Long term vacancy rate	2.0%
Year of construction/renovation - / 2016		- Exit yield	7.4%
		- Average rent (EUR/sq. m.)	14.8
Duetto I, Vilnius (Lithuania)	DCF	- Discount rate	7.9%
Net leasable area (NLA) – 8,327 sq. m		- Rental growth p.a.	0.0% - 2.1%
Segment – Office		- Long term vacancy rate	2.5%
Year of construction/renovation - 2017		- Exit yield	7.25%
		- Average rent (EUR/sq. m.)	11.6
Vainodes I, Riga (Latvia)*	DCF	- Discount rate	8.2%
Net leasable area (NLA) – 8,052 sq. m		- Rental growth p.a.	0.0% - 2.0%
Segment – Office		- Long term vacancy rate	0.0% - 5.0%
Year of construction/renovation - 2014		- Exit yield	7.0%
		- Average rent (EUR/sq. m.)	13.3

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

As of 31 December 2016:

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

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

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

Sensitivity analysis of investment properties portfolio as at 31 December 2017 based on possible changes in exit yield and discount rate (WACC) are provided in the table below:

Euro '000		**Movement in discount rate**				
		-0.50%	*-0.25%*	*0.00%*	*+0.25%*	*+0.5%*
Movement in Exit yield	*-0.50%*	203,694	200,504	197,479	194,407	191,490
	-0.25%	199,324	196,304	193,239	190,327	187,480
	0.00%	195,284	170,156	**189,317**	186,465	183,666
	+0.25%	191,438	188,516	185,678	182,864	180,114
	+0.5%	187,830	184,987	182,177	179,430	176,748

Descriptions and definitions

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

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

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

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

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

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

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

13. Investment property under construction

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

Euro '000	**2017**	**2016**
Balance at 1 January	1,580	-
Additions	5,012	1,405
Net revaluation gain	-	175
Reclassification to Investment property (Note 12)	(6,592)	-
Closing balance	**-**	**1,580**

14. Trade and other receivables

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

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

Movements in the impairment allowance for receivables were as follows:

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

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

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

15. Cash and cash equivalents

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

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

16. Equity
16a. Paid in capital

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

Units issued are presented in the table below:

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

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

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

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

16b. Cash flow hedge reserve

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

Euro '000	**2017**	**2016**
Balance at the beginning of the year	**(294)**	**(199)**
Movement in fair value of existing hedges	273	(113)
Termination of interest rate swap (Note 22)	57	-
Recognition of initial interest rate cap costs (Note 22)	(43)	-
Movement in deferred income tax (Note 11)	(49)	18
Net variation during the period	**238**	**(95)**
Balance at the end of the period	**(56)**	**(294)**

16c. Dividends (distributions)

Euro '000	**2017**	**2016**
Declared during the year	(5,147)	(1,091)
Total distributions made	**(5,147)**	**(1,091)**

On 12 October 2016, the Fund declared a distribution of EUR 1,091 thousand (EUR 0.026 per unit).
On 20 January 2017, the Fund declared a cash distribution of EUR 1,374 thousand (EUR 0.024 per unit).
On 28 April 2017, the Fund declared a cash distribution of EUR 1,317 thousand (EUR 0.023 per unit).
On 4 August 2017, the Fund declared a cash distribution of EUR 1,164 thousand (EUR 0.018 per unit)
On 31 October 2017, the Fund declared a cash distribution of EUR 1,292 thousand (EUR 0.02 per unit).
On 31 January 2018, the Fund declared a cash distribution of EUR 1,781 thousand (EUR 0.023 per unit).

17. Interest bearing loans and borrowings

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

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

Reconciliation of movements of liabilities to cash flow arising from financing

		Liabilities		Derivatives (assets) / liabilities held for hedging		Equity				
Euro '000	Note	Interest bearing loans and borrowings	Accrued interest expenses	Derivatives used for hedging - assets	Derivatives used for hedging - liabilities	Paid-in capital	Own units	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 January 2017		**69,172**	**28**	**-**	**345**	**66,224**	**(8)**	**(294)**	**10,887**	**146,354**
Changes from financing cash flows										
Proceeds from bank loans		40,566	-	-	-	-	-	-	-	**40,566**
Repayment of borrowings		(24,112)	-	-	-	-	-	-	-	**(24,112)**
Proceeds from issue of units	16a	-	-	-	-	25,632	-	-	-	**25,632**
Profit distribution to unitholders	16c	-	-	-	-	-	-	-	(5,147)	**(5,147)**
Transaction costs related to loans and borrowings		(180)	-	(43)	-	-	-	-	-	**(223)**
Interest paid		-	(1,333)	-	(57)	-	-	-	-	**(1,390)**
Total changes from financing cash flows		**16,274**	**(1,333)**	**(43)**	**(57)**	**25,632**	**-**	**-**	**(5,147)**	**35,326**
Changes arising from obtaining or losing control of subsidiaries or other businesses		**12,596**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,596**
Changes in fair value		**-**	**-**	**(52)**	**(221)**	**-**	**-**	**273**	**-**	**-**
The deferred tax effect for changes in fair value		**-**		**6**	**43**	**-**	**-**	**(49)**	**-**	**-**
Liability-related other changes										
Interest expense on bank loan	9	-	1,425	-	-	-	-	-	-	**1,425**
Amortisation of capitalized borrowing costs		45	-	-		-	-	-	-	**45**
Total liability-related other changes		**45**	**1,425**	**-**	**-**	**-**	**-**	**-**	**-**	**1,470**
Total equity-related other changes		**-**	**(79)**	**-**	**(7)**	**(8)**	**8**	**14**	**9,444**	**9,451**
Balance at 31 December 2017		**98,087**	**41**	**(89)**	**103**	**91,848**	**-**	**(56)**	**15,184**	**205,197**

Loan securities

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

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

*Please refer to Note 12 for carrying amounts of assets pledged at period end.

18. Trade and other payables

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

Terms and conditions of trade and other payables:

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

19. Commitments and contingencies

19a. Operating leases– Group as a lessor

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

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

Euro '000	2017		2016	
Year of expiry or first break option	**Amount receivable**	**%**	**Amount receivable**	**%**
Within 1 year	12,393	21%	9,054	21%
Between 2 and 5 years	36,820	63%	26,326	62%
5 years and more	9,530	16%	7,070	17%
Total	**58,743**	**100%**	**42,450**	**100%**

19b. Litigation

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

19c. Contingent assets

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

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

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

19d. Contingent liabilities

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

20. Related parties

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

<u>Northern Horizon Capital AS</u>
As set out in Baltic Horizon Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund pays management fees for it (Note 8).

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

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

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

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

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

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

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

Entities having control or significant influence over the Fund

The holders of units owning more than 5% of the units in total as of 31 December 2017 and 2016 are presented in the tables below:

As at 31 December 2017

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

As at 31 December 2016

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

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

21. Financial instruments

Fair values

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

	Carrying amount		Fair value	
Euro '000	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Financial assets				
Trade and other receivables	1,568	1,269	1,568	1,269
Cash and cash equivalents	24,557	9,883	24,557	9,883
Derivative financial instruments	89	-	89	-
Financial liabilities				
Interest-bearing loans and borrowings	(98,087)	(69,172)	(98,123)	(69,351)
Trade and other payables	(4,202)	(2,876)	(4,202)	(2,876)
Derivative financial instruments	(103)	(345)	(103)	(345)

Fair value hierarchy

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

Period ended 31 December 2017 *Euro '000*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Trade and other receivables	-	-	1,568	**1,568**
Cash and cash equivalents	-	24,557	-	**24,557**
Derivative financial instruments	-	89	-	**89**
Financial liabilities				
Interest-bearing loans and borrowings	-	-	(98,123)	**(98,123)**
Trade and other payables	-	-	(4,202)	**(4,202)**
Derivative financial instruments	-	(103)	-	**(103)**

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

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

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

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

22. Derivative financial instruments

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

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

IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument is recognised in an equity reserve rather than the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles. Please refer to Note 16b for more information.

Derivative type *Euro '000*	**Starting date**	**Maturity date**	**Notional amount**	**Variable rate (received)**	**Fixed rate (paid)**	**Fair value**	
						31.12.2017	**31.12.2016**
CAP	Nov 2017	Mar 2022	7,200	6M EURIBOR	1%*	83	-
IRS	Aug 2016	Aug 2021	7,750	6M EURIBOR	0.05%	6	-
Derivative financial instruments, assets						**89**	**-**

*Interest rate cap

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

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

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

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

23. Subsequent events

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

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

On 22 February 2018, the Fund announced the issue of new units in a private placement to CA I Estland in relation to the Postimaja shopping centre acquisition deal. In total net equity of EUR 2.35 million was raised through the transaction. The new units were issued in accordance to the Fund rules at a price of EUR 1.3691. After the transaction, the total number of Fund units registered in the Estonian Register of securities is 79,157,094.

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

24. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Interest in capital
BH Lincona OÜ[1]	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BH Domus Pro UAB[2]	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BH CC Plaza OÜ[3]	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BH Europa UAB[4]	Gynėjų 16, Vilnius, Lithuania	300059140	2 March 2015	Asset holding company	100%
BH P80 OÜ	Hobujaama 5, 10151 Tallinn, Estonia	14065606	6 July 2016	Asset holding company	100%
Kontor SIA	Mūkusalas iela 101, LV-1004, Rīga, Latvia	40003771618	30 August 2016	Asset holding company	100%
BH MT24 OÜ[5]	Hobujaama 5, 10151 Tallinn, Estonia	14169458	14 December 2016	Holding company	0%
Pirita Center OÜ	Hobujaama 5, 10151 Tallinn, Estonia	12992834	16 December 2016	Asset holding company	100%
BH Duetto UAB	Jogailos 9, Vilnius, Lithuania	304443754	13 January 2017	Asset holding company	100%
ZM Development	Kuldigas 51, LV-1004 Riga, Latvia	40003673853	12 December 2017	Asset holding company	100%
Vainodes Krasti SIA	Agenskalna 33 LV-1046, Riga, Latvia	50103684291	12 December 2017	Asset holding company	100%

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

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Allkirjastatud identifitseerimiseks
Date/kuupäev.....16.03.2018.....
Signature/allkiri.....
KPMG, Tallinn

The consolidated financial statements of Baltic Horizon Fund were approved for issue by the Management Board of the Management Company on 16 March 2018.

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