

Offering of up to 37,131,000 Units

# Baltic Horizon Fund

*(a closed-ended contractual investment fund registered in the Republic of Estonia)*

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Up to 37,131,000 units with no nominal value (the "Offer Units") of Baltic Horizon Fund, a closed-ended contractual investment fund registered in Estonia (the "Fund" or "Baltic Horizon"), are being offered in an offering (the "Offering") by Northern Horizon Capital AS, acting on behalf of the Fund, the management company of the Fund (the "Management Company"). The Management Company reserves an option to increase the number of new Offer Units to be offered in the Offering by up to 22,279,000 Offer Units (the "Upsizing Option"). The exercise of the Upsizing Option shall be determined together with determining the completion of the Offering and allotment of Offer Units. The Offering is made (i) to professional investors in and outside Estonia in accordance with laws implementing Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and also other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made (the "Institutional Offering") and (ii) to retail investors in Sweden, Finland, Denmark and Estonia (the "Retail Offering"). The offer price per Offer Unit (the "Offer Price") will be published on the website of the Fund and will be equal to the NAV of the Unit as at 31 October 2016. The Offer Price shall be the same for all investors in the Offering. See section 8.7 "Terms and Conditions of the Offering" and section 6.15 "NAV" for a discussion of certain factors affecting the Offer Price.

On 30 June 2016 the Management Company completed the merger of the Fund with Baltic Opportunity Fund (the "Merger") and took over assets and liabilities of Baltic Opportunity Fund ("BOF"), which was a closed-ended contractual investment fund under the management of the Management Company.

Since 6 July 2016 Units of the Fund have been listed on the Fund List of the Nasdaq Tallinn. The Management Company has made an application for a secondary listing of the Units on the Alternative Investment Funds market on Nasdaq Stockholm. Trading in the Units is expected to commence on the Alternative Investment Funds market on Nasdaq Stockholm on or about 8 December 2016. The Management Company also plans to add remaining Offer Units additionally to the Fund List of the Nasdaq Tallinn. See section 8.8 "Admission to Trading and Dealing Arrangements".

The Offer Units will rank *pari passu* with all the remaining units of the Fund and will be eligible for any distributions paid on the units under the rules of the Fund after the Offering is completed. Possible distributions paid out of the Fund to unit-holders who are not generally subject to taxation in Estonia may be subject to deduction of Estonian taxes as described in section 9 "Taxation."

**See section 4 "Risk Factors" for a discussion of certain factors that should be considered by prospective investors.**

NOTHING IN THIS DOCUMENT CONSTITUTES AN OFFER OF THE OFFER UNITS FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE OFFER UNITS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THE OFFER UNITS ARE SUBJECT TO CERTAIN SELLING RESTRICTIONS. SEE SECTION 8.7 "TERMS AND CONDITIONS FOR THE OFFERING."

The date of this Offering Circular is 7 November 2016

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# 1. INTRODUCTION

This public offering and listing prospectus (the "Offering Circular") has been prepared by the Management Company in connection with the Retail Offering and the listing of the Units on the Nasdaq Stockholm and Nasdaq Tallinn in accordance with the Estonian laws implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended, (the "Prospectus Directive") and in accordance with the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive, as amended (the "Prospectus Regulation"). The Offering Circular has been prepared in accordance with Annexes I, XII, XV and XXII of the Prospectus Regulation.

This Offering Circular constitutes a prospectus in the form of a single document within the meaning of the Prospectus Directive and the Securities Market Act of Estonia and has been approved as such under the registration number 4.3-4.6/4365 by the Estonian Financial Supervisory Authority (Finantsinspektsioon) (the "EFSA"), in its capacity as the competent authority in the Republic of Estonia. Registration of the Offering Circular in the EFSA does not mean that the EFSA has controlled the correctness of the information presented in this Offering Circular. The approval of this Offering Circular referred to above will be notified to the Swedish Financial Supervision Authority, Danish Financial Supervision Authority and Finnish Financial Supervision Authority by the EFSA pursuant to § 39<sup>1</sup> (2) of the Securities Market Act of Estonia, for the purposes of ensuring the Retail Offering to the public in Sweden, Denmark and Finland.

The Fund is authorised in Sweden for marketing to retail investors pursuant to Chapter 5, Section 6 of the Swedish Alternative Investment Fund Managers Act (2013:561). The Management Company has notified the Swedish Financial Supervision Authority (*Finansinspektionen*) about the Offering. In addition, the Management Company has submitted an application for marketing to the retail investors to the Danish Financial Supervision Authority (*Finanstilsynet*) for an authorisation under Danish Alternative Investment Fund Managers etc. Act (consolidated act no 1074 of 6 July 2016) as well as Executive Order no. 797 of 26 June 2014 on authorisation for alternative investment fund managers to market to retail investors in Denmark and to Finnish Financial Supervision Authority (*Finanssivalvonta*) under the Act on Alternative Investment Fund Managers (162/2014) (Fi: *laki vaihtoehdotrahastojen hoitajista*) and Securities Markets Act (746/2012) (Fi: *arvopaperimarkkinalaki*) to market the Offer Units to retail investors in Denmark and Finland respectively.

Offer Units will be marketed as part of the Institutional Offering in Member States of the EU in accordance with laws implementing Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the "AIFM Directive"). The Management Company has notified the EFSA of the EU Member States where it intends to market the Offer Units to professional investors in accordance with § 33<sup>2</sup> (1) of the Estonian Investment Funds Act. The EFSA has forwarded notifications to the competent authorities in respective Member States. See section 8.7 "Terms and Conditions of the Offering".

No person has been authorized to give any information or to make any representation in connection with the Offering other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Management Company or by Swedbank AB, LHV Pank AS (the "Managers") or Catella Bank S.A. (the "Global Lead Sales Partner"). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Units in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering or sale of the Offer Units in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Management Company, the Global Lead Sales Partner and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offering and sale of the Offer Units and the distribution of this Offering Circular is set out in section 8.7 "Terms and Conditions of the Offering". Neither the delivery of this Offering Circular nor any sale made in connection with the Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Fund have not since changed. The Management Company will update any information presented in this Offering Circular in accordance with the applicable provisions of the Estonian Securities Market Act.

THE OFFER UNITS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Each prospective purchaser and subscriber of the Offer Units must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Offer Units or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Units under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Management Company, Global Lead Sales Partner and the Managers shall have any responsibility for these obligations.

The Offering will be governed by and construed in accordance with Estonian law. Any disputes relating to the Offering or the Offering Circular will be settled in Harju County Court.

## 1.1. DEFINITIONS

<b>Baltics</b>	Estonia, Latvia and Lithuania
<b>BOF</b>	Baltic Opportunity Fund, a predecessor of Baltic Horizon Fund, a non-public closed-ended contractual real estate fund, was established under the laws of the Republic of Estonia and was managed by the Management Company (with a previous name BPT Baltic Opportunity Fund). Baltic Opportunity Fund merged into Baltic Horizon Fund.
<b>CBD</b>	Central business district
<b>Colliers</b>	Colliers International Advisors OÜ and any of its affiliates belonging to the same consolidation group with it
<b>Offering</b>	The offer of Offer Units by the Management Company on behalf of the Fund
<b>CPI</b>	Consumer price index
<b>Dividend</b>	Cash distributions paid out of the cash flows of the Fund in accordance with the Fund Rules
<b>EC</b>	The European Commission
<b>EFSA</b>	Estonian Financial Services Authority, which is the capital market regulatory authority of the Republic of Estonia
<b>EMU</b>	European Economic and Monetary Union
<b>EU</b>	The European Union
<b>EUR, €, euro</b>	The lawful currency of the European Economic and Monetary Union
<b>Euroclear Sweden</b>	Euroclear Sweden AB
<b>Europa SC</b>	Europa shopping centre held by Europa SPV which is fully owned by the Fund
<b>Europa SPV</b>	BOF Europa UAB, registry code 300059140, a special purpose entity registered in the Republic of Lithuania and holding title to the Europa SC property
<b>Fund</b>	Baltic Horizon Fund, a public closed-ended contractual real estate investment fund
<b>Fund Rules</b>	Rules of the Fund as registered with the Estonian Financial Supervisory Authority on 23 May 2016 and appended to the Offering Circular as Appendix A
<b>Global Lead Sales Partner</b>	Catella Bank S.A. a Luxembourg registered credit institution, address 38 r. Pafebruch - Parc d'Activités, 8308, Luxemburg
<b>Gross leasable area (GLA)</b>	Total floor space (measured in sqm) at a property including areas dedicated as public spaces or thoroughfares such as building service areas
<b>IAS</b>	The International Accounting Standards forming part of the IFRS
<b>IFA</b>	Investment Funds Act of Estonia
<b>IFRS</b>	The International Financial Reporting Standards as adopted by the European Union
<b>Institutional Investors</b>	The qualified investors as defined in Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and/or other types of investors as defined by the national securities legislation of each relevant country where the Offer Units are being offered without requirement to publish the prospectus
<b>Investors</b>	Institutional Investors and Retail Investors
<b>Listing</b>	Start of trading with the Units on Nasdaq Tallinn on or about 5 December 2016 and on Nasdaq Stockholm on or about 8 December 2016
<b>LTV</b>	Loan to value ratio. It is calculated as a ratio of interest bearing debt to the value of investment property
<b>Management Company</b>	Northern Horizon Capital AS, the management company of the Fund
<b>Managers</b>	Swedbank, AB, a bank organised and existing under the laws of the Republic of Lithuania, legal person code 112029651, domiciled at Konstitucijos 20A, LT-03502 Vilnius, Lithuania AS LHV Pank, a bank organised and existing under the laws of the Republic of Estonia, register code 10539549, address at Tartu rd 2, Tallinn 10145, Estonia
<b>Member State</b>	A member state of the European Economic Area
<b>Merger</b>	The merger of the Fund and BOF on 30 June 2016. The Fund took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 Units of the Fund). At the time of the merger, the Fund had no assets and liabilities of its own.

<b>NAV</b>	Net Asset Value of the Fund or a Unit as calculated in accordance with the Fund Rules
<b>New Units</b>	Up to 59,410,000 Units issued in connection with the Offering
<b>Offering Circular</b>	This public offering and listing prospectus, which is registered with EFSA on 7 November 2016
<b>Offer Period</b>	The period during which investors may submit, modify or withdraw the Purchase Orders as indicated in section 8.7 "Terms and Conditions of the Offering"
<b>Offer Price</b>	Price per Offer Unit
<b>Offer Units</b>	Up to 37,131,000 Units offered in connection with the Offering
<b>Placement Agreement</b>	The agreement to be concluded between the Management Company, Global Lead Sales Partner and the Managers related to the Offering
<b>Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, on the prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC and any relevant implementing measures, as amended
<b>Prospectus Regulation</b>	Commission Regulation (EC) no 809/2004 of 29 April 2004, implementing Directive 2003/71/EC of the European Parliament, and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended
<b>Register, ECRS</b>	Estonian Central Registry for Securities operated by AS Eesti Väärtpaberikeskus, the register of the Units
<b>Related Parties</b>	As defined in the International Accounting Standard 24, <i>Related Party Disclosures</i>
<b>Rentable area, leasable area, net leasable area (NLA)</b>	Floor space (measured in sqm) at a property that can be leased out to tenants. It excludes areas dedicated as public spaces or thoroughfares such as building service areas
<b>Retail Investors</b>	Any investor in Sweden, Denmark, Finland or Estonia other than the Institutional Investors
<b>Retail Offering</b>	The public offering of the Offer Units to the Retail Investors in Sweden, Denmark, Finland and Estonia
<b>SC</b>	Shopping center
<b>SSC</b>	Shared services centre
<b>SPA</b>	Sale and Purchase Agreement
<b>SPV</b>	A special purpose vehicle established for the purposes of making and maintaining real estate investments for the benefit of the Fund
<b>sqm</b>	Square meter
<b>Summary</b>	The summary of this Offering Circular presented on page 10
<b>Unit</b>	A unit of the Fund
<b>Unit-holder</b>	A person holding Units of the Fund and entitled to exercise rights attached to the Units in accordance with the Fund Rules
<b>Upsizing Option</b>	The Management Company's right to increase the number of Offer Units to be offered in the Offering by up to 22,279,000 Offer Units
<b>WAULT</b>	Weighted average unused lease term calculated by weighting remaining terms of each lease contract by rental income
<b>Website</b>	www.baltichorizon.com, website of the Fund

## 1.2. AVAILABLE INFORMATION

In accordance with the rules of the Fund (the "Fund Rules") copies of the following documents will be available free of charge at the office of the Management Company at City Plaza, Tartu mnt 2, Tallinn 10145, during the normal business hours and on the Website:

- the Fund Rules;
- the three most recent annual reports of BOF;
- internal rules and procedures of the Management Company for determination of the net asset value;
- the rules for the valuation of real estate;
- the rules for handling conflicts of interest;
- a description of the Fund's liquidity risk management;
- Key Investor Information Document (KIID) for Retail Investors in Sweden;
- Significant investor information for Retail Investors in Denmark;
- Key investor information document for Retail Investors in Finland;
- the three most recent annual reports of the Management Company.

This Offering Circular has been published in an electronic form on the Website and on the website of the EFSA (www.fi.ee). A paper copy of this Offering Circular can be obtained from Catella Bank S.A. until the end of the Offer Period. Full versions of valuation reports regarding the property belonging to the Fund, and prepared by Colliers International Advisors OÜ, Colliers International Advisors SIA, and UAB Colliers International Advisors at the request of the Management Company are available for inspection during the life of the Offering Circular at the registered office of the Management Company, and at the offices of the Catella Bank S.A. at 38 r. Pafebruch - Parc d'Activités, 8308, Luxembourg.

The Management Company has disclosed and will disclose in the future also other information on the Webpage and also through stock exchange releases regarding the Fund in accordance with the Fund Rules, applicable laws and regulations.

### 1.3. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in sections 3 "Summary", 4 "Risk Factors", 6.9 "Investment Pipeline", 6.12 "Operating and Financial Review", 6.16 "Dividends and Dividend Policy" and elsewhere in this Offering Circular are forward-looking. Such forward-looking statements and information are based on the beliefs of the Management Company's management (the "Management") or are assumptions based on information available regarding the Fund. When used in this document, the words "believe," "estimate," "target" and "expect" and similar expressions, as they relate to the Fund or the Management Company, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Management Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Fund's development, growth management, relations with tenants and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the EU), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail in section 4 "Risk Factors." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Management Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Offering Circular as at the date set forth on the cover.

### 1.4. PRESENTATION OF FINANCIAL INFORMATION

#### Financial information presented in this Offering Circular

On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into Units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 Units of the Fund). At the time of the merger, the Fund had no assets and liabilities of its own. Thus, historical financial and operational performance of BOF prior to the merger is directly comparable the Fund's performance after the merger. In the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, BOF's financial results prior to the merger are presented as those of the Fund. For these reasons, in this Offering Circular past results of BOF are presented and referred to as past results of the Fund.

The Fund prepares its financial statements in a consolidated form and according to international financial reporting standards as adopted by the EU ("IFRS").

The following historical financial information is presented in the Offering Circular:

- reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016 prepared according to IFRS (provided in full in Appendix B);
- audited consolidated financial statements of BOF for the financial year ended 31 December 2015 prepared according to IFRS (provided in full in Appendix C);
- audited special purpose consolidated financial statements of BOF for the financial years ended 31 December 2014 and 31 December 2013 (provided in full in Appendix D). Because prior to 2015 BOF was qualified as an investment entity under IFRS 10, these statements do not comply with consolidation requirements in IFRS 10 according to which investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. Apart from this exception, these special purpose financial statements are prepared based on all other standards and interpretations of the IFRS;
- audited non-consolidated financial statements of BOF for the financial years ended 31 December 2014 and 31 December 2013 prepared according to IFRS (provided in full in Appendices E and F).

In years prior to 2015 BOF qualified as an investment entity under IFRS 10 and, according to consolidation requirements in IFRS 10, was required to measure subsidiaries at fair value through profit and loss rather than consolidate them. In 2015 BOF's objectives

expanded beyond simply holding and managing a portfolio of real estate properties, to include active property management and the possibility to develop real estate projects. Consequently, BOF no longer met characteristics of an investment entity under IFRS 10 and, hence, was required to consolidate its subsidiaries.

The Management Company has prepared the special purpose consolidated financial statements of BOF for the financial years ending 31 December 2014 and 31 December 2013 with the purpose to provide investors with financial information comparable with the financial information presented for the financial year ending 31 December 2015. For more detailed description and analysis of the historical financial information of the Fund see subsections 6.1 "Selected Financial Information", 6.12 "Operating and Financial Review" and 6.17 "Capital Resources".

In accordance with item 2.2(a)(i) of Annex XV of the Prospectus Regulation, the Management Company has included historical financial information of BOF Europa UAB, a Lithuanian registered entity holding the Fund's property investment in Europa shopping centre in Vilnius (the "Europa SPV"), into this Offering Circular. The financial statements of Europa SPV have been prepared in accordance with Lithuanian Business Accounting Standards. The financial statements of Europa SPV for the financial years ending 31 December 2014 and 31 December 2013 were initially prepared in Lithuanian language, and for the purpose of this Offering Circular, translations of the respective statements into English language are prepared, and presented in this Offering Circular.

### **Approximation of Numbers**

Numerical and quantitative values in this Offering Circular (e. g. monetary values, percentage values, etc.) are presented with such precision which the Management Company deems sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up 100% due to effects of approximation. Exact numbers may be derived from the financial statements of BOF, to the extent that the relevant information is reflected therein.

### **Currencies**

In this Offering Circular, financial information is presented in euro (EUR), i. e. the official currency of the EU Member States participating in the EMU. With respect to the state fees, taxes and similar country specific values, information may occasionally be presented in currencies to the state fees, taxes and similar country specific values information may be occasionally presented in currencies other than EUR. The exchange rates between such currencies and the euro may change from time to time.

### **Dating of Information**

This Offering Circular has been drawn up based on the financial information valid for the Fund's most recent reporting date of 30 June 2016 for which interim financial statements for the 6-month period were prepared. An analysis of the Fund's property portfolio in section 6.9 "Asset Portfolio" has been provided as of 30 September 2016 in order to a) include two newly acquired properties: G4S Headquarters in Tallinn purchased on 12 July 2016 and Upmalas Biroji in Riga bought on 30 August 2016, and b) reflect the most recent independent property appraisals with value date of 30 September 2016. The information regarding the most recent NAV of the Fund in section 6.15 "NAV" is presented as calculated as of 30 September 2016 which is the last calculated NAV immediately prior to the date of this Offering Circular.

Where not expressly indicated otherwise, all information presented in this Offering Circular (including the financial information of the Fund, information of Europa SPV, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as at the aforementioned date. Information referring to the other than 30 June 2016 is identified either by specifying the relevant date through the use of such expressions as "the date of this Offering Circular", "to date", "until the date of this document" and other similar expressions, which must all be construed to mean the date of this Offering Circular.

## 2. PERSONS RESPONSIBLE FOR THE OFFERING CIRCULAR

The information contained in this Offering Circular has been provided by the Management Company and received from other sources identified herein. It is prohibited to copy or distribute the Offering Circular or to reveal or use the information contained herein for any other purpose than considering an investment in the Offer Units. The Management Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Management Company, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and contains no omission likely to affect its import.

Where information used in this Offering Circular has been sourced from a third party, this information has been accurately reproduced and that as far as the Management Company, Global Lead Sales Partner or the Managers are aware and have been able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The contents of this Offering Circular are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

Tallinn, 7 November 2016

*Northern Horizon Capital AS*

*/signed electronically/*

*Tarmo Karotam*  
*Member of the Management Board*

*/signed electronically/*

*Ausra Stankevičienė*  
*Member of the Management Board*

*/signed electronically/*

*Algirdas Vaitiekūnas*  
*Member of the Management Board*

### 3. SUMMARY

This Summary is made up of disclosure requirements known as “Elements” in accordance with the Annex XXII (Disclosure Requirements in Summaries) of the Prospectus Regulation. These elements are numbered in Sections A – E (A.1 – E.7) below. This Summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary with the mention ‘not applicable’.

#### Section A – Introduction and Warnings

<b>A.1</b>	<b>Warning</b>	This summary should be read as an introduction to the Offering Circular. The summary information set out below is based on, should be read in conjunction with, and is qualified in its entirety by, the full text of this Offering Circular, including the financial information presented herein. Any consideration to invest in the Offer Units should be based on consideration of the Offering Circular as a whole by the investor. Where a claim relating to the information contained in the Offering Circular is brought before a court, the plaintiff investor might, under the applicable law, have to bear the costs of translating the Offering Circular in the course of the legal proceedings or before such proceedings are initiated. No person assumes civil liability for this summary or the information herein, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the Offering Circular, or does not provide key information to allow investment decision making.
<b>A.2</b>	<b>Consent by the issuer</b>	Not applicable

#### Section B – Issuer

<b>B.1</b>	<b>Legal and commercial name</b>	Baltic Horizon Fund
<b>B.2</b>	<b>Domicile, legal form and legislation</b>	The Fund is a public closed-ended contractual investment fund. The Fund is a real estate fund.  The Fund is registered in the Republic of Estonia.
<b>B.3</b>	<b>Key factors relating to the Fund and its activities</b>	<p>The Fund is a real estate fund and invests directly or indirectly in real estate located in Estonia, Latvia, and Lithuania, with a particular focus on the capitals - Tallinn, Riga, and Vilnius. See more information on the Fund’s investment policy in Element B.34 below.</p> <p>The Fund Rules were registered with Estonian Financial Supervision Authority on 23 May 2016. The Fund completed an initial public offering on 29 June 2016 raising EUR 20.5m of net proceeds for acquisitions of new properties. On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF including its property portfolio of five commercial properties. Unit-holders of BOF became Unit-holders of the Fund as units of BOF were converted into Units of the Fund at a ratio of 1:100. BOF was a closed-ended contractual real estate investment fund registered in Estonia with the Estonian Financial Supervision Authority on 1 September 2010. On 6 July 2016 Units of the Fund were listed on Nasdaq Tallinn.</p> <p>The Fund generates returns to the Unit-holders by investing in commercial real estate assets primarily at central and strategic locations in the Baltic capital cities. The Fund focuses on fully-developed premium office and retail properties with high-quality tenants mix, low vacancy and stable and strong cash flows. The Fund generates revenue by leasing out space at its properties to tenants. Constant flow of rental income is the basis for the Fund to distribute dividends to its Unit-holders. The Fund seeks to become the largest commercial property owner in the Baltics. In the longer term it targets to reach a property portfolio size of EUR 1,000m and NAV of EUR 500m in order to maximize Unit-holder returns through cost efficiencies, ensure high liquidity of its Units and increase diversification across properties, tenants, property classes and cities.</p> <p>The Fund’s investment strategy aims to take advantage of higher property yields in the Baltics. According to Colliers, prime yields for office and retail properties in the Baltic capitals stood at 6.75-7.25% at the end of 2015. They exceeded yields in Nordic capitals by approximately 2.5% and Warsaw by approximately 1.5%. Higher property yields enable the Fund to generate greater cash returns, which are paid out to Unit-holders as dividends, and also offer a potential for capital appreciation due to possible compression in the Baltic yields. The Fund targets a</p>

		<p>debt level of 50% of the value of its properties enabling to leverage returns to Unit-holders and utilize currently low market interest rates. Dividends are targeted to yield 7-9% of invested equity per annum, payable on a quarterly basis.</p> <p>The focus on the Baltic commercial real estate is also based on positive leasing trends: low vacancy, gradually growing rent rates and a significant and still increasing presence of large international tenants. In addition, rising activity in the Baltic property transaction market leads to greater availability of potential acquisition targets which is important for the implementation of the Fund's investment strategy.</p> <p>The Fund's geographical focus on the Baltics is supported by the stable macroeconomic situation in the region. All three Baltic countries are members of the EU and have euro as a national currency. Their economies have been growing at a higher pace than the EU average. Ranked by real GDP growth over 2000-2015 (Eurostat), they are in the top 7 of the fastest expanding members of the EU. The EC forecasts economic growth in the Baltics to continue outperforming the EU average. Furthermore, government debt and private debt levels of the Baltic countries are among the lowest in the EU. Government debt to GDP ratio of Lithuania, the highest of the three, stood at 43% at the end of 2015 – substantially below the EU average of 87% (according to the EC).</p>
B.4a	Significant trends	<p>The growth of the GDP of Baltic countries has significantly outperformed EU average. In 2015 economies of the Baltic countries were 19-20% larger in real terms compared to 2010 level whereas overall EU's GDP increased by only 5% real over the same period. In year 2015, despite a fall in exports to Russia, the Baltic economies delivered growth (albeit slower than in previous years) supported by expanding household expenditure which benefited from declining unemployment, rising wages and low inflation. The EC forecasts that buoyed by growing private consumption the Baltic countries will continue expanding at a considerably faster pace than EU as a whole. Overall EU is expected to achieve real GDP growth of 1.8% in 2016 and 1.9% in 2017. In contrast, the EC forecasts both Lithuania and Latvia to deliver growth of 2.8% in 2016 and 3.1% in 2017 and Estonia to grow by 1.9% in 2016 and 2.4% in 2017.</p> <p>Government finances of the Baltic States stand out in the European context as prudent, fiscally responsible and not overburden by debt. The Baltic countries have one of the lowest government debt levels in the EU. Whereas the overall EU is forecast by the EC to reach government debt to GDP ratio of 86% in 2017, Estonia's government debt is projected to be only 9% of GDP (the lowest in the EU), Latvia's 36% (the 4th lowest) and Lithuania's 43% (the 9th lowest).</p> <p>The activity in the Baltic property transaction market has been growing rapidly in recent years. According to Colliers, in 2015 the turnover of property transactions, aggregated for all three Baltic countries, reached EUR 1.4bn – up by more than 60% compared to 2014 and exceeding the previous peak of EUR 1.0bn recorded in 2007. Office and retail properties constituted 24% and 49% of the transaction volume in 2015 respectively.</p> <p>Prime yields in the Baltic capital cities have been gradually declining since 2010 on the back of stable and growing economy, improving real estate market fundamentals (declining vacancy and increasing rent rates), falling borrowing costs and high demand for cash flow-generating assets in a low interest rate environment. At the end of 2015 prime yields for office and retail properties stood at 7.0-7.25% in Riga, 7.0% in Vilnius and 6.75% in Tallinn. Despite a downward trend, yields in the Baltic capitals are still considerably higher than in Poland and even more so than in Nordics. Colliers estimates that at the end of 2015 prime yields for office and retail (SCs) properties were between 5.0-6.0% in Warsaw, 4.5-5.0% in Copenhagen, 4.25-4.50% in Stockholm and 4.0-4.25% in Oslo.</p> <p>Stock of modern office space in the Baltic capital cities increased by 5% to 1,624 thousand sqm of GLA in 2015. Office vacancy dropped to 4.3% from 6.5% in Vilnius and to 6.0% from 7.0% in Tallinn while in Riga it was stable at 5.7%. Development activity has picked up recently in Vilnius and Tallinn office markets as growth in demand for office premises has outpaced additions to supply illustrated by falling vacancy. The demand has been supported by launches of new shared service centers of international companies, especially in Vilnius. A major part of office buildings under construction are pre-let.</p> <p>Retail space (in shopping centers) in the Baltic capitals rose by 2% to 1,786 thousand sqm of</p>

		GLA in 2015. Vacancy rates in SCs were low – 2.7% in Riga, 1.9% in Vilnius and 0.8% in Tallinn. The most successful SCs in the Baltic capital cities effectively had no vacant space. Demand for retail space has been supported by increasing household consumption which has been the main driver of economic growth in the Baltics in recent years. In 2015 retail trade (excl. motor vehicles and motorcycles) expanded by 4.4-5.4% in real terms in the Baltic countries exceeding 3.0% rise in the EU and 2.4% in the euro area. Development activity in retail property sector has been modest and below one in Vilnius and Tallinn office markets.																																																						
<b>B.5</b>	<b>Group</b>	Not applicable																																																						
<b>B.6</b>	<b>Unitholders</b>	<p>Holdings in the Fund are not notifiable under Estonian law.</p> <p>All Units rank <i>pari passu</i> without preference or priority among themselves.</p> <p>To the extent known to the Management Company, no Unit-holder holds majority of the Units and controls the Fund.</p>																																																						
<b>B.7</b>	<b>Selected historical financial information</b>	<p>On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into Units of the Fund at a ratio of 1:100. At the time of the merger, the Fund had no assets and liabilities of its own. Thus, historical financial and operational performance of BOF prior to the merger is directly comparable the Fund's performance after the merger. In the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, BOF's financial results prior to the merger are presented as those of the Fund. For these reasons, in this Offering Circular past results of BOF are presented as results of the Fund.</p> <p>The consolidated financial information, provided in the following tables, has been derived as follows:</p> <ul style="list-style-type: none"> <li>- For the interim period of January – June 2016 (and the corresponding period of 2015): the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016 prepared according to the IFRS;</li> <li>- For year 2015: BOF's audited statutory consolidated financial statements for the year ended 31 December 2015 prepared according to the IFRS;</li> <li>- For years 2014 and 2013: BOF's audited special purpose consolidated financial statements for the years ended 31 December 2014 and 31 December 2013. Because prior to 2015 BOF was qualified as an investment entity under IFRS 10, these statements do not comply with consolidation requirements in IFRS 10 according to which investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. Apart from this exception, these special purpose financial statements are prepared based on all other standards and interpretations of the IFRS.</li> </ul> <p>The Fund reports its financial results in the consolidated form. In years prior to 2015 BOF qualified as an investment entity under IFRS 10. According to consolidation requirements in IFRS 10, investment entities are required to measure subsidiaries at fair value through profit and loss rather than consolidate them. In order to provide prospective investors with comparable financial information for years prior to 2015, special purpose consolidated financial statements have been prepared for 2014 and 2013.</p> <p><b>Table 1: Consolidated income statement of the Fund, EUR thousand</b></p> <table border="1"> <thead> <tr> <th></th> <th>2013</th> <th>2014</th> <th>2015</th> <th>Jan - Jun 2015</th> <th>Jan - Jun 2016</th> </tr> </thead> <tbody> <tr> <td>Rental income</td> <td>2,454</td> <td>3,048</td> <td>6,073</td> <td>2,704</td> <td>3,276</td> </tr> <tr> <td>Expenses reimbursement revenue</td> <td>632</td> <td>829</td> <td>2,062</td> <td>885</td> <td>1,193</td> </tr> <tr> <td>Cost of rental activities</td> <td>-806</td> <td>-1,177</td> <td>-2,796</td> <td>-1,220</td> <td>-1,554</td> </tr> <tr> <td><b>Net rental income</b></td> <td><b>2,280</b></td> <td><b>2,700</b></td> <td><b>5,339</b></td> <td><b>2,369</b></td> <td><b>2,915</b></td> </tr> <tr> <td>Administrative expenses</td> <td>-592</td> <td>-665</td> <td>-984</td> <td>-435</td> <td>-980</td> </tr> <tr> <td>Other operating income</td> <td>4</td> <td>-</td> <td>267</td> <td>-</td> <td>78</td> </tr> <tr> <td>Net loss on disposal of investment properties</td> <td>-</td> <td>-</td> <td>-10</td> <td>-10</td> <td>-</td> </tr> <tr> <td>Valuation gains/losses on investment</td> <td>1,326</td> <td>611</td> <td>2,886</td> <td>-</td> <td>-441</td> </tr> </tbody> </table>		2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016	Rental income	2,454	3,048	6,073	2,704	3,276	Expenses reimbursement revenue	632	829	2,062	885	1,193	Cost of rental activities	-806	-1,177	-2,796	-1,220	-1,554	<b>Net rental income</b>	<b>2,280</b>	<b>2,700</b>	<b>5,339</b>	<b>2,369</b>	<b>2,915</b>	Administrative expenses	-592	-665	-984	-435	-980	Other operating income	4	-	267	-	78	Net loss on disposal of investment properties	-	-	-10	-10	-	Valuation gains/losses on investment	1,326	611	2,886	-	-441
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<b>Operating profit</b>	<b>3,018</b>	<b>2,646</b>	<b>7,498</b>	<b>1,924</b>	<b>1,572</b>
Financial income	40	72	17	10	8
Financial expenses	-440	-656	-1,100	-533	-533
<b>Profit before tax</b>	<b>2,618</b>	<b>2,062</b>	<b>6,415</b>	<b>1,401</b>	<b>1,047</b>
Income tax charge	-102	-55	-890	-169	-175
<b>Profit for the period</b>	<b>2,516</b>	<b>2,007</b>	<b>5,525</b>	<b>1,232</b>	<b>872</b>
<b>Earnings per unit (basic and diluted)<sup>1</sup>, EUR</b>	<b>0.14</b>	<b>0.10</b>	<b>0.23</b>	<b>0.05</b>	<b>0.03</b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

**Table 2: Consolidated financial position of the Fund, EUR thousand**

	31 Dec 2013	31 Dec 2014	31 Dec 2015	30 Jun 2016
Investment properties	33,135	46,170	86,810	87,238
Other non-current assets	23	-	263	280
<b>Total non-current assets</b>	<b>33,158</b>	<b>46,170</b>	<b>87,073</b>	<b>87,518</b>
Trade and other receivables	2,139	214	840	724
Prepayments	13	11	81	98
Subscriptions receivable	-	-	-	28,483
Cash and cash equivalents	456	2,626	1,677	1,460
<b>Total current assets</b>	<b>2,608</b>	<b>2,851</b>	<b>2,598</b>	<b>30,765</b>
<b>TOTAL ASSETS</b>	<b>35,766</b>	<b>49,021</b>	<b>89,671</b>	<b>118,283</b>
Share capital	18,156	22,051	25,674	46,636
Cash flow hedge reserve	-210	-194	-199	-222
Retained earnings	1,510	2,458	6,218	7,090
<b>Total equity</b>	<b>19,456</b>	<b>24,315</b>	<b>31,693</b>	<b>53,504</b>
Interest bearing loans and borrowings	15,415	22,395	39,586	41,557
Deferred tax liabilities	57	670	3,673	3,811
Derivative financial instruments	211	149	215	260
Other non-current liabilities	41	160	451	494
<b>Total non-current liabilities</b>	<b>15,724</b>	<b>23,374</b>	<b>43,925</b>	<b>46,122</b>
Redemption of units payable	-	-	-	7,521
Interest bearing loans and borrowings	229	644	11,608	9,140
Trade and other payables	313	534	2,036	1,597
Income tax payable	44	-	112	168
Derivative financial instruments	-	60	17	1
Other current liabilities	-	94	280	230
<b>Total current liabilities</b>	<b>586</b>	<b>1,332</b>	<b>14,053</b>	<b>18,657</b>
<b>Total liabilities</b>	<b>16,310</b>	<b>24,706</b>	<b>57,978</b>	<b>64,779</b>

<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,766</b>	<b>49,021</b>	<b>89,671</b>	<b>118,283</b>
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Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

**Table 3: Consolidated statement of cash flows of the Fund, EUR thousand**

	2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016
<b>Operating activities</b>					
Profit before tax	2,618	2,062	6,415	1,401	1,047
Adjustments for non-cash items:					
Value adjustment of investment properties	-1,326	-611	-2,886	-	441
Gain/loss on disposal of investment property	-	-	10	10	-
Value adjustment of derivative finance instruments	1	14	18	-2	6
Change in allowance for bad debts	3	29	22	-	-
Financial income	-40	-72	-17	-10	-8
Financial expenses	440	656	1,100	533	533
Non-realised exchange differences	-30	-	-	-	-
Working capital adjustments:					
Decrease/-increase in trade and other accounts receivables	176	-81	-156	60	140
-Increase/decrease in other current assets	-31	271	-82	-60	-40
-Decrease/increase in other non-current liabilities	32	83	120	20	43
Increase/-decrease in trade and other accounts payable	-271	77	69	-24	247
-Decrease/increase in other current liabilities	29	-559	407	210	43
Refunded/-paid income tax	-1	-102	-54	-16	-45
<b>Net cash flow from operating activities</b>	<b>1,600</b>	<b>1,767</b>	<b>4,966</b>	<b>2,122</b>	<b>2,407</b>
<b>Investing activities</b>					
Interest received	40	-	17	6	8
Acquisition of a subsidiaries, net of cash acquired	-	-1,357	-7,657 <sup>1</sup>	-7,657 <sup>1</sup>	-
Acquisition of investment properties	-11,919	-	-	-	-
Disposal of investment properties	-	-	990	990	-
Capital expenditure on investment properties	-25	-468	-2,213	-805	-1,623
<b>Net cash flow from investing activities</b>	<b>-11,904</b>	<b>-1,825</b>	<b>-8,863</b>	<b>-7,466</b>	<b>-1,615</b>
<b>Financing activities</b>					
Proceeds from bank loans	8,150	499	4,804	2,539	445
Repayment of bank loans	-156	-463	-2,684	-315	-954
Granted loans	-2,000	-	-	-	-
Proceeds from issue of units	1,197	3,019	3,160	2,660	-
Profit distribution to unitholders	-1,235	-184	-1,302	-	-
Interest paid	-427	-643	-1,030	-500	-500

<b>Net cash flow from financing activities</b>	<b>5,529</b>	<b>2,228</b>	<b>2,948</b>	<b>4,384</b>	<b>-1,009</b>
<b>Net change in cash and cash equivalents</b>	<b>-4,775</b>	<b>2,170</b>	<b>-949</b>	<b>-960</b>	<b>-217</b>
Cash and cash equivalents at the beginning of the year	5,231	456	2,626	2,626	1,677
<b>Cash and cash equivalents at the end of the year</b>	<b>456</b>	<b>2,626</b>	<b>1,677</b>	<b>1,666</b>	<b>1,460<sup>2</sup></b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> In BOF's audited consolidated financial statements for 2015 and the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, *acquisition of subsidiaries, net of cash acquired*, in year 2015 and the first 6 months of 2015 is equal to EUR 6,324 thousand which is comprised of EUR 7,657 thousand payment (net of cash acquired) for an acquisition of Europa SC reduced by EUR 1,333 thousand cash and cash equivalents held by SPVs at the beginning of 2015. The subtraction of SPVs' cash position is due to the change in BOF's status under IFRS 10 from an investment entity at the end of 2014 to a non-investment entity in 2015. In BOF's consolidated statements of cash flows for the year 2015 and the first 6 months of 2015, cash and cash equivalents at the beginning of 2015 reflect non-consolidated position, i.e. only cash held by BOF itself (EUR 1,293 thousand). In order to consolidate cash held by SPVs at the beginning of 2015, the amount is recognised under *acquisition of subsidiaries, net of cash acquired*, as a positive cash flow item. This EUR 1,333 thousand consolidation adjustment is eliminated from the table above because in it cash and cash equivalents at the beginning of 2015 already reflect consolidated position, i.e. cash held by both BOF itself (EUR 1,293 thousand) and all its SPVs (EUR 1,333 thousand).

<sup>2</sup> Of that, EUR 400 thousand were restricted following requirements set in bank loan agreements.

**Table 4: Key indicators of the Fund**

	2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016
<b>Property-related</b>					
Value of investment properties, EUR'000	33,135	46,170	86,810	81,733	87,238
Number of properties, period end	3	4	5	5	5
Rentable area, sqm					
Period end	23,268	30,928	48,651	47,173	50,889
Period average <sup>1</sup>	21,825	28,322	44,718	41,771	49,032
Vacancy rate					
Period end	3.7%	6.3%	2.0%	1.6%	3.6%
Period average <sup>2</sup>	4.0%	9.8%	2.8%	2.8%	3.6%
Net initial yield <sup>3</sup>	7.8%	6.6%	7.1%	6.9%	6.7%
<b>Financial<sup>4</sup></b>					
EPRA NAV per unit <sup>5</sup> , EUR	1.09	1.16	1.48	1.36	1.40
NAV per unit, EUR	1.07	1.12	1.27	1.17	1.27
Earnings per unit, EUR	0.14	0.10	0.23	0.05	0.03
ROE <sup>6</sup>	13.8%	9.2%	19.7%	9.4%	8.5%
Cash earnings <sup>7</sup> , EUR'000	1,291	1,349	3,485	1,385	1,443
Cash earnings per unit, EUR	0.07	0.07	0.15	0.06	0.06
Cash ROE <sup>8</sup>	7.1%	6.2%	12.4%	10.5%	12.1%
AFFO <sup>9</sup> , EUR'000	1,263	983	2,701	606	1,236
AFFO per unit, EUR	0.07	0.05	0.11	0.03	0.05
Dividends per unit, EUR	0.07	0.05	0.07	-	-
Interest coverage ratio <sup>10</sup>	3.9	3.2	4.3	3.8	3.8
LTV <sup>11</sup>	47.2%	49.9%	59.0%	62.8%	58.1%

<sup>1</sup> Computed as average of monthly estimates.

<sup>2</sup> Computed as average of monthly estimates.

<sup>3</sup> Net initial yield = net rental income / value of investment properties. Calculated as average of monthly estimates.

<sup>4</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

<sup>5</sup> EPRA NAV is a measure of long term NAV, proposed by European Public Real Estate Association (EPRA) and widely used by listed European property companies. It is designed to exclude assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation gains. EPRA NAV = NAV per financial statements + derivative financial instruments liability net of related deferred tax asset + deferred tax liability related to investment property fair and tax value differences.

<sup>6</sup> Return on average equity (ROE) = profit for the period / average total equity; where average total equity = ( total equity at the beginning of the period + total equity at the end of the period ) / 2. Estimates for interim periods were annualized. When calculating ROE for January – June 2016, profit for the period was adjusted to exclude EUR 500 thousand one-off expenses related to the capital raising completed on 29 June 2016 and total equity at the end of the period was adjusted to exclude EUR 21.0m of new equity relating to the said capital raising as cash proceeds were received only after the reporting period (on 5 July 2016). The purpose of these adjustments was to present a figure for January – June 2016 that is comparable to past performance figures.

<sup>7</sup> Cash earnings = profit before tax - valuation gains or losses on investment properties - net gains or losses on disposals of investment properties - paid income taxes.

<sup>8</sup> Cash ROE = cash earnings for the period / average total equity. Estimates for interim periods were annualized. When calculating cash ROE for January – June 2016, cash earnings for the period were adjusted to exclude EUR 500 thousand one-off expenses related to the capital raising completed on 29 June 2016 and total equity at the end of the period was adjusted to exclude EUR 21.0m of new equity relating to the said capital raising as cash proceeds were received only after the reporting period (on 5 July 2016). The purpose of these adjustments was to present a figure for January – June 2016 that is comparable to past performance figures.

<sup>9</sup> Adjusted funds from operations (AFFO) = net rental income - administrative expenses + financial income - financial expenses - capital expenditure on investment properties (excl. investments into development projects and acquisitions).

<sup>10</sup> Interest coverage ratio = ( operating profit - valuation gains or losses on investment properties - net gains or losses on disposals of investment properties ) / interest on bank loans.

<sup>11</sup> Loan-to-value (LTV) = total interest bearing loans and borrowings / value of investment properties.

#### **Interim results in the first 6 months of 2016**

In the first half of 2016 net rental income of the Fund amounted to EUR 2.9m and was 23% higher compared to the same period in 2015. The growth was mainly explained by an increase in net rental income from Europa SC which contributed for the full 6 months in 2016 as opposed to 4 months in the first half of 2015. The two newest additions to the Fund's property portfolio, G4S Headquarters and Upmalas Biroji, did not contribute to the results of the Fund in the first half of 2016 because they were acquired in July and August 2016.

Administrative expenses grew to EUR 1.0m from EUR 0.4m in the same period of 2015. The main reason for the increase was a EUR 0.5m one-off accrual of expenses related to the initial public offering of the Fund completed on 29 June 2016.

No external property valuations were performed in the first half of 2016 (and 2015). The revaluation loss of EUR 441 thousand was related to the final price paid to developer TK Development for the completion of the second stage of Domus Pro in May 2016.

Net financial expenses remained stable year on year at EUR 0.5m. Average cost of debt stood at 2.1% in the first half of 2016.

Income tax amounted to EUR 175 thousand (EUR 169 thousand in the comparable period of 2015) which was comprised of EUR 19 thousand current income tax (EUR 29 thousand) and EUR 156 thousand deferred income tax (EUR 140 thousand).

#### **Results in years 2013 - 2015**

In 2015 net rental income doubled to EUR 5.3m from EUR 2.7m in 2014. The increase was primarily attributable to Europa SC, acquired in March 2015, that contributed EUR 2.0m to the consolidated net rental income during the year. Net rental income of Domus Pro grew by EUR

		<p>0.4m thanks to its full year contribution and a drop in its vacancy. In 2014 net rental income increased by 18% to EUR 2.7m from EUR 2.3m in 2013 driven mainly by Domus Pro which generated EUR 0.4m of net rental income since its acquisition in May 2014.</p> <p>Administrative expenses increased to EUR 1.0m in 2015 from EUR 0.7m in 2014 and EUR 0.6m in 2013. The growth was mainly driven by rising management fee (fixed at 1.9% of year-end NAV) impacted by increases in NAV. In addition, in 2015 a performance fee was recognised amounting to EUR 79 thousand (no performance fees were recorded in previous years).</p> <p>Valuation gains on investment properties amounted to EUR 2.9m in 2015, EUR 0.6m in 2014 and EUR 1.3m in 2013. Properties have been recognised at fair value based on independent appraisals which have been carried out once a year with a valuation date of 31 December. The independent appraisals for 31 December 2015 were conducted by Colliers.</p> <p>Net financial expenses grew to EUR 1.1m in 2015 from EUR 0.6m in 2014 and EUR 0.4m in 2013. Increases were attributable predominantly to rising interest expenses on bank loans as bank financing was used to partly finance acquisitions of new properties. Financial debt, fully comprised of bank loans, expanded from EUR 15.6m at the end of 2013 to EUR 23.0m at the end of 2014 (impacted by Domus Pro acquisition) and EUR 51.2m at the end of 2015 (impacted by Europa SC acquisition).</p> <p>Income tax went up to EUR 0.9m in 2015 (fully comprised of deferred tax) from EUR 0.1m in the two previous years caused by substantially higher profits from properties located in Lithuania. Profits in Lithuania grew on the back of successful timing of the acquisition of Europa SC, full year contribution of Domus Pro and substantial fair value gains recognised from completing the rented out expansion of Domus Pro. Over years 2013-2015, income tax has been recorded only for properties based in Lithuania and Latvia. Estonian properties, on the other hand, incurred no income tax because they did not pay dividends - retained profits are tax exempt in Estonia.</p>
<b>B.8</b>	<b>Pro forma financial information</b>	Not applicable. Pro forma financial information is not provided in the Offering Circular.
<b>B.9</b>	<b>Profit forecast</b>	Not applicable. A profit forecast is not provided in the Offering Circular.
<b>B.10</b>	<b>Qualifications in audit reports</b>	<p>The Fund's interim consolidated financial statements for the 6-month period ended 30 June 2016 were reviewed (but not audited) by independent auditors.</p> <p>BOF's financial statements for years 2013 – 2015 provided in this Offering Circular, including special purpose consolidated financial statements for years 2014 and 2013, received unqualified opinions from independent auditors.</p> <p>Europa SPV's financial statements are provided in this Offering Circular in accordance with item 2.2(a)(i) of Annex XV of the Prospectus Regulation. Europa SPV's interim financial statements for the 6-month period ended 30 June 2016 have not been audited. Europa SPV's financial statements for years ending 31 December 2015 and 31 December 2014 received unqualified opinions from independent auditors. For Europa SPV's financial statements for the year ending 31 December 2013, independent auditors issued a qualified opinion noting that they were unable to obtain sufficient audit evidence that certain valuation assumptions used by independent appraisers to determine the value of Europa SC property for 31 December 2012 were appropriate in the market conditions at that time. The fair value of investment property as at 31 December 2012 had an impact to revaluation amount recognised in the income statement for 2013 and, consequently, auditors were unable to determine whether any adjustments might be necessary to expenses from financing and investing activities and net result for the year ended 31 December 2013. Auditors concluded that, except for the possible effect of this matter, the financial statements gave a true and fair view of the financial position of Europa SPV at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.</p>

<b>B.34</b>	<b>Investment objective and policy</b>	<p>The objective of the Fund is to provide its unit-holders with consistent and above average risk-adjusted returns by acquiring high quality cash flow generating commercial properties with the potential for adding value through active management, thereby creating a stable income stream of high yielding current income combined with capital gains. The focus of the Fund is to invest, directly or indirectly, in real estate located in Estonia, Latvia, and Lithuania, with a particular focus on the capitals - Tallinn, Riga, and Vilnius - and a preference for city centres within or near the central business districts.</p> <p>At least 80% of the Fund's gross asset value must be invested in real estate and securities relating to real estate in accordance with the investment objectives and policy of the Fund. Up to 20% of the Fund's gross asset value may be invested in the deposits and financial instruments. The assets of the Fund may be invested in derivative instruments only for the purpose of hedging the property loan risks.</p> <p>The Fund shall meet the following risk diversification requirements:</p> <ul style="list-style-type: none"> <li>• up to 50% of the gross asset value of the Fund may be invested in any single real estate property, or in any single real estate fund;</li> <li>• the annual rental income from one single tenant shall not form more than 30% of the total annual net rental income of the Fund.</li> </ul>
<b>B.35</b>	<b>Borrowing and/or leverage limits</b>	<p>The Management Company has, on account of the Fund, the right to guarantee an issue of securities, provide surety, take a loan, issue debt securities, enter into repurchase or reverse repurchase agreements, and conclude other securities borrowing transactions. Subject to the discretion of the Management Company, the Fund aims to leverage its assets and targets a debt level of 50% of the value of its assets. At no point in time may the Fund's leverage exceed 65% of the value of its assets. Loans may be taken for periods of up to 30 years.</p>
<b>B.36</b>	<b>Regulatory status and the name of a regulator</b>	<p>The Fund is registered with, and is regulated by the Estonian Financial Supervision Authority (<i>Finantsinspektsioon</i>).</p>
<b>B.37</b>	<b>Profile of a typical investor</b>	<p>A typical investor of the Fund is either an institutional or a retail investor seeking to have a medium or long term indirect exposure to commercial real estate property. Investors should be ready to accept investment risk generally inherent to real estate markets. Provided that Fund's investments are made with a long term perspective with a view to gain both from the increase of the property value over economic cycles and through continuous cash flow generation, also investors are expected to invest with a long term view. Furthermore, investors who expect regular distributions out of cash flows (e.g. dividends, interests) should consider an investment in the Fund. Any investor, who has had no or very little experience in investing in real estate funds or directly in commercial real estate property, should consult their professional adviser in order to learn about the characteristics and risks associated with such investments.</p>
<b>B.38</b>	<b>Identity of assets in which the Fund invested more than 20% of its gross asset value</b>	<p>According to the Fund Rules, up to 50% of the gross asset value of the Fund may be invested in any single real estate property, or in any single real estate fund.</p> <p>As of 30 September 2016, the fair value of Europa SC, a shopping mall in Vilnius, constituted 28% of the Fund's gross assets and 29% of its property portfolio value. No other single property (or other investment) comprised more than 20% of the Fund's gross asset value on 30 September 2016.</p>
<b>B.39</b>	<b>Identity of collective investment undertakings in which the Fund invested more than 40% of its gross asset value</b>	<p>The Fund has no investments in other collective investment undertakings.</p>
<b>B.40</b>	<b>Service providers and fees</b>	<p>The main service providers to the Fund are the Management Company and the Depositary. See Element B.41 below.</p> <p>For the fund management services, the Management Company is paid a management fee and a performance fee on account of the Fund.</p> <p>The management fee shall be calculated as follows:</p> <ul style="list-style-type: none"> <li>• the management fee shall be calculated quarterly based on the 3-month average market capitalisation of the Fund. After each quarter, the management fee shall be calculated on</li> </ul>

		<p>the first banking day of the following quarter.</p> <ul style="list-style-type: none"> <li>• the management fee shall be calculated based on the following rates and in the following tranches: <ul style="list-style-type: none"> <li>- 1.50% of the market capitalisation below EUR 50 million;</li> <li>- 1.25% of the part of the market capitalisation that is equal to or exceeds EUR 50 million and is below EUR 100 million;</li> <li>- 1.00% of the part of the market capitalisation that is equal to or exceeds EUR 100 million and is below EUR 200 million;</li> <li>- 0.75% of the part of the market capitalisation that is equal to or exceeds EUR 200 and is below EUR 300 million;</li> <li>- 0.50% of the part of the market capitalisation that is equal to or exceeds EUR 300 million.</li> </ul> </li> <li>• the management fee shall be calculated after each quarter as follows: <ul style="list-style-type: none"> <li>- the market capitalisation as calculated on the fee calculation date, split into the tranches and each tranche of the market capitalisation (M<sub>Cap,t</sub>) multiplied by</li> <li>- respective fee rate (F<sub>n</sub>) applied to the respective tranche, then the aggregate of the fees from each tranches multiplied by</li> <li>- the quotient of the actual number of days in the respective quarter (Actual<sub>q</sub>) divided by 365 days per calendar year, as also indicated in the formula below</li> </ul> <math display="block">((M_{Cap_1} \times F_1) + \dots + (M_{Cap_5} \times F_5)) \times (Actual_q / 365)</math> </li> <li>• in case the market capitalisation is lower than 90% of the net asset value, the amount equal to 90% of the net asset value shall be used for the Management Fee calculation instead of the market capitalisation. In this case, the net asset value means the average quarterly net asset value and such management fee adjustments shall be calculated and paid annually after the annual report of the Fund for the respective period(s) has been audited.</li> </ul> <p>For each year, if the annual adjusted funds from operations of the Fund divided by the average paid in capital during the year (calculated on a monthly basis) exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8%.</p> <p>The performance fee is calculated annually by the Management Company and is accrued to the performance fee reserve. Once the performance fee reserve becomes positive, the performance fee can be paid to the Management Company. However, the performance fee for the year shall not exceed 0.4% of the Fund's average net asset value per year (upper performance fee limit). Negative performance Fee shall not be less than -0.4% of the Fund's average net asset value per year (lower performance fee limit).</p> <p>A performance fee for the first year of the Fund (i.e. 2016) shall not be calculated. The performance fee first becomes payable in the fifth year of the Fund (i.e. 2020) for the period of 2017, 2018, and 2019.</p> <p>The Depositary shall be paid a depositary fee for the provision of depositary services. The annual Depositary Fee will be 0.03% of the gross asset value of the Fund, but the fee shall not be less than EUR 10,000 per annum. In addition, the Depositary shall be paid or reimbursed for fees and out-of-pocket expenses related to the transactions made on account of the Fund.</p> <p>The fees and other expenses paid out of the Fund (including out of SPVs) shall not exceed 30% of the net asset value of the Fund per calendar year.</p>
B.41	Investment manager	<p>Northern Horizon Capital AS, registry code 11025345, address City Plaza, Tartu mnt 2, 10145 Tallinn, Estonia, acts as the fund management company of the Fund (the "Management Company").</p> <p>Swedbank AS, registry code 10060701, address Liivalaia 8, 15040 Tallinn, Estonia acts as the depositary for the Fund. The depositary may delegate its tasks to third party service provider in compliance with the regulations and the Fund Rules (the "Depositary").</p>

<b>B.42</b>	<b>Net asset value calculation and communication</b>	The net asset value of the Fund shall be calculated monthly, as of the last banking day of each calendar month. The net asset value of the Fund and of a Unit shall be made available on the Website (www.baltichorizon.com), via a stock exchange release, and at the registered office of the Management Company on the 15th day of the following month at the latest.																																																															
<b>B.43</b>	<b>Cross liabilities in the case of umbrella collective investment undertaking</b>	Not applicable. The Fund is not an umbrella collective investment undertaking and it has no investments in other collective investment undertakings.																																																															
<b>B.45</b>	<b>Description of the Fund's portfolio</b>	<p>As of 30 September 2016 the Fund's property portfolio consisted of 7 commercial properties located in the capital cities of the Baltic States. The fair value of the portfolio amounted to EUR 129.2m and it had 70.9 thousand sqm of rentable area. The Fund took over BOF's portfolio of 5 buildings as a result of the merger with BOF on 30 June 2016. By investing proceeds from the capital raising completed on 29 June 2016, the Fund acquired two more properties: G4S Headquarters in Tallinn on 12 July 2016 and Upmalas Biroji in Riga on 30 August 2016.</p> <p><b>Table 5: the Fund's property portfolio, 30 September 2016</b></p> <table border="1"> <thead> <tr> <th>Property</th> <th>Sector</th> <th>Rentable area, sqm</th> <th>Fair value, EUR'000</th> <th>Vacancy</th> <th>WAULT, years</th> <th>No of tenants</th> </tr> </thead> <tbody> <tr> <td>Europa SC</td> <td>Retail</td> <td>16,856</td> <td>38,000</td> <td>2.1%</td> <td>3.8</td> <td>73</td> </tr> <tr> <td>Upmalas Biroji</td> <td>Office</td> <td>10,846</td> <td>23,530</td> <td>0.0%</td> <td>4.6</td> <td>13</td> </tr> <tr> <td>G4S Headquarters</td> <td>Office</td> <td>9,179</td> <td>16,800</td> <td>0.0%</td> <td>6.1</td> <td>1</td> </tr> <tr> <td>Domus Pro</td> <td>Retail</td> <td>11,247</td> <td>16,740</td> <td>1.5%</td> <td>6.1</td> <td>25</td> </tr> <tr> <td>Lincona</td> <td>Office</td> <td>10,859</td> <td>15,700</td> <td>7.9%</td> <td>4.4</td> <td>14</td> </tr> <tr> <td>Coca Cola Plaza</td> <td>Leisure</td> <td>8,664</td> <td>13,000</td> <td>0.0%</td> <td>6.5</td> <td>1</td> </tr> <tr> <td>Sky Supermarket</td> <td>Retail</td> <td>3,263</td> <td>5,430</td> <td>0.1%</td> <td>4.4</td> <td>24</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td><b>70,914</b></td> <td><b>129,200</b></td> <td><b>1.9%</b></td> <td><b>4.9</b></td> <td><b>151</b></td> </tr> </tbody> </table> <p>As of 30 September 2016 vacancy of the portfolio stood at 1.9% indicating strong demand for space at Fund's properties. Remaining lease term was at comfortable 4.9 years.</p> <p>Thanks to the two newest property acquisitions, the composition of Fund's property portfolio became more diversified in terms of both sectors and locations. Compared to the end of 2015, the weight of office sector in the portfolio grew to 43% from 18% of total fair value reducing retail sector's weight to 47% from 68%. Location-wise, the weight of Riga, where now two properties are based, went up to 23% from 6% while Vilnius' weight dropped to 42% from 62%. Tallinn retained a similar position in the portfolio constituting 35% of the portfolio value at the end of September 2016.</p> <p>All assets in the portfolio were operational and generating cash flows. The development of the 3,700 sqm second stage in Domus Pro SC was fully completed in May 2016. In addition, the Management Company has been preparing for the development of the third stage at Domus Pro. Its project is a 6-story building with 4,380 sqm of rentable area. Construction is planned to begin in autumn 2016 and be completed in one year.</p>	Property	Sector	Rentable area, sqm	Fair value, EUR'000	Vacancy	WAULT, years	No of tenants	Europa SC	Retail	16,856	38,000	2.1%	3.8	73	Upmalas Biroji	Office	10,846	23,530	0.0%	4.6	13	G4S Headquarters	Office	9,179	16,800	0.0%	6.1	1	Domus Pro	Retail	11,247	16,740	1.5%	6.1	25	Lincona	Office	10,859	15,700	7.9%	4.4	14	Coca Cola Plaza	Leisure	8,664	13,000	0.0%	6.5	1	Sky Supermarket	Retail	3,263	5,430	0.1%	4.4	24	<b>Total</b>		<b>70,914</b>	<b>129,200</b>	<b>1.9%</b>	<b>4.9</b>	<b>151</b>
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<b>B.46</b>	<b>Most recent net asset value per unit</b>	As of 30 September 2016 the Fund's NAV per unit amounted to EUR 1.36 while EPRA NAV, the measure of long term NAV, stood at EUR 1.53 per unit. These figures have not been audited or reviewed by independent auditors.																																																															

## Section C – Securities

<b>C.1</b>	<b>Type and class of securities</b>	<p>The Fund has one class of Units and the Offer Units are from the same class.</p> <p>All Offer Units will be registered with the Estonian Central Securities Depository, with ISIN EE3500110244. Units traded on Nasdaq Stockholm will also be held with Euroclear Sweden.</p>
<b>C.2</b>	<b>Currency of securities issue</b>	Units are issued in euros. Units listed on Nasdaq Stockholm are nominated in SEK.
<b>C.3</b>	<b>Number of securities issued</b>	Up to 59,410,000 New Units will be issued in the Offering. This also includes the Upsizing Option under which up to 22,279,000 additional Offer Units may be offered. Immediately after the Offering, assuming that the Upsizing Option is exercised in full, the total number of Units will be 101,389,150 Units.

		Units are issued with no nominal value.
<b>C.5</b>	<b>Restrictions on transferability of securities</b>	Units are freely transferable.
<b>C.7</b>	<b>Dividend policy</b>	<p>The Management Company targets to pay out to Unit-holders 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 into developments. Dividends will be determined taking into account the sustainability of the Fund's liquidity position. Up to 20% of the AFFO might be used for follow on investments. As % of invested equity, dividends are targeted to yield 7-9% per annum. The Management Company intends to pay dividends on a quarterly basis.</p> <p>On 12 October 2016 the Fund announced dividend of EUR 0.026 per unit for the third quarter of 2016 with the payment day of 28 October 2016. The amount corresponded to a 2.0% quarterly dividend yield based on the Unit's market price on the day of the announcement (EUR 1.325). This was the first dividend payment since the Fund merged with BOF on 30 June 2016. Before the Merger, BOF had distributed dividends to its unit-holders every year from 2012 to 2015.</p>
<b>C.11</b>	<b>Admission to trading</b>	The Management Company has applied for a secondary listing of the Units on Nasdaq Stockholm. Holders of Units are entitled to have those Units traded on Nasdaq Stockholm or Nasdaq Tallinn. Trading in the New Units is expected to commence on Nasdaq Tallinn on or about 5 December 2016 and on Nasdaq Stockholm on or about 8 December 2016.

## Section D – Risks

<b>D.2</b>	<b>Key risks specific to the Fund</b>	<ul style="list-style-type: none"> <li>- The Fund is exposed to macroeconomic fluctuations.</li> <li>- The successful implementation of Fund's investment strategy is subject to risks such as limited availability of attractive commercial properties for sale, unfavourable economic terms of potential investment targets, intensive competition among investors for high quality properties and inability to raise debt financing at attractive terms.</li> <li>- The Fund has a limited past performance, whereas also past performance is not a guarantee of the future performance of the Fund.</li> <li>- Newly acquired real estate assets could require unforeseen investments and/or demonstrate lower than expected performance and financial returns.</li> <li>- If a tenant leaves, there is a risk that a new tenant may not be found at the equivalent economic terms or at all for some time. There is also a risk that a tenant may not pay rent on time or at all.</li> <li>- Increased competition in property industry may require the Fund to invest in upgrading its properties and offer rent discounts to attract tenants.</li> <li>- A fair value of the Fund's property portfolio is subject to fluctuations.</li> <li>- The Fund employs a significant financial leverage when acquiring properties which also leads to interest rate risk and refinancing risk.</li> <li>- The Fund may to a limited extent invest in development projects which typically involve greater risks than fully-developed properties.</li> <li>- Fund's insurance policies could be inadequate to compensate for losses associated with damage to its property assets, including loss of rent.</li> <li>- Fund's properties could be subject to unidentified technical problems which could require significant capital investments.</li> <li>- The Fund may be drawn into legal disputes with tenants or counterparties in real estate transactions.</li> <li>- Use of external service providers involve risks related to the quality of services and their cost.</li> <li>- The Fund could be held liable for environmental damage incurred in a property owned by the Fund.</li> <li>- Potential damage to Fund's reputation could affect its ability to attract and retain tenants at its properties as well as Management Company's ability to retain personnel.</li> </ul>
<b>D.3</b>	<b>Key risks specific to securities</b>	<ul style="list-style-type: none"> <li>- Investors may lose the value of their entire investment in the Fund.</li> <li>- There is no guarantee that an active trading market for the Units will develop or be sustained.</li> <li>- The Offer Price may not be representative of the Unit market price after the listing. Investors that acquire the Units in the Offering may not be able to resell them in the</li> </ul>

		<p>secondary market at or above the Offer Price.</p> <ul style="list-style-type: none"> <li>- Potential future issuances of new Units could lead to dilution of unitholders holdings in the Fund and reduction in earnings per unit.</li> <li>- Court proceedings in Estonia and enforcement of judgements by foreign courts in Estonia may be more complicated or expensive than in investor's home country.</li> <li>- The tax consequences for the Swedish Unit-holders would depend on the assets directly held by the Fund and will vary over time if the Fund's assets change.</li> <li>- Neither the payment of future dividends, nor their size are guaranteed.</li> <li>- Dual listing on Nasdaq Stockholm and Nasdaq Tallinn may entail logistic and technical issues for Unit-holders who have their Units held with Euroclear Sweden. The Nasdaq Tallinn and the Nasdaq Stockholm have different characteristics as well as liquidity and as a result of these differences, the trading price of the Units may not be the same at any given time.</li> </ul>
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## Section E – Offer

<b>E.1</b>	<b>Net proceeds and expenses of the Offering</b>	<p>Assuming all Offer Units will be issued and the Upsizing Option is exercised in full, net proceeds to the Fund from the Offering are estimated to be EUR 76.2m.</p> <p>Majority of the expenses related to the Offering are variable and linked to the amount of capital raised. Assuming all Offer Units will be issued and paid in, and the Upsizing Option is exercised in full, the variable expenses of the Offering are estimated to amount to approximately EUR 3.6m or 4.4% of the capital raised. This corresponds to 2.6% of the Fund's total NAV immediately after the Offering. In addition, the Fund is estimated to incur approximately EUR 200 thousand of fixed expenses related to legal advice, audit and marketing in conjunction with the Offering. Assuming all Offer Units will be issued and paid in, and the Upsizing Option is exercised in full, the total expenses of the Offering are estimated to be approximately EUR 3.8m.</p>
<b>E.2b</b>	<b>Reasons for the Offering and use of proceeds</b>	<p>The Fund aims to become the largest publicly listed real estate investor in the Baltics and to generate its prospective Unit-holders attractive returns by investing into commercial properties located in the Baltic capital cities. Reasons for the Offering in particular are:</p> <ol style="list-style-type: none"> <li>1. To attract new capital which will be deployed to acquire fully developed and cash flow generating commercial properties in the capital cities of the Baltic States.</li> <li>2. To increase liquidity of Units and expand Unit-holders base.</li> <li>3. To increase awareness of the Fund among existing and prospective stakeholders and general public.</li> </ol> <p>The Management Company will use the net proceeds of the Fund from the Offering to acquire commercial properties comprising the Fund's investment pipeline. The Management Company estimates that the investment pipeline has an aggregated value of approximately EUR 360m and assets could be acquired at a 7.2% average yield. The pipeline consists of 14 commercial properties at central and strategic locations in the capital cities of the Baltic States. The target properties are fully operational (except for 1 property which is under construction) and cash flow generating with attractive risk-return profile, high-quality tenants mix, low vacancy rates and long lease maturities. To ensure a rapid deployment of the proceeds, the Management Company has entered into negotiations with owners of the most attractive targets and/or has been participating in tenders for such assets.</p> <p>To the extent the net proceeds of the Offering are not used according to the purposes stated above, they will otherwise be used for the general purposes of the Fund.</p>
<b>E.3</b>	<b>Terms and conditions of the Offering</b>	<p>Up to 37,131,000 Offer Units will be issued and offered by the Management Company. Together with determining the completion of the allocation process the Management Company has the right to exercise the Upsizing Option, taking into consideration the total demand in the Offering and the quality of such demand. In exercising the Upsizing Option the Management Company has the right to increase the number of new Offer Units by up to 22,279,000 Offer Units.</p> <p><i>Price</i></p> <p>The Offer Price will be equal to the NAV of the Unit of the Fund as at 31 October 2016. The Offer Price will be disclosed on the Website latest on 15 November 2016. The Offer Price shall not exceed EUR 1.37 per Offer Unit. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.</p>

In connection with the Retail Offering in Sweden Catella Bank S.A. will act as paying and settlement agent.

*The Retail Offering*

The Retail Offering in Sweden is directed to natural and legal persons in Sweden who are clients of Catella Bank S.A.. Investor is considered to be a client of Catella Bank S.A. if it has opened a deposit account with Catella Bank S.A.. The Retail Offering in Finland and Denmark is directed to natural and legal persons in Finland and Denmark who are private banking customers and retail customers of Nordnet Bank AB as well as customers that through third parties receive advice for capital that is placed with Nordnet Bank AB. The Retail Offering in Estonia is directed to natural and legal persons in Estonia. For the purposes of the Offering, a natural person is considered to be “in Estonia” if such person has a securities account with the ECRS and such person’s address recorded in the ECRS records in connection with such person’s securities account is located in Estonia. A legal person is considered to be “in Estonia” if such person has a securities account with the ECRS and such person’s address recorded in the ECRS records in connection with such person’s securities account is located in Estonia or its registration code recorded in the ECRS records is the registration code of the Estonian Commercial Register.

The Offer Units are marketed to retail investors in Denmark and Finland once the supervisory authorities of Denmark and Finland have approved the marketing to retail investors.

*Subscription Period*

Investors may submit purchase orders for the Offer Units (a “Purchase Order”) during the offer period, which commences at 9:00 on 8 November 2016 (Central European Time) and terminates at 12:00 (Central European Time) on 30 November 2016 (the “Offer Period”).

*Placement of Purchase Orders*

An investor wishing to submit a Purchase Order should contact the Manager or the Global Lead Sales Partner and register a transaction instruction for the purchase of securities in the form as set out by the respective Manager or the Global Lead Sales Partner. The Purchase Order can be submitted by any means accepted by the Manager or the Global Lead Sales Partner. Retail Investors in Estonia wishing to subscribe for the Offer Units should contact a custodian that operates such investor’s ECRS securities account.

An investor may amend or cancel a Purchase Order at any time before the expiry of the Offer Period. To do so, the Investor must contact respective Manager, Global Lead Sales Partner or in case of investor from Estonia, its custodian through whom the Purchase Order in question has been made and carry out the procedures required by the Manager, Global Lead Sales Partner or respective custodian for amending or cancelling a Purchase Order.

*Allocation*

The Management Company together with the Managers and the Global Lead Sales Partner will decide on the allocation on discretionary basis after the expiry of the Offer Period, and no later than on 1 December 2016. The Management Company expects to announce the results of the Offering, including the final number of New Units on or about 1 December 2016 on the Website and through the Nasdaq Tallinn ([www.nasdaqbaltic.com/market/](http://www.nasdaqbaltic.com/market/)). Allocations made to Investors shall be notified to Investors on the same date by the Managers and the Global Lead Sales Partner.

For the purposes of allocation, multiple Purchase Orders by one Investor, if submitted, will be merged.

*Payment*

By submitting a Purchase Order, an Investor agrees to pay for the subscribed Offer Units the Offer Price. In accordance with the allotments determined and announced for each specific Investor, trade instructions for the Offer Units may be placed on or after 1 December 2016 and must reach the relevant custodian bank in a manner which allows the settlement on or about 5 December 2016. The Units allocated to the Investors will be transferred to their securities accounts on or about 5 December 2016 simultaneously with the transfer of payment for such Units.

		<p><i>Canceling the Offering</i></p> <p>The Management Company may cancel, partly or in full, the Offering and/or modify the terms and dates of the Offering at any time prior to the completion of the Offering. Any cancellation of the Offering or any part thereof will be announced on the Website and through the Nasdaq Tallinn (<a href="http://www.nasdaqbaltic.com/market/">www.nasdaqbaltic.com/market/</a>). If the Offering is cancelled, Purchase Orders for the Offer Units that have been made will be disregarded, Offer Units are not allocated to an investor, and the funds blocked on the Investor's cash account or a part thereof (the amount in excess of the payment for the allocated Offer Units) will be released. The Management Company will not be liable for the payment of the interest on the payment amount for the time it was held.</p>
<b>E.4</b>	<b>Material and conflicting interests</b>	Not applicable
<b>E.5</b>	<b>Entity offering to sell securities and lock-up agreements</b>	<p>None of the existing Unit-holders sell any Units in the Offering.</p> <p>As part of the Fund's initial public capital raising in June 2016, unitholders of BOF that immediately after the capital raising held 17,558,443 Units of the Fund (constituting 41.8% of the total number of Units as of the date of this Offering Circular) agreed not to sell, pledge or otherwise dispose of their Units without the prior written consent of Swedbank AB. Of them, unitholders holding 8,061,604 Units (19.2%) agreed for a lock-up period until 1 April 2017 while the remaining unitholders with 9,496,839 Units (22.6%) agreed for a lock-up period until 2 January 2017 (originally stipulated as 180 calendar days subsequent to the listing of Units on Nasdaq Tallinn which took place on 6 July 2016).</p>
<b>E.6</b>	<b>Dilution resulting from the Offering</b>	Immediately after the completion of the Offering, the New Units (including the Offer Units under the Upsizing Option) will together amount to 58.6% of the total number of Units of the Fund provided that the Upsizing Option is exercised in full.
<b>E.7</b>	<b>Expenses charged to the investor</b>	An investor bears all costs and fees charged by the Manager or the Global Lead Sales Partner in connection with the submission of a Purchase Order or charged by a custodian (in case of Retail Investors in Estonia). Any costs or fees are expected to be charged in accordance with the price list of every Manager, Global Lead Sales Partner or custodian.

## 4. RISK FACTORS

*Any investment in the Units is subject to a number of risks. Accordingly, prior to making any investment decision, prospective investors should carefully consider all the information contained in this Offering Circular and, in particular, the risk factors described below. The Management Company considers the following risks to be material for prospective investors in the Fund.*

*However, the following is not an exhaustive list or explanation of all risks that prospective investors may face when making an investment in the Units and should be used as guidance only. Additional risks and uncertainties not currently known to the Management Company, or that the Management Company currently deems immaterial, may also have an adverse effect on the Fund's financial condition, business, prospects and/or results of operations. In such case, the market price of the Units could decline and investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Units is suitable for them in light of the information in this Offering Circular and their personal circumstances. Investors should consult a competent independent professional advisor who specializes in advising on the acquisition of fund units. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to the Fund's business, financial condition, results of operations and prospects. Prospective investors should read this section in conjunction with this entire Offering Circular.*

### **Economic and Business Risks**

#### **Exposure to macroeconomic fluctuations**

Real estate industry in general and the Fund are materially exposed to macroeconomic fluctuations. Such factors as general business cycle, GDP growth, inflation, employment, wage growth and interest rates influence demand and supply in the property market. Economic downturn could negatively affect rent rates, vacancy levels, rental yields and cost of financing which, in turn, could have an adverse effect on the Funds's value of properties, financial position and cash flows.

Real estate properties that the Fund owns are all located in the Baltic States. The Fund's investment strategy stipulates that all additions to the property portfolio will also be based in the Baltics. Hence, the Fund is primarily exposed to the economic developments in Lithuania, Latvia and Estonia. However, since these economies are rather small and actively engaged in foreign trade, the Baltics are not immune to regional and global macroeconomic fluctuations. Baltic economies are closely linked with the health of the overall EU and the euro area - their main trading partner, a source of structural funds and, due to the adoption of single currency, a base for monetary policy. A slowdown in the EU may negatively impact economies of the Baltic States leading to an adverse effect on the Fund's business operations.

Economic growth impacts employment which drives demand for office space. Employment and wage growth, also influenced by GDP expansion, affect retail trade – a basis for demand for retail space. Thus, GDP growth rate (as well as expectations for future growth) is an important factor in regards to formation of demand for commercial space. Expansion rates of Baltic economies have been gradually moderating since 2011. In 2015 they were negatively affected by geopolitical tensions between Russia and EU. Extended periods of slower economic growth could put pressure on vacancy levels, rent rates and yield requirements which may negatively affect the Fund's value of properties, financial position and cash flows.

The majority of the Fund's lease agreements with tenants specify that rent rates are indexed to CPI. Low inflation or deflation could result in slower than anticipated growth in rent rates and rental income. The European Central Bank (ECB), which sets the monetary policy for the Baltic States (as they are members of the euro zone), targets consumer price growth of slightly below 2%. Inflation in 2015 was close to zero in Latvia and Estonia and negative in Lithuania primarily because the fall in global oil prices reduced energy costs for consumers. In order to lift inflation in the euro zone up, ECB launched quantitative easing program in 2015. As at the date of this Offering Circular, the program's effect on inflation has been limited but it has helped to reduce yields in European bond markets and, subsequently, has increased attractiveness of debt financing.

#### **Imbalance of the EMU could have a material impact on the Fund's business**

All the countries where the Fund holds its real estate property are member states of the EU as well as belong to the EMU, i. e. have euro as their currency. Financial risks related to the euro area and its member states may affect the Fund's operating environment either directly or indirectly through the common currency and monetary policy. The prolonged and deep fiscal deficits, high indebtedness and unemployment rate in certain EMU member state constitute significant economic problems. If the normalization of the imbalances arisen in the economy of the euro area cannot be solved to a sufficient extent and confidence in the public economy of the euro area cannot be restored, this may have a material adverse on the Fund's business, results of the operations, or financial condition.

#### **Limited operating history of the Fund**

The Fund was formed in 2016 and has limited prior operating history upon which an investor can base his/her expectations for future success or failure. However, before formation of the Fund the Management Company has been engaged in the management

of BOF which was merged into the Fund. The Management Company has significant experience from managing the property that was transferred to the Fund through the Merger. Therefore, the experience from managing of BOF and success in the business in general and in structuring and negotiating acquisitions and investments in particular can be used in the managing of the Fund. Still, the past performance of these investments is not necessarily indicative of the future investment results of the Fund.

### **Implementation of investment strategy**

As at the date of this Offering Circular, the Fund owns seven commercial properties, representing a total rentable area of 97.410 sq. m. Using proceeds from the Offering and borrowed funds, the Fund targets to expand the property portfolio substantially by acquiring attractive commercial, primarily office and retail, real estate assets at central and strategic locations in Lithuania, Latvia and Estonia. To ensure a rapid deployment of the proceeds, the Management Company has prepared an investment pipeline of the Fund comprised of potential acquisition targets and entered into negotiations with owners of the most attractive properties (see subsection 6.10 "Investment Pipeline"). The successful implementation of the investment strategy is subject to risks such as limited availability of attractive commercial properties for sale, unfavourable economic terms of potential investment targets, intensive competition among investors for high quality properties and inability to raise debt financing at attractive terms.

Availability of properties for potential acquisitions depends on the total size of the real estate market, development activity of new projects, yield dynamics and general macroeconomic conditions. According to Colliers, in 2015 volume of property transactions in the Baltics reached EUR 1.4bn of which office and retail properties accounted for EUR 1.0bn. At the end of 2015 office stock amounted to 1,624 thousand sqm GLA and space in shopping centers was 1,786 thousand sqm GLA in the capital cities of the Baltic States. Development of new projects has accelerated in recent years. Not all properties fall under the Fund's selection criteria for investment targets. The Fund is pursuing top-of-the-market assets at central and strategic locations and in high demand from tenants.

Availability of commercial properties is also determined by their owners' willingness to sell which tends to increase with declining yield requirements in the real estate market. However, this may result in assets being too highly priced and, hence, economically unattractive for investment. Property prices may also be pushed up by intensive competition among real estate investors. Competitors could have greater financial resources and lower cost of capital than the Fund allowing them to pay higher prices.

The Fund plans to acquire new assets using both capital raised in the Offering and debt financing. The Fund targets LTV ratio of 50%. Ability to borrow at attractive terms plays a major role in the investment strategy. Availability and attractiveness of debt financing are linked to interest rates and general situation in financial markets. Increased interest rates and a negative climate in the markets could limit the Fund's ability to pursue its investment strategy. In addition, should the Management Company partly cancel the Offering, or not exercise the Upsizing Option, and consequently raise less funds than initially envisaged, the Fund will not be able to fully implement its planned investment strategy.

### **The past performance is not a guarantee of the future performance of the Fund**

The Fund is reliant on the Management Company to identify and manage prospective investments in order to create value for Unit-holders. This Offering Circular includes certain information regarding the past performance of the Fund, however, the past performance of the Fund is not indicative, or intended to be indicative, of the future performance or results of the Fund. As a result, none of the historical information contained in this Offering Circular is directly comparable to the Fund's business or the returns which the Fund may generate. In addition, the previous investments of the Fund may not be directly comparable with the Fund's proposed business.

### **Acquisition of properties and their performance**

Any decision by the Fund to acquire a property is based on thorough evaluation and due diligence of an asset. Numerous factors that the Fund assesses include the technical shape of a property, operating and financial performance, tenants mix, future cash flow generation, rate of return and how an asset fits the Fund's investment strategy and existing portfolio. However, there is a risk that the Fund in its examination of potential investment target could fail to identify and address certain important factors and associated risks.

The Fund aims to acquire full title to each property, however in some cases the Fund may decide to acquire property in co-ownership with third parties. Thus, situations may arise where the Fund may be prevented from the use of land on commercially acceptable terms due to the use of land or conditions set by other co-owners. For example, Europa SC is located on land plots in co-ownership with third persons. Although, Europa SPV is in the process of agreeing on specific land use and lease terms with the other co-owner, there is a risk in such situations that the Fund may be obliged to pay unplanned rent for the use of the land (also retrospectively). In addition, disagreements or lack of agreements with other co-owners may restrict the Fund to obtain relevant construction permits for reconstruction or repair the property. For more detailed information on the Europa SPV property holding see section 6.9.1 "Property Portfolio – Europa SC". If the co-ownerships were to develop in a way that is disadvantageous to the Fund, this could have a negative impact on the Fund's operation, financial positions and earnings.

In addition, the Fund could overestimate the value of an asset. There is no guarantee that cash flow projections in property appraisals will resemble actual future cash flows. Hence, newly acquired real estate assets could require unforeseen investments and/or demonstrate lower than expected performance and financial return adversely affecting the Fund's financial position and cash flows.

### **Specific investment risks**

With respect to investments in the form of real estate property, the Fund will incur the burden of ownership, which includes the paying of expenses, taxes, maintaining such property and any improvements thereon and ultimately disposing of such property. In order to meet demands from the market or government authorities or other legal requirements, maintenance costs may be substantial and unforeseen. In addition, certain of the mortgage financing is structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The risk of partial or a total loss of capital does exist and investors should not subscribe unless they can readily bear the consequences of such a loss.

### **Tenants and rental income**

The Fund's revenue will be mainly comprised of rents paid by tenants at its retail and office properties. If a tenant decides not to renew or extend a lease agreement, there is a risk that a new tenant may not be found at the equivalent economic terms or at all for some time adversely affecting rental income of the property. The Fund seeks to minimize this risk by limiting concentration of tenants, signing long term lease agreements and scattering their ending dates over time horizon (to avoid many lease contracts ending at one point in time). There is also a risk that a tenant may not pay rent on time or at all failing to meet its contractual obligations to the Fund. This risk increases in the times of economic downturn. Any decrease in rental income is likely to negatively affect the Fund's value of properties, financial position and cash flows.

In one of the properties belonging to the Fund - Coca Cola Plaza in Tallinn - there is a single tenant, Forum Cinemas AS, occupying 100% of the property. If it terminates the lease agreement, there is a risk involved with obtaining a new tenant wishing to operate a cinema. Furthermore, the premises may have to be renovated and adjusted to serve new tenants, which could affect the Fund's financial condition and returns negatively.

If tenants risk realizes, the Fund's ability to comply with the loan agreements may be endangered. Should the Fund breach the covenants of the loan agreements, additional financing costs may arise and accelerated debt repayments may be demanded. That may lead to additional capital raisings by the Fund or its restructuring.

### **Competition**

Commercial real estate is a competitive industry. To maintain the attractiveness of its properties the Fund has to react quickly to changes in the competitive environment. Possible responses to competitors' actions include upgrading properties with new features (for instance, smart technologies and environmental solutions), their refurbishment, rent discounts and greater promotion and marketing activities. These could result in unforeseen substantial expenses adversely affecting the Fund's financial position and cash flows.

Supply of commercial premises increases with commissioning of newly developed properties. If additions to the supply are not matched by an increase in demand for commercial space, new properties could raise vacancy levels and reduce rent rates in the market, especially, for older and lower quality premises as tenants tend to prefer newer spaces. Therefore, elevated development activity in office and retail property markets in the Baltics may have an adverse effect on the Fund's rental income and, in turn, on its value of properties, financial position and cash flows.

### **Fluctuations in value of property portfolio**

The Fund's properties will be recognized at fair value on the balance sheet while changes in this value are recorded on the income statement. The fair value of each property is estimated by an independent appraiser once a year. Valuation is based on a discounted cash flow model which takes into account property-specific factors (rents, vacancy rates and operating costs) and industry-specific factors (costs of capital and exit yield). Since these factors are subject to variation over time, the fair value of the Fund's properties could both appreciate and depreciate. Weakening characteristics of the property portfolio (declining rents and occupancy) and/or negative climate in the real estate industry (increased cost of capital and higher yield requirement) would result in the decrease in the fair value of the Fund's assets adversely affecting its earnings and financial position.

### **Real estate investments are relatively illiquid**

Investments in property can be relatively illiquid for reasons including but not limited to the long-term nature of leases, commercial properties being tailored to tenants' specific requirements and varying demand for commercial property. Such illiquidity may affect the Fund's ability to vary its portfolio or dispose of properties in a timely fashion and/or at satisfactory prices in response to changes in economic, property market or other conditions. This may have a material adverse effect on the Fund's business, financial condition, results of operations and prospects.

If the Fund is required to dispose of investments at any time (for example due to a requirement of the lending bank), there can be no assurance that, at the time the Fund seeks to dispose of assets (whether voluntarily or otherwise) relevant market conditions will be favourable or that the Fund will be able to maximise the returns on such disposed assets. It may be especially difficult to dispose of certain types of real estate during recessionary times. To the extent that market conditions are not favourable, the Fund may not be able to dispose of property assets at a gain and may even have to dispose of property assets at a loss. Furthermore, the Fund may be unable to dispose of investments at all, which would tie up the capital invested in such assets and could impede the Fund's ability to take advantage of other investment opportunities.

#### **Interest rate risk and leverage**

Debt is a significant source of financing for the Fund. It targets 50% LTV ratio implying that half of the capital requires interest payments. The Fund's cost of debt depends primarily on the market interest rates, margin demanded by credit providers and Fund's targeted debt management strategy – weights of fixed and variable debt, duration of debt. Fluctuations in interest rates could adversely affect the Fund's financial position, cash flows and its ability to acquire new properties.

The Management Company has employed and will continue to employ hedging techniques designed to protect the Fund against adverse movements in interest rates. Specifically, the Fund may use interest rate swap contracts to exchange floating interest rates into fixed. While these hedging mechanisms enable to fix interest rates that the Fund pays, a decline in variable interest rates in the markets may result in a poorer overall performance of the Fund than if it had not entered into such hedging transactions.

Borrowed capital creates a leverage effect for equity holders. The more debt an entity has, the more magnified both profits and losses are for equity holders. What is more, debt leverages up the effect of changes in property value for equity holders. Hence, fluctuations in the Fund's earnings and value of property portfolio will be more pronounced than the case where an entity has no financial debt.

#### **Refinancing risk**

At maturity of the Fund's debts, the Fund will be required to refinance such debt. The Fund's ability to successfully refinance such debt is dependent on the conditions of the financial markets in general at such time. As a result, the Fund's access to financing sources at a particular time may not be available on favourable terms, or at all. The Fund's inability to refinance its debt obligations on favourable terms could have a material adverse effect on the Fund's business, financial condition and results of operations.

#### **Credit risk**

Credit risk is the risk that a counterparty is unable to fulfill its financial obligations to the Fund. Credit risks exist *e.g.* in relation to the Fund's tenants, when investing excess liquidity and when entering into loan agreements. Should these counterparties be unable to fulfil their financial obligations towards the Fund, this could have a material adverse effect on the Fund's business, financial condition and results of operations.

#### **Liquidity risk**

Liquidity risk is the risk that the Fund cannot meet its payment obligations at the due date without the cost of obtaining means of payment increasing substantially. If the Fund's sources of funding are not deemed sufficient, this may have a material adverse effect on the Fund's business, financial condition and results of operations.

#### **Property development risks**

The Fund may, to a limited extent, invest in distressed assets, undeveloped land and certain development properties. Such investments may also be made in companies or ventures, with a view to acquiring or leasing land upon which such co-investors may become tenants on favourable terms. Undeveloped land and development properties typically involve greater risk than existing properties as they do not generate operating revenue while incurring costs, including construction and development costs, property taxes and insurance. Risks associated with development activities also include the risk of spending capital and resources on projects that may end up being abandoned, construction cost overruns, time delays and that occupancy levels and rental rates are lower than originally anticipated.

Moreover, if the Fund's third party contractors fail to successfully perform the services for which they have been engaged, either as a result of their own fault or negligence, or due to the Fund's failure to properly supervise any such contractors, this could have a material adverse effect on the Fund's business, financial condition, results of operations and prospects.

#### **Reliance on the performance of the Management Company**

The Fund's asset portfolio is to be externally managed and the Fund will rely on the Management Company, and the experience, skill and judgment of the Management Company, in identifying, selecting and negotiating the acquisition of suitable investments. Furthermore, the Fund will be dependent upon the Management Company's successful implementation of the Fund's investment

policy and investment strategies, and ultimately on its ability to create a property investment portfolio capable of generating Unit-holder returns. There can be no assurance that the Management Company will be successful in achieving the Fund's objectives.

The Management Company is also responsible for carrying out the day-to-day management and administration of the Fund's affairs and, therefore, any disruption to the services of the Management Company could cause a significant disruption to the Fund's operations until a suitable replacement is found. The Management Company holds an alternative investment fund manager license issued by EFSA. If due to any reason the license is revoked or suspended, the Management Company will not be allowed to manage the Fund. In such case the management of the Fund will be transferred to the Depositary of the Fund, who will have to find a new management company, or start liquidation. During such period the Fund will not have active management, which may have negative consequences for the financial results of the Fund.

Moreover, there may be circumstances in which the members of the Management Board or Supervisory Council of the Management Company have, directly or indirectly, a material interest in a transaction being considered by the Fund or a conflict of interest with the Fund. The Supervisory Board of the Fund has the right to decide on the situations of conflict of interest. See subsection 6.5 "Governance structure of the Fund – The Supervisory Board".

The Fund or its subsidiaries employ no staff. However, the Management Company of the Fund needs personnel in order to facilitate management of the Fund and provide related services. Therefore, the success of the Fund's operations depends on its Management Company's ability to hire, motivate and retain professionals with required skills, knowledge and experience. An unexpected departure of a fund manager and delays in selection of a replacement may negatively affect the Fund's operations, implementation of its strategy and financial results.

#### **Insurance coverage**

The Fund's insurance policies could be inadequate to compensate for losses associated with damage to its property assets, including loss of rent. According to the Fund's strategy, insurance of each property has to include rent coverage of at least 18 months in the case of fire, destruction or other events that could damage a property. Any losses exceeding amounts covered by insurance contracts may have an adverse effect on the Fund's business operations, financial position and cash flows.

#### **Technical risks**

Although the Fund invests in the maintenance of its existing properties and conducts a thorough technical examination of potential investment targets, its properties could be subject to technical problems such as construction defects, other hidden defects and contamination. Elimination of these problems could require substantial investments and, thus, have an adverse effect on Fund's financial position and cash flow.

#### **Changes in legislation and taxes**

The Fund's operations are regulated by the legislation of each country where itself or its SPVs operate. In addition, the Fund's operations may be affected by regional or supranational regulations, such as EU legislation. In the view of the Management Company, the Fund complies with all legislative requirements and other regulations as at the date of this Offering Circular. Legislation and other regulations may, however, change, and the Management Company cannot guarantee that it would in such cases be able to comply immediately, without material measures, with the requirements of changed legislation or other regulations. For instance, changes in law and regulations or their interpretation or application practices concerning investment activities, environmental protection and taxation may have a material adverse effect on the Fund's operations. Adapting the Fund's operations to any of the changes described above may incur costs for the Fund that are difficult to anticipate, which in turn may have a material adverse effect on the Fund's business, results of operations, and financial condition.

#### **Dispute risks**

The Fund's business is investing in real estate properties whose space is leased out to tenants. There is a risk that the Fund may be drawn into legal disputes with tenants or counterparties in real estate transactions. Negative outcome of such disputes could adversely affect Fund's operations, financial position and cash flows. The Management Company uses its best endeavors to conclude agreements correctly and communicate in a respectful manner with all counterparties. All misunderstandings are tried to be settled by a mutual agreement. Nevertheless, the emergence of disputes cannot be excluded.

#### **Use of external service providers**

The Management Company utilises external service providers in its operations in connection with maintaining and constructing the Fund's properties, generally in relation to the Fund management, as well as in connection with the planning development projects. The availability, terms and conditions, price, and quality of these external services, as well as the possibility of transferring any increases in the cost of these services to the tenants, are material to the Fund's business. The failure to procure services or to transfer the increase in their costs to tenants may have a material adverse effect on the Fund's business, result of operations, and financial condition. Nevertheless, the Management Company does not regard this risk as a major risk, because firstly, the

Management Company chooses service providers with due care, and secondly, in case of a failure of a service provider to provide a service, the Management Company is able to find a replacement or is able to provide the services itself.

### **Environmental liabilities**

As the owner of real estate property the Fund could be held liable for possible environmental damage caused by operations carried out in such property if such operations have not been carried out in accordance with applicable regulations. Although in the Management Company's view properties that the Fund targets to invest in are generally not used for operations that could be particularly harmful to the environment, it cannot be ruled out that the Fund could be held liable for environmental damage incurred in a property owned by the Fund. Such environmental liability could, if materialised, have a material adverse effect on the Fund's business, results of operations, and financial condition.

### **Damage to the Fund's reputation risk**

The Fund's ability to attract and retain tenants at its properties as well as Management Company's ability to retain personnel in its employment may suffer if the Fund's reputation is damaged. Matters affecting the Fund's reputation may include, among other things, the quality and safety of its properties and compliance with legislation and official regulations. Any damage to the Fund's reputation may have a material adverse effect on the Fund's business, results of operation, and financial condition.

## **Risks Related to the Listing and the Units**

### **Market risks and volatility**

Prior to the Offering the Units have not been listed on the Nasdaq Stockholm. No assurance can be made that following the Offering the Units will be actively traded on Nasdaq Stockholm. Since 6 July 2016 the Units have been listed on Nasdaq Tallinn where the total turnover of trading in the Units since listing has been approximately EUR 370,000. There is no guarantee that an active trading market on Nasdaq Tallinn will be developed or sustained.

The level of liquidity of the Units will affect formation of their market price. The Offer Price may not be representative of the Unit market price after the Listing. What is more, market price and trading volume could fluctuate substantially reacting to a number of factors including changes in the Fund's actual results and investors' and analysts' expectations of its future results, developments in real estate market and general economic conditions, valuations of comparable companies and general stock market trends. Such factors as general macroeconomic and stock market trends fall out of control of the Fund and the Management Company. Hence, there is a risk that Unit price performance will not reflect operating performance of the Fund, especially, during stock market downturns. Since prices of publicly traded securities can increase as well as decrease, investors that acquire the Units in the Offering may not be able to resell them in the secondary market at or above the Offer Price.

In addition, the Units are not redeemable at the request of a Unit-holder, which means that the Management Company will not redeem Units at the NAV of the Unit. The Unit-holder can only dispose its Units via market trade on the stock exchange or over-the-counter trade with a third person at the price as agreed between the parties. Therefore, the Unit-holder may need to sell its Units at a price lower than the NAV of the Unit.

### **New issues of the Fund's Units**

In the future additional Units may be issued in order to finance acquisition of new properties, reduce debt or due to other reasons. This could lead to dilution of holdings of Unit-holders. In addition, new issues could reduce earnings per Unit and NAV per Unit. Therefore, offering of additional Units in the future may negatively affect the market price of the Unit.

To the extent that a Unit-holder of the Fund decides not to subscribe, or is restricted from subscribing, for the full amount of Units such Unit-holder would be entitled to in any possible future Unit issues by the Fund, the proportionate ownership and voting interest in the Fund of such Unit-holder would be diluted accordingly and the percentage of the Units of the Fund represented by such Unit-holder's original Units will be proportionally reduced.

### **Future sales of the Fund's Units**

After the completion of the Offering, and assuming that the Upsizing Option is exercised in full, existing Unit-holders of the Fund will own 41.4% of the total number of Units. Certain Unit-holders of the Fund have agreed not to sell, pledge or otherwise dispose of Units belonging to them after the Listing for certain period of time (see section 8.4 "Lock-up"). After these restrictions expire, although the Management Company does not expect the existing Unit-holders of the Fund to exit, a sale of a large number of Units (or an expectation of such a sale by the market) may negatively impact the Unit market price.

### **The Fund is subject to regulatory and legal risks related to the securities' issues**

An issuance of Units or other securities by the Fund in or into certain jurisdiction may be subject to specific registration, admission or qualification requirements or other restrictions imposed by local law or regulatory authorities, or be prohibited altogether. The Management Company uses its best efforts to comply with restrictions, but it cannot be excluded that due to ambiguities related to the application of and practice related to such restrictions, or due to any other reason, the Fund may become subject to regulatory or legal proceedings potentially resulting in fines or penalties or liability for damages.

### **Court proceedings in Estonia and enforcement of judgements by foreign courts**

The Fund and the Management Company are registered in Estonia, and the Management Company has its registered office in Estonia. Any disputes regarding the rights and obligations under the Fund Rules and regarding the operations of the Management Company thereunder shall be resolved in the courts of Estonia. Therefore, for the investors in Sweden, Finland or Denmark, or elsewhere outside Estonia, it may be more difficult and expensive to file claims or other documents relating to the court proceedings in Estonia than in their home country. For example, investor may need to translate the prospectus or other fund documentation in foreign language into Estonian. Should a foreign court accept proceedings against the Fund or the Management Company, the judgements of the courts of the member states of the European Union (except Denmark) must be recognised and enforced in Estonia either under Council Regulation (EC) No 1215/2012 or Regulation (EC) No 805/2004 of the European Parliament and of the Council without any special procedure being required. However, the enforcement process may be more complicated and expensive than in the investor's home country.

### **Taxation of Swedish investors**

The Fund is an Estonian real estate investment fund, investing directly and/or indirectly in real estate located in the Baltic States which is structured differently from most other investment vehicles that are offered on the Swedish market. From a Swedish perspective, an investment vehicle cannot be characterized as an investment fund or a special fund if it directly or indirectly invests in real estate. Therefore, the Fund, as a contractual fund, from a Swedish tax perspective most likely would be considered as transparent. Swedish Unit-holders, investing directly in Units would therefore most likely be considered as holding the Fund's assets directly.

The tax consequences for the Swedish Unit-holders therefore would depend on the assets directly held by the Fund and will vary over time if the Fund's assets change. The tax treatment of each individual Unit-holder will also depend partly on his or her specific situation. Therefore, each Unit-holder should seek independent tax advice about the tax consequences that an investment in a Unit may entail for them, including the application and effects of foreign tax rules and tax treaties. See further for the taxation in Estonia and Sweden in section 9 "Taxation".

### **Future dividends**

Neither the payment of future distributions out of the cash flows of the Fund, nor their size can be guaranteed. The Management Company targets to pay out to Unit-holders at least 80% of the distributable cash flow which is defined as cash flow from operating activities less capital expenditure to maintain the quality of properties and less financing expenses. The Fund's ability or willingness to make distributions will depend on other factors including its financial position, capital expenditure and outlook for future cash flows. These factors are affected by numerous Fund- and industry-specific risks. Thus, distributions are not certain.

### **Increased operating costs due to listing**

As a publicly traded entity on two stock exchanges, the Fund will have to comply with additional laws, rules and requirements which could lead to higher general and administrative costs for the Fund. Among the elements that could increase costs are provision of investor relation services and greater reporting requirements. The Management Company may also need to hire consultants in order to adjust its accounting and reporting systems in line with the requirements for a public entity.

## **Risks Related to the Secondary Listing**

### **Double affiliation to CSDs**

All Units traded will be registered with the Register. Units traded at the Nasdaq Stockholm will be held through a custodian and mirrored in Euroclear Sweden. Euroclear Sweden will hold all interests in relation to the Swedish Registered Fund Units (please see definition below) for the sole purpose of enabling clearing and settlement of such interests in uncertified and dematerialised book-entry form in the records maintained by Euroclear Sweden, for the benefit of the ultimate beneficial owners. There is a risk that this solution could entail logistic and technical problematics for Unit-holders who have their Units held by Euroclear Sweden. Such issues may lead to disruptions in e.g. transfers of Units between the CSDs, receipt of dividends and messages sent via the CSDs.

## **Secondary listing of Units**

In connection with the Offering, the Fund will apply for secondary listing of the Swedish Registered Fund Units on Nasdaq Stockholm. There is a risk that the secondary listing will be delayed since it may take longer time than expected to obtain necessary approvals from the Nasdaq Stockholm and/or relevant authorities. It will not be possible to trade in the Units on Nasdaq Stockholm prior to completion of the secondary listing.

### **The Nasdaq Tallinn and the Nasdaq Stockholm have different characteristics**

The Nasdaq Tallinn and the Nasdaq Stockholm have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading price of the Units on the Nasdaq Tallinn and the Nasdaq Stockholm may not be the same at any given time. Also the liquidity on Nasdaq Stockholm and Nasdaq Tallinn may be different.

Furthermore, fluctuations in the Unit price on the Nasdaq Tallinn could materially and adversely affect the Unit price on the Nasdaq Stockholm (and vice versa). Moreover, fluctuations in the exchange rate between the euro and the Swedish krona could materially and adversely affect the prices of the Units listed on the Nasdaq Tallinn and the Nasdaq Stockholm.

### **As a company due to be listed on the Nasdaq Tallinn and the Nasdaq Stockholm, the Fund will be subject to both Estonian and Swedish laws, regulations and policies**

Swedish laws, regulations and policies may differ in some respects from comparable laws, regulations and policies in Estonia. The differences in compliance requirements may subject the Fund to additional regulatory burdens. In the event of any conflict between the applicable laws, regulations and policies in Estonia and those in Sweden, the Fund will have to comply with the more onerous rules and may incur additional costs and require additional resources.

### **Certain Swedish regulations will not apply to the Fund**

The Fund, whose primary listing will be on the Nasdaq Tallinn, has applied for, and the Nasdaq Stockholm has granted, a number of waivers and exemptions from Nasdaq Stockholm listing requirements. Unit-holders therefore will not obtain the rights and benefits afforded under those Nasdaq Stockholm listing requirements for which the Fund has been granted waivers and exemptions by Nasdaq Stockholm. Additionally, if any of these waivers or exemptions were to be revoked, the Fund may be subject to additional legal and compliance obligations, which might be costly and time consuming to comply with, which could adversely affect the Fund and Unit-holders.

### **Exchange rate fluctuations**

The Fund conducts its business in euro – the official currency in all three Baltic States. Properties in the Fund's portfolio generate cash flows in euro and, thus, their primary values are also in euro. Should the Fund pay dividends, such dividends will be paid in euro as well, however, Unit-holders of Units held with Euroclear Sweden will, in general, receive dividend distributions in SEK. The conversion in relation to dividends will be made by Euroclear Sweden. Any depreciation of euro in relation to SEK could reduce the value of the investment or of any dividends, and any appreciation of euro could increase the value in any such investment or dividends. Furthermore, the holding of Units held with Euroclear Sweden by an investor whose principal currency is not SEK would expose the investor to additional foreign currency exchange rate risk.

## 5. INDUSTRY AND MARKET OVERVIEW

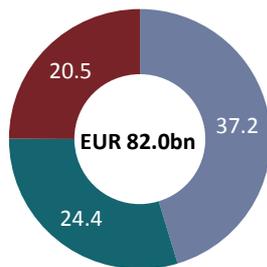
### 5.1. MACROECONOMIC OVERVIEW

This section discusses the current macroeconomic situation and its outlook in the Baltic States. Unless stated otherwise, historical macroeconomic data presented in the section was sourced from Eurostat, the statistical office of the EU, while future projections were taken from the EC's May 2016 economic forecast<sup>1</sup>. Figures for years through 2015 represent actual data while those for 2016 and 2017 are forecasts.

All three Baltic States are members of the EU and have euro as the national currency. Lithuania has the largest economy of the Baltic countries. In 2015 Lithuania's GDP amounted to EUR 37.2bn whereas Latvia's was EUR 24.4bn and Estonia's was EUR 20.5bn. The differences are primarily explained by population size. Lithuania with 2.9m of people is the largest followed by Latvia with 2.0m and Estonia with 1.3m. In terms of productivity, Lithuania and Latvia are very similar – 2015 GDP per capita of EUR 12.8 thousand and EUR 12.3 thousand respectively – while Estonia's GDP per capita is somewhat higher at EUR 15.6 thousand.

Almost 1.6m people live in the capital cities of the Baltic States representing approximately a quarter of total population in the countries. The largest city is Riga, the capital of Latvia, with population of 641 thousand. It is located on the shore of the Baltic Sea at the southern tip of the Gulf of Riga. Riga is also Latvia's largest sea port. Vilnius, the capital of Lithuania and the second largest city in the Baltics, has a population of 532 thousand. It is based in the south east of Lithuania. Thanks to its relatively close location to Minsk, the capital of Belarus with 1.9m population, Vilnius is a popular shopping destination for Belarusians. Tallinn has the smallest population of the three Baltic capital cities – 414 thousand people live in the capital of Estonia. It is located on Estonia's north coast and is also the country's most active port. Helsinki is just on the opposite side of the Gulf of Finland or less than 2 hours by ferry away from Tallinn. Tallinn – Helsinki ferry route is one of the most active in the Baltic Sea.

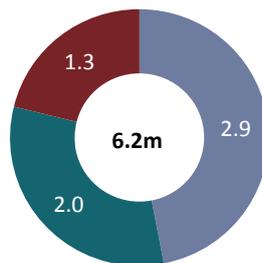
Figure 1: Nominal GDP (EURbn), 2015



■ Lithuania ■ Latvia ■ Estonia

Source: Eurostat

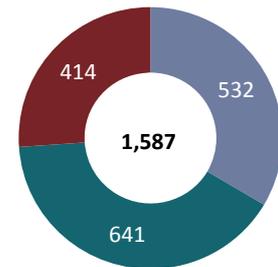
Figure 2: Country population (m), 2015



■ Lithuania ■ Latvia ■ Estonia

Source: Eurostat

Figure 3: Capital city population (thousand), 2015

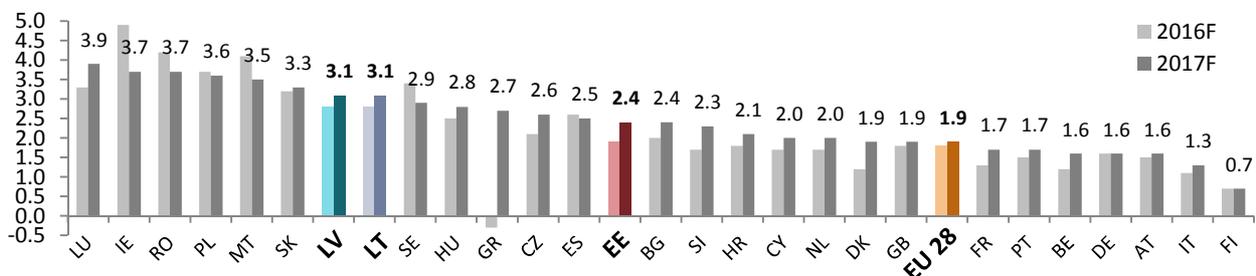


■ Vilnius ■ Riga ■ Tallinn

Source: National statistics offices

Baltic economies have been among the fastest growing in the EU. Their GDP growth has significantly outperformed EU average. In 2015 economies of Baltic countries were 19-20% larger in real terms compared to 2010 level. In contrast, EU's GDP increased by only 5% real over the same period. The EC forecasts that buoyed by growing private consumption the Baltic countries will continue expanding at a considerably faster pace than EU as a whole. Overall EU is expected to achieve real GDP growth of 1.8% in 2016 and 1.9% in 2017. In contrast, the EC forecasts both Lithuania and Latvia to deliver growth of 2.8% in 2016 and 3.1% in 2017 and Estonia to grow by 1.9% in 2016 and 2.4% in 2017.

Figure 4: Real GDP growth forecast (%), ranked by 2017F

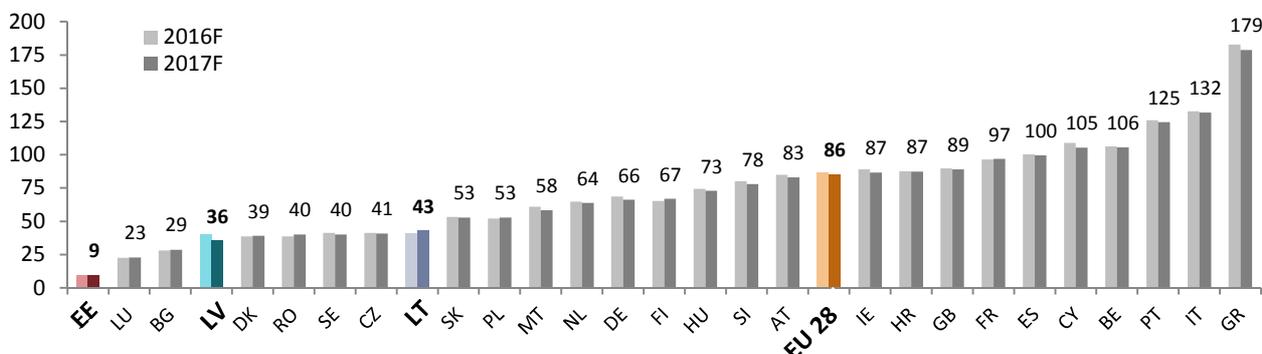


Source: EC

<sup>1</sup> Available publicly at: [http://ec.europa.eu/economy\\_finance/eu/forecasts/2016\\_spring\\_forecast\\_en.htm](http://ec.europa.eu/economy_finance/eu/forecasts/2016_spring_forecast_en.htm)

Confidence in the EU economy, especially its southern states, was hit by sovereign debt crisis that started in 2010. However, government finances of the Baltic States stand out in the European context as prudent, fiscally responsible and not overburden by debt. The Baltic countries have one of the lowest government debt levels in the EU. Whereas the overall EU is forecast by the EC to reach government debt to GDP ratio of 86% in 2017, Estonia's government debt is projected to be only 9% of GDP (the lowest in the EU), Latvia's 36% (the 4th lowest) and Lithuania's 43% (the 9th lowest). Healthy debt levels mean a greater potential for economic expansion as governments can concentrate on supporting growth rather than reducing debt which is normally implemented through aggressive austerity measures which depress economic growth.

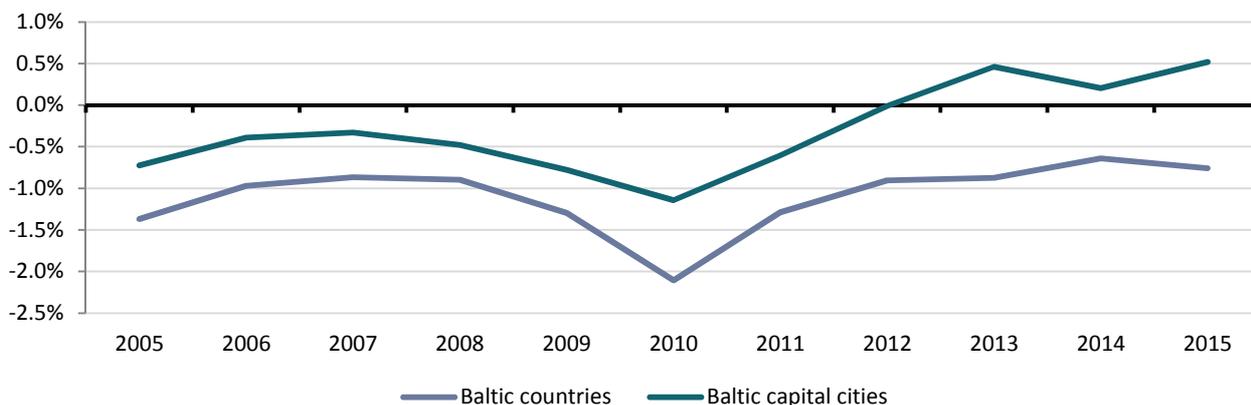
**Figure 5: General government debt to GDP forecast (%), ranked by 2017F**



Source: EC

When speaking of a demographic situation in the Baltics, a distinction has to be made between total population and population in capital cities. Demographic trends in Baltic capital cities have been significantly more positive than in the overall region. Historically, declines in capital cities population have been substantially smaller compared to decreases in country populations and, more importantly, since 2013 Baltic capital cities have been growing in size (see Figure 6). This is attributable to two major trends. Firstly, because of internal migration, people from smaller towns and cities have been moving to capitals - economic and cultural centers. Secondly, residents of capital cities have been less likely to emigrate abroad than those living in other regions. The Management Company expects these trends to continue. The healthier demographic situation in capital cities supports the Fund's investment strategy to focus on properties located in capitals. On the other hand, total Baltic population dynamics have been improving in recent years as well. After annual declines peaked at 2% in 2010 caused by increased emigration due to a recession in 2009, they have normalized to close to 0.5% per annum recently.

**Figure 6: Population growth, % per annum**



Source: Eurostat, national statistics offices

The Baltic States rank relatively high in World Bank's Ease of Doing Business index which evaluates business regulations and their enforcement. The index indicates how easy it is to set up a new business and operate it. According to June 2015 rankings, Estonia is 16th, Lithuania 20th and Latvia 22nd out of 189 world countries. They outrank such developed countries as France (27th), the Netherlands (28th) and Japan (34th) as well as such emerging economies as Poland (25th), Czech Republic (36th) and Russia (51st). The Baltic States also fare well in Global Competitiveness Index (GCI) rankings, conducted by World Economic Forum. This index defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. Based on GCI 2015-2016 rankings, out of 140 countries Estonia stands at 30th position, Lithuania at 36th and Latvia at 44th.

The Baltic economies are closely interrelated with Nordic countries: Sweden, Finland, Denmark and Norway. Scandinavian firms are among the largest investors in the Baltics. They are especially prominent in financial and telecommunications sectors. The largest Baltic banks belong to Swedbank, SEB, Nordea (all three from Sweden), DNB (Norway) and Danske (Denmark). The largest Baltic telecommunications companies, fixed-line and mobile network operators, are owned by Teliasonera, Tele2 (both from Sweden) and Elisa (Finland). Other major Nordic companies with substantial investments in Baltics include ICA Gruppen (owner of supermarket chains, headquartered in Sweden), Calsberg (a brewer based in Denmark), Ericsson (a technology firm based in Sweden), Neste (an oil refiner and petrol retailer based in Finland). Moreover, Scandinavian countries are very important trading partners. In 2015 they accounted for 42% of exports from Estonia, 13% of exports from Latvia and 11% of exports from Lithuania.

## Lithuania

Lithuania's economy has been successfully recovering after the global financial crisis with average real GDP growth of 3.6% per annum over 2011-2015. The recovery was driven primarily by strong exports and increasing private consumption. Exports were boosted by an internal devaluation – reductions in employee compensation in both private and public sectors – which the country underwent in 2009-2011. That raised competitiveness of Lithuania's exports in foreign markets. Households, on the other hand, were gradually increasing consumption as unemployment declined, real wage growth returned and consumer confidence improved.

In 2015 Lithuania's real GDP growth temporarily slowed down to 1.6% while it is forecast to pick up to 2.8% in 2016 and 3.1% in 2017. The economy in 2015 delivered growth despite a fall in exports to Russia impacted by 1) import sanctions imposed by the Russian government in August 2014 (and extended in August 2015), 2) depreciation in Russian rouble exchange rate and 3) economic recession in Russia. In 2015 exports to Russia dropped by 38% leading to a 5.8% decline in total exports despite positive growth in exports to other countries. However, real GDP continued expanding in 2015 supported by private consumption which is expected to remain the main growth driver going forward. Households are benefitting from a number of favourable factors: decreasing unemployment, growing wages and low inflation. In March 2015 consumer confidence index in Lithuania reached the highest reading since the beginning of 2008. Real GDP growth in 2016, the EC projects, will return to a higher pace of almost 3% and accelerate further in 2017 as 1) household consumption continues performing strongly, 2) investments pick up on the back of high capacity utilization and higher disbursements from EU's structural funds and 3) exports to Russia level off.

Declines in energy and food prices led to a 0.7% deflation in 2015. Lower energy prices are good news to Lithuania (since it is a net energy importer) and its consumers who, thanks to lower fuel and heating bills, have more spare money to spend. Due to ongoing weakness in global energy prices, somewhat low inflation of 0.6% is forecast for 2016 further supporting consumption. As the effect of lower energy prices fades out, the inflation is expected to normalise to the territory of 2% in 2017.

Lithuanian labour market has been gradually improving with unemployment declining and wages returning to growth in real terms. Unemployment rate fell from 15.4% in 2011 to 9.1% in 2015 – slightly lower than 9.4% unemployment in the EU and substantially below 10.9% in the euro area. Wages rose on average by 3.2% per annum in real terms over 2011-2015. The EC forecasts these trends to continue. Unemployment is expected to improve further to 7.8% in 2016 and 6.4% in 2017. The tightening labour market will fuel growth in employee compensation. Government's actions in raising minimum wage will also contribute to that growth.

Government budget deficit has been contracting since 2012 and dropped to only 0.2% of GDP in 2015 which was the lowest deficit since 2006 in Lithuania. This was an impressive achievement, especially when compared against average deficits in the overall EU (2.4%) and the euro area (2.1%). In 2016 the budget deficit is set to increase slightly on the back of planned higher pensions and public wages, however, assuming no policy change in 2017 the deficit, the EC forecasts, should fall to 0.4% of GDP thanks to solid economic growth and no major increases in spending expected. Gross government debt has been fluctuating around 40% of GDP over 2012-2014. It rose to 42.7% in 2015 explained by a pre-financing of upcoming bond redemptions. While the government debt is expected to drop in 2016 thanks to expanding GDP, pre-financing of future bond redemptions is projected to push the debt close to 43% of GDP in 2017.

**Table 6: Macroeconomic indicators, historical data and forecasts – Lithuania**

	2012	2013	2014	2015	2016F	2017F
Real GDP growth, %	3.8	3.5	3.0	1.6	2.8	3.1
Nominal GDP, EURbn	33.3	35.0	36.4	37.2	38.9	40.8
CPI growth, %	3.2	1.2	0.2	-0.7	0.6	1.8
Unemployment rate, %	13.4	11.8	10.7	9.1	7.8	6.4
Compensation of employee per head real growth, %	1.1	4.3	3.7	5.0	3.9	3.2
General government budget balance, % of GDP	-3.1	-2.6	-0.7	-0.2	-1.1	-0.4
General government debt, % of GDP	39.8	38.8	40.7	42.7	41.1	42.9
Retail trade (excl. cars and motorcycles) real growth, %	3.6	4.4	5.4	5.4	-	-

Source: Eurostat (historical data), EC (forecasts)

## Latvia

Over the period from 2011 to 2015 Latvia's economy was growing by real 3.4% per year on average thanks to recovering domestic expenditure and expansion in exports. Country-wide reduction in wages over 2009-2010 led to lower production costs and, in turn, strengthened Latvia's competitiveness in global markets. On the other hand, rising employment and wage growth that returned in 2012 were fuelling consumption. Somewhat slower economic growth of 2.7% in 2015 was impacted by the same reason as in other two Baltic countries – a drop in exports to Russia. In 2015 they were down by 25%. However, unlike Lithuania and Estonia, Latvia still managed to achieve small but positive 1.4% growth in total exports owing to lower Russia's weight in Latvian exports (half of Russia's weight in Lithuanian exports) and a stronger increase in exports to other countries (especially compared to Estonian exporters' performance). Despite problems with Russia, private consumption was holding strong in 2015 with no serious signs that geopolitical tensions had a negative effect on households expenditure. In March 2015 consumer confidence index reached the highest point since 2007.

The EC projects real GDP growth to accelerate to 2.8% in 2016 and 3.1% in 2017. Consumption is expected to remain the primary growth source supported by wage growth, weakening unemployment and a reduction in energy prices. In addition, investment growth is forecast to pick up with the help of EU's structural funds and gradually increasing bank lending. There were signs in 2015 that investment activity was starting to recover with credit demand and new lending growing. Finally, Russia's negative impact on exports growth will fade out because majority of that effect was attributable to a one-time drop in exports due to trade sanctions. A lift-off of sanctions (which is not assumed by the EC) is an upside risk to economic growth in all three Baltic countries.

A moderate inflation has been observed in Latvia since 2013. A decrease in fuel prices and cheaper food resulted in only 0.2% growth in consumer prices in 2015. Fuel and heating costs comprise approximately 10% of household spending, hence, lower energy prices is a substantial tailwind for consumers. The EC expects inflation to remain weak at 0.2% in 2016 while flattening commodity prices and pressure from wage growth should push inflation to 2.0% in 2017.

Unemployment is expected to keep declining, although at a slower pace than previously, leading to continued real wage growth. Unemployment rate, the EC predicts, will decline from 9.9% in 2015 to 9.3% in 2017. Employee compensation should record real growth of 3-5% per annum in 2016-2017 – a slight moderation from higher increases in previous two years. Higher wages, together with lower energy prices, will improve economic capacity of households retaining private consumption as the main driving force behind GDP growth.

Latvia showed exemplary fiscal responsibility in the years 2012-2013 – government budget deficit did not exceed 1.0% of GDP. 1.6% deficit recorded in 2014 was boosted by a one-off payment (accounting for 0.4% of GDP) to European Bank for Reconstruction and Development related to Citadele bank restructuring. The EC forecasts the fiscal deficit to decline from 1.3% in 2015 to 1.0% in 2016 and 2017 mainly thanks to net-deficit-reducing measures. Government revenue is expected to follow GDP growth to the large extent. Expenditure increases will be mainly associated with social spending and defence. Latvia's government debt to GDP ratio fell to 36.4% in 2015. After a brief increase in 2016 due to pre-financing of sizeable bond repayments, debt is set to drop to 35.6% of GDP in 2017.

**Table 7: Macroeconomic indicators, historical data and forecasts – Latvia**

	2012	2013	2014	2015	2016F	2017F
Real GDP growth, %	4.0	3.0	2.4	2.7	2.8	3.1
Nominal GDP, EURbn	22.0	22.8	23.6	24.4	25.3	26.7
CPI growth, %	2.3	0.0	0.7	0.2	0.2	2.0
Unemployment rate, %	15.0	11.9	10.8	9.9	9.6	9.3
Compensation of employee per head real growth, %	2.7	4.8	7.6	6.6	4.9	3.3
General government budget balance, % of GDP	-0.8	-0.9	-1.6	-1.3	-1.0	-1.0
General government debt, % of GDP	41.4	39.1	40.8	36.4	39.8	35.6
Retail trade (excl. cars and motorcycles) real growth, %	7.4	3.8	3.7	4.9	-	-

Source: Eurostat (historical data), EC (forecasts)

## Estonia

Post-crisis recovery in Estonia was driven primarily by expanding household consumption which was supported by real wage growth and rising employment. The country achieved average real economic growth of 3.8% per year over 2011-2015. Estonia boasts exemplary government finances. The country has the lowest government debt to GDP level in the EU which in 2015 stood at 9.7% (the second least indebted, Luxembourg, had 21.4%). Estonia ran a budget surplus of 0.4% in 2015 that makes it one of only three countries in the EU (the others are Germany and Luxembourg) with positive budget balance that year. The EC forecasts Estonia to record a marginal fiscal deficit of 0.1-0.2% of GDP in 2016 and 2017. In contrast, the overall EU is projected to run deficits of 2.1% in 2016 and 1.8% in 2017.

Real GDP expanded by 1.1% in 2015 which was markedly slower than the growth achieved the year before. That owes to weaker investment activity (as major investment projects in energy sector were completed in 2013 and 2014) and a decline in exports to Russia. In 2015 exports to Russia fell by 35% leading to a 3.8% decrease in total exports. Economic expansion is forecast to pick up to 1.9% in 2016 and 2.4% in 2017. Although consumption growth is expected to gradually decelerate on the back of moderation in real wage increases, it should be more than offset by a rebound in investment. The need for companies to invest in productivity improvements will be supported by favourable lending conditions. Public investments are likely to increase due to the start of a new programming period of EU's structural funds.

Before 2014 consumer prices in Estonia were growing by more than 3% per annum. But due to a fall in global oil prices, inflation slowed down materially in 2014 and was just 0.1% in 2015. The EC forecasts price growth to accelerate to 0.8% in 2016 and 2.9% in 2017 as commodity prices bottom out, excise taxes are raised and wages continue growing.

A labour market has delivered a significant improvement with unemployment rate dropping from 12.3% in 2011 to 6.2% in 2015 – the lowest level among the Baltic States. A labour market reform, expected to be introduced in mid-2016, could attract a substantial number of pensioners to return to the labour market. As a result, the EC sees unemployment rate going up to 7.7% in 2017. Real wage growth is projected to decelerate in 2017 given an expected moderation in public sector employees' compensation.

Although Estonia's government budget surplus decreased from 0.8% in 2014 to 0.4% in 2015, it still was one of only three countries in the EU with surplus budget. Taking into account already known legislative changes, the EC forecasts the fiscal budget to record limited deficits in 2016 and 2017. Estonia's government debt to GDP, which stood at 9.7% in 2015 – the lowest in the EU, should gradually decline to 9.3% in 2017.

**Table 8: Macroeconomic indicators, historical data and forecasts – Estonia**

	2012	2013	2014	2015	2016F	2017F
Real GDP growth, %	5.2	1.6	2.9	1.1	1.9	2.4
Nominal GDP, EURbn	18.0	19.0	20.0	20.5	21.2	22.3
CPI growth, %	4.2	3.2	0.5	0.1	0.8	2.9
Unemployment rate, %	10.0	8.6	7.4	6.2	6.5	7.7
Compensation of employee per head real growth, %	3.4	2.7	5.0	4.0	5.0	2.6
General government budget balance, % of GDP	-0.3	-0.2	0.8	0.4	-0.1	-0.2
General government debt, % of GDP	9.5	9.9	10.4	9.7	9.6	9.3
Retail trade (excl. cars and motorcycles) real growth, %	5.6	1.9	7.1	4.4	-	-

Source: Eurostat (historical data), EC (forecasts)

## 5.2. PROPERTY MARKETS

This section provides a review of Baltic commercial property markets. It focuses on a transaction market and office and retail sectors. The review has been prepared using data and research provided predominantly in annual Colliers Baltic Real Estate Market Overviews, the latest of which was published in March 2016.

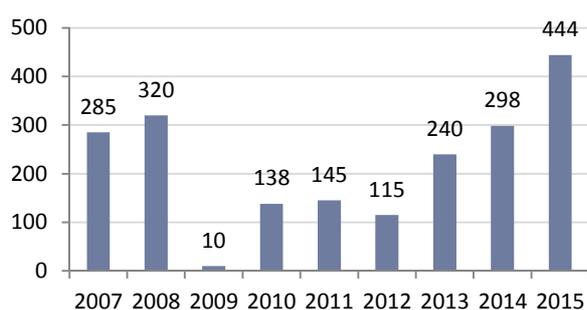
### Lithuania

#### Transaction market

Activity in Lithuania's real estate transaction market has been growing rapidly since 2013. In 2015 transaction volume reached an all-time record of EUR 444m surpassing a pre-financial crisis peak achieved in 2008. The growing activity is explained by the stable macroeconomic situation in Lithuania, increase in newly built properties, positive dynamics in a property market (declining vacancy and growing rent rates) and an increasing number of SSCs, launched by international firms, which fuels investors' interest in an office sector. The adoption of euro on 1 January 2015 is believed to have provided an additional boost to the investment activity. Although Litas was already a stable currency due to its peg to euro, becoming a full-on member of euro zone minimized currency risk and increased confidence in the Lithuanian economy. This was one of the main reasons why Lithuania saw an increased interest from international property investors in 2015.

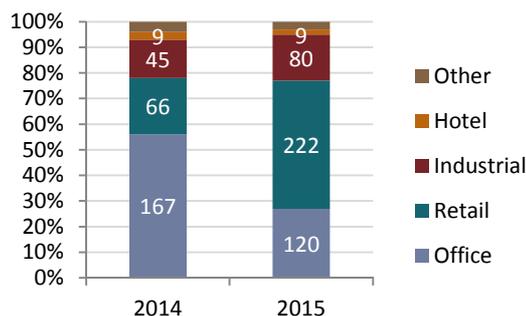
Office and retail sectors have been the key focus of investors. Over 2013-2015 they together accounted for more than 70% of total transaction turnover. In contrast to previous years, when the number one market was Vilnius offices, in 2015 retail sector was the most active with transactions involving shopping centres not only in Vilnius but also in smaller cities. Retail properties comprised 50% of transaction volume in 2015 – up from 22% in 2014 – while office buildings constituted 27% - down from 56% the year before. Colliers expects that office and retail properties generating stable cash flows and located in prime locations will retain the primary focus of real estate investors.

Figure 7: Property transaction volume in Lithuania, EURm



Source: Colliers

Figure 8: Transaction volume by sector, EURm



Source: Colliers

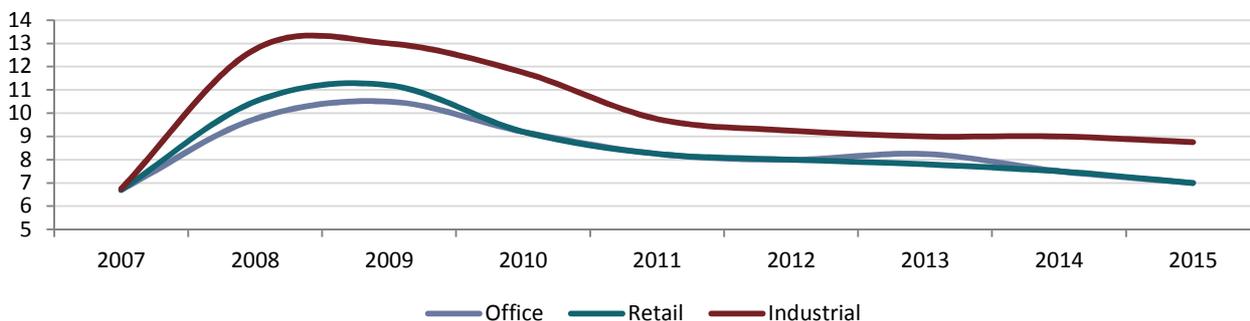
The largest investors in 2015 included Nordic, Baltic and major international funds while Russian capital was less active compared to previous years. According to Colliers, the top three investors were EFTEN Capital (an Estonian manager of private real estate funds with EUR 0.4bn in assets under management), Partners Group (a global private markets investment manager, headquartered in Switzerland, with USD 50bn in assets under management) and Northern Horizon Capital group (including BOF). It is important to highlight that EFTEN and Partners Group were newcomers to the Lithuanian property market. The entry of Partners Group to the Baltic market is a particular highlight. In February 2015 it set up Laurus, a joint-venture with Northern Horizon Capital, which acquired a 112,000 sqm portfolio of properties from BPT Optima, a fund managed by Northern Horizon Capital, for EUR 163m. Partners Group is looking to make further acquisitions in the Baltics. In March 2016 Laurus purchased a portfolio of 42 Baltic properties with 82 thousand sqm of space (predominantly leased to SEB, a Nordic bank) from Geneba, a real estate investment company based in the Netherlands. The fact that global real estate investment managers are entering the Baltic property market (in addition to Partners Group, Blackstone bought assets in Riga in 2015) indicates that it offers compelling returns in the European context.

In 2014 the top three investors in Lithuania's transaction market were East Capital (an emerging and frontier market asset manager based in Sweden with EUR 2.1bn in assets under management), Nordic and Baltic Property Capital Group (a Swedish private equity firm) and Capital Mill (an Estonian commercial real estate investor).

Prime yields in Vilnius have been gradually contracting since 2010 on the back of strengthening economy, improving real estate market fundamentals, declining borrowing costs and convergence to lower yields in other European property markets. At the end of 2015 prime yields stood at 7.0% for office and retail assets and 8.75% for industrial properties marking a decrease from 7.5% and 9.0% respectively in 2014. Colliers forecasts that due to continuing strong interest in office and retail properties in Vilnius, yields in these sectors will continue going down in 2016. However, despite a downward trend, returns in Vilnius (and the Baltics overall) are

still considerably higher than in Poland and even more so than in Nordics. Colliers estimates that at the end of 2015 prime yields for office and retail (SCs) properties were between 5.0-6.0% in Warsaw, 4.5-5.0% in Copenhagen, 4.25-4.50% in Stockholm and 4.0-4.25% in Oslo.

**Figure 9: Prime yields in Vilnius, %**



Source: Colliers

**Office**

Accelerated economic growth in pre-crisis Lithuania resulted in a phase of rapid expansion in office supply. During 2007-2009 stock of modern office space almost doubled. After that, developers took a more careful approach to investing in new office space that led to normalization in a growth rate. Stock was rising stably by 4-6% per annum over 2010-2014. However, as demand for office space grew faster (illustrated by dropping vacancy rates), development activity has picked-up again. In 2015 modern office stock in Vilnius expanded by 9% to 468 thousand sqm of GLA. Class A offices made up 33% of total supply – the highest share in the Baltic capital cities. Class B1 accounted for 50% while class B2 constituted the remaining 17%.

The development activity remains elevated in Vilnius office market. Based on the project pipeline for 2016 (see Table 10), 98 thousand sqm of new office space will be constructed representing around a fifth of total stock at the end of 2015. Approximately a third of the new supply will come from a single project - class A office complex Quadrum developed by Schage, a Norwegian developer. Once constructed, Quadrum will be the largest office property in Vilnius CBD.

**Figure 10: Office stock in Vilnius**



Source: Colliers

The recent jump in development activity is a response to growing demand for office space indicated by vacancy rates falling close to pre-crisis levels. According to Colliers, there are two main reasons why demand has been strong in Vilnius office market. Firstly, Lithuania’s economy has been successfully recovering with real GDP expanding and unemployment falling. Secondly, Lithuania and especially Vilnius has become an attractive location for shared service centers (SSCs) of international companies. According to Invest Lithuania, a government agency responsible for attracting foreign investments, a number of SSCs in Lithuania increased from 17 in 2004 to 60 in 2015. They now employ more than 12,800 people. A great majority of SSCs in Lithuania are located in Vilnius. Demand for office space from SSCs is expected to continue growing since existing ones are actively expanding and new ones are being established. For instance, in 2015 Skandia, a Swedish life insurer, Nasdaq, a global stock exchange operator, and AIG, a global insurance group, launched their SSCs in Vilnius.

**Table 9: Largest SSCs of foreign companies in Vilnius**

Company	Industry	Country	Functions carried out by SCC	Headcount	Established
Western Union	Payments	USA	IT, accounting, compliance	1,500	2010
Barclays	Banking	UK	IT development and support	1,270	2009
Danske bank	Banking	Denmark	F&A services, IT	1,100	2012
SEB	Banking	Sweden	IT and support, F&A, HR operations	600	2008
CSC	IT	USA	IT development and support	460	2007
Citco	F&A	USA	Accounting and legal services	270	2007

Source: Invest Lithuania, March 2016

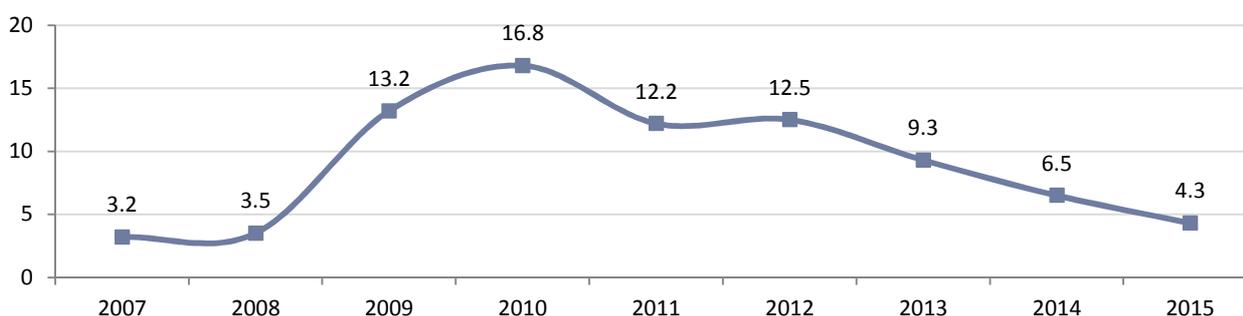
Developments of new office properties in Vilnius are carried out not only by local and Baltic firms but also by international players. Vastint, part of Inter IKEA group, commissioned a 7,000 sqm Uniq business center near CBD in 2015. 2016 pipeline contains two projects by international developers. In addition to aforementioned Schage's Quadrum complex, the other project by a foreign real estate company is 21,600 sqm Delta office building developed by Technopolis, a listed Finnish property investment firm. This is an expansion of Technopolis' Vilnius business park (existing GLA of more than 40 thousand sqm) located in Ozas district, area favoured by SSCs. What is more, East Capital is planning an extension to its 3 Bures business complex in CBD. According to East Capital, a construction permit is expected in Q1 2016 after which a tender for a general constructor can be launched. Presence of international real estate companies and their active engagement in development of new projects indicate the attractiveness of Vilnius office market. That also raises a bar to local players which need to deliver quality projects to remain competitive in the market.

**Table 10: Pipeline of office projects in Vilnius for 2016**

Project	GLA, sqm	Address	Developer
Quadrum (1st stage)	33,160	Konstitucijos Av. 21	Schage RE
Zalgirio 135	8,400	Zalgirio St. 135	Eika
Green Hall (2nd stage)	7,400	Upes St. 21	SBA
City	18,000	Zalgirio St. 90	Hanner
Delta	21,600	J. Balcikonio St. 9A	Technopolis
Highway	4,900	Savanoriu Av. 178	Inreal
Fabrikas	4,800	Saltoniskiu St. 29	ZIA Valda
<b>Total 2016</b>	<b>98,260</b>		

Source: Colliers

Although the new supply in 2015-2016 exceeds annual additions over the previous five years, a significant amount of new space is pre-leased. Vastint pre-leased 100% of its Uniq office building to a single tenant, Danske bank IT centre. At the upcoming Qadrum complex by Schage, over 50% of space is rented out of which 10,000 sqm is signed up by DNB, the third largest bank in Lithuania, that will relocate its Lithuanian headquarters to the property.

**Figure 11: Vacancy rates in Vilnius office market, %**

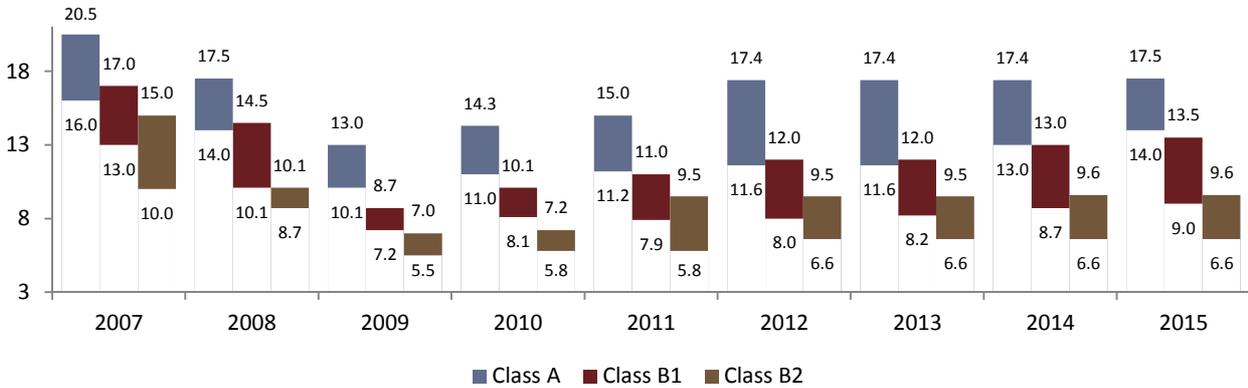
Source: Colliers

Vacancy rate in Vilnius office market reached 4.3% in 2015, down from 6.5% in 2014 and 9.3% in 2013. The amount of vacant space has been declining as growth in demand has outpaced additions to supply. A significant reduction in vacancy in the recent years was among the main catalysts that sparked acceleration in development activity. There is observed a meaningful difference in vacancy rates between class A and B properties. Class A offices, of which supply is lower, achieved a very low – only 0.8% - vacancy level in 2015 (down from 1.6% in 2014). Class B properties, on the other hand, had a higher vacancy at 6.1% (8.6% in 2014). Colliers projects that the elevated development activity is likely to push the overall vacancy up in coming years. An ability of the market to

take up the new supply will depend on whether Vilnius will continue to attract new international companies to launch their SSCs in the city.

Fuelled by declining vacancy Vilnius office rent rates has been gradually improving since hitting the bottom in 2009. Overall rent rates increased by around 2.8% in 2015 (slightly weaker growth than 4.0% in 2014) mostly driven by rents for class A and B1 offices which grew by 3.6% and 3.7% respectively. Landlords were asking for 13.0-17.5 EUR/sqm/month for class A premises, 9.0-13.5 EUR/sqm/month for class B1 and 6.6-9.6 EUR/sqm/month for class B2. Colliers expects that due to increased additions of new supply, market rates will come under pressure but should remain relatively stable in 2016.

**Figure 12: Asking rent rates in Vilnius office market, EUR/sqm/month (excluding VAT and operating expenses)**

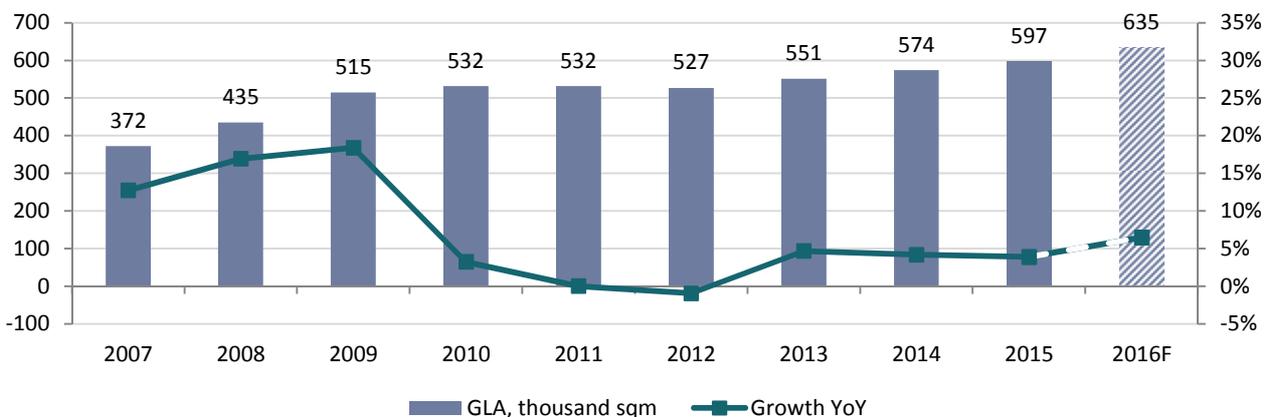


Source: Colliers

### Retail

At the end of 2015 supply of retail space in Vilnius amounted to 597 thousand sqm (taking into account properties with at least 5,000 sqm GLA). The three largest shopping malls (Akropolis, Ozas and Panorama) each exceeding 45,000 sqm together represented 33% of the total supply. 10 properties with 15,000-45,000 sqm GLA constituted 33% of the market while SCs with 5,000-15,000 sqm made up the remaining 34%. Growth in Vilnius retail space returned in 2013 when IKEA store, the first and still the only one in the Baltics, was opened. It was the first large new SC in Vilnius since 2010. In 2014-2015 expansion in retail space was mainly driven by completion of new neighborhood type SCs where anchor tenants were grocery chains. Developments of this type are expected to remain one of the main forces behind further retail space expansion as the competition among grocery retailers in Lithuania is high. The focus is not only on building new grocery stores but also on refurbishing the older ones to attract more consumers. Existing players in the grocery market are preparing themselves for an even more competitive environment when Lidl opens its shops. According to Verslo Zinios, the Lithuanian business daily, the German discount retailer plans to have a store in every town with population of more than 20,000. Lidl's first stores in Lithuania are expected to be opened in June 2016. Depending on its success here, Lidl might later enter Latvian and Estonian markets.

**Figure 13: Retail space in Vilnius**



Source: Colliers

Nordika SC with 35,400 sqm retail space is currently the only large new SC under construction in Vilnius. It is located close to IKEA store and has Senukai, DIY chain, and Rimi, a pan-Baltic grocery chain owned by ICA Gruppen, signed as anchor tenants. Together with IKEA it will form a new shopping district for Vilnius residents. The first stage (13,300 sqm) of Nordika opened doors in the

second half of 2015 whereas the second stage should be completed in 2016. One of its developers, VPH, has also started working on a project for a new shopping mall of 37,000 GLA in the territory of former Audejas factory, not far from Vilnius old town. Construction is expected to begin in 2016 and to be finished in 2018.

Attention from existing larger SCs will be on quality improvements as has been the case for several years already. Facing competition from online stores, managers of SCs have been focusing on improving tenants mix and expanding entertainment and leisure activities. For instance, in 2015 Panorama, one of the three largest malls in Vilnius, added a number of new restaurants while Europa SC launched a fitness gym. The goal of SCs, Colliers says, is to offer consumers a wide-ranging experience.

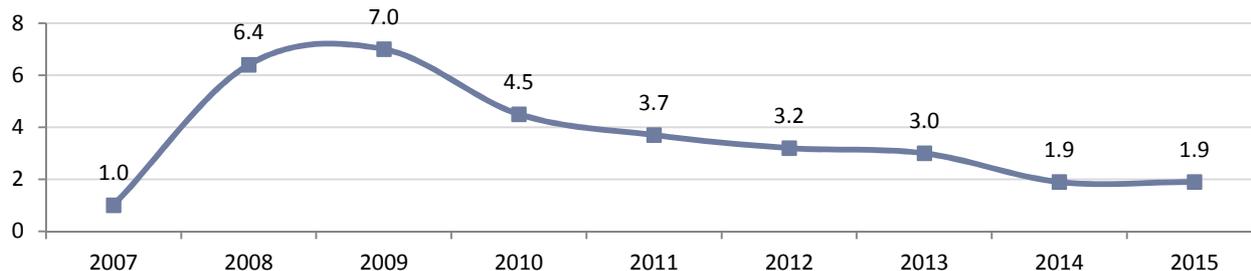
**Table 11: Pipeline of retail projects in Vilnius for 2016**

Project	GLA, sqm	Address	Developer
Nordika SC (2nd stage)	20,100	Zirniu St.	Nantucket Holdings, Ziempre Investment Limited, Zenith Capital, VPH
Unideco	6,500	Verkiu St. 44	MC Grupe
Parkas Outlet (expansion)	4,540	Verkiu St. 29	Ogminos centras
Domus Pro (2nd stage, completion)	2,200	Bieliunu St. 1	Baltic Opportunity Fund
Laisves SC	5,230	Laisves Av. 62	Audejas
<b>Total 2016</b>	<b>38,570</b>		

Source: Colliers

Demand for retail space is strong buoyed by growing private consumption. In 2015 retail trade (excl. motor vehicles and motorcycles) in Lithuania increased by 5.4% in real terms exceeding 3.0% rise in the EU and 2.4% in the euro area. Successful SCs with high customer flows practically have no vacant space in Vilnius. Overall vacancy in Vilnius SCs remained at 1.9% in 2015. Colliers forecasts vacancy to remain low since a large portion of new retail space is already pre-let.

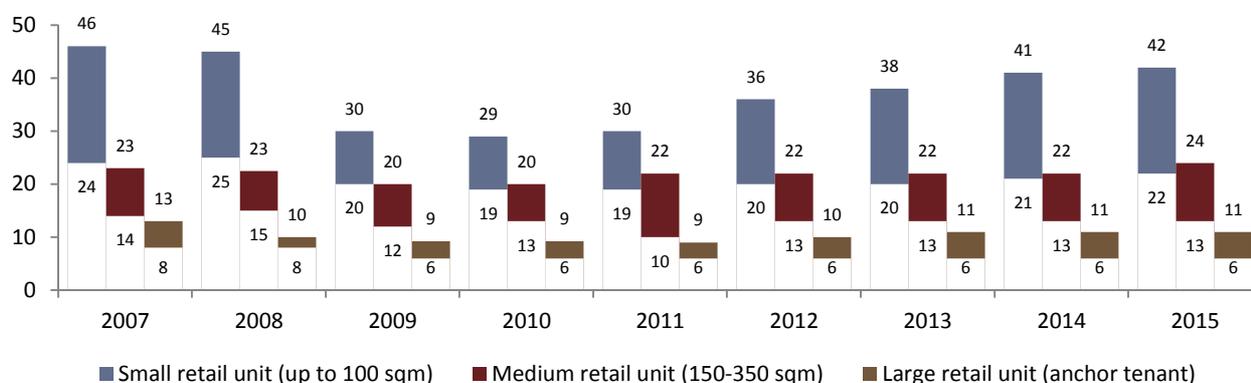
**Figure 14: Vacancy rates in Vilnius shopping centres, %**



Source: Colliers

Rent rates have been trending upwards since 2010, especially, for small retail units. Overall rent growth in 2015 was in the range of 3-4%. Rents amounted to 22-42 EUR/sqm/month for small spaces (up to 100 sqm), 13-24 EUR/sqm/month for medium-size spaces (150-350 sqm) and 6-11 EUR/sqm/month for large spaces. On the back of a low vacancy and intensifying competition among retail tenants, Colliers projects rent rates to keep rising at a modest pace.

**Figure 15: Asking rent rates in Vilnius shopping centres, EUR/sqm/month (excluding VAT and operating expenses)**



Source: Colliers

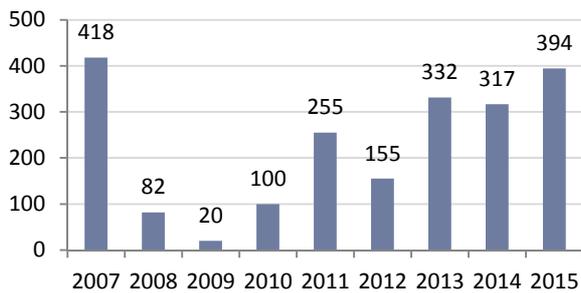
## Latvia

### Transaction market

Activity in a property transaction market in Latvia has intensified since 2013 with volume surpassing EUR 300m mark each year. In 2015 it increased to EUR 394m – close to an all-time record of EUR 418m achieved in 2007. That could be attributed to strengthening economy, positive dynamics in property market and high demand for cash yielding assets boosted by a low yield environment. Retail assets dominated transaction market in 2015 comprising 77% of total volume. The high share of the retail sector was explained by Blackstone’s acquisition of three shopping centres (Alfa, Mols and Dole) in Riga as a part of its purchase of 10 Nordic real estate funds managed by Obligo Investment Management. This transaction alone constituted 60% of total volume. Office sector was the second most popular with 15% of total transaction turnover. In previous years sector shares were much more comparable with a single sector typically not exceeding 30% of total. The largest transaction volume in 2014 was generated by mixed-use properties (25% of total) which mostly included assets for redevelopment purposes. This group was boosted by two Skonto stadium deals. The second largest in 2014 was office sector with 18% of total investment. Industrial and retail accounted for around 15% each. Colliers forecasts investment activity to remain elevated in 2016 and to reach volume comparable to the one achieved in 2015. Furthermore, a lack of cash flow generating properties is expected to lead to an increased development activity which has been subdued in recent years, especially, when compared to Vilnius and Tallinn markets.

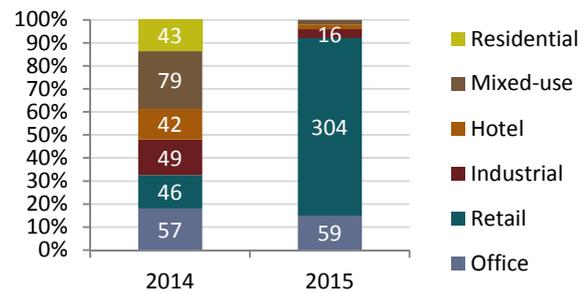
Before 2015 the key investors in Latvian real estate market were from Scandinavia, Baltics and Russia. What distinguished Latvia from Lithuania and Estonia was the presence of private Russian investors. Compared to institutional investors, they were more interested in risky projects offering higher returns and assets with development opportunities. Yet, tensions between Russia and the EU, the economic downturn in Russia and a significant drop in value of Russian rouble reduced the enthusiasm of Russian investors. On the other hand, 2015 saw an entry of global asset managers into the Latvian property market. An acquisition by Blackstone, the largest alternative asset manager in the world with over USD 300bn in assets under management, of three shopping centres in Riga was its first investment ever in the Baltics. Partners Group bought Olimpia SC as a part of the acquisition of BPT Optima portfolio. This proves that the Baltic real estate market can be interesting to global institutional investors. Colliers expects interest from investment funds to increase further in the future.

**Figure 16: Property transaction volume in Latvia, EURm**



Source: Colliers

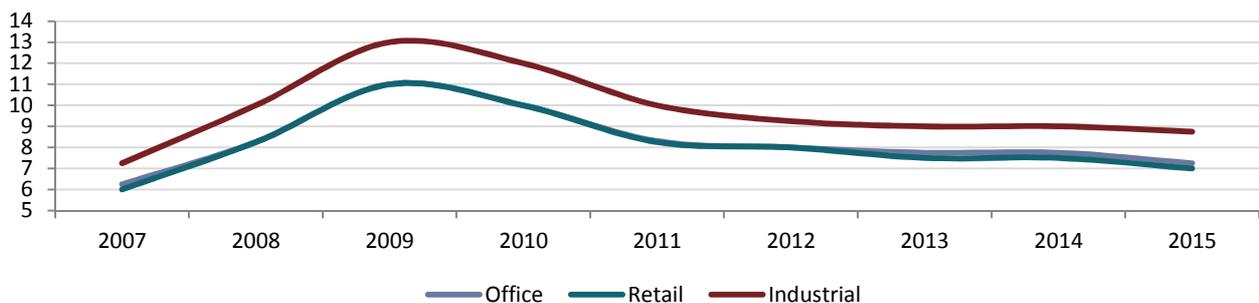
**Figure 17: Transaction volume by sector, EURm**



Source: Colliers

Prime yields in Riga property market have compressed from the peak in 2009 owing to the macroeconomic recovery, positive trends in commercial real estate (growing rent rates and low vacancy) and cheaper debt. Regardless of the contraction, prime properties in Riga can still be acquired at higher prospective returns compared to Nordic countries and Poland. At the end of 2015 the yield was estimated at 7.0% for retail premises (down from 7.5% at the end of 2014), 7.25% for office (7.75%) and 8.75% for industrial (9.0%). Prime yields, Colliers expects, will continue trending downwards in 2016 as demand from investors for high quality cash flow generating properties will remain high while supply of such assets will be limited.

**Figure 18: Prime yields in Riga, %**

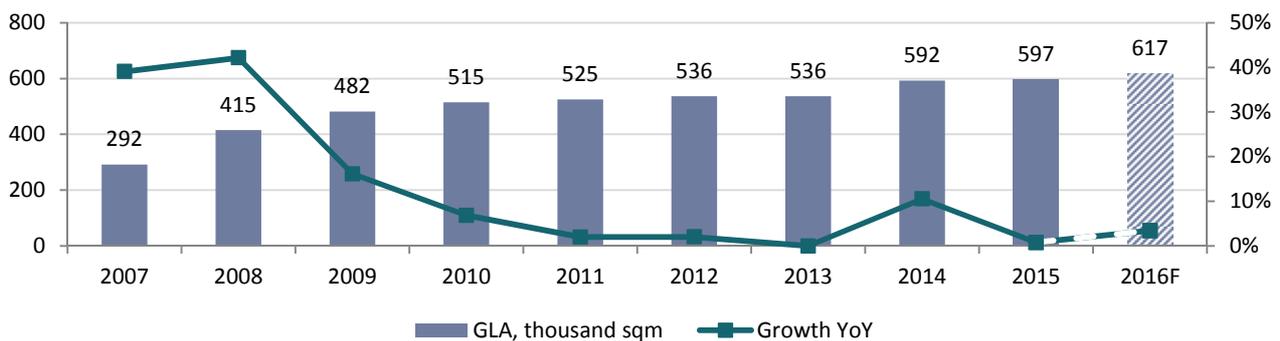


Source: Colliers

## Office

A decade ending in 2010 was marked by rapid expansion in Riga's office market. Buoyed by accelerated macroeconomic growth in Latvia, modern office stock increased approximately five-fold over 2004-2010. Since then supply has been rather stable with limited number of new offices constructed. 2014 was an exception - office stock jumped by around 56 thousand sqm which was mainly attributable to a single built-to-suit property – 43,000 sqm new headquarters of State Revenue Service. In 2015 around 5 thousand sqm of new office space was added resulting in total supply of 597 thousand sqm. Class A premises constituted 17% of total – below 33% in Vilnius but above 11% in Tallinn. According to Colliers, because of limited development activity in recent years, a shortage of large office spaces now exists in Riga. Although expansion in stock is expected to be somewhat higher in 2016 at approximately 20 thousand sqm GLA (see Table 12), that still lags substantially behind development activity in Vilnius and Tallinn. An increasing number of developers, on the other hand, are starting to draw plans for new office projects in Riga. They are unlikely to be built earlier than 2018 though. As a result, in the next several years Riga's office market will remain landlord dominated where property owners have a greater advantage in lease negotiations than tenants.

Figure 19: Office stock in Riga



Source: Colliers

Financial and IT companies are the most active in renting office space. SSCs also constitute a sizeable portion of demand; however, it is problematic for them to find large spaces. So far, they have not been as important driver of demand for office space as in Vilnius. In recent years there has been a trend that new buildings are pre-leased to tenants before completion of construction. This could potentially help accelerate development activity because pre-lease agreements increase confidence of developers to invest in new projects and reduce their risk.

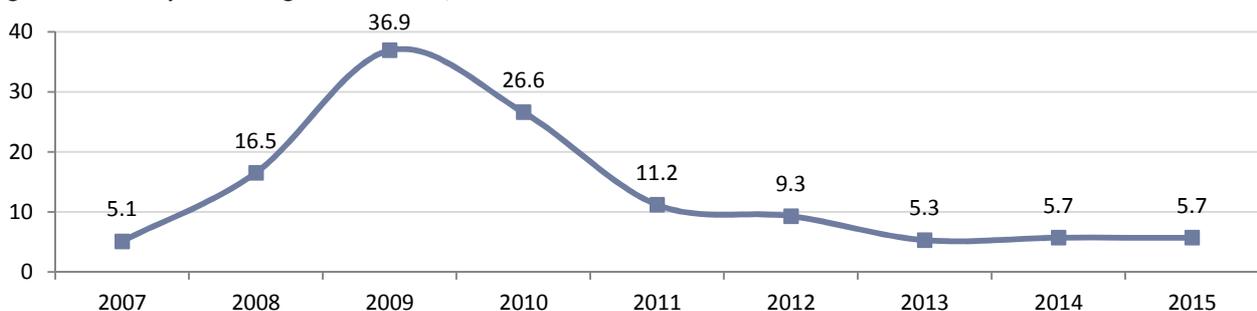
Table 12: Pipeline of office projects in Riga for 2016

Project	GLA, sqm	Address	Developer
Katrinās Osta	1,700	Katrinās Dambis St. 20	SIA Catri
Tele2	1,700	Mukusalas St. 42	-
Mukusala BC	2,000	Mukusalas St. 42	-
Place 11	15,000	Sporta St. 11	Hanner
<b>Total 2016</b>	<b>20,400</b>		

Source: Colliers

Vacancy rates have returned to pre-crisis levels in 2013. Overall vacancy in Riga's office market was stable at 5.7% in 2015. Empty space at class A premises amounted to 5.0%. Colliers projects vacancy to remain at similar levels in 2016. New demand will be limited because of absence of large spaces. This is an opportunity for new developments.

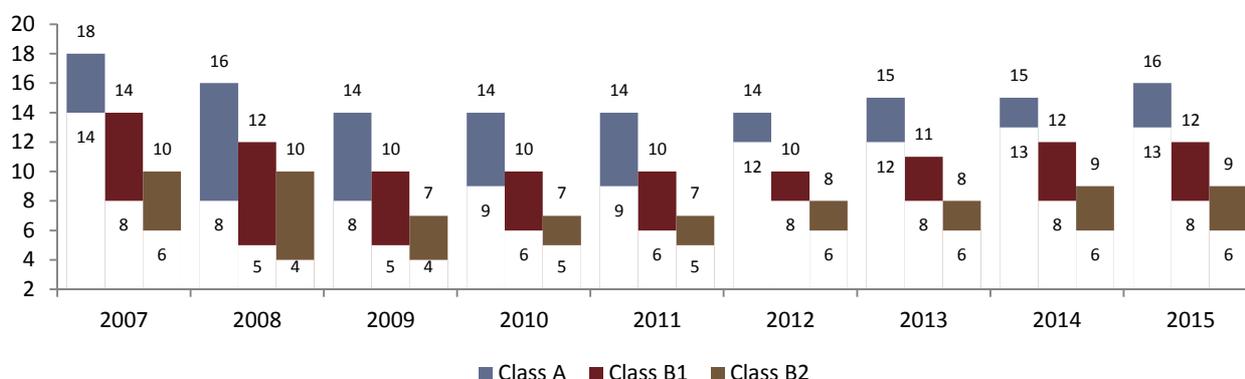
Figure 20: Vacancy rates in Riga office market, %



Source: Colliers

Rent rates have been on the upwards trajectory since 2010 with the growth accelerating in 2012. At the end of 2015 class A premises demanded 13-16 EUR/sqm/month, followed by 8-12 EUR/sqm/month for class B1 and 6-9 EUR/sqm/month for class B2. Colliers expects rents to remain stable in 2016.

**Figure 21: Asking rent rates in Riga office market, EUR/sqm/month (excluding VAT and operating expenses)**



Source: Colliers

### Retail

Fundamentals for retail sector have been strong in recent years. Declining unemployment and growing wages (which the EC projects to continue) have been fuelling private expenditure. Lower energy costs since the second half of 2014 has been providing an additional boost to consumers. In 2015 retail trade (excl. motor vehicles and motorcycles) expanded by 4.9% in real terms marking an acceleration from 3.7% growth in 2014 and exceeding the retail trade growth in the EU (3.0%). Growing consumer expenditure should keep demand for retail space in Riga at elevated levels.

**Figure 22: Retail space in Riga**



Source: Colliers

Riga's retail stock reached 639 sqm of GLA at the end of 2015. SCs accounted for the largest share of the total space at around 60%. Hypermarkets constituted 16%, DIY stores 14% and department stores 10%. In the near term a major expansion in supply is not expected (see Table 13). Larger additions are forecast in the medium term. According to Colliers, Linstow – one of the leading real estate managers in Norway and the Baltics – is working on plans to expand its Alfa SC and Origo SC by adding 11,150 sqm and 15,750 sqm of new retail space respectively. In addition, Akropolis Group (held by owners of Maxima retail chain) is preparing a technical project for 60,000 sqm Riga Akropole which had long been in its plans. Akropolis is the strongest shopping mall brand in Lithuania with the largest SCs in top 4 (by population) cities.

**Table 13: Pipeline of retail projects in Riga for 2016**

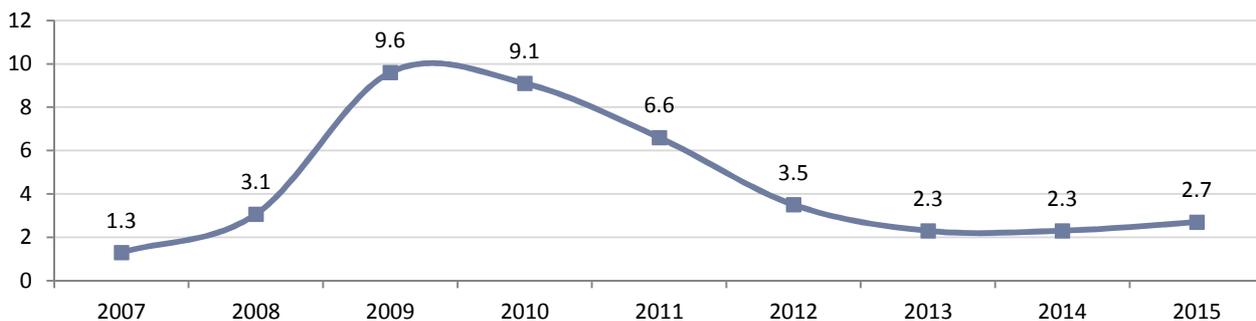
Project	GLA, sqm	Address	Developer
Damme SC (expansion)	1,000	Kurzemes av. 1	-
<b>Total 2016</b>	<b>1,000</b>		

Source: Colliers

As vacancy rates are low or close to zero in the most successful SCs, their managers have been concentrating on improving tenant mix. Preference has been towards international well-known brands as well as offering activities other than shopping to visitors (for instance, fitness clubs). International retailers see Baltic States as prospective development area once they fully establish their positions in developed markets. Usually, international retailers enter Baltics via a local franchiser.

Market vacancy in SCs normalised to pre-crisis levels in 2012. It stood at 2.7% at the end of 2015. Importantly, empty space in the most successful properties (for instance, Spice SC, Spice Home SC and Alfa SC) was non-existent. In contrast, vacant space in less successful SCs comprised more than 10%. Overall vacancy rate, Colliers forecasts, may decline in near term as free space in less popular SCs is reduced.

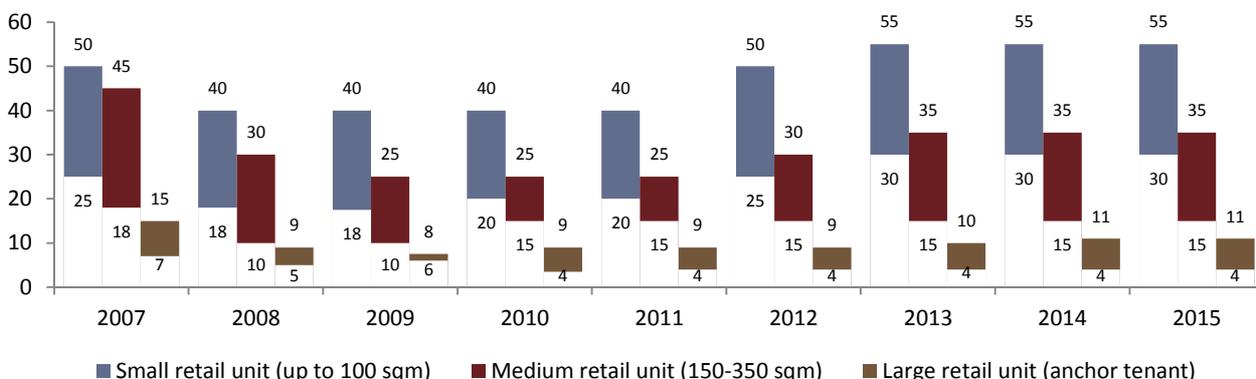
**Figure 23: Vacancy rates in Riga shopping centres, %**



Source: Colliers

After an accelerated growth in rent rates in 2012 and 2013, they were stable in 2015 and amounted to 30-55 EUR/sqm/month for an up to 100 sqm space and 15-35 EUR/sqm/month for 150-350 sqm unit. Rents for anchor tenants fluctuated in the region 4-11 EUR/sqm/month. Colliers projects rent rates to remain stable in 2016.

**Figure 24: Asking rent rates in Riga shopping centers, EUR/sqm/month (excluding VAT and operating expenses)**



Source: Colliers

## Estonia

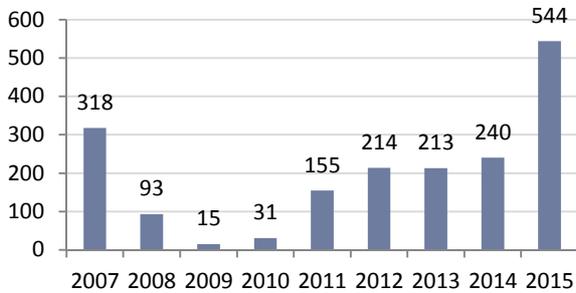
### Transaction market

Activity in Estonian transaction market returned in 2011. Since then improving economic and real estate market conditions have supported continuous recovery in transaction turnover. In 2015 it reached an all-time record of EUR 544m – an increase of over 100% above 2014 level. The single largest deal was an acquisition by LCN Capital Partners, a private equity firm with offices in New York and London, of a portfolio of municipal rental apartments (eight buildings with 1,200 apartments) for EUR 100m. This far exceeded the number one transaction in 2014 – East Capital’s purchase of Metro Plaza office building in CBD for EUR 28m. Sector-wise, office and retail properties each constituted 29% of total transaction volume in 2015 whereas in the previous year industrial premises took the lead comprising 34% of total turnover followed by retail with 29% and office with 20%. As investors have accumulated significant amounts of capital ready to be deployed, Colliers expects the transaction market to maintain high activity with turnover exceeding EUR 350m in 2016. Retail and office properties, Colliers believes, will be the primary target of investors.

In terms of geographic locations of the main investors, the situation in Estonia is similar to Lithuania and Latvia. The market has been dominated by investors from Nordics, Russia and Baltics. In 2015 domestic spend made up around a third of total turnover –

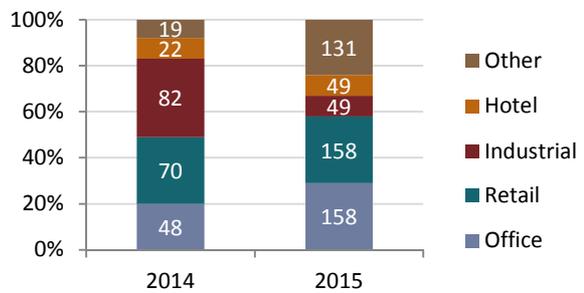
similar to 2014. Partners Group and LCN Capital Partners were new entrants to the Estonian real estate market together accounting for 43% of the volume. Top three investors in 2014 included East Capital, Zenith Capital and Capital Mill. Zenith Capital, Estonia-based independent business advisor and wealth manager, was a newcomer to the market. Most of the deals exceeding a EUR 3m mark are made either by local investors or local managers representing foreign capital. That signifies the importance for a property investor to have local presence and local knowledge of the market. For 2016, Colliers expects to see more international players discovering Estonian real estate market.

**Figure 25: Property transaction volume in Estonia, EURm**



Source: Colliers

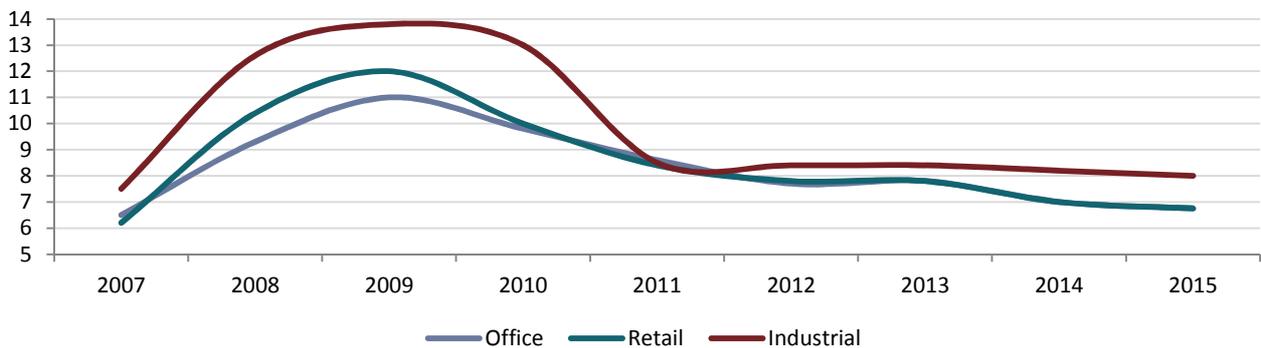
**Figure 26: Transaction volume by sector, EURm**



Source: Colliers

Prime yields in Tallinn have been trending downwards since 2010. At the end of 2015 prime office and retail properties could be acquired at 6.75% yield (down from 7.0% at the end of 2014) while industrial assets changed hands at 8.0% (8.2%). These levels are slightly below ones observed in Vilnius and Riga but substantially above returns in Nordic capitals and Warsaw. Yield compression in 2015, as well as in previous several years, was attributable to a decreasing cost of financing, shortage of investment grade properties, increasing demand for cash flow generating assets and growing presence of international investors that discover Baltic property markets. Colliers forecasts prime yields in Tallinn to be stable in 2016.

**Figure 27: Prime yields in Tallinn, %**

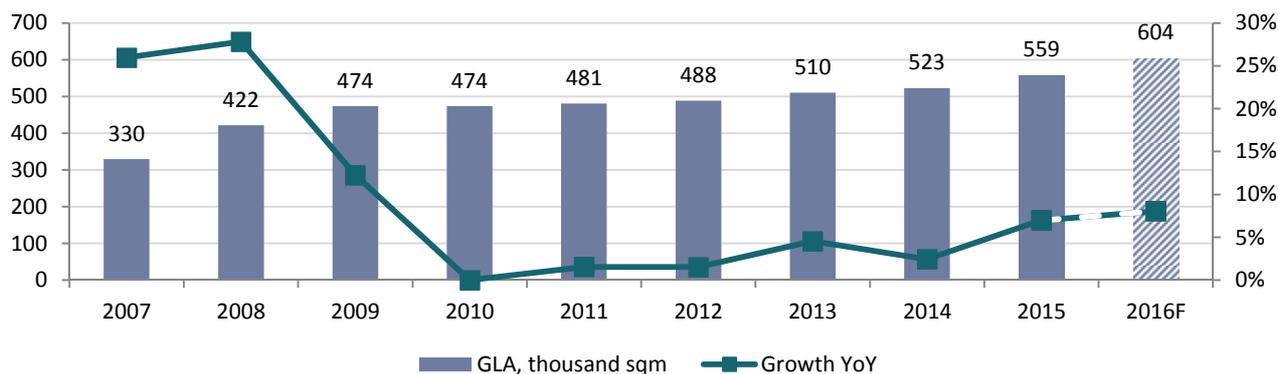


Source: Colliers

**Office**

Rapid expansion in Tallinn’s office space supply fuelled by strong pre-crisis economic growth ended in 2010. Over a three year period from 2010 to 2012 office stock barely grew. But with Estonia’s economy recovering and both vacancy and rent rates on positive trajectories, the supply started increasing again in 2013. At the end of 2015 Tallinn had 559 thousand sqm GLA of modern office space. Given the current elevated activity in development of new projects, the supply in the next several years is forecast to continue growing at a higher pace (already observed in 2015). Developers are expected to add around 45 thousand sqm of new offices in 2016 (see Table 14).

Figure 28: Office stock in Tallinn



Source: Colliers

The supply of class A offices in Tallinn is relatively low. According to Colliers, at the end of 2015 class A constituted only 11% of total stock which is below both Vilnius (31%) and Riga (17%). Class B1 and B2 accounted for 57% and 32% of the market respectively. Class A office space is particularly sought after by foreign companies and their back offices. Location-wise, supply in CBD is also low. Primary tenants of office buildings in CBD are businesses operating in finance and advising fields whereas IT and communication firms, another large group of tenants in Tallinn, normally prefer locations more distant from the city centre.

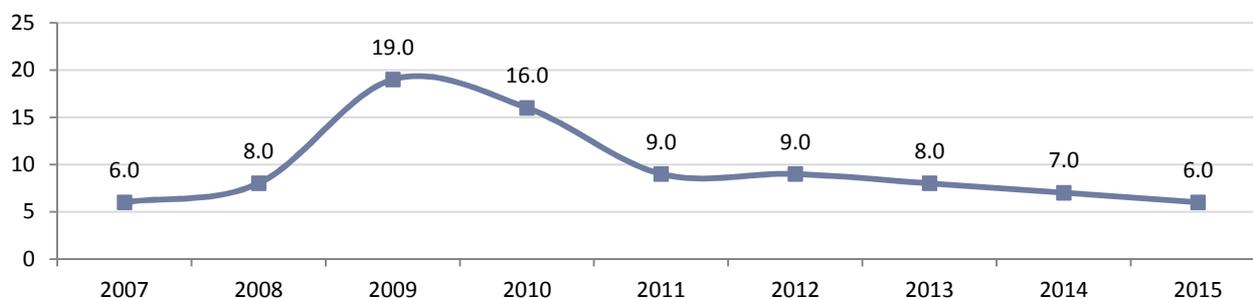
Table 14: Pipeline of office projects in Tallinn for 2016

Project	GLA, sqm	Address	Developer
Explorer Office Building	5,000	Kai 1	Capital Mill
R14 and R12, Rotermann Quarter	4,700	Rotermanni 2/4/6A/14/16	Dollimar Invest and Gastorfa
Novira Plaza	4,000	Tartu av. 25	Novira Capital
Buroo 83 Office Building	4,300	Tartu av. 83	Novira Capital
Numeral Office Building	6,900	Endla 15	Mornington Endla
Õpik Building	14,100	Valukoja st. 8, Ülemiste City	Mainor Ülemiste
Pärnu 18 Business House	1,800	Pärnu av. 18	CBD Varahaldus
Ülemiste Business Centre (expansion)	4,300	Peterburi 2F	Ülemiste Arimaja
<b>Total 2016</b>	<b>45,100</b>		

Source: Colliers

Vacancy has been gradually declining since 2010 as demand for office space has grown while additions to the stock have been limited (especially, pre 2013). Overall vacancy rate dropped to 6.0% in 2015. At class A properties vacant space was below 4% while at class B1 premises it stood at approximately 6.1%. Take-up of new space has been concentrated in information and communications sector and professional, scientific and technical activities sector. These sectors, Colliers projects, will remain the most active in leasing new space. Somewhat increased vacancy is expected in 2016 due to higher addition to the stock. However, this should mostly affect older or low quality properties. Tenants find the new offices to be advantageous not only because of newer, higher quality work spaces but also due to greater efficiency (lower utility bills). Owners of older buildings will have to invest in refurbishing them in order to maintain competitiveness against new offerings.

Figure 29: Vacancy rates in Tallinn office market, %

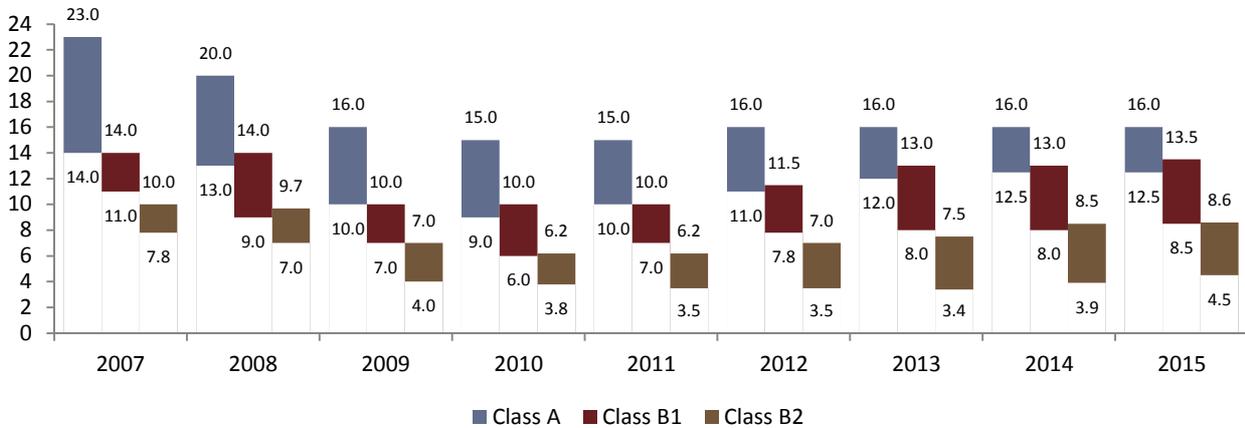


Source: Colliers

Following the trend in vacancy rates, office rents in Tallinn have been improving since 2011. In 2015 they grew moderately – by less than 2% for class A and up to 3% for class B1. The rent prices amounted to 12.5-16.0 EUR/sqm/month for class A offices, 8.5-13.5

EUR/sqm/month for class B1 and 4.5-8.6 EUR/sqm/month for class B2. Colliers forecasts rents to remain stable in 2016 with a potential slight increase in rates for the most sought after premises. Higher additions to the supply in the next few years could put rent prices under pressure, especially for lower quality properties.

**Figure 30: Asking rent rates in Tallinn office market, EUR/sqm/month (excluding VAT and operating expenses)**



Source: Colliers

**Retail**

Dynamics in Tallinn’s retail sector have been increasingly favourable for landlords. Demand for retail space has been growing strongly on the back of expanding consumer expenditure whereas increases in supply were limited in 2011 and 2012. Vacancy rates in SCs have been below 1.0% since 2011. Larger SCs which attract higher customer flows have no available space to offer. Retail trade (excl. cars and motorcycles) expanded by 4.4% in real terms in 2015 substantially outperforming 1.1% growth in the Estonian GDP and 3.0% increase in retail trade in the EU. As private consumption is expected to remain one of the main drivers of economic growth, retail premises will continue to be in high demand.

**Figure 31: Retail space in Tallinn**



Source: Colliers

After two years (2011-2012) of limited additions to retail stock, supply growth accelerated in 2013 and 2014 when nearly 30 thousand sqm of new GLA entered the market each year. 2015 was again a slower year adding only 7 thousand sqm of new retail space. Tallinn’s retail stock stood at 550 thousand sqm at the end of 2015. Of that, 64% were attributable to SCs, 15% to hypermarkets, 15% to DIY stores and 5% to department stores.

Development activity in Tallinn’s retail property market is currently elevated. Supply is expected to be supplemented by 49 thousand sqm in 2016 (see Table 15). What is more, two large scale shopping malls should be completed in 2017: T1 SC with 55 thousand GLA (developed by ProKapital) and Porto Franco Centre with 40 thousand GLA (developed by Porto Franco). Construction work on T1 started in 2015 while Porto Franco Centre is still in a planning phase. On the other hand, development activity in a grocery sector is starting to slow down after a very active period. In recent years grocery chains (the most active were Maxima, Rimi and Selver) invested heavily in expanding their networks to remain competitive. But now signs of saturation are starting to appear in the Tallinn’s grocery sector - retail chains are now more cautious about investing in new stores.

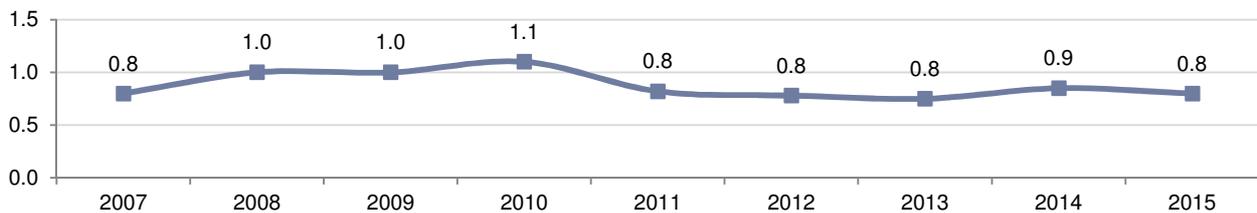
**Table 15: Pipeline of retail projects in Tallinn for 2016**

Project	GLA, sqm	Address	Developer
Mustamäe Centre	13,500	Mustamäe district	Mustamäe Keskus
Decora Maja	14,150	Mustamäe district	Hansa Maakler
Kärberi	6,000	Lasnamäe district	Megaron Kinnisvara
Arsenal Centre	15,000	Pohja-Tallinn	Arsenal Centre
<b>Total 2016</b>	<b>48,650</b>		

Source: Colliers, Ober Haus

Vacancy in Tallinn’s shopping centres has been consistently low. Even during the 2008-2009 economic crisis it was at around 1%. At the end of 2015 vacancy constituted 0.8%. Vacant space is non-existent in larger SCs. New Mustamäe and Viimsi SCs were more than 75% pre-let before the start of construction in 2014. In the near term Colliers forecasts vacancy rates to remain low in the overall market and close to zero in large SCs. Given strong demand for retail space buoyed by growing private consumption, free space will be hard to come by before new large-scale projects open their doors.

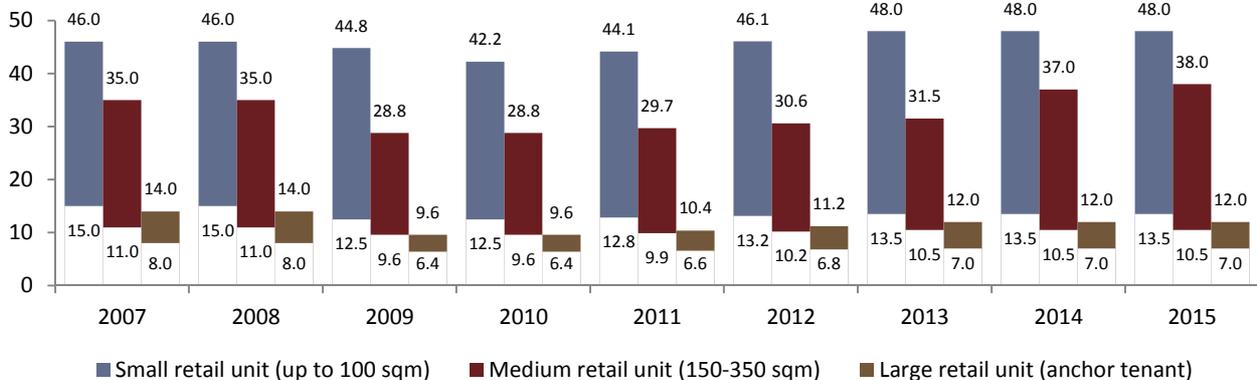
**Figure 32: Vacancy rates in Tallinn shopping centres, %**



Source: Colliers

Rent rates in shopping centres have been rather stable in the last decade following steady vacancy levels. A growth of 3-5% per annum in average rents was observed over 2012-2014 due to indexation and fewer discounts offered by landlords. In 2015 rates were stable and stood at 13.5-48.0 EUR/sqm/month for small premises and 10.5-37.0 EUR/sqm/month for larger units. Anchor tenants could pay 7.0-12.0 EUR/sqm/month. Colliers expect rents to remain at comparable levels in 2016.

**Figure 33: Asking rent rates in Tallinn shopping centres, EUR/sqm/month (excluding VAT and operating expenses)**



Source: Colliers

## 6. THE FUND

### 6.1. SELECTED FINANCIAL INFORMATION

On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). At the time of the Merger, the Fund had no assets and liabilities of its own. Thus, historical financial and operational performance of BOF prior to the merger is directly comparable the Fund's performance after the merger. In the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, BOF's financial results prior to the merger are presented as those of the Fund. For these reasons, in this Offering Circular past results of BOF are presented as results of the Fund.

Tables in this section present selected historical consolidated financial information of the Fund. The Fund reports its financial results in the consolidated form. In years prior to 2015 BOF, the Fund's predecessor, qualified as an investment entity under IFRS 10. According to consolidation requirements in IFRS 10, investment entities are required to measure subsidiaries at fair value through profit and loss rather than consolidate them. In 2015 BOF's objectives expanded beyond simply holding and managing a portfolio of real estate properties, to include active property management and the possibility to develop real estate projects. Consequently, BOF no longer met characteristics of an investment entity under IFRS 10 and, hence, was required to consolidate its subsidiaries. For year 2015, BOF reported statutory consolidated financial statements prepared according to the IFRS. In order to provide prospective investors with comparable financial information for years prior to 2015, special purpose consolidated financial statements have been prepared for 2014 and 2013.

The consolidated financial information in this section has been derived as follows:

- For the interim period of January – June 2016 (and the corresponding period of 2015): the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016 prepared according to the IFRS (provided in Appendix B).
- For year 2015: BOF's audited statutory consolidated financial statements for the year ended 31 December 2015 prepared according to the IFRS (provided in Appendix C).
- For years 2014 and 2013: BOF's audited special purpose consolidated financial statements for the years ended 31 December 2014 and 31 December 2013 (provided in Appendix D). Because prior to 2015 BOF was qualified as an investment entity under IFRS 10, these statements do not comply with consolidation requirements in IFRS 10 according to which investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. Apart from this exception, these special purpose financial statements are prepared based on all other standards and interpretations of the IFRS.

The information in this section should be read in conjunction with, and is qualified in its entirety by reference to, the aforementioned financial statements and their related notes.

The ratios and indicators set forth in Table 19 are provided to better illustrate the performance and financial situation of the Fund. These ratios and indicators have been computed using information provided in the consolidated financial statements listed above and the Fund's internal management reports. Some of these ratios and indicators are used by the Management Company to evaluate the Fund's performance, while others are provided for the benefit of investors considering an investment in the Offer Units.

BOF's audited non-consolidated financial statements for years ended 31 December 2014 and 31 December 2013 prepared according to IFRS are provided in full in Appendices E and F of this Offering Circular. Their financial information are reviewed in sections 6.12.4 "Results of Operations based on Non-Consolidated Financial Statements" and 6.17.4 "Capital Resources based on Non-Consolidated Financial Statements". After the merger with BOF, the Fund does not report results in the non-consolidated form.

A financial year of the Fund starts on the 1st of January and ends on the 31st of December.

**Table 16: Consolidated income statement of the Fund, EUR thousand**

	2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016
Rental income	2,454	3,048	6,073	2,704	3,276
Expenses reimbursement revenue	632	829	2,062	885	1,193
Cost of rental activities	-806	-1,177	-2,796	-1,220	-1,554
<b>Net rental income</b>	<b>2,280</b>	<b>2,700</b>	<b>5,339</b>	<b>2,369</b>	<b>2,915</b>
Administrative expenses	-592	-665	-984	-435	-980
Other operating income	4	-	267	-	78
Net loss on disposal of investment properties	-	-	-10	-10	-
Valuation gains/losses on investment properties	1,326	611	2,886	-	-441
<b>Operating profit</b>	<b>3,018</b>	<b>2,646</b>	<b>7,498</b>	<b>1,924</b>	<b>1,572</b>
Financial income	40	72	17	10	8
Financial expenses	-440	-656	-1,100	-533	-533
<b>Profit before tax</b>	<b>2,618</b>	<b>2,062</b>	<b>6,415</b>	<b>1,401</b>	<b>1,047</b>
Income tax charge	-102	-55	-890	-169	-175
<b>Profit for the period</b>	<b>2,516</b>	<b>2,007</b>	<b>5,525</b>	<b>1,232</b>	<b>872</b>
<b>Earnings per unit (basic and diluted)<sup>1</sup>, EUR</b>	<b>0.14</b>	<b>0.10</b>	<b>0.23</b>	<b>0.05</b>	<b>0.03</b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

**Table 17: Consolidated financial position of the Fund, EUR thousand**

	31 Dec 2013	31 Dec 2014	31 Dec 2015	30 Jun 2016
Investment properties	33,135	46,170	86,810	87,238
Other non-current assets	23	-	263	280
<b>Total non-current assets</b>	<b>33,158</b>	<b>46,170</b>	<b>87,073</b>	<b>87,518</b>
Trade and other receivables	2,139	214	840	724
Prepayments	13	11	81	98
Subscriptions receivable	-	-	-	28,483
Cash and cash equivalents	456	2,626	1,677	1,460
<b>Total current assets</b>	<b>2,608</b>	<b>2,851</b>	<b>2,598</b>	<b>30,765</b>
<b>TOTAL ASSETS</b>	<b>35,766</b>	<b>49,021</b>	<b>89,671</b>	<b>118,283</b>
Share capital	18,156	22,051	25,674	46,636
Cash flow hedge reserve	-210	-194	-199	-222
Retained earnings	1,510	2,458	6,218	7,090
<b>Total equity</b>	<b>19,456</b>	<b>24,315</b>	<b>31,693</b>	<b>53,504</b>
Interest bearing loans and borrowings	15,415	22,395	39,586	41,557
Deferred tax liabilities	57	670	3,673	3,811
Derivative financial instruments	211	149	215	260
Other non-current liabilities	41	160	451	494
<b>Total non-current liabilities</b>	<b>15,724</b>	<b>23,374</b>	<b>43,925</b>	<b>46,122</b>
Redemption of units payable	-	-	-	7,521
Interest bearing loans and borrowings	229	644	11,608	9,140
Trade and other payables	313	534	2,036	1,597
Income tax payable	44	-	112	168
Derivative financial instruments	-	60	17	1
Other current liabilities	-	94	280	230
<b>Total current liabilities</b>	<b>586</b>	<b>1,332</b>	<b>14,053</b>	<b>18,657</b>
<b>Total liabilities</b>	<b>16,310</b>	<b>24,706</b>	<b>57,978</b>	<b>64,779</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,766</b>	<b>49,021</b>	<b>89,671</b>	<b>118,283</b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

**Table 18: Consolidated statement of cash flows of the Fund, EUR thousand**

	2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016
<b>Operating activities</b>					
Profit before tax	2,618	2,062	6,415	1,401	1,047
Adjustments for non-cash items:					
Value adjustment of investment properties	-1,326	-611	-2,886	-	441
Gain/loss on disposal of investment property	-	-	10	10	-
Value adjustment of derivative finance instruments	1	14	18	-2	6
Change in allowance for bad debts	3	29	22	-	-
Financial income	-40	-72	-17	-10	-8
Financial expenses	440	656	1,100	533	533
Non-realised exchange differences	-30	-	-	-	-
Working capital adjustments:					
Decrease/-increase in trade and other accounts receivables	176	-81	-156	60	140
-Increase/decrease in other current assets	-31	271	-82	-60	-40
-Decrease/increase in other non-current liabilities	32	83	120	20	43
Increase/-decrease in trade and other accounts payable	-271	77	69	-24	247
-Decrease/increase in other current liabilities	29	-559	407	210	43
Refunded/-paid income tax	-1	-102	-54	-16	-45
<b>Net cash flow from operating activities</b>	<b>1,600</b>	<b>1,767</b>	<b>4,966</b>	<b>2,122</b>	<b>2,407</b>
<b>Investing activities</b>					
Interest received	40	-	17	6	8
Acquisition of a subsidiaries, net of cash acquired	-	-1,357	-7,657 <sup>1</sup>	-7,657 <sup>1</sup>	-
Acquisition of investment properties	-11,919	-	-	-	-
Disposal of investment properties	-	-	990	990	-
Capital expenditure on investment properties	-25	-468	-2,213	-805	-1,623
<b>Net cash flow from investing activities</b>	<b>-11,904</b>	<b>-1,825</b>	<b>-8,863</b>	<b>-7,466</b>	<b>-1,615</b>
<b>Financing activities</b>					
Proceeds from bank loans	8,150	499	4,804	2,539	445
Repayment of bank loans	-156	-463	-2,684	-315	-954
Granted loans	-2,000	-	-	-	-
Proceeds from issue of units	1,197	3,019	3,160	2,660	-
Profit distribution to unitholders	-1,235	-184	-1,302	-	-
Interest paid	-427	-643	-1,030	-500	-500
<b>Net cash flow from financing activities</b>	<b>5,529</b>	<b>2,228</b>	<b>2,948</b>	<b>4,384</b>	<b>-1,009</b>
<b>Net change in cash and cash equivalents</b>	<b>-4,775</b>	<b>2,170</b>	<b>-949</b>	<b>-960</b>	<b>-217</b>
Cash and cash equivalents at the beginning of the year	5,231	456	2,626	2,626	1,677
<b>Cash and cash equivalents at the end of the year</b>	<b>456</b>	<b>2,626</b>	<b>1,677</b>	<b>1,666</b>	<b>1,460<sup>2</sup></b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> In BOF's audited consolidated financial statements for 2015 and the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, *acquisition of subsidiaries, net of cash acquired*, in year 2015 and the first 6 months of 2015 is equal to EUR 6,324 thousand which is comprised of EUR 7,657 thousand payment (net of cash acquired) for an acquisition of Europa SC reduced by EUR 1,333 thousand cash and cash equivalents held by SPVs at the beginning of 2015. The subtraction of SPVs' cash position is due to the change in BOF's status under IFRS 10 from an investment entity at the end of 2014 to a non-investment entity in 2015. In BOF's consolidated statements of cash flows for the year 2015 and the first 6 months of 2015, cash and cash equivalents at the beginning of 2015 reflect non-consolidated position, i.e. only cash held by BOF itself (EUR 1,293 thousand). In order to consolidate cash held by SPVs at the beginning of 2015, the amount is recognised under *acquisition of subsidiaries, net of cash acquired*, as a positive cash flow item. This EUR 1,333 thousand consolidation adjustment is eliminated from the table above because in it cash and cash equivalents at the beginning of 2015 already reflect consolidated position, i.e. cash held by both BOF itself (EUR 1,293 thousand) and all its SPVs (EUR 1,333 thousand).

<sup>2</sup> Of that, EUR 400 thousand were restricted following requirements set in bank loan agreements.

**Table 19: Key indicators of the Fund**

	2013	2014	2015	Jan - Jun 2015	Jan - Jun 2016
<b>Property-related</b>					
Value of investment properties, EUR'000	33,135	46,170	86,810	81,733	87,238
Number of properties, period end	3	4	5	5	5
Rentable area, sqm					
Period end	23,268	30,928	48,651	47,173	50,889
Period average <sup>1</sup>	21,825	28,322	44,718	41,771	49,032
Vacancy rate					
Period end	3.7%	6.3%	2.0%	1.6%	3.6%
Period average <sup>2</sup>	4.0%	9.8%	2.8%	2.8%	3.6%
Net initial yield <sup>3</sup>	7.8%	6.6%	7.1%	6.9%	6.7%
<b>Financial</b>					
EPRA NAV per unit <sup>4,5</sup> , EUR	1.09	1.16	1.48	1.36	1.40
NAV per unit <sup>4</sup> , EUR	1.07	1.12	1.27	1.17	1.27
Earnings per unit <sup>4</sup> , EUR	0.14	0.10	0.23	0.05	0.03
ROE <sup>6</sup>	13.8%	9.2%	19.7%	9.4%	8.5%
Cash earnings <sup>7</sup> , EUR'000	1,291	1,349	3,485	1,385	1,443
Cash earnings per unit <sup>4</sup> , EUR	0.07	0.07	0.15	0.06	0.06
Cash ROE <sup>8</sup>	7.1%	6.2%	12.4%	10.5%	12.1%
AFFO <sup>9</sup> , EUR'000	1,263	983	2,701	606	1,236
AFFO per unit <sup>4</sup> , EUR	0.07	0.05	0.11	0.03	0.05
Dividends per unit <sup>4</sup> , EUR	0.07	0.05	0.07	-	-
Interest coverage ratio <sup>10</sup>	3.9	3.2	4.3	3.8	3.8
LTV <sup>11</sup>	47.2%	49.9%	59.0%	62.8%	58.1%

<sup>1</sup> Computed as average of monthly estimates.

<sup>2</sup> Computed as average of monthly estimates.

<sup>3</sup> Net initial yield = net rental income / value of investment properties. Calculated as average of monthly estimates.

<sup>4</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

<sup>5</sup> EPRA NAV is a measure of long term NAV, proposed by European Public Real Estate Association (EPRA) and widely used by listed European property companies. It is designed to exclude assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation gains. EPRA NAV = NAV per financial statements + derivative financial instruments liability net of related deferred tax asset + deferred tax liability related to investment property fair and tax value differences. Calculation of EPRA NAV is explained in greater detail in section 6.15 "NAV".

<sup>6</sup> Return on average equity (ROE) = profit for the period / average total equity; where average total equity = ( total equity at the beginning of the period + total equity at the end of the period ) / 2. Estimates for interim periods were annualized. When calculating ROE for January – June 2016, profit for the period was adjusted to exclude EUR 500 thousand one-off expenses related to the capital raising completed on 29 June 2016 and total equity at the end of the period was adjusted to exclude EUR 21.0m of new equity relating to the said capital raising as cash proceeds were received only after the reporting period (on 5 July 2016). The purpose of these adjustments was to present a figure for January – June 2016 that is comparable to past performance figures.

<sup>7</sup> Cash earnings = profit before tax - valuation gains or losses on investment properties - net gains or losses on disposals of investment properties - paid income taxes.

<sup>8</sup> Cash ROE = cash earnings for the period / average total equity. Estimates for interim periods were annualized. When calculating cash ROE for January – June 2016, cash earnings for the period were adjusted to exclude EUR 500 thousand one-off expenses related to the capital raising completed on 29 June 2016 and total equity at the end of the period was adjusted to exclude EUR 21.0m of new equity relating to the said capital raising as cash proceeds were received only after the reporting period (on 5 July 2016). The purpose of these adjustments was to present a figure for January – June 2016 that is comparable to past performance figures.

<sup>9</sup> Adjusted funds from operations (AFFO) = net rental income - administrative expenses + financial income - financial expenses - capital expenditure on investment properties (excl. investments in development projects and acquisitions).

<sup>10</sup> Interest coverage ratio = ( operating profit - valuation gains or losses on investment properties - net gains or losses on disposals of investment properties ) / interest on bank loans.

<sup>11</sup> Loan-to-value (LTV) = total interest bearing loans and borrowings / value of investment properties.

## 6.2. GENERAL INFORMATION

### Regulatory Status of the Fund

The Fund is a closed-ended contractual investment fund registered in Estonia and acting in accordance with the Estonian Investment Funds Act ("IFA"). A contractual fund is not a legal person, whereas it is the money collected through the issue of units and other assets acquired through the investment of such money, which is owned jointly by the unit-holders. A unit represents the unit-holder's share in the assets of a fund.

The Fund is a real estate fund as defined in the IFA investing primarily in real estate, portfolios of real estate, and/or real estate companies. Northern Horizon Capital AS, registry code 11025345, is acting as the management company of the Fund. Further information on the Management Company is set out in section 7.2 "The Management Company".

Fund Rules were registered with Estonian Financial Supervision Authority on 23 May 2016. The Fund and the Management Company are regulated and supervised by Estonian Financial Supervisory Authority. The Fund and the Management Company operate under the laws of Estonia and any disputes regarding rights and obligations under the Fund Rules and regarding the operations of the Management Company thereunder shall be resolved in the courts of Estonia. The Fund Rules are enclosed to the Offering Circular as Appendix A.

The Fund is established without specified term.

The Fund is a public fund. Units of the Fund are made available to the public in accordance with the Fund Rules and applicable laws. Units of the Fund are listed on Nasdaq Tallinn. In connection with the Offering, the Management Company has applied for a secondary listing of the Units on the Alternative Investment Funds market on Nasdaq Stockholm and part of the New Units are listed on the Fund List of Nasdaq Tallinn. See section 8.8 "Admission to Trading and Dealing Arrangements".

A typical investor of the Fund is either an institutional or a retail investor seeking to have a medium or long term indirect exposure to commercial real estate property. Investors should be ready to accept investment risk generally inherent to real estate markets. Provided that Fund's investments are made with a long term perspective with a view to gain both from the increase of the property value over economic cycles and through continuous cash flow generation, also investors are expected to invest with a long term view. Furthermore, investors who expect regular distributions out of cash flows (e.g. dividends, interests) should consider an investment in the Fund. Any investor, who has had no or very little experience in investing in real estate funds or directly in commercial real estate property, should consult their professional adviser in order to learn about the characteristics and risks associated with such investments.

### History

On 30 June 2016 the Management Company completed the merger of the Fund with BOF. BOF was a closed-ended contractual investment fund under the management of the Management Company. As a result of the Merger, the Fund received all assets of BOF and BOF unit-holders became Unit-holders of the Fund. Therefore, history of BOF is also history of the Fund.

In December 2010, BOF closed its first capital raising that amounted to EUR 5.5m. The investment proposition of the fund was to take advantage of a potential post-crisis recovery of Baltic property markets.

BOF made its first investment in July 2011 when Lincona office complex in Tallinn was acquired for EUR 15.4m. As Lincona was generating strong cash flows, in July 2012 BOF distributed its first dividend to unitholders which represented 3.0% yield on invested equity. At the beginning of 2013 BOF significantly expanded its property portfolio by acquiring SKY Supermarket, a neighborhood shopping center in Riga, for EUR 4.5m in January 2013 and Coca Cola Plaza, a cinema complex in Tallinn, for EUR 11.9m in March 2013. Thanks to these acquisitions the value of property portfolio increased from EUR 15.3m at the end of 2012 to EUR 33.1m at the end of 2013 while NLA expanded from 11,356 sqm to 23,270 sqm. A larger size of the portfolio enabled the fund to achieve greater cost efficiencies. Dividend implying 7.0% yield on invested equity were declared for year 2013.

In July 2013, BOF signed a share purchase agreement starting the acquisition process of Domus Pro. It was a 7,500 sqm NLA neighborhood shopping center development project with an optional 3,700 sqm expansion in the second stage. Forward financing of EUR 2.0m was provided to the project's developer after which the construction of the first stage started. Domus Pro opened its doors in the beginning of 2014. The acquisition was finalized in May 2014 for EUR 12.1m adding the first Lithuanian holding to BOF's property portfolio. At the end of 2014 the portfolio reached a fair value of EUR 46.2m and total rentable space of 30,833 sqm. For year 2014, the fund announced dividend representing 5.0% yield on invested equity.

Construction of the second stage (3,700 sqm) of Domus Pro was initiated in March 2015. All of the new space is fully pre-let to two tenants. BOF expects the first part of the expansion to be finished in October 2015 and the second in May 2016. Total investment is estimated at EUR 1.9m. The expansion will add a home improvement shop and a fitness club to Domus Pro.

In March 2015, BOF acquired the fifth property in its portfolio – Europa shopping mall in Vilnius CBD for EUR 35.8m. With 16,856 sqm of NLA it is markedly larger than previously acquired buildings. Due to this acquisition the weight of Vilnius in BOF's property portfolio increased to 62% of total fair value at the end of 2015 and overtook Tallinn whose weight dropped to 32%. Riga with a single property stood at 6% of total value. Also in March 2015, BOF completed the disposal of Babycenter, a standalone building of 674 sqm acquired together with Lincona office complex in 2011. It was sold for EUR 1.0m. On 31 December 2015 the value for BOF's portfolio amounted to EUR 86.8m and NLA reached 48,651 sqm. For year 2015, a dividend constituting a 7.0% yield on invested equity was declared.

In July 2016, the Fund acquired the sixth property in its portfolio - G4S Headquarters in Tallinn. The property is leased on a long term basis to a global security company G4S. The property was acquired approximately at a 7.5% yield. In August 2016, the Fund acquired the seventh property - Upmalas Biroji which is an office building in Riga. The asset was purchased approximately at a 7% yield. The building is anchored by SEB and CABOT on medium to long term leases and the property is fully leased out. As of 30 September 2016, the Fund's property portfolio had a fair value of EUR 129.2m and rentable area of 70.9 thousand sqm.

### 6.3. INVESTMENT OBJECTIVE AND POLICY

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing primarily in real estate, portfolios of real estate, and/or real estate companies and successfully exiting from these investments. The objective of the Fund is to provide its unit-holders with consistent and above average risk-adjusted returns by acquiring high quality cash flow generating commercial properties with the potential for adding value through active management, thereby creating a stable income stream of high yielding current income combined with capital gains.

The focus of the Fund is to invest, directly or indirectly, in real estate located in Estonia, Latvia, and Lithuania, with a particular focus on the capitals - Tallinn, Riga, and Vilnius - and a preference for city centres within or near the central business districts. The Fund seeks to become the largest commercial property owner in the Baltics. In the longer term it targets to reach a property portfolio size of EUR 1,000m and NAV of EUR 500m in order to maximize unitholder returns through cost efficiencies, increase negotiation power with tenants and sellers of properties and ensure high liquidity of its Units.

The investment strategy of the Fund aims to take advantage of higher property yields in the Baltics. According to Colliers, prime yields for office and retail properties in the Baltic capitals stood at 6.75-7.25% at the end of 2015 (for more information see section 5.2 "Property Markets"). They exceeded yields in Nordic capitals by approximately 2.5% and Warsaw by approximately 1.5%. Higher property yields enable the Fund to generate greater cash returns, which are paid out to unitholders as dividends, and also offer a potential for capital appreciation due to possible compression in the Baltic yields. Dividends are targeted to yield 7-9% of invested equity per annum, payable semi-annually or on a more frequent basis (see section 6.16 "Dividends and Dividend Policy").

The focus on the Baltic commercial real estate is also based on positive leasing trends: low vacancy (5.4% for offices and 1.8% for retail at the end of 2015, Colliers), gradually growing rent rates and a significant and still increasing presence of large international tenants. In addition, rising activity in Baltic property transaction market leads to greater availability of potential acquisition targets which is important for the implementation of the Fund's investment strategy. In 2015 the turnover of property transactions, aggregated for all three Baltic countries, reached EUR 1.4bn – up by more than 60% compared to 2014 and exceeding the previous peak of EUR 1.0bn recorded in 2007.

The Fund's geographical focus on the Baltics is supported by the stable macroeconomic situation in the region. All three Baltic countries are members of the EU and have euro as a national currency. Their economies have been growing at a higher pace than the EU average. Ranked by real GDP growth over 2000-2015 (Eurostat), they are in the top 7 of the fastest expanding members of the EU. The EC forecasts economic growth in the Baltics to continue outperforming the EU average (see section 5.1 "Macroeconomic Overview"). Furthermore, government debt and private debt levels of the Baltic countries are among the lowest in the EU. Whereas the overall EU is forecast by the EC to reach government debt to GDP ratio of 86% in 2017, Estonia's government debt is projected to be only 9% of GDP (the lowest in the EU), Latvia's 38% (the 4th lowest) and Lithuania's 42% (the 7th lowest).

Up to 100% of the assets of the Fund may be invested in real estate and securities related to real estate. The Fund may invest in all types of real estate properties, including retail, office and logistics properties. Up to 20% of the Fund's gross asset value may be invested in other types of properties, such as forward funding development projects and undeveloped land plots. Properties may also include real estate properties experiencing financial or economic distress.

The investments in real estate property are made either directly by acquiring title to the property or indirectly through holding shares in investment vehicles (e.g. special purpose vehicles, joint ventures) that hold title to the property. The Management Company holds investments through a separate investment vehicle for each investment that is made indirectly and aims to hold 100% shares in respective SPV.

The Management Company has, on account of the Fund, the right to guarantee an issue of securities, provide surety, take a loan, issue debt securities, enter into repurchase or reverse repurchase agreements, and conclude other securities borrowing transactions. Subject to the discretion of the Management Company, the Fund aims to leverage its assets and targets a debt level of 50% of the value of its assets. At no point in time may the Fund's leverage exceed 65% of the value of its assets. Loans may be taken for periods of up to 30 years.

In investing in cash-flow-generating properties, the focus of the Management Company is on properties which hold long-term tenants and have opportunities for active asset management. The Management Company seeks to build and maintain a diversified portfolio of properties across cities, segments and tenants.

Investment objective and policy of the Fund may only be amended by amending the Fund Rules under the resolution of the General Meeting. See section 6.6 "Governance Structure of the Fund – General Meeting".

Although the objective of the Fund is to generate positive returns to the Unit-holders, the profitability of the Fund and positive returns for the Unit-holders are not guaranteed.

## 6.4. INVESTMENT RESTRICTIONS

### General

The Fund is a real estate investment fund and the Management Company aims to have adequate flexibility to pursue the investment opportunities available in the market. In addition to the limitations deriving from the investment objectives and policy of the Fund, the IFA and the Fund Rules stipulate restrictions for investing the Fund's assets.

In general, the weighting of each asset class, type of issuer, region and sector in the assets of the Fund shall be determined in the course of the everyday management of the Fund in line with the investment objectives, policy and restrictions. As the purpose of the Fund is to invest in real estate property the acquisition process of which may be time-consuming, and provided further that new capital is raised to the Fund via public or targeted offers of the Units, the Management Company aims to invest any new capital raised to the Fund within a reasonable time period after the new capital is paid in. During that period of time the Fund may not be in line with the investment restrictions. For example, the requirement to invest at least 80% of the assets in real estate property may not be met immediately after new capital has been raised by the Fund until the property investment is made. The Management Company aims to raise new capital only when it has identified specific target investments and has achieved reasonable certainty in acquiring the property or properties.

Risk diversification requirements provided for in the Fund Rules may be temporarily exceeded for reasons outside the control of the Management Company. Exercising a right of pre-emption to acquire securities, a bonus issue, a change in the market value of securities and other such reasons are deemed to be reasons outside the control of the Management Company if the objective of the transactions performed on account of the Fund is to observe the aforementioned requirements, taking into account the interests of the Unit-holders.

In general, in the event of breach of the investment restrictions stipulated in the IFA or in the Fund Rules that have occurred due to reasons outside the control of the Management Company, the Management Company will immediately take action to cure the situation in line with the Fund Rules. The Management Company shall inform investors of any material breach of the investment restrictions and of any actions taken to cure the breach via stock exchange release or by respective notice disclosed on the Website if the Units are not listed on a stock exchange.

### Restrictions on Property Investments

In accordance with the IFA and the Fund Rules, at least 80% of the Fund's assets shall be invested in real estate and securities relating to real estate in accordance with the investment objectives and policy of the Fund. The following are securities relating to real estate:

- the units or shares of a fund which is deemed to be a real estate fund according to the legislation of Estonia or other states;
- the shares of special purpose vehicles whose main activity is direct or indirect (through subsidiaries) investment in real estate or management of real estate;
- derivative instruments the underlying assets of which are securities specified in above.

Securities of investment vehicles (including but not limited to joint ventures, SPVs, other real estate funds) in which the Fund may invest may be registered in any jurisdiction provided that the investment strategy of those investment vehicles is not in conflict with the investment policy and restrictions of the Fund. Shares of SPVs may only be registered in other countries than Estonia, Latvia or Lithuania with prior approval by the Depositary.

The Fund shall meet the following risk diversification requirements:

- up to 50% of the gross asset value of the Fund may be invested in any single real estate property, or in any single real estate fund;
- the annual rental income from one single tenant shall not form more than 30% of the total annual net rental income of the Fund.

Immediately after the Offering, and assuming all Offer Units will be issued and the Upsizing Option is exercised in full, the Fund will have invested approximately 18.1% of its gross assets in Europa SC property. Europa SC and the investment is described in more detail in section 6.9.1 "Property Portfolio – Europa SC" and elsewhere in this Offering Circular where specifically referred to Europa SC or Europa SPV.

For more detailed information on the property investments of the Fund, the valuation of the assets and the costs relating to the acquisition and holding of such property see the following sections of this Offering Circular – 6.9 "Asset Portfolio", 6.7 "Fees and Expenses", 7.7 "Appraiser".

### **Restrictions on Other Types of Assets**

Up to 20% of the Fund's assets may be invested in the following types of assets:

- deposits with credit institutions;
- shares and other similar tradable rights;
- bonds, convertible bonds and other tradable debt obligations issued;
- subscription rights and other tradable rights granting the right to acquire shares or bonds or similar tradable rights;
- money market instruments;
- tradable depositary receipts;
- derivative instruments.

### **Transactions with Derivative Instruments**

Transactions with derivative instruments may be performed on account of the Fund provided that the requirements set forth in legislation, the internal rules of the Management Company for transactions with derivative instruments, and the Fund Rules are met. The assets of the Fund may be invested in derivative instruments only for the purpose of hedging the property loan risks. An agreement, which includes a right or an obligation of the Fund to acquire, swap, or sell real estate, such as forward financing or commitment arrangements, shall not be considered to be a derivative instrument.

### **Other Restrictions**

The Fund may not invest in assets that to a significant degree are used for gambling, pornographic or tobacco producing activities. The Fund shall be considered as having invested into assets that to a significant degree are used for the above activities if the net rental income for the space (square meters) used for the above activities would exceed 10% of the total net rental income of that asset. The Fund shall not solicit new tenants proposing to use the assets for the above activities.

## **6.5. UNITS AND RIGHTS OF THE UNITHOLDERS**

### **General Information on the Units**

The Management Company has the right to issue Units on behalf of the Fund in order to raise capital for investments. Units are issued and held in the registered and book-entry form and no certificates are issued. The Units are registered with the Estonian Central Securities Depository, with ISIN EE3500110244. Units traded on Nasdaq Stockholm will also be held by Euroclear Sweden.

As at the date of this Offering Circular, the Fund has 41,979,150 Units. After the end of the Subscription Period the Management Company will issue New Units at the NAV as at 31 October 2016 in accordance with Fund Rules, taking into account that on 3 October 2016 the Supervisory Board of the Fund approved the issue of up to 86,000,000 new units. After the Offering, and assuming that the Upsizing Option is exercised in full, the total number of Units will be 101,389,150. If the Upsizing Option is not exercised at all, the total number of Units will be 79,110,150. The Units have no nominal value.

Units are issued, and the net asset value per Unit is expressed, in euros.

The Fund has one class of Units and all Units rank *pari passu* without preference or priority among themselves. A Unit represents the unit-holder's share in the assets of the Fund. A Unit-holder cannot request that the common ownership of the Fund be terminated or that the Unit-holder's share be separated from the Fund's assets.

A Unit is divisible. The fractions of Units that emerge from dividing Units are rounded to three decimal points. The following rules are applied for rounding: numbers NNN.NNN0 until NNN.NNN4 are rounded down to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded up to NNN.NN(N+1). However, trading in Units on any trading venue where the Units are admitted to trading may occur only in whole number of Units, unless fractions of Units can be traded under the rules of the trading venue. The Management Company aims to issue new Units in a way that an investor can subscribe only for a whole number of Units without fractions, unless otherwise specified in the terms and conditions of the specific issue of Units.

Units are freely transferable and can be freely pledged or otherwise encumbered by a Unit-holder subject to the rules of respective marketplace where the Units are admitted to trading, and also subject to the rules of the Registrar and respective securities account provider of a Unit-holder.

The exchange of Units with fund units of other funds managed by the Management Company is not allowed.

## **Unit-holders**

According to the Register as maintained by the Registrar, at the date of this Offering Circular there are 81 unit-holders. However, the number of ultimate unit-holders (including nominee registered Units) are considered to be between 200-250. The largest Unit-holder of the Fund is Svenska Kyrkans Pensionskassa, Försäkringsförening holding 19.2% of the total number of Units.

After the completion of the Offering, and assuming that the Upsizing Option is exercised in full, Svenska Kyrkans Pensionskassa, Försäkringsförening, the largest Unit-holder of the Fund, is expected to hold 8.0% of total Units. If the Upsizing Option is not exercised at all, Svenska Kyrkans Pensionskassa, Försäkringsförening, the largest Unit-holder of the Fund, is expected to hold 10.2% of total Units. According to the Estonian law, Unit-holders are not subject to notification requirements of their holdings or of the voting rights arising from the Units.

## **Issue, Redemption and Purchase of Units**

Units are not available for subscription at all times. In order to raise new capital to the Fund, the Management Company may issue new Units through a public offering or a private placement. Units are issued and offered only during specific times determined by the Management Company. Investors and unit-holders may acquire Units through trading on the securities market where the Units have been admitted to trading, or otherwise from other unit-holders.

The issue of new Units may be determined by:

- the General Meeting, or
- the Management Company, if it has received approval from the Supervisory Board and if new Units will be issued at the most recent NAV.

New Units shall be issued in accordance with the Fund Rules and applicable laws and regulations and the terms and conditions of the specific issue. The terms and conditions of the Offering are determined by the Management Company. In order to acquire Units, an investor must subscribe for the Units and pay the full subscription price. By submitting the subscription order an investor agrees to the Fund Rules and to the terms and conditions of the specific issue of Units, and undertakes to adhere thereto.

The Units are not redeemable at the request of the Unit-holder. The Units are redeemed upon liquidation of the Fund. In accordance with regulations or precepts or orders by competent authorities or courts, the Management Company may be obliged to redeem Units. For example, if a Unit-holder is acting in violation of applicable laws and regulations.

In accordance with the Fund Rules, the Management Company is entitled to purchase Units on account of the Fund, provided that:

- such transactions are, or the purchase plan is, approved by the General Meeting. After the Units have been admitted to trading, the Management Company has the right to decide the purchase of the Units on account of the Fund within 1 month for the purposes of stabilisation in accordance with European Commission Delegated Regulation (EC) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures;
- the aggregate number of Units bought back and held by the Fund shall not exceed 10% of the total number of Units at any time;
- Units held by the Fund shall not grant any unit-holder rights to the Fund or to the Management Company;
- any purchase shall be executed in accordance with applicable legislation and with the rules of the trading venue; and
- the Management Company shall either cancel or sell the Units within 3 months after the purchase.

## **Rights of the Unit-holders**

The rights and obligations attached to a Unit with respect to a unit-holder shall enter into force upon acquisition of a Unit and shall terminate upon disposal or redemption of a Unit. Each unit-holder is deemed to have agreed to the Fund Rules by subscribing for new Units or upon the Units have been credited to the securities account of the Unit-holder as a result of a trade with a third person.

In accordance with the Fund Rules, a Unit-holder has the following rights deriving from the Units:

- to purchase, sell, pledge or otherwise dispose of the Units;
- to own the share of the Fund's assets corresponding to the number of Units owned by the Unit-holder;
- to receive, when payments are made, pursuant to the Fund Rules, the share of the cash flows of the Fund proportional to the number of Units owned by the Unit-holder;
- to receive, pursuant to the Fund Rules, the share of the assets remaining upon liquidation of the Fund proportional to the number of Units owned by the Unit-holder;
- to convene a General Meeting of Unit-holders in accordance with the Fund Rules and the law;
- to participate and vote in the General Meeting pursuant to the number of votes;
- to propose Supervisory Board member candidates for election in the General Meeting;
- to request that the Registrar issue a certificate or an extract from the Register concerning the Units owned by the Unit-holder;
- to demand that the Management Company compensate for any damage caused by a breach of its obligations;
- to access, at the registered address of the Management Company, the documents and information specified in the Fund Rules and receive, upon respective request, copies of any of the documents specified in the Fund Rules without charge;
- to exercise other rights and take other action as prescribed by law or the Fund Rules.

A Unit-holder must exercise the rights attached to the Units in good faith and in accordance with legislation and the Fund Rules. The objective of exercising the rights of a Unit-holder may not be causing damage to other Unit-holders, the Fund, the Management Company, the Depositary or third persons.

A Unit-holder is not personally liable for the obligations of the Fund, assumed by the Management Company on account of the Fund, or for obligations the performance of which the Management Company has the right to demand from the Fund pursuant to the Fund Rules. The liability of the Unit-holder for performance of such obligations is limited to the Unit-holder's share in the assets of the Fund.

A Unit-holder shall pay any transaction fees and service charges which may be demanded by brokers, custodians or other intermediaries (including the Registrar and Euroclear Sweden) upon purchase or sale of Units.

## **Register of the Units**

Units shall be issued and registered in the Unit-holder's securities account at the Register on the payment date specified in the terms and conditions of respective issue. Units traded on Nasdaq Stockholm are also held by Euroclear Sweden. Such Units will be registered in the Unit-holder's securities account or a custodian account.

A Unit is deemed issued upon registration thereof with the Register and a Unit is deemed redeemed upon cancellation thereof with the Register. Units acquired by an investor shall be registered in the investor's or in a nominee holder's, acting on the account of the investor, registry account in the Register.

The register of the Units is maintained by the Registrar. See section 7.5 "The Registrar".

## **6.6. GOVERNANCE STRUCTURE OF THE FUND**

In accordance with the Fund Rules and the IFA, the governance of the Fund is divided among the Management Company, the General Meeting of Unit-holders and the Supervisory Board.

### **The Management Company and the Fund Manager**

The Management Company is responsible for the everyday management of the Fund, including investment activities.

For more detailed description of the Management Company, its responsibilities and the Fund Manager, see section 7.2 "The Management Company".

## **The General Meeting of Unit-holders**

### **Responsibility**

In accordance with the Fund Rules, the General Meeting is entitled to resolve the following matters:

- issue new Units;
- amend the procedure for the making of distributions to Unit-holders;
- approve and recall the members of the Supervisory Board and determine the remuneration of the members;
- change the Management Company at the initiative of the Unit-holders;
- liquidate the Fund;
- amend the procedure for the redemption of Units;
- increase the Management fee and Depositary fee and other fees and charges payable on account of the Fund;
- decide on the merger and transformation of the Fund unless otherwise provided by the IFA;
- amend the fundamental principles of the investment policy of the Fund;
- establish a term for the Fund and amending the term, if established;
- amend the Fund Rules;
- purchase of Units on account of the Fund.

### **Convening the meeting**

The Management Company shall convene the General Meeting at least once a year, after the Management Company has approved the annual report of the Fund. In addition to the annual meeting, the Management Company shall convene the General Meeting as often as there is a need. The Management Company shall convene the General Meeting within 6 months after the Units have been de-listed and the Management Company has not succeeded in having the Units re-admitted to trading.

The FSA or Unit-holders whose Units represent at least 1/10 of the votes are entitled to request the Management Company to convene the General Meeting and to propose issues to be included in the agenda of the General Meeting. If the Management Company does not convene the General Meeting within one month after receipt of a request, the FSA or Unit-holders have the right to convene the General Meeting themselves.

Notice of the General Meeting shall be published at least three weeks in advance. A notice convening a General Meeting is published on the Website and via a stock exchange release. At the same time as the publication of a notice, if the IFA so stipulates, it also shall be published in at least one of the daily national (Estonian) newspapers.

### **Participation and voting in the meeting**

Only a Unit-holder, who is a registered unit-holder in the Register, or a representative of the Unit-holder, who has been granted an authorisation document in writing, may participate in a General Meeting. The participation of a representative shall not deprive the Unit-holder of the right to participate in the General Meeting. To participate in a General Meeting, a Unit-holder is required to have Units registered in its name in the Register as at ten days before the date of the General Meeting.

A list of the Unit-holders participating in a General Meeting including the names of the Unit-holders, the number of votes attached to their Units, and the names of the representatives of the Investors, is prepared at the General Meeting. The list shall be signed by the chair of the General Meeting, the secretary of the meeting, and each Unit-holder or his or her representative participating in the General Meeting. The authorisation documents of representatives shall be appended to the minutes of the General Meeting.

At the General Meeting, Unit-holders may adopt resolutions if more than 1/2 of the votes represented by the Units are present. If there are less than, or equal to, 1/2 of votes represented at the General Meeting, the Management Company may, within three weeks but not earlier than after seven days, convene another General Meeting with the same agenda. The new General Meeting is permitted to adopt resolutions regardless of the number of votes represented at the meeting, unless a higher quorum is required under the Fund Rules.

Each Unit shall carry one vote in the General Meeting.

A resolution of the General Meeting shall be adopted if more than 1/2 of the votes represented at the General Meeting are in favour, unless greater majority requirement is prescribed in the Fund Rules.

More than 3/4 of the votes represented by the Units shall be present and more than 4/5 of the votes represented at the General Meeting shall vote in favour to adopt resolutions in matters related to:

- amending the procedure for the making of distributions to Unit-holders;
- liquidation of the Fund;
- amending the procedure for the redemption of Units;
- deciding on the merger and transformation of the Fund unless otherwise provided by the IFA;
- deciding to amend the fundamental principles of the investment policy of the Fund;
- establish a term for the Fund and amending the term, if established
- amending the Fund Rules.

More than 3/4 of the votes represented by the Units shall be present and more than 4/5 of the votes represented at the General Meeting, excluding votes represented by the Management Company and its related parties, and also excluding votes represented by any Unit-holder holding, directly or indirectly via its related persons, more than 50% of all Units, shall vote in favour to adopt a resolution regarding the change of the Management Company at the initiative of the Unit-holder(s).

In addition, a resolution on amending the procedure for the redemption of Units may only be taken together with a resolution on liquidation of the Fund.

The Management Company and its related parties who hold Units and are participating in the General Meeting shall abstain from voting in all issues where there is a potential conflict of interest between the Fund and the Management Company, including but not limited to voting on raising the management fee.

## **The Supervisory Board**

### **Responsibility**

The Supervisory Board acts solely in the advisory capacity and the Management Company shall remain responsible for making the decisions in connection with the fund management. It is the responsibility of the Supervisory Board to consult the Management Company on, and the Management Company shall address to the Supervisory Board, the following matters:

- the approval of an appraiser for the valuation of real estate in the Fund to be appointed by the Management Company;
- the approval of an auditor of the Fund to be appointed by the supervisory council of the Management Company;
- the approval of the depositary bank of the Fund to be chosen by the Management Company;
- the approval of the issue of new Units under the Fund Rules;
- any issues that may involve conflicts of interest related to the Fund;
- any other issues in accordance with the Fund Rules.

Supervisory Board members are entitled to remuneration for their service in the amount determined by the General Meeting. Immediately after the registration of the Fund and appointment of the first Supervisory Board members, the chairman of the Supervisory Board is entitled to an annual remuneration of EUR 16,000 and a regular member is entitled to an annual remuneration of EUR 11,000. Supervisory Board members are not entitled to any benefits from the Fund or the Management Company upon termination of their position.

### **Composition and Term**

In accordance with the Fund Rules, members of the Supervisory Board are appointed by the General Meeting. The Supervisory Board shall consist of three to five members. The following principles shall be followed when appointing the Supervisory Board members:

- a member shall have recognized experience in the real estate market(s) in Estonia, Latvia, or Lithuania, an impeccable business reputation, and an appropriate education;
- only one of the members may be related to the Management Company, i.e. the person is a member of the Management Board or Supervisory Council or shareholder of the Management Company or of any other company belonging to the same consolidation group with the Management Company, or is otherwise related to or appointed by the Management Company;
- at least one of the members should represent Unit-holders who are not related to the Management Company and are not related to the ten largest Unit-holders in terms of Units held as of ten days before the date of the General Meeting, or be an independent member not related to any Unit-holder.

The members of the Supervisory Board shall be appointed for a period of at least two years.

At the date of the Offering Circular, the members of the Supervisory Board are:

<b>Name</b>	<b>Born</b>	<b>Affiliation</b>	<b>Professional experience</b>	<b>Date of Appointment</b>
Andris Kraujins	1963	<i>Independent</i>	Several years of investment and real estate management experience in the Baltics	2 June 2016
Per Møller	1967	<i>Independent</i>	Several years of experience in audit services, asset management and real estate investments in the Nordics and the Baltics	2 June 2016
Raivo Vare	1958	<i>Independent</i>	Several years of experience in financial, transit and logistics and real estate sectors in the Baltics	2 June 2016

The following table sets out current and past directorships held by the Supervisory Board members over the past five years:

<b>Name</b>	<b>Former positions</b>	<b>Current positions</b>
Andris Kraujins	BOF, Member of the Investment Committee	AKCI SIA, member of board, founder MAK AUTO SIA, member of board, founder Cerfs SIA, member of board Sievietes veselības centrs SIA, Chairman of board, founder
Per Møller	Dansk Farm Management A/S, Chairman of the Board Ernst & Young, Denmark, Partner	Blue Lime Labs UAB, founder Baltic Assist UAB, founder VoiceBoxer ApS, Chairman of the Supervisory Board Volt ApS, Chairman of the Supervisory Board Flextown ApS, Member of the Supervisory Board Infotrust P/S, Member of the Supervisory Board Business Angel Copenhagen, Member of the Board
Raivo Vare	AS Trigon Wealth Management, Member of the Supervisory Board AS SmartCap, Chairman of the Supervisory Board  Counci(Curatorium) of the University of Tartu, Member OÜ RVVE Group, Member of the Supervisory Board  A/S Trigon Agri, Member of the Board of Directors  Superia OÜ, Member of the Supervisory Board  Transit Commission of the Estonian Ministry of Transport and Communications, Member	Live Nature OÜ, Partner, Member of the Management Board AS Sthenos Grupp, Partner, Chairman of the Supervisory Board AS Eesti Raudtee, Chairman of the Supervisory Board Trigon Dairy Farming Estonia AS, Member of the Supervisory Board AS Smart City Group, Member of the Supervisory Board AS Mainor Ülemiste, Member of the Supervisory Board Õpiku Majad OÜ, Member of the Supervisory Board 3D Technologies R&D AS, Member of the Supervisory Board Estonian Business School, Member of the Advisory Council President's Academic Advisory Board, Member Estonian Cooperation Assembly, Member of the Supervisory Board

**Andris Kraujins.** Mr. Kraujins, born 1963, is the member of the Supervisory Board of the Fund. During the last ten years, Mr. Kraujins has acted as a private investor investing into different projects in health care, food processing, financial and hi-tech sectors. He graduated from Riga Technical University, Faculty of Automation and Computing Technique in 1986. In 1991, Mr. Kraujins graduated from Institute of International Relations at the University of Latvia.

**Per Møller.** Mr. Møller, born 1967, is the member of the Supervisory Board of the Fund. Per Møller is active in providing funding to start-up companies and also in offering his management expertise to entrepreneurs and executives. He has long-standing experience at Ernst & Young, Denmark, in transaction advisory, restructuring and reorganization as well as assurance/audit with companies in Denmark and the Baltics. Prior to joining Ernst & Young, Mr. Møller acted as the Managing Partner in Arthur Andresen & Co, Baltics. He graduated from Baltic Management Institute, International Executive MBA, in 2000 and from Copenhagen Business School, M.Sc. in Business Economics and Auditing, in 1991.

**Raivo Vare.** Mr. Vare, born 1958, is the member of the Supervisory Board of the Fund. Raivo Vare is a well-recognised expert in the areas of infrastructure, logistics and corporate strategy. He has many managerial positions both in private and listed companies. Mr. Vare graduated from Law Faculty of University of Tartu (summa cum laude) in 1980, and from the Executive MBA programme of Estonian Business School (cum laude) in 2003.

The Management Company is not aware of any compulsory liquidations of companies in which any of the members of the Supervisory Board has acted as a member of the administrative, management or supervisory body or as a senior manager. The Management Company is not aware of any convictions in relation to fraudulent offences, bankruptcies, receiverships or any official public incrimination and/or sanctions with respect to the members of its Supervisory Board. The Management Company is not aware of any potential conflicts of interest between the duties of the members of its Supervisory Board and their private interests or other duties.

### **Meetings of the Supervisory Board**

A meeting of the Supervisory Board shall be convened by the Management Company at least once in a quarter. Each member of the Supervisory Board and the Fund Manager(s) has the right to convene a meeting. The Supervisory Board has the right to pass decisions without convening a meeting in case all the Supervisory Board members agree not to convene a meeting.

The Supervisory Board is entitled to pass decisions if more than half of the members take part in the meeting. A decision of the Supervisory Board shall be adopted if more than half of the members present at the meeting vote in favour of the decision. In case the Supervisory Board adopts decisions without convening a meeting a decision shall be adopted if more than half of the members vote in favour of the decision.

### **Board Practices in the Management of SPVs**

In order to make indirect investments in real estate property, the Management Company shall establish a special purpose entity separately for each investment. The Fund owns SPVs that have been established in the form of private limited companies in accordance with local company law (i.e. *osaühing (OÜ)* in Estonia, *sabiedrība ar ierobežotu atbildību (SIA)* in Latvia, and *uždaroji akcinė bendrovė (UAB)* in Lithuania). For more details on the SPVs, see section 6.9.1 “Property Portfolio”.

The Management Boards of the SPVs are usually composed of two to three members, appointed by the Management Company. Management Board of the SPVs can include a representative from the Fund’s property management service provider. See further in section 7.8 “Property Management Service”. The everyday management of a SPV and the property will usually be the responsibility of one of the board members or the general director, if appointed. However, in order to ensure adequate risk management and informed decision-making, a Management Board member or the general director of a SPV may represent the SPV only together with another board member.

The Management Board members shall not be paid any remuneration, unless it is mandatory under local legislation. If the remuneration is mandatory under local legislation, a minimum salary under the law shall be paid. There are no, and is not expected to be, benefits foreseen in the service contracts with the Management Board members upon termination of employment or service.

## **6.7. FEES AND EXPENSES**

In accordance with the Fund Rules, a Management fee, a Performance fee, a Depositary fee and certain expenses are paid on the account of the Fund. In addition, a fee for the services of Depositary is paid on the account of the Fund. The total amount of fees and other expenses paid out of the Fund (including out of SPVs) shall not exceed 30% of the NAV of the Fund per calendar year. Only the expenses specified in the Fund Rules can be paid on the account of the Fund.

Management fee and Performance fee shall be calculated by the Management Company and paid in euros in accordance with respective invoice issued by the Management Company. The Depositary fee is calculated by the Depositary and paid in euros in accordance with respective invoice issued by the Depositary. Expenses are paid in currencies in which respective invoice has been issued. Fees and expenses are paid out of the Fund or directly by the SPVs in relation to which such fees or expenses have occurred to the extent that is allowed under applicable legislation. Value added tax (if applicable) is added to the fees and expenses.

## Management fee

The Management Company shall be paid a management fee on account of the Fund for managing the Fund ("Management fee"). The Management fee shall be calculated as follows:

- the Management fee shall be calculated quarterly based on the 3-month average market capitalisation of the Fund. After each quarter, the Management fee shall be calculated on the first Banking Day of the following quarter (the "Fee Calculation Date"). Quarters shall mean 3-month periods that start on 1 January, 1 April, 1 July, and 1 October.

(Average market capitalisation shall mean the average closing prices of all days in the previous 3 month period multiplied with the respective daily number of the Units outstanding on the marketplace(s) where Units are admitted to trading (the "Market Capitalisation")).

- the Management fee shall be calculated based on the following rates and in the following tranches:
  - 1.50% of the Market Capitalisation below EUR 50 million;
  - 1.25% of the part of the Market Capitalisation that is equal to or exceeds EUR 50 million and is below EUR 100 million;
  - 1.00% of the part of the Market Capitalisation that is equal to or exceeds EUR 100 million and is below EUR 200 million;
  - 0.75% of the part of the Market Capitalisation that is equal to or exceeds EUR 200 and is below EUR 300 million;
  - 0.50% of the part of the Market Capitalisation that is equal to or exceeds EUR 300 million.
- the Management Fee shall be calculated after each quarter as follows:
  - the Market Capitalisation as calculated on the Fee Calculation Date, split into the tranches and each tranche of the Market Capitalisation (M<sub>Cap<sub>i</sub></sub>) multiplied by
  - respective fee rate (F<sub>n</sub>) applied to the respective tranche, then the aggregate of the fees from each tranches multiplied by
  - the quotient of the actual number of days in the respective quarter (Actual<sub>q</sub>) divided by 365 days per calendar year, as also indicated in the formula below

$$((M_{Cap_1} \times F_1) + \dots + (M_{Cap_5} \times F_5)) \times (Actual_q / 365)$$

- 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. In this case, the NAV of the Fund means the average quarterly NAV of the Fund and such Management Fee adjustments shall be calculated and paid annually after the annual report of the Fund for the respective period(s) has been audited.

For periods during which the Units are not traded on any marketplace, the Management fee shall be calculated and paid quarterly based on the average NAVs over preceeding 3 months. Management fee adjustments, if any, shall be made annually after the annual report of the Fund for the respective period(s) has been audited.

The Management Fee shall be paid to the Management Company quarterly within 5 Banking Days after the issue of the invoice by the Management Company.

## Performance fee

For each year, if the annual adjusted funds from operations of the Fund divided by the average paid in capital during the year (calculated on a monthly basis) exceeds 8% per annum, the Management Company is entitled to a performance fee in the amount of 20% of the amount exceeding 8% ("Performance fee"). The adjusted funds from operations shall mean 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.

The Performance fee is calculated annually by the Management Company and is accrued to the Performance Fee reserve. Once the Performance Fee reserve becomes positive, the Performance fee can be paid to the Management Company. The Performance fee for a year can be both positive and negative. However, the Performance fee for the year shall not exceed 0.4% of the Fund's average NAV per year (upper Performance fee limit). Negative Performance Fee shall not be less than -0.4% of the Fund's average NAV per year (lower Performance fee limit).

A Performance fee for the first year of the Fund (i.e. 2016) shall not be calculated. The Performance fee first becomes payable in the fifth year of the Fund (i.e. 2020) for the period of 2017, 2018, and 2019. After that, the Performance fee shall be payable annually, depending on the accrued Performance fee reserve over the period starting from the second year of the Fund (i.e. 2017).

The Performance fee shall be paid to the Management Company within 8 calendar days after the issue of the invoice by the Management Company.

### **Depositary Fee**

The annual Depositary fee will be 0.03% of the GAV, but not less than EUR 10 thousand per annum. The Depositary fee shall be calculated monthly and paid to the Depositary on the basis of an invoice submitted by the Depositary. In addition to the Depositary fee, the Depositary shall be paid or reimbursed for fees and out-of-pocket expenses related to the transactions made on account of the Fund.

### **Other Expenses**

The following other expenses are payable on account of the Fund:

- fees for property management services;
- fees and costs related to the administration and maintenance of real estate properties belonging, directly or indirectly, to the Fund;
- costs (including interest costs) relating to borrowing by the Fund or SPV;
- costs for the valuation of real estate belonging, directly or indirectly, to the Fund (when related to the regular valuation pursuant to the Fund Rules);
- costs and expenses related to set-up, restructuring, and liquidation of the Fund, including fees of external consultants;
- the Registrar's fees for registering Units and for other services provided by the Registrar to the Unit-holders (when not payable directly by the Unit-holders);
- remuneration payable to Supervisory Board members;
- costs related to convening and holding General Meetings;
- costs related to convening and holding Supervisory Board meetings;
- costs for translating regular Investor notifications and reports that are required under legislation or the Fund Rules;
- costs for the Fund's and SPVs' tax planning/tax structuring and tax advice, unless related to a direct or indirect acquisition of real estate by the Fund;
- fees for the auditing of the annual reports of the Fund and SPVs;
- costs of accounting and preparing the quarterly, semi-annual, and annual reports of the Fund and SPVs, including tax statements and tax returns;
- tenant brokerage fees related to real estate belonging, directly or indirectly, to the Fund;
- insurance costs and property taxes related to real estate belonging, directly or indirectly, to the Fund;
- fees for marketing services related to the Fund and real estate belonging, directly or indirectly, to the Fund, including expenses in relation to the marketing and distribution of the Fund;
- costs and fees related to the listing of the Fund pursuant to the Fund Rules;
- all other operational and financial expenses attributable to investments of the Fund, including but not limited to capital expenditures;
- damages reimbursable in connection with the real estate investments of the Fund and with the management of such property;
- other charges concerning the Fund and the SPVs associated with the sourcing, acquisition, managing, valuation (including by independent property appraisers), structuring, holding, and disposal of the investments, including costs and expenses related to the formation, maintenance, disposal and/or liquidation of SPVs, and costs and expenses related to contemplated but unconsummated investments (including in SPVs);
- bank fees, commissions, fees associated with depositing or pledging securities, securities account management fees, state duties, advisory services, legal fees, adjudication fees, fees for address services, representation and publicity expenses, delivery of documents, translation, administration and management fees paid to persons not associated with the Management Company, provided that such costs are related to the activities of the Fund or SPVs;
- salaries (to the extent employment is legally required) related to chief executive officers/directors of any SPV, as long as such salaries are set at the minimum required level;

- the costs of reasonable directors' and officers' liability insurance on behalf of the members of the Supervisory Board and the members of the board of directors of the Fund's SPVs;
- the costs incurred in connection with any litigation, arbitration, or other proceedings in relation to the Fund's assets, including any such proceedings in relation to assets held by SPVs;
- all expenses related to entering and exiting investments (i.e. expenses related to the acquisition and disposal of real estate as well as shares of SPVs and other assets of the Fund as well as broken deal expenses), including, without limitation, state duties, notary fees, fees for real estate valuations by certified appraisers (when related to entering and exiting investments), fees for legal, tax, and other due diligence investigations directly related to the acquisition of real estate;
- taxes to be added to costs provided in above.

In addition, the Fund covers also investment costs related to preserving the value of its real estate properties (including, without limitation, costs related to improvements and repair). Among others, such investment costs include construction costs, development costs and fees, brokerage fees, architects' fees, fees related to detail planning and other consultants' costs. Investment costs are not considered to be expenses, but rather as investments of the Fund.

## 6.8. VALUATION

The net asset value of the Fund shall be determined based on the aggregate market value of the securities (including shares of SPVs), other property and rights belonging to the assets of the Fund from which claims against the Fund are deducted (the "NAV"). If it is not possible to determine market value of the assets, the value of the assets shall be determined on the basis of their probable sales price which has been determined reasonably, in good faith and proceeding from the best interests of Unit-holders and for which independent and competent parties would agree to conclude the transaction (fair value). The assets of the Fund are securities (including shares of SPVs), other things and rights belonging to the Fund. The NAV of a Unit equals the NAV of the Fund divided by the number of Units issued and not redeemed as at the point of valuation. The Management Company is responsible for determining NAV of the Fund and of a Unit. The NAV of the Fund and of a Unit shall be calculated in euros and they shall be calculated monthly as of last banking day of each calendar month. The NAV of the Unit shall also be calculated as of each day when Units are issued. The valuation is conducted in accordance with the Valuation Policy of the Management Company, Fund Rules and Internal Rules for Determination of the NAV of the Fund.

The main valuation principles for real estate property belonging to the Fund are the following:

- (i) to determine the market value of real estate property belonging to the Fund, the Management Company shall ensure appraisal of such property at least once a year as at the end of the financial year and prior to auditing of the Fund's annual report;
- (ii) any real estate belonging to the Fund shall be appraised by one independent real estate appraiser appointed by the Management Company after consultation with the Supervisory Board. See section 7.7 "Appraiser";
- (iii) report prepared by the real estate appraiser shall be accompanied with Management Company's internal valuation statement.

The NAV of the Fund and of a Unit as of each last banking day of each calendar month, and issue price of a Unit shall be made available on the Website, by a stock exchange release disclosed on the website of the trading venue where the Units are admitted to trading, and at the registered office of the Management Company on the 15th day of the month following each calendar month.

In the event of inaccuracies in the NAV, which were caused by miscalculations or errors made in the determination of the NAV, the circumstances that caused the miscalculation or error shall be ascertained. The permitted error margin for the NAV of a Unit is 3% of the correct NAV of the Unit. Damage caused to Unit-holders by an error exceeding 3% in the determination of the NAV shall be compensated to Unit-holders on account of the Fund either by issuing new Units or in money from the surplus assets of the Fund.

The Management Company may suspend the determination of the NAV during the existence of any state of affairs which constitutes an emergency as a result of which disposals or accurate valuation of a substantial portion of the assets owned by the Fund would be impracticable or when, for any other reason, the prices of any investments owned by the Fund cannot be promptly or accurately ascertained provided the suspension is justified with regard to the interests of Unit-holder. The suspension of the determination of the NAV of the Fund will be announced on the Website.

## 6.9. ASSET PORTFOLIO

On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF including its property portfolio of 5 commercial properties located in the Baltic capital cities. By investing proceeds from the capital raising completed on 29 June 2016, the Fund acquired two more properties: G4S Headquarters in Tallinn on 12 July 2016 and Upmalas Biroji in Riga on 30 August 2016. The following sections provide a detailed analysis of the Fund's property portfolio as of 30 September 2016 – the date for which the

most recent property valuations were performed. Financial information for this date has not been audited or reviewed by independent auditors.

Properties owned by the Fund are valued at fair value based on independent appraisals which are carried out at least once a year with a valuation date of 31 December. For more details on independent appraisers see section 7.7 “Appraiser”. The most recent independent appraisals were carried out for all properties for the valuation date of 30 September 2016. The corresponding condensed property valuation reports are disclosed in Appendix K.

### 6.9.1. Property Portfolio

The Fund currently owns a portfolio of 7 commercial properties all of which are based in the capital cities of the Baltic States. As of 30 September 2016 total size of the Fund’s property portfolio amounted to 70.9 thousand sqm of rentable area and EUR 129.2m of fair value. Europa SC was the largest holding accounting for 29% of the portfolio’s value. Upmalas Biroji, the latest acquisition, was the second largest asset constituting approximately 18% of total fair value followed by G4S Headquarters and Domus Pro each comprising 13% of the portfolio’s value.

The Fund took over BOF’s portfolio of 5 buildings as a result of the merger with BOF on 30 June 2016. By the end of August 2016 two more properties, G4S Headquarters in Tallinn and Upmalas Biroji in Riga, were acquired by investing proceeds from the public offering completed on 29 June 2016. The portfolio obtained from BOF has been built up from scratch since the inception of BOF at the end of 2010. The first acquisition, Lincona office complex in Tallinn, took place in July 2011. Sky Supermarket in Riga and Coca Cola Plaza in Tallinn were bought at the beginning of 2013. In May 2014 the acquisition of Domus Pro in Vilnius was finalized. Europa SC in Vilnius, the last addition to the BOF’s portfolio, was acquired in March 2015.

**Table 20: Details of existing property portfolio, 30 September 2016**

Property	Acquisition date	Location	Sector	Rentable area, sqm	Fair value, EUR'000	Vacancy	WAULT, years	Number of tenants
Europa SC	2-Mar-2015	Vilnius	Retail	16,856	38,000	2.1%	3.8	73
Upmalas Biroji	30-Aug-2016	Riga	Office	10,846	23,530	0.0%	4.6	13
G4S Headquarters	12-Jul-2016	Tallinn	Office	9,179	16,800	0.0%	6.1	1
Domus Pro	1-May-2014	Vilnius	Retail	11,247	16,740	1.5%	6.1	25
Lincona	1-Jul-2011	Tallinn	Office	10,859	15,700	7.9%	4.4	14
Coca Cola Plaza	8-Mar-2013	Tallinn	Leisure	8,664	13,000	0.0%	6.5	1
Sky Supermarket	1-Jan-2013	Riga	Retail	3,263	5,430	0.1%	4.4	24
<b>Total</b>				<b>70,914</b>	<b>129,200</b>	<b>1.9%</b>	<b>4.9</b>	<b>151</b>

Low level of vacancy – 1.9% for the overall portfolio in September 2016 – indicated strong demand for space at Fund’s properties. Upmalas Biroji, G4S Headquarters and Coca Cola Plaza had no vacant space. It is important to note that G4S Headquarters and Coca Cola Plaza are single tenant-properties – they are fully leased to G4S, a global security firm, and Forum Cinemas, a cinema operator, respectively. On the other hand, these two properties had the longest WAULTs in the portfolio exceeding 6 years. Sky Supermarket effectively had no free space either. Vacant premises comprised around 1.5% of rentable area in Domus Pro and 2.1% in Europa SC. Vacancy rate at the remaining property, Lincona, was slightly higher at 7.9% respectively.

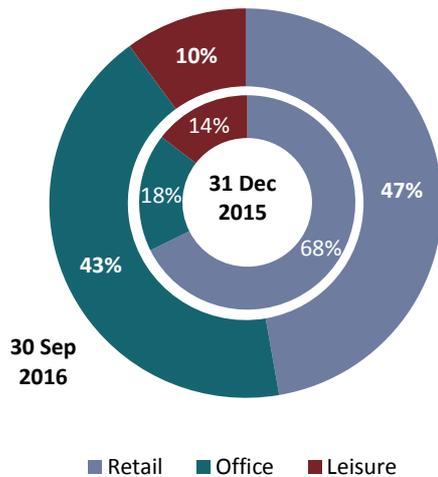
Remaining lease term was in line with Fund’s targets. As of 30 September 2016 the portfolio’s WAULT stood at 4.9 years – at the same level as at the end of 2015. Of all holdings, Coca Cola Plaza had the longest remaining lease term of 6.5 years followed by G4S Headquarters and Domus Pro, both with 6.1 years remaining. The lowest WAULT was 3.8 years of Europa SC.

The Fund had 151 tenants in total at the end of September 2016. Of that, approximately half (or 73 tenants) was renting space at Europa SC – the largest property in the portfolio. In contrast, cinema complex Coca Cola Plaza and G4S office both had a single tenant. Two neighborhood shopping centers in the Fund’s portfolio, Domus Pro and Sky Supermarket, each had more than 20 tenants. Finally, 13 and 14 companies were leasing space at Upmalas Biroji and Lincona office buildings respectively.

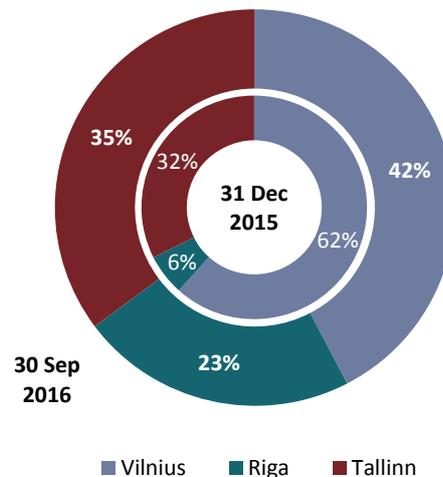
For more information on the structure of lease maturities and tenants concentration see subsection 6.9.2 “Tenants, Lease Contracts and Property Management”.

Thanks to the two property acquisitions carried out after the public offering, the composition of Fund’s property portfolio became more diversified both in terms of sectors and locations. Compared to the end of 2015, the weight of office sector in the portfolio grew to 43% of total fair value from 18% reducing retail sector’s weight to 47% from 68%. Location-wise, the weight of Riga, where now two properties are based, went up to 23% from 6% while Vilnius’ weight dropped to 42% from 62%. Tallinn retained a similar position in the portfolio constituting 35% of the portfolio value at the end of September 2016.

**Figure 34: Property portfolio value breakdown by sector**



**Figure 35: Property portfolio value breakdown by location**



All assets in the portfolio were operational and generating rent revenue. Construction of the 3,700 sqm second stage of Domus Pro SC was completely finalised in May 2016 and Fitus, a health and fitness club, moved in taking up 2,200 sqm of space. The expansion is fully leased out. What is more, the management of the Fund has been preparing for the development of the third stage at Domus Pro. Its project is a 6-story building with 4,380 sqm of rentable area. Construction is planned to begin in autumn 2016 and be completed in one year.

Neither currently nor in the past any environmental issues have been identified in relation to the Fund's property portfolio. In each property acquisition the Management Company has in all circumstances used third party consultants to perform environmental due diligence. The Fund including all the properties it owns is in compliance with all relevant environmental laws and regulations.

#### Europa SC

Europa SC is the largest asset in the Fund's property portfolio. As of 30 September 2016, the property comprised 29% of the portfolio's total fair value. With 16,856 sqm of leasable space Europa SC is one of the largest shopping malls in Vilnius. It was built in 2004 together with a connected office tower (known as Europa Business Centre) by Hanner AB, a Lithuania-based construction and real estate development group, which still owns the adjacent office tower. At the completion of construction the SC was purchased by BPT Secura AS, a private real estate fund managed by Northern Horizon Capital group, which held the property for more than 10 years. As BPT Secura AS was nearing its fund term, it launched a sale tender process for Europa SC. BOF won the process leading to the acquisition of the property in March 2015.

Compared to other large shopping malls in Vilnius, Europa SC is the most centrally located. Its location in the very heart of CBD means that its catchment area includes surrounding office towers/complexes such as Europa Business Centre, 3 Bures, Vilnius Municipality, Swedbank's Lithuanian headquarters, K29 and newly built Quadrum Business City. In addition, there are three large hotels, Radisson Blu, Best Western and Holiday Inn, closely located enabling Europa to attract tourists.

The location of Europa SC has solid future potential too. The number of people working in its catchment area will continue growing since there is still plenty of undeveloped space around Konstitucijos avenue, the artery of Vilnius CBD. Construction of 30,000 sqm Quadrum Business City was completed in September 2016 bringing Lithuanian headquarters of DNB, the third largest bank in the country, to CBD. In 2016 East Capital initiated construction of a 13,000 sqm office tower, the third one in its 3 Bures complex which is located next to Europa SC. What is more, Lords LB is preparing to build a 19,000 sqm office tower just on the opposite side of Konstitucijos avenue to Europa SC. Development of new office projects is highly positive for the property as they increase the number of potential shoppers in the area.

Europa SC markets itself as a 'City Style Centre'. Fashion products are the key focus. Visitors are offered a wide selection of clothing, footwear, accessories and beauty shops. In recent years the SC has attracted more and more upscale brands such as Michael Kors (flagship store), Armani Jeans, Karen Millen, MaxMara, Guess, etc. The Management Company believes that, of the large shopping malls in Vilnius, Europa now has the most upscale fashion offering. As a result, its target customer group is leaning towards higher income shoppers. This market positioning is supported by Europa's location in CBD where people with generally higher wages are employed.

Europa's anchor tenant is a grocery store of Maxima – a leading Baltic retail chain. In the first quarter of 2014 the lease contract with Maxima was renewed for another ten years. At the same time a 10-year lease contract was signed with fitness club Lemon

Gym which became the third largest tenant in terms of rented area. This move reflects the strategy to expand consumer experience in the SC by offering activities alternative to shopping. Apranga, a leading fashion retailer in the Baltics, has 9 stores in Europa SC of which 7 are franchises of upscale international brands including Armani Jeans, MaxMara and Karen Millen. Confirming the primary focus on fashion offering, in October 2015 Europa saw the opening of 347 sqm Michael Kors store – the first one in Lithuania. Among the largest tenants, there is also a number of restaurants including one from Vapiano, a global chain. Thanks to its location in CBD, Europa is an important lunch spot.

An expansion project has been drawn up for Europa SC which would add 300-500 sqm of new area by constructing a first floor extension on the south side of the SC. The new premises would be dedicated to restaurants, cafes and stores. The expansion project would also include a renewal of the SC's main entrance and installation of windows to upper facade where restaurants are located. The Management Company expects that the extension could be constructed over 2017 and investment is estimated in the area of EUR 300 thousand.



**Table 21: Details of Europa SC, 30 September 2016**

<b>Acquisition date</b>	2 March 2015	
<b>Acquisition price</b>	EUR 35,787 thousand	
<b>Construction</b>	2004	
<b>Type</b>	Shopping centre	
<b>Location</b>	Konstitucijos av. 7A, 7B, Vilnius, Lithuania	
<b>SPV<sup>1</sup></b>	BOF Europa UAB, registered on 6 October 2004, registry code 300059140, registered address at Gyneju st. 16, Vilnius, Lithuania.	
<b>NLA</b>	16,856 sqm	
<b>Fair value</b>	EUR 38,000 thousand	
<b>Vacancy</b>	2.1%	
<b>WAULT</b>	3.8 years	
<b>No of tenants</b>	73	
<b>Major tenants</b>	Maxima (grocery) – anchor Apranga (fashion): <i>Armani Jeans, MaxMara, Strellson, Marella, etc.</i> Vapiano (restaurant) Suit Supply (fashion)	Michael Kors (fashion) Douglas (cosmetics) Fortas (restaurant) LPP (fashion) Gerry Weber (fashion) Lemon Gym (fitness club)

<sup>1</sup> The share of BOF Europa UAB is held by BOF Europa Holding UAB, registry code 111811998, registered address at Gyneju st. 16, Vilnius, Lithuania. The sole shareholder of BOF Europa Holding UAB is the Management Company on behalf of and for the benefit of the Fund. The Management Company intends to merge BOF Europa UAB and BOF Europa Holding UAB during 2016.

Europa SC is situated on two land plots, whereas land plot 1 is in the co-ownership of Europa SPV, Hanner AB and the Republic of Lithuania and land plot 2 is in the co-ownership of Europa SPV and Hanner AB. Co-owners of land plot 1 have entered into the Agreement of Co-owners, which provides for the exact parts of the land plot 1 used by each of the parties. Europa SC occupies also 2,154 m<sup>2</sup> (comprising 23.7% of the total land area of Europa SC) of the land attributed to the Republic of Lithuania. Therefore, Europa SPV and the Republic of Lithuania are in the process of concluding a lease agreement for such land which the Management Company expects to be finalised during 2016.

The Fund also owns 50% of the seven-floor parking house connected to Europa SC which constitutes approx. 500 parking places. The parking house is in co-ownership with Hanner AB.

### Upmalas Biroji

Upmalas Biroji office in Riga is the newest addition to the portfolio of the Fund – its acquisition was closed on 30 August 2016. It is one of the two assets (along with G4S Headquarters) which were acquired using capital raised in the public offering in June 2016. As of 30 September, Upmalas Biroji was the second largest property on the Fund's portfolio with EUR 23.5m in fair value or 18% of the total.

Upmalas Biroji is a 5-story office building located in Southern Riga, 10 minutes away from Riga's center and 15 minutes away from Riga's airport. It was built in 2008 by a German developer Bauplan Nord which will continue to act as a property manager for Upmalas Biroji. The building is equipped with modern technological solutions with a clear focus on sustainability and efficiency. In 2013 it won "The most sustainable building in Latvia" award.

As of 30 September 2016, the property was leased to 13 tenants and had no vacant space. The tenants were mostly comprised of top-class international companies such as SEB, a Nordic bank, Cabot, a US-based specialty chemicals and performance materials company, Bosch, a Germany-headquartered global engineering and electronics group, and Johnson & Johnson, an American multinational pharmaceutical and consumer products company. The tenants use the building primarily for back-office operations. SEB is the largest leaseholder constituting around a third of property's total annualized rental income (as of 30 September 2016) followed by Cabot comprising around a fifth of annualized rental income.



**Table 22: Details of Upmalas Biroji, 30 September 2016**

<b>Acquisition date</b>	30 August 2016
<b>Acquisition price</b>	EUR 23,576 thousand
<b>Construction</b>	2008
<b>Type</b>	Office
<b>Location</b>	Mukusalas st. 101, Riga, Latvia
<b>SPV</b>	Kontor SIA, registry code 40003771618, registered address at Mukusalas st. 101, Riga. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	10,846 sqm
<b>Fair value</b>	EUR 23,530 thousand
<b>Vacancy</b>	0.0%
<b>WAULT</b>	4.6 years
<b>No of tenants</b>	13
<b>Major tenants</b>	SEB (banking) Cabot (specialty chemicals) Bosch (engineering and electronics) Johnson & Johnson (pharmaceutical and consumer products) Mylan (pharmaceutical)

#### G4S Headquarters

G4S Headquarters in Tallinn is one of the two properties that were acquired by deploying proceeds from the June 2016 public capital raising of the Fund. The Management Company had signed a sale and purchase agreement for the property before the start of public offering. This ensured that the purchase was closed just 1 day after the listing of Fund Units on the Nasdaq Tallinn. At the end of September 2016 the property constituted 13% of the Fund's portfolio value.



**Table 23: Details of G4S Headquarters, 30 September 2016**

<b>Acquisition date</b>	12 July 2016
<b>Acquisition price</b>	EUR 15,454 thousand
<b>Construction</b>	2013
<b>Type</b>	Office
<b>Location</b>	Paldiski Road 80, Tallinn, Estonia
<b>SPV</b>	BH G4S OÜ, registry code 14065606, registered address at Hobujaama st. 5, Tallinn. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	9,179 sqm
<b>Fair value</b>	EUR 16,800 thousand
<b>Vacancy</b>	0.0%
<b>WAULT</b>	6.1 years
<b>No of tenants</b>	1
<b>Major tenants</b>	G4S (security services)

G4S Headquarters is a 9,179 sqm 9-story office building situated in Western Tallinn next to arterial Paldiski road and 4.5 km away from Tallinn's Old Town. It is a relatively new building, constructed only in 2013, and in that sense is the second newest property in

the Fund's portfolio (after Domus Pro). G4S Headquarters features all modern office amenities and efficient layout. The land plot next to the building where a parking lot is now located offers additional development potential of up to 20,000 sqm.

The property is fully leased to G4S – the world's largest security company. The firm operates in 110 countries and employs 623 thousand people. It is listed on London and Copenhagen stock exchanges and has a market capitalization of GBP 3.6bn. G4S use the building as their Estonian headquarters. A lease agreement is effective until 2022. At the time of this Offering Circular part of the premises is subleased by G4S.

### Domus Pro

Domus Pro is the fourth largest asset in the portfolio comprising 13% of its fair value as of 30 September 2016. The property is a neighborhood shopping center located in Perkunkiemis district in the north eastern part of Vilnius. Perkunkiemis is one of the newest and one of the fastest growing neighborhoods in Vilnius. It is primarily seen as a residential area since a large number of residential projects were developed there in recent years. On the other hand, new office buildings were also constructed as the area attracted the interest of both local and international companies (for instance, Swedbank and Affecto) requiring large office spaces.

Majority of tenants at Domus Pro are typical to a neighborhood-type shopping center offering everyday goods and services. Yet, the completion of the 2<sup>nd</sup> stage at the property has expanded customer experience as a large home-improvement store and a fitness club moved in. The anchor tenant is a grocery store of Rimi retail chain (part of ICA Gruppen, a listed Nordic retailer) constituting approximately 42% of property's total annualized rental income (as of 30 September 2016). Other major tenants include Hansa Plyteliu Turgus, a home-improvement store specializing in tiles, and Fitus, a health and fitness centre with a swimming pool, both of which occupies space at the recently completed 2<sup>nd</sup> stage of Domus Pro, and Assorti – an upscale grocery store focusing on more premium and rarer products than a general grocer. Smaller tenants are common to neighbourhood SCs: a pharmacy, a restaurant, a pet shop, etc.



**Table 24: Details of Domus Pro, 30 September 2016**

<b>Acquisition date</b>	SPA signed in July 2013, final closing in 1 May 2014
<b>Acquisition price</b>	EUR 12,087 thousand
<b>Construction</b>	1 <sup>st</sup> stage 2014; 2 <sup>nd</sup> stage 2015/2016; 3 <sup>rd</sup> stage 2017 (expected)
<b>Type</b>	Shopping centre
<b>Location</b>	Bieliunu st. 1, Vilnius, Lithuania
<b>SPV</b>	BOF Domus Pro UAB (with a previous name UAB Profista), registry code 225439110, registered address at Gyneju st. 16, Vilnius, Lithuania. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	11,247 sqm operational; 4,380 sqm to be constructed (3 <sup>rd</sup> stage)
<b>Fair value</b>	EUR 16,740 thousand
<b>Vacancy</b>	1.5%
<b>WAULT</b>	6.1 years
<b>No of tenants</b>	25
<b>Major tenants</b>	Rimi (grocery) – anchor Fitus (health and fitness club) Hansa Plyteliu Turgus (home-improvement) Assorti (grocery) Benu (pharmacy)

Domus Pro is the only asset in the portfolio in which the investment was made while the property was still in a development phase. The acquisition process was initiated in July 2013 by signing a share purchase agreement with Domus Pro project's developer TK Development Lietuva UAB. It is a Denmark-based real estate development company active in Nordics and CEE and specializing in development of SCs. After signing of SPA, forward financing of around EUR 2.0m was provided to the developer. This led to the start of construction of the first stage (7,500 sqm) of the project. Domus Pro opened its doors in early 2014 and the acquisition was closed in May 2014.

Following the positive performance of the first stage, the option to build the second stage (3,700 sqm) was exercised and construction began in March 2015. New space was fully pre-let to two tenants. The first part of the expansion with 1,500 sqm of

rentable space was opened to shoppers in December 2015 and it houses aforementioned Hansa Plyteliu Turgus home-improvement store. The second part of the new stage was commissioned in May 2016. Its 2,200 sqm is occupied by Fitus, a fitness club with a 25-meter swimming pool, enabling the SC to offer a wider customer experience to its visitors.

The Management Company decided to expand Domus Pro complex further and is now working on a project for its third stage – a 6-story building with net rentable area of 4,380 sqm (gross rentable area of 6,180 sqm). The first floor will be dedicated for retail while upper floors will be office space. The extension will have a 2-story underground parking lot with 50 spaces. The building is planned to be BREEAM-certified indicating high standards of environmental sustainability and efficiency. At the time of this Offering Circular approximately 45% of new space is pre-leased. The Management Company expects to receive a BREEAM-level construction permit for the third stage in autumn 2016. Construction is planned to start by the end of 2016 and should take approximately one year. The Management Company estimates the investment in the third stage to total around EUR 4.5m. TK Development, which worked on the development of the first two stages of Domus Pro, is also responsible for the development of the third stage. It has been agreed between the Fund (through UAB “BOF Domus Pro”) and TK Development that if at least 50% of office and retail building of the third stage is not preleased, 20% are not under head terms and the building permit for the third stage is not obtained, all by 30 November 2016, then TK Development has the right to separate and acquire the land plot for the market price (based on property valuation).

## Lincona

Lincona accounted for 12% of the portfolio’s total fair value on 30 September 2016. The property is a complex of three connected office buildings (total NLA of 10,859 sqm) and a parking facility for 378 vehicles. Babycenter, a standalone building of 674 sqm acquired together with the whole complex in July 2011, was disposed in March 2015 for EUR 1.0m with an annualised return of 24%. Lincona was the first asset acquired by BOF and remained the only office in the portfolio until the acquisition of G4S Headquarters in July 2016.

The property is located in a southern part of Tallinn next to Pärnu road, one of city’s main transport arteries. It is also close to two main street intersection (Tammsaare Road and Järvevana Road) which makes the office easily accessible from all major districts of Tallinn. The first floor premises are used for retail and catering while upper floors are dedicated to offices.



**Table 25: Details of Lincona, 30 September 2016**

<b>Acquisition date</b>	1 July 2011
<b>Acquisition price</b>	EUR 15,396 thousand (incl. divested Babycenter part)
<b>Construction</b>	2002/2008 (renovation)
<b>Type</b>	Office
<b>Location</b>	Pärnu rd. 139a / Kohila st. 2a, Tallinn, Estonia
<b>SPV</b>	BOF Lincona OÜ, registry code 12127485, registered address at Rävåla pst 5, Tallinn. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	10,859 sqm
<b>Fair value</b>	EUR 15,700 thousand (excl. Babycenter which was sold for EUR 1.0m)
<b>Vacancy</b>	7.9%
<b>WAULT</b>	4.4 years
<b>No of tenants</b>	14
<b>Major tenants</b>	Swedbank (banking) – anchor Information System Authority (public institution) Creative Mobile (game developer) Muster (interior design) – shop Liewenthal Electronics (IT & engineering)

## Coca Cola Plaza

Coca Cola Plaza constituted 10% of the value of the Fund’s property portfolio on 30 September 2016. It is the largest cinema complex in Tallinn with 11 screens and 1,967 seats. The property is situated in the heart of Tallinn, next to the eastern edge of the old town. The building is fully let to Forum Cinemas AS, the largest cinema operator in Estonia running three movie theaters in the country (the other two are located in different Estonian cities). Forum Cinemas belongs to the largest cinema operator in Nordic and Baltic regions – Nordic Cinema Group (NCG) which is guaranteeing rental obligations of Forum Cinemas. The group operates 66 cinemas, 444 screens and approximately 65,000 seats in almost 50 large and medium-sized cities. NCG works under a Forum

Cinemas brand in the Baltic States, Finnkino in Finland, SF Bio in Sweden and SF Kino in Norway. Coca Cola Plaza is one of the two large size (more than 1,000 seats) movie theaters in Tallinn. Its main competitor is Solaris cinema with 7 screens and 1,591 seats which opened in 2009. In total 7 cinemas operate in the city.

The property is a 6-story building with underground parking for 43 cars. Forum Cinemas rents the whole complex from the Fund, hence vacancy is zero. A lease contract was signed in 2013 for a 10-year term. Part of the premises is subleased by Forum Cinemas. As a result, the building also houses catering and retail facilities which together occupy around 1,000 sqm of space.

A potential expansion project of Coca Cola Plaza foresees connecting the property with nearby Postimaja SC which houses such retail names as H&M, Rimi and New Yorker. The expansion follows social responsibility principles closely cooperating with the city of Tallinn as it is one of the prime locations of the city. The key goal is to facilitate pedestrian traffic moving from the city center towards the central harbour area and improve the access to a prominent residential district Rotermann City. The expansions would add approximately 5,000 sqm of new space which could be rented out to tenants looking for retail and office premises in the center of Tallinn. The Management Company expects that the expansion could be built over 2017-2018. Capital investment is estimated in the territory of EUR 3-5m.



**Table 26: Details of Coca Cola Plaza, 30 September 2016**

<b>Acquisition date</b>	8 March 2013
<b>Acquisition price</b>	EUR 11,944 thousand
<b>Construction</b>	2001
<b>Type</b>	Cinema
<b>Location</b>	Hobujaama st. 5, Tallinn, Estonia
<b>SPV</b>	BOF CC Plaza OÜ, registry code 12399823, registered address at Rävåla pst 5, Tallinn, Estonia. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	8,664 sqm
<b>Fair value</b>	EUR 13,000 thousand
<b>Vacancy</b>	0.0%
<b>WAULT</b>	6.5 years
<b>No of tenants</b>	1
<b>Major tenants</b>	Forum Cinemas (cinema operator)

### Sky Supermarket

Sky Supermarket, the smallest holding in the property portfolio, comprised approximately 4% of the portfolio's fair value. It is a neighborhood shopping centre with upmarket grocery chain Sky as an anchor tenant and a number of satellite tenants. The building was built in 2000 and renovated in 2010.

The SC is located in the centre of Mežciems residential suburb in the north eastern part of Riga. It has good transport connections with a city centre and suburbs thanks to its location on Bikernieku street – one of the main traffic arteries in Mežciems district connecting it with the centre of Riga.

Anchor tenant Sky comprises approximately a half of the property's annualized rental income (as of 30 September 2016). Sky is an upmarket grocery chain operating 4 shops, all in Riga. It distinguishes itself from larger country-wide retail chains (for example, Maxima and Rimi) by stocking higher quality, more exclusive products. Hence, its target customer group is of higher income than average customer of national retailers. Sky chain is owned by local investors. Satellite tenants in the property are typical to a neighborhood SC including a pharmacy, a restaurant, a pet shop, etc. Only two of them, Cup & Cino (café) and A Aptieka (pharmacy), occupy larger than 100 sqm spaces. The property was effectively fully occupied on 30 September 2016.



**Table 27: Details of Sky Supermarket, 30 September 2016**

<b>Acquisition date</b>	1 January 2013
<b>Acquisition price</b>	EUR 4,510 thousand
<b>Construction</b>	2000/2010 (renovation)
<b>Type</b>	Shopping center
<b>Location</b>	Bikernieku st. 120B, Riga, Latvia
<b>SPV</b>	BOF Sky SIA, registry code 40103538571, registered address at Krisjana Valdemara st. 21-20, Riga, Latvia. The sole shareholder of the company is the Management Company on behalf of and for the benefit of the Fund.
<b>NLA</b>	3,263 sqm
<b>Fair value</b>	EUR 5,430 thousand
<b>Vacancy</b>	0.1%
<b>WAULT</b>	4.4 years
<b>No of tenants</b>	24
<b>Major tenants</b>	Sky (grocery) - anchor A Aptieka (pharmacy) Cup & Cino (restaurant) Douglas (cosmetics) Grenardi (jewellery)

## 6.9.2. Tenants, Lease Contracts and Property Management

The Fund outsources property management services from a specialized property management services provider. Outsourced property management functions include letting out vacant premises, organising lease contract negotiations with tenants, day-to-day relationship with tenants, marketing of properties (for instance, developing marketing strategies), invoicing tenants and paying property operating expenses. Successful property management is an important value driver for the Fund as it maximizes returns of owned real estate assets. The Management Company closely oversees property managers and reviews their performance on a continuous basis. Representatives of the Management Company in boards of SPVs must sign off all newly negotiated lease contracts with a size of at least 100 sqm. Furthermore, their approval is required for investing in redesigning/adopting premises to tenants' needs. Property management service providers for newly acquired properties are selected via tenders on a property by property basis. For more details on the property managers that are now contracted by the Fund see section 7.8 "Property Management Service".

Under majority of the Fund's existing lease contracts, rent rates are indexed once a year to Euro area CPI or local CPI (Lithuanian, Latvian or Estonian). When lease agreements are negotiated, the Fund generally seeks lease term to be as long as possible. With anchor tenants the Fund aims to sign 10-year or longer contracts. Regarding smaller tenants, contract lengths of 3-5 years are in line with market practice. The Fund targets WAULT of 5.0 years for multi-tenant properties. Lease contracts have been concluded on market terms. The Management Company has tried to minimise the tenant risk (failure to pay) and therefore most of the lease contracts include the obligation of the lessee to provide a bank guarantee and/or a deposit. Also, in most of the lease contracts the lessor has restricted its liability to damages caused by gross negligence or intent.

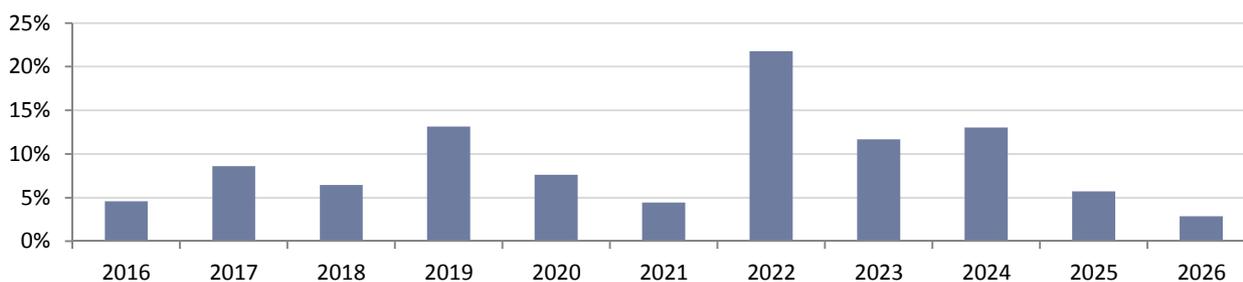
On 30 September 2016, the Fund had 151 tenants across its property portfolio. The 10 largest ones (see Table 28) comprised 52.3% of total annualized rental income (based on rent rates as of 30 September 2016). The top 2 were G4S and Forum Cinemas which were single tenants at G4S Headquarters and Coca Cola Plaza respectively leasing 100% of those properties. The third largest leaseholder was SEB at Upmalas Biroji office in Riga. WAULT of the top 10 tenants amounted to 5.5 years on 30 September 2016 – slightly longer than 4.9 years for the whole portfolio reflecting the Fund's strategy to secure longer term contracts with larger clients.

**Table 28: 10 largest tenants, 30 September 2016**

No	Tenant	Property	% of total annualized rental income	WAULT, years
1	G4S	G4S Headquarters	11.9%	6.1
2	Forum Cinemas	Coca Cola Plaza	10.6%	6.5
3	SEB	Upmalas Biroji	5.7%	6.3
4	Rimi	Domus Pro	5.7%	7.3
5	Swedbank	Lincona	4.5%	0.9
6	Cabot	Upmalas Biroji	3.5%	2.8
7	Apranga	Europa SC	3.2%	1.6
8	Sky	Sky Supermarket	2.6%	6.3
9	Information System Authority of the Republic of Estonia	Lincona	2.5%	7.8
10	Maxima	Europa SC	2.2%	7.3
<b>Total of 10 largest tenants</b>			<b>52.3%</b>	<b>5.5</b>

Lease expiry structure for the Fund's property portfolio is presented in Figure 36. Maturities of lease contracts are scattered over 2016-2026 and they are well diversified among years. With the exception of 2019, in the coming 5 years annual lease maturities will be below 10% of the total annualized rental income (measured on 30 September 2016). The Management Company emphasizes the importance of approaching tenants proactively before their contracts expire.

**Figure 36: Maturities of existing lease agreements, % of total annualized rental income, 30 September 2016**



## 6.10. INVESTMENT PIPELINE

The Fund will use proceeds from the Offering to acquire commercial properties in the Baltic capital cities. To ensure a rapid deployment of the proceeds, the Management Company has prepared an investment pipeline of the Fund and entered into negotiations with owners of the most attractive targets and/or has been participating in tenders for such assets. This is the same strategy that the Management Company pursued before the initial public offering of the Fund in June 2016 which ensured that the proceeds from it were fully invested within two months from the completion of the offering. The first acquisition, G4S Headquarters, was closed just 1 day after the listing on the Nasdaq Tallinn as the Management Company had signed a sale and purchase agreement for the property before the start of public offering. To ensure a speedy acquisition process of Upmalas Biroji, the Management Company had already signed a letter of intent with its owner and started due diligence procedures prior to the initial offering. This shows that the Fund is able to employ newly raised equity and start generating cash flows for its investors in a quick and efficient manner. For this Offering, the Management Company maintains its goal to invest new proceeds quickly and start generating returns for new investors as soon as possible.

The Fund's investment pipeline is comprised of potential acquisition targets which best fit the investment strategy of the Fund, offer attractive risk-return profile and are for sale. The investment pipeline also entails post-merger expansion investments into current properties owned by the Fund. In the near term, the Management Company sees expansion possibilities for Domus Pro, Coca Cola Plaza and Europa SC properties (for more details see descriptions of each property in section 6.9.1 "Property Portfolio").

The Management Company targets investments that are expected to provide a return on equity (ROE) of 12-15%, excluding capital gains from any yield compressions. ROE expectations for investing into expansion of the current properties are above 15%. Considering the current low interest rate environment, the Management Company expects to obtain debt financing for new acquisitions at interest rates between 1.5-2.0%.

The Management Company sees four property segments as the most attractive for the Fund in terms of strategic fit and financial profile: premium offices in CBD, premium large-scale shopping malls, B class offices housing shared service centers/back-office operations and neighborhood shopping centers.

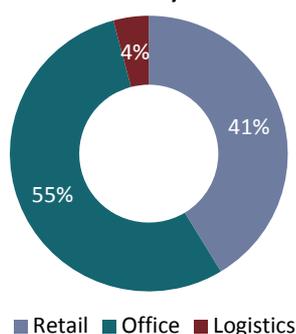
Table 29 presents aggregated statistics of the Fund's investment pipeline at the time of the Offering. Figures represent estimates by the Management Company which are based on its off-market negotiations and tender information provided by real estate brokers. Details about individual targets are not provided due to their commercially sensitive nature and confidentiality of agreements. 14 properties have been selected to the pipeline, all located in the Baltic capital cities and all fully developed (except for 1 property which is under construction) and cash flow generating. In addition, some of the properties in the pipeline offer additional development potential. The Management Company estimates that the investment pipeline has an aggregated value of approximately EUR 360m and assets could be acquired at a 7.2% average yield. Properties in the investment pipeline report solid occupancy statistics with average vacancy at 1.8%. When selecting investment targets, the Management Company stresses the importance of a strong tenant mix which should include well-known, reputable, large and preferably international companies.

**Table 29: Aggregated statistics of the Fund's investment pipeline**

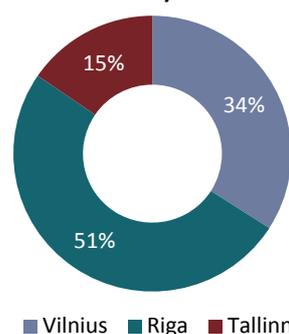
	No of properties	Value, EURm		Acquisition yield	NLA, thousand sqm		Vacancy
		Total	Per property		Total	Per property	
Investment pipeline	14	360	26	7.2%	211	15	1.8%

Office properties have a somewhat higher weight than retail in the pipeline comprising 55% of the total value versus 41% comprised by retail properties. Location-wise, Riga has the highest weight at 51% of the total value followed by Vilnius at 34% and Tallinn at 15%. The Management Company targets to maintain the Fund's portfolio well-diversified between office and retail sectors and in terms of capital cities.

**Figure 37: Total investment pipeline value breakdown by sector**



**Figure 38: Total investment pipeline value breakdown by location**



## **6.11. CUSTODY OF THE FUND'S ASSETS**

The Fund's assets are generally invested, directly or indirectly, into real estate property or held as deposits with a credit institution. According to the IFA, Fund's assets do not belong to the bankruptcy estate of the Management Company and, if the assets are safe-kept by the Depositary, the assets do not belong to the bankruptcy estate of the Depositary. In order to clearly distinguish its activities as the fund management company of the Fund from its own operations, the Management Company clearly identifies in making the investments and transactions with the Fund's assets that it is acting for the benefit and on account of the Fund.

### **Cash and Financial Instruments**

All assets that are held either in cash on the bank account or invested into financial instruments in the book-entry form held on the securities account with an investment services provider are kept with the Depositary. Further description on the Depositary, the services provided by the Depositary, and on how the Depositary may delegate its responsibilities to third persons is in section 7.3 "The Depositary".

Current and securities accounts with the Depositary are held in the name of the Management Company and for the benefit of the Fund. In opening the account with the Depositary, the Management Company has made reference to the Fund in the account details. Current and securities accounts of SPVs are held in the name of respective SPVs with credit institution licensed and operating in respective country.

### **Direct Investments into Real Estate Property**

The Fund has not invested directly into real estate property and holds directly no title any of the real estate property in the Fund. All investments into real estate property are made indirectly by entities specifically established for holding the title of the real estate property belonging to the Fund (the SPVs).

### **Indirect Investments into Real Estate Property**

The Fund holds shares in SPVs. At the date of the Offering Circular, the shares of SPVs are not registered in central securities registries and are not issued in book-entry form. The Management Company, acting in its own name but for the benefit of the Fund, has been entered into the shareholders' list of each respective SPV. The shareholders' lists of SPVs are kept by the management board of each respective SPV.

SPVs hold either title to or lease rights regarding the real estate property belonging to the Fund. Where a SPV holds full title to the property it is registered in the respective land registry as the owner of the property. All other rights regarding the property are established by and for the benefit of the respective SPV.

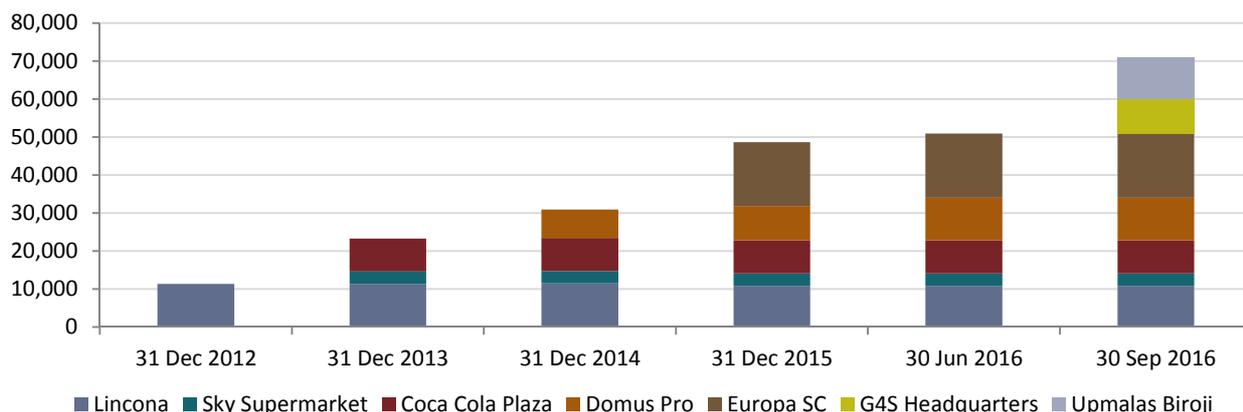
Information on the SPVs and on the real estate property each of them holds is provided in section 6.9.1 "Property Portfolio".

## **6.12. OPERATING AND FINANCIAL REVIEW**

### **6.12.1. Events Affecting Results of Operations**

The main events the history of the Fund and its predecessor BOF were acquisitions of new commercial properties. At the end of 2012 BOF owned only a single property. By 30 June 2016 - the most recent reporting date - four new real estate assets were acquired. What is more, in July and August 2016 the Fund purchased two more properties by deploying proceeds from the capital raising completed on 29 June 2016.

**Figure 39: Development of rentable area of the Fund's property portfolio, sqm**



BOF bought its first real estate asset - Lincona office complex in Tallin - in July 2011. At the end of 2012 Lincona remained the only property in the portfolio and it had a fair value of EUR 15.3m and rentable area of 11.4 thousand sqm. Acquisitions of Sky Supermarket in Riga and Coca Cola Plaza in Tallinn, completed in January 2013 and March 2013 respectively, more than doubled the size of the portfolio – at the end of 2013 the portfolio's fair value stood at EUR 33.1m and rentable area amounted to 23.3 thousand sqm. In May 2014 acquisition of Domus Pro in Vilnius was finalized expanding the portfolio roughly by a third. At the end of 2014 four real estate assets constituted a fair value of EUR 46.2m and leasable space of 30.9 thousand sqm. The last acquisition before BOF was merged into the Fund took place in March 2015 when 16.9 thousand sqm Europa SC in Vilnius was bought. In 2015 there were also other two events affecting the size of the portfolio. Firstly, in March 2015 Babycenter – a standalone building of 674 sqm acquired together with Lincona – was sold for EUR 1.0m (BOF had not disposed any properties before that). Secondly, in December 2015 1,500 sqm portion of Domus Pro 2nd stage was commissioned. All that included, the portfolio grew further significantly in 2015 and reached EUR 86.8m of fair value and 48.7 thousand sqm of rentable space at the end of the year. Over the first six months of 2016 no property acquisitions were carried out. On the other hand, the second phase of Domus Pro 2<sup>nd</sup> stage was commissioned in May 2016 which added 2,200 sqm of new space. On 30 June 2016 the Fund merged with BOF taking over all assets and liabilities of BOF including its property portfolio of five holdings. As of 30 June 2016 – the most recent reporting date of the Fund – the property portfolio amounted to EUR 87.3m in fair value and 50.9 thousand sqm in rentable area. Finally, two more properties were purchased by utilising equity raised in June 2016 capital raising: GS4 Headquarters in July 2016 and Upmalas Biroji in August 2016. As a result, the size of the portfolio reached 70.9 thousand sqm of rentable space and EUR 129.2m of fair value at the end of September 2016. Compared to the end of 2012 levels, the property portfolio has expanded approximately 6-fold in terms of space and 8-fold in terms of value.

### 6.12.2. Results of Operations in Years 2013 – 2015

On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). At the time of the merger, the Fund had no assets and liabilities of its own. Thus, historical financial and operational performance of BOF prior to the merger is directly comparable the Fund's performance after the merger. In the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, BOF's financial results prior to the merger are presented as those of the Fund. For these reasons, in this Offering Circular past results of BOF are presented as results of the Fund.

This section provides an analysis of the Fund's financial and operating results in years 2013 - 2015 based on BOF's audited consolidated financial statements. After the merger with BOF, the Fund reports its financial results in a consolidated form. Historical consolidated financial information is derived as follows:

- For year 2015: BOF's audited statutory consolidated financial statements for the year ended 31 December 2015 prepared according to the IFRS (provided in Appendix C of this Offering Circular).
- For years 2014 and 2013: BOF's audited special purpose consolidated financial statements for the years ended 31 December 2014 and 31 December 2013 (provided in Appendix D of this Offering Circular). Because prior to 2015 BOF was qualified as an investment entity under IFRS 10, these statements do not comply with consolidation requirements in IFRS 10 according to which investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. Apart from this exception, these special purpose financial statements are prepared based on all other standards and interpretations of the IFRS.

The Management Company has prepared the special purpose consolidated financial statements for the financial years ended 31 December 2014 and 31 December 2013 with the purpose to provide investors with financial information comparable with the financial information presented for the financial year ended 31 December 2015.

The following table depicts consolidated financial results of the Fund's operations for years 2013, 2014 and 2015 while detailed discussion of each of the items is provided in the subsequent paragraphs.

**Table 30: Highlights of consolidated income statement of the Fund, EUR thousand**

	Note	2013	2014	2015	Change		
					2013	2014	2015
Rental income	1	2,454	3,048	6,073	75%	24%	99%
Expenses reimbursement revenue	2	632	829	2,062	103%	31%	149%
Cost of rental activities	3	-806	-1,177	-2,796	98%	46%	138%
<b>Net rental income</b>		<b>2,280</b>	<b>2,700</b>	<b>5,339</b>	<b>74%</b>	<b>18%</b>	<b>98%</b>
Administrative expenses	4	-592	-665	-984	47%	12%	48%
Other operating income	5	4	-	267	N/A	-100%	N/A
Net loss on disposal of investment properties	6	-	-	-10	N/A	N/A	N/A
Valuation gains / -losses on investment properties	7	1,326	611	2,886	-411%	-54%	372%
<b>Operating profit</b>		<b>3,018</b>	<b>2,646</b>	<b>7,498</b>	<b>531%</b>	<b>-12%</b>	<b>183%</b>
Financial income	8	40	72	17	135%	80%	-76%
Financial expenses	8	-440	-656	-1,100	75%	49%	68%
<b>Profit before tax</b>		<b>2,618</b>	<b>2,062</b>	<b>6,415</b>	<b>973%</b>	<b>-21%</b>	<b>211%</b>
Income tax charge	9	-102	-55	-890	N/A	-46%	N/M
<b>Profit for the period</b>		<b>2,516</b>	<b>2,007</b>	<b>5,525</b>	<b>931%</b>	<b>-20%</b>	<b>175%</b>
<b>Earnings per unit (basic and diluted)<sup>1</sup>, EUR</b>		<b>0.14</b>	<b>0.10</b>	<b>0.23</b>	<b>706%</b>	<b>-30%</b>	<b>128%</b>

Source: audited consolidated financial statements of BOF for years 2013 – 2015

N/A – not available

N/M – not meaningful

<sup>1</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

### (1) Rental income

The Fund leases space at its properties to customers under agreements that are classified as operating lease. Rental income represents rents charged to customers and is recognised on a straight line basis, net of any sales taxes, over the lease period to the first break option. Rental income does not include supplementary charges to tenants for operating expenses such as utilities (electricity, heating and cooling, water and sewerage, etc.), repairs and maintenance, marketing and property taxes. These charges are reported separately under *Expenses reimbursement revenue*.

**Table 31: Operational details of the property portfolio of the Fund**

	2013	2014	2015
Number of properties, period end	3	4	5
Rentable area, sqm			
Period end	23,268	30,928	48,651
Period average <sup>1</sup>	21,825	28,322	44,718
Vacancy rate			
Period end	3.7%	6.3%	2.0%
Period average <sup>2</sup>	4.0%	9.8%	2.8%

<sup>1</sup> Computed as average of monthly estimates.

<sup>2</sup> Computed as average of monthly estimates.

In 2015 rental income of the Fund doubled to EUR 6.1m from EUR 3.0m in 2014. The increase was primarily attributable to Europa SC that was acquired in March 2015 and generated EUR 2.4m of rental income since the acquisition. Europa SC became the largest contributor to the total rental income significantly exceeding the second largest – Lincona with EUR 1.3m in 2015. Rental income of Domus Pro which was bought in May 2014 grew by EUR 0.4m thanks to its full year contribution and a drop in vacant space to 3.1% from 14.1%. Lincona's rental income rose by EUR 0.2m on the back of the reduced vacancy to 4.5% from 18.2%. Uptick in its vacancy in 2014 was explained by the fact that Swedbank, Lincona's anchor tenant, vacated part of premises it was renting.

However, as new tenants were found for the empty space, vacancy rate of the property was successfully brought down to normal levels. Improved occupancy at Lincona and Domus Pro led to reduction in the vacancy of the whole property portfolio to 2.8% from 9.8% in 2014 (see Table 31). Rental income changes in the remaining two properties, Coca Cola Plaza and Sky, were marginal but positive. Each achieved annual growth in the territory of EUR 10 thousand thanks to general indexation of rent rates.

In 2014 rental income increased by 24% to EUR 3.0m from EUR 2.5m in 2013. The main driver of the increase was Domus Pro acquisition. This neighbourhood SC generated EUR 0.6m of rental income over 8 months of 2014. Coca Cola Plaza added EUR 0.2m to the growth as it was part of the portfolio for the whole year instead of 10 months in 2013. Positive effects were partly offset by Lincona where vacancy rate rose to 18.2% from 7.5% in 2013 due to aforementioned Swedbank's decision to reduce rented area. As a result, Lincona's rental income decreased by EUR 0.2m compared to 2013. Given the fall in Lincona's occupancy, vacancy of the overall property portfolio grew to 9.8% from 4.0% in 2013.

In 2013 rental income expanded by 75% to EUR 2.5m from EUR 1.4m recorded in 2012. The growth is explained by an acquisition of two new properties, Sky Supermarket in January 2013 and Coca Cola Plaza in March 2013, which earned EUR 0.4m and EUR 0.8m respectively. Average vacancy for the year improved from 5.6% to 4.0% driven by 100% occupancy of Coca Cola Plaza (fully rented out to Forum Cinemas AS).

## (2) Expenses reimbursement revenue

Expenses reimbursement revenue represents supplementary charges to tenants to cover property operating expenses which may include utilities (electricity, heating and cooling, water and sewerage, etc.), repairs and maintenance, marketing and property taxes. Types of expenses which a tenant covers differ from one lease agreement to another and, in turn, from one property to another. The Fund typically seeks to pass-through majority of operating expenses to tenants.

Expenses reimbursement revenue rose to EUR 2.1m in 2015 from EUR 0.8m in 2014 owing to the larger size of the portfolio which led to higher cost of rental activities. Of the increase, EUR 1.0m was attributable to Europa SC acquired in March 2015 and EUR 0.2m to Domus Pro operating for the full year. 149% growth in total expenses reimbursement revenue slightly exceeded a 137% rise in cost of rental activities. As a result, cost of rental activities coverage ratio (expenses reimbursement revenue as % of cost of rental activities) improved to 73.7% from 70.4% in 2014 (see Table 32). That was explained mainly by higher coverage ratio at Domus Pro – up to 86.1% from 65.2%. Lincona also achieved a slight improvement in coverage ratio to 63.3% from 59.5%. Newly acquired Europa SC somewhat offset those two improvements as its expenses reimbursement revenue covered 69.9% of its cost of rental activities which was lower than the portfolio average.

In 2014 expenses reimbursement revenue grew by 31% to EUR 0.8m from EUR 0.6m in 2013 owing predominantly to EUR 0.2m expenses reimbursement revenue at Domus Pro bought in May 2014. Because cost of rental activities expanded at a higher rate (46%), cost of rental activities coverage ratio dropped to 70.4% from 78.4% in 2013. That was due to 1) an addition of Domus Pro which had lower cost coverage ratio at 65.2% and 2) higher vacancy and an increase in non-recoverable portion of expenses (such as property management and leasing expenses as well as bad debts) at Lincona office complex reducing its cost coverage ratio to 59.5% from 73.4% in 2013.

In 2013 expenses reimbursement revenue doubled to EUR 0.6m from EUR 0.3m in the previous year explained by EUR 0.3m revenue at newly acquired Sky Supermarket. Zero expenses reimbursement revenue was recognized for Coca Cola Plaza, the other new property, because its running expenses are directly paid by its single tenant. Cost of rental activities coverage ratio marginally improved to 78.4% from 76.5% in 2012.

**Table 32: Key ratios related to expenses reimbursement revenue**

	2013	2014	2015
Cost of rental activities coverage ratio <sup>1</sup>	78.4%	70.4%	73.7%
Uncovered cost of rental activities <sup>2</sup> as % rental income	7.1%	11.4%	12.1%
Net rental income margin <sup>3</sup>	92.9%	88.6%	87.9%

<sup>1</sup> Expenses reimbursement revenue as % of cost of rental activities.

<sup>2</sup> Cost of rental activities less expenses reimbursement revenue.

<sup>3</sup> Net rental income as % of rental income.

## (3) Cost of rental activities

Cost of rental activities represent operating expenses related directly to properties. Their breakdown by type is presented in the table below.

**Table 33: Breakdown of cost of rental activities of the Fund, EUR thousand**

	2013	2014	2015
Utilities	525	677	1,228
Repair and maintenance	133	203	621
Property management expenses	90	181	407
Sales and marketing expenses	8	5	240
Real estate taxes	34	56	215
Property insurance	11	18	28
Allowances for bad debts	3	29	22
Other operating expenses	2	8	35
<b>Total cost of rental activities</b>	<b>806</b>	<b>1,177</b>	<b>2,796</b>

Source: audited consolidated financial statements of BOF for years 2013-2015

In 2015 total cost of rental activities grew by EUR 1.6m to EUR 2.8m explained primarily by the acquisition of Europa SC whose operating expenses amounted to EUR 1.5m. The new property somewhat altered the composition of cost of rental activities reducing the weight of utilities but increasing shares of repair and maintenance, sales and marketing and real estate taxes. Still, the three highest weights were maintained by the same groups of expenses: utilities, repair and maintenance and property management. Together they accounted for 81% of total cost of rental activities (down from 90% in 2014). Utilities expenses, despite their weight dropping to 44% from 58% in 2014, remained the largest group and stood at EUR 1.2m in 2015 – up from EUR 0.7m in 2014 due to EUR 0.5m incurred by Europa SC. Repair and maintenance expenses, the second largest group, rose to EUR 0.6m in 2015 from EUR 0.2m in 2014 as EUR 0.4m was recorded by Europa SC. Repair and maintenance expenses' share of total cost of rental activities increased to 22% from 17% in the previous year. Property management expenses, the third largest group, went up to EUR 0.4m (of which Europa SC accounted for EUR 0.2m) from 0.2m in 2014 while their weight barely changed – down to 14% from 15% in 2014. It is important to note that, in contrast to other types of operating expenses, property management expenses (along with allowances for bad debts) are normally not reimbursed by tenants and, thus, represent a direct cost to the Fund. Property management expenses are comprised of charges paid to a property management firm for such services as finding new tenants and managing existing ones.

In 2014 total cost of rental activities rose to EUR 1.2m from EUR 0.8m in the previous year. The increase was primarily attributable to the addition of Domus Pro to the property portfolio. The new SC incurred EUR 0.3m of rental costs over 8 months of 2014. Costs at Lincona went up by EUR 60 thousand owing to higher property management expenses and bad debt costs. The pick-up in Lincona's property management expenses was impacted mainly by success fees paid to its property manager for finding new tenants for premises vacated by Swedbank at the beginning of 2014. The composition of cost of rental activities by type remained very similar to the previous year with three main groups – utilities, repair and maintenance and property management – accounting for 90% of total costs in 2014 (93% in 2013). Utilities took the largest share of rental costs – 58% (65% in 2013), repair and maintenance constituted 17% (16%) of total expenses while property management made up 15% (11%).

In 2013 total cost of rental activities doubled to EUR 0.8m from EUR 0.4m in 2012. That was fully attributable to newly acquired Sky Supermarket which had rental costs of EUR 0.4m in 2013. In contrast, Coca Cola Plaza's, the second property acquired in 2013, running costs (such as utilities, repair and maintenance and real estate taxes) are not recognized on the Fund's consolidated income statement. That is because Coca Cola Plaza property is fully leased to a single tenant which pays its own expenses. In 2013 utilities' share of total rental costs was slightly down to 65% from 69% in the previous year, yet they remained the largest component by far. A weight of repair and maintenance expanded to 17% from 11% as Sky Supermarket incurred more of these expenses relative to the single asset in 2012 property portfolio – Lincona office complex. The third largest component of cost of rental activities was property management expenses constituting 11% of total (14% in 2012).

#### **(4) Administrative expenses**

The following table provides a breakdown of administrative expenses by type.

**Table 34: Breakdown of administrative expenses of the Fund, EUR thousand**

	2013	2014	2015
Management fee	377	462	602
Performance fee	-	-	79
Legal fees	120	67	165
Audit fees	23	31	28
Property valuation fee	20	36	24
Custodian fees	12	12	15
Other consultancy fees	30	23	54
Other administrative expenses	10	34	17
<b>Total administrative expenses</b>	<b>592</b>	<b>665</b>	<b>984</b>

Source: audited consolidated financial statements of BOF for years 2014 - 2015

**Table 35: Administrative expenses ratios**

	2013	2014	2015
Total administrative expenses as			
% of net rental income	26.0%	24.6%	18.4%
% of NAV	3.0%	2.7%	3.1%
% of total assets	1.7%	1.4%	1.1%

Total administrative expenses increased in 2015 by EUR 0.3m to EUR 1.0m. That was mainly driven by higher management fee (up by EUR 139 thousand), recognition of performance fee (EUR 79 thousand) and higher legal fees (up by EUR 98 thousand). The management fee increased on the back of higher NAV. Performance fee was recognised for the first time since the inception of BOF as 3-year average return exceeded the threshold of 11%. The increase in legal fees was largely attributable to purchased legal services related to the acquisition of Europa SC and preparation for the capital raising in June 2016. As % of net rental income, total administrative expenses decreased to 18.4% from 24.6% in 2014 indicating that a larger size of a property portfolio leads to increased efficiency at administrative expenses level (in relative terms). A ratio of total administrative expenses to total assets also improved declining to 1.1% from 1.4% in the previous year. In contrast, as % of NAV, they rose to 3.1% from 2.7% impacted by a decrease in equity ratio to 35.3% from 49.6%.

Management fee is a charge paid to the Management Company for the management of the Fund which includes such functions as investment management of the Fund's property portfolio and provision of all economic and financial information that is necessary for the operation of the Fund. Before the Fund was merged with BOF on 30 June 2016, the annual management fee to the Management Company was set at 1.9% of year-end NAV (a current structure of the Fund's management fee is presented in section 6.7 "Fees and Expenses"). The fee was paid in quarterly instalments. Payments for the first three quarters of a year were based on services provided by the Management Company during each quarter. The final payment (for the fourth quarter) was estimated as a difference between 1.9% of year-end NAV and payments made in the first three quarters. In 2015 management fee grew to EUR 602 thousand from EUR 462 thousand explained by an increase in year-end NAV to EUR 31.7m from EUR 24.3m in 2014.

The Management Company is also entitled to a performance fee if the Fund achieves return above a pre-agreed hurdle rate. Before the Fund was merged with BOF on 30 June 2016, the performance fee was 20% of the annual return exceeding an 11% hurdle rate where the annual return was a ratio of profit for the year before performance fee to average paid-in capital (a current structure of the Fund's performance fee is presented in section 6.7 "Fees and Expenses"). The performance fee was computed on a 3-year rolling average basis (taking into account 3-year averages of annual profits before performance fee and average paid-in capital) and subsequently reduced by returns below 11% over a 3-year period. In 2015, for the first time since the inception of BOF, the performance fee was recognised amounting to EUR 79 thousand. 3-year average annual return for the calculation of the performance fee reached 16.4% in 2015. Because in 2013 and 2014 3-year average returns were below the hurdle rate, the resulting performance fee for 2015 was reduced by the negative performance fees (20% of the difference between actual return and 11% hurdle rate) computed for 2013 and 2014.

In 2014 total administrative expenses stood at EUR 0.7m – up by EUR 0.1m compared to 2013. The increase was caused by higher management fee while lower legal fees were mostly offset by increases in other types of administrative expenses. The management fee grew by EUR 85 thousand to EUR 462 thousand as year-end NAV expanded to EUR 24.3m from EUR 19.5m in 2013. A ratio of total administrative expenses to net rental income declined to 24.6% from 26.0% in 2013. They also decreased in relative terms to balance sheet measures. Total administrative expenses went down to 2.7% from 3.0% as % of NAV and to 1.4% from 1.7% as % of total assets.

In 2013 total administrative expenses rose by EUR 0.2m to EUR 0.6m mainly impacted by EUR 0.1m higher legal fees and a EUR 52 thousand increase in the management fee. The lift up in legal fees was related to acquisitions of two new properties and initiation of acquisition process of another one – Domus Pro. The management fee went up to EUR 377 thousand compared to EUR 325

thousand in 2012 owing to an increase in year-end NAV to EUR 19.5m from EUR 16.9m. Thanks to the expanded property portfolio, total administrative expenses as % of net rental income improved to 26.0% from 30.8% in 2012 when only a single property was held.

#### (5) Other operating income

Other operating income stood at EUR 267 thousand in 2015. That was attributable to a one-off early termination fee paid by a tenant for early termination of its lease.

In years 2013-2014 other operating income was not material. EUR 4 thousand in 2013 represented interest on delayed rent payment.

#### (6) Net loss on disposal of investment properties

In 2015 EUR 10 thousand net fair value loss was realized relating to the disposal of Babycenter, a 674 sqm standalone building acquired together with Lincona complex. The building was sold for EUR 990 thousand on 3 March 2015. It was the first disposal of a property; thus, there were no realized fair value gains or losses on investment properties in the previous years. The net fair value loss was realized compared to 2014 year-end valuation. On the other hand, an annual return of 24% was recorded when compared to the acquisition price in 2011.

#### (7) Valuation gains/losses on investment properties

Properties owned by the Fund are valued at fair value which is approved by the Board of Directors of the Management Company based on independent appraisals. Properties are appraised at market value 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. Independent appraisals are carried out at least once a year with a valuation date of 31 December. Resulting fair value changes are recognized in the Fund's consolidated income statement. Appraised value of a property may change due to changes in discount rates, exit yields, new lease contracts signed, changes in market rents, etc. The table below breaks down valuation gains and losses by each property recorded over 2013-2015.

**Table 36: Breakdown of valuation gains/-losses by property, EUR thousand**

	2013	2014	2015
Europa SC	-	-	1,093
Domus Pro	-	-47	1,863
Lincona	699	45	-105
Coca Cola Plaza	241	435	30
Sky Supermarket	386	178	5
<b>Total valuation gains/-losses on investment properties</b>	<b>1,326</b>	<b>611</b>	<b>2,886</b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015

In 2015 a EUR 2.9m gain in value of investment properties was recognized. That consisted primarily of a EUR 1.9m gain in value of Domus Pro due to realization of the second stage expansion and a EUR 1.1m gain in value of Europa SC. The independent appraisals for the end of 2015 were carried out by Baltic offices of Colliers International (for more details on Colliers see section 7.7 "Appraiser"). Values estimated by the independent appraiser are identical to values of properties recognized on the balance sheet at the end of 2015 (same in previous years). Assumptions used by the independent appraisers are provided in Table 37.

In 2014 EUR 0.6m gain in fair value of investment properties was recorded. It was mainly attributed to Coca Cola Plaza (EUR 0.4m) and Sky Supermarket (EUR 0.2m).

In 2013 EUR 1.3m fair value gain was recorded. Lincona's revaluation effect constituted more than 50% of total gain – EUR 0.7m. Gains for Sky Supermarket and Coca Cola Plaza amounted to EUR 0.4m and EUR 0.2m respectively.

**Table 37: Assumptions used in independent appraisals**

Property	31 Dec 2013	31 Dec 2014	31 Dec 2015
<b>Europa SC</b>			
Discount rate	N/A	N/A	7.5%
Exit yield	N/A	N/A	7.25%
Rental growth per annum	N/A	N/A	0.0-2.4%
Vacancy rate	N/A	N/A	3.0-5.0%
<b>Domus Pro</b>			
Discount rate	N/A	10.4%	8.4%
Exit yield	N/A	8.0%	8.0%
Rental growth per annum	N/A	0.0-2.5%	0.0-3.0%
Vacancy rate	N/A	2.0-5.0%	2.0-14.0%
<b>Lincona</b>			
Discount rate	9.2%	8.6-9.2%	8.6%
Exit yield	8.0%	8.0%	8.0%
Rental growth per annum	0.0-5.0%	0.0-5.0%	0.0-2.4%
Vacancy rate	5.0-10.0%	5.0-10.0%	5.0-10%
<b>Coca Cola Plaza</b>			
Discount rate	8.8%	8.5%	8.2%
Exit yield	8.25%	8.0%	8.0%
Rental growth per annum	2.0%	2.0%	0.8-1.7%
Vacancy rate	0.0%	0.0%	0.0%
<b>Sky Supermarket</b>			
Discount rate	8.5%	8.5%	8.2%
Exit yield	8.0%	8.0%	7.75%
Rental growth per annum	0.0-3.0%	0.0-3.0%	0.0-2.5%
Vacancy rate	3.0%	3.0%	2.5%

N/A – not available because a property was not owned by BOF at the time.

## (8) Financial income and expenses

Composition of financial income and expenses are presented in the following table.

**Table 38: Financial income and financial expenses of the Fund, EUR thousand**

	2013	2014	2015
Interest income	40	72	17
<b>Total financial income</b>	<b>40</b>	<b>72</b>	<b>17</b>
Interest on bank loans	430	643	1,075
Foreign currency exchange losses	2	1	1
Other financial expenses	8	12	24
<b>Total financial expenses</b>	<b>440</b>	<b>656</b>	<b>1,100</b>
<b>Net financial expenses</b>	<b>400</b>	<b>584</b>	<b>1,083</b>

Source: audited consolidated financial statements of BOF for years 2013 - 2015

Financial income was comprised of interest income over 2013-2015. Interest income dropped to EUR 17 thousand in 2015 from EUR 72 thousand in 2014 owing to two main reasons. Firstly, interest income in 2014 contained EUR 40 thousand interest on EUR 2m loan to the developer of Domus Pro that was issued in 2013 and paid back in 2014. Secondly, bank deposit rates continued decreasing. In 2014 interest income was EUR 32 thousand higher relative to 2013 level mainly because of the aforementioned EUR 40 thousand interest on the loan to the developer of Domus Pro. In 2013 interest income stood at EUR 40 thousand – up from EUR 17 thousand in the year before.

Total financial expenses grew to EUR 1.1m in 2015 from EUR 0.7m in 2014 and EUR 0.4 in 2013 on the back of increasing interest expenses. The Fund incurs interest costs on bank loans it uses to finance acquisitions of properties. Historically interest on bank loans represented more than 97% of total financial expenses. Growth in interest expenses was fully attributable to expanding debt levels as new properties were added to the portfolio. Interest-bearing debt rose from EUR 15.6m at the end of 2013 to EUR 23.0m

at the end of 2014 (impacted by Domus Pro acquisition) and EUR 51.2m at the end of 2015 (impacted by Europa SC acquisition). Average cost of debt<sup>2</sup>, on the other hand, was declining from 3.7% in 2013 to 3.3% in 2014 and 2.9% in 2015.

### (9) Income tax charge

The Fund pays income tax at SPV level while the parent entity - the Fund itself - is exempt from income tax. Each property is held by a separate SPV which is registered and, in turn, pays income tax in a country where a property is located: Europa SC and Domus Pro in Lithuania, Lincona and Coca Cola Plaza in Estonia and Sky Supermarket in Latvia. The following table presents statutory income tax rates in the Baltic States over years 2013-2015. In Lithuania and Latvia tax rates were 15% throughout the period. Estonian income tax rate was 21% in 2013-2014 and 20% in 2015 on profits distributed to holders whereas non-distributed profits are tax exempt in Estonia. The Fund's SPVs that hold Estonian properties have not recognised income tax since the inception of BOF in 2010 because they have not distributed dividends.

**Table 39: Statutory income tax rates**

	2013	2014	2015
Lithuania	15%	15%	15%
Latvia	15%	15%	15%
Estonia <sup>1</sup>	21% / 0%	21% / 0%	20% / 0%

<sup>1</sup> According to corporate tax regulations in Estonia, profits are taxed only when they are distributed to shareholders. Profits that are not distributed to shareholders are tax exempt.

In 2015 income tax charge rose to EUR 890 thousand from EUR 55 thousand in 2014 impacted by substantially higher profits from properties located in Lithuania and Latvia. Thanks to 1) the acquisition of Europa SC and improved performance of Domus Pro and 2) substantial fair value gains recognised for these two properties, a sum of standalone profits before tax from Lithuanian and Latvian subsidiaries jumped to EUR 5.7m from EUR 0.6m in 2014 leading to higher income tax. Identical to previous years, zero income tax was recognised for Estonian subsidiaries in 2015 because they did not pay out dividend. Income tax in 2015 was fully comprised of a deferred tax. Since BOF's inception, current income tax has been recorded for one property only - Sky Supermarket (it was also the only asset that paid cash income taxes). No current income tax has been recognized for Lithuanian properties because their tax depreciation has exceeded taxable profits. According to corporate tax regulations, taxable profits of properties are reduced by depreciation of their historical cost. This depreciation, on the other hand, is not recognized in the income statement of the Fund as properties are reported at fair value.

Income tax charge declined to EUR 55 thousand in 2014 from EUR 102 thousand in 2013. The amount in 2014 consisted of EUR 66 thousand tax charge of a SPV holding Sky Supermarket offset by EUR 11 thousand tax credit realized by a SPV holding Domus Pro. No income tax was recognized for two SPVs that held Estonian properties since they did not distribute their profits. Deferred and current taxes in 2014 amounted to EUR 15 thousand and EUR 40 thousand respectively.

In 2013 income tax charge amounted to EUR 102 thousand while zero tax was recorded in 2012. 2013 tax was fully comprised of a tax charge at Sky Supermarket-holding subsidiary. Zero tax was recognized for Estonian properties. There was no income tax recognized in 2012 because the single property in the portfolio was Estonian (Lincona) whose holding company did not distribute its profits. Deferred and current taxes in 2013 stood at EUR 58 thousand and EUR 44 thousand respectively.

### 6.12.3. Results of Operations in January – June 2016

This section reviews the Fund's financial and operating results in the first six months of 2016 and compares them to the same period of 2015. Financial information is sourced from reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016 (provided in Appendix B).

The table below presents the Fund's results for the first six months of 2016. It is followed by a discussion of key items.

<sup>2</sup> Interest on bank loans divided by average total interest-bearing debt.

**Table 40: Highlights of interim consolidated income statement of the Fund, EUR thousand**

	Note	Jan - Jun 2015	Jan - Jun 2016	Change
Rental income		2,704	3,276	21%
Expenses reimbursement revenue		885	1,193	35%
Cost of rental activities		-1,220	-1,554	27%
<b>Net rental income</b>	<b>1</b>	<b>2,369</b>	<b>2,915</b>	<b>23%</b>
Administrative expenses	2	-435	-980	125%
Other operating income	3	-	78	N/A
Net loss on disposal of investment properties	4	-10	-	-100%
Valuation gains / -losses on investment properties	5	-	-441	N/A
<b>Operating profit</b>		<b>1,924</b>	<b>1,572</b>	<b>-18%</b>
Financial income	6	10	8	-20%
Financial expenses	6	-533	-533	0%
<b>Profit before tax</b>		<b>1,401</b>	<b>1,047</b>	<b>-25%</b>
Income tax charge	7	-169	-175	4%
<b>Profit for the period</b>		<b>1,232</b>	<b>872</b>	<b>-29%</b>
<b>Earnings per unit (basic and diluted), EUR</b>		<b>0.05</b>	<b>0.03</b>	<b>-34%</b>

Source: reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

N/A – not available

### (1) Net rental income

In the first half of 2016 net rental income of the Fund amounted to EUR 2.9m and was 23% higher compared to the same period in 2015. The growth was mainly explained by a EUR 0.4m increase in net rental income from Euruopa SC which contributed for the full 6 months in 2016 as opposed to 4 months in the first half of 2015 (the property was acquired in March 2015). Domus Pro expanded its net rental income by EUR 62 thousand thanks to commissioning of the first phase (1,500 sqm) of the second stage in December 2015 and the second phase (2,200 sqm) in May 2016. Average vacancy of the property portfolio for the period rose slightly to 3.6% from 2.8% owing to an increase in Europa SC's vacancy to 6.6% from 2.1%.

**Table 41: Operational details of the property portfolio of the Fund**

	Jan - Jun 2015	Jan - Jun 2016
Number of properties, period end	5	5
Rentable area, sqm		
Period end	47,173	50,889
Period average <sup>1</sup>	41,771	49,032
Vacancy rate		
Period end	1.6%	3.6%
Period average <sup>2</sup>	2.8%	3.6%

<sup>1</sup> Computed as average of monthly estimates.

<sup>2</sup> Computed as average of monthly estimates.

### (2) Administrative expenses

The following table provides a breakdown of administrative expenses by type.

**Table 42: Breakdown of administrative expenses of BOF, EUR thousand**

	Jan - Jun 2015	Jan - Jun 2016
IPO related expenses	-	500
Management fee	250	305
Performance fee	-	81
Legal fees	107	22
Audit fees	18	20
Property valuation fee	19	4
Custodian fees	7	8
Other consultancy fees	29	28
Other administrative expenses	5	12
<b>Total administrative expenses</b>	<b>435</b>	<b>980</b>

Source: reviewed interim consolidated financial statements of the Fund for January – June 2016

In the first 6 months of 2016 total administrative expenses grew to EUR 1.0m from EUR 0.4m in the same period of 2015. The main reason for the increase was one-off IPO related expenses of EUR 0.5m. This amount is to be paid to the Management Company and covers the expenses that the Management Company incurred in relation to the preparation and execution of the initial public offering of the Fund (completed on 29 June 2016). A management fee grew by EUR 55 thousand to EUR 305 thousand explained by higher NAV. Up to 30 June 2016 (the date when the Fund was merged with BOF) the management fee was set at 1.9% of NAV per annum. A current structure of the management fee is presented in section 6.7 "Fees and Expenses". A EUR 81 thousand performance fee was recognized in the first six months of 2016 while none was recorded in the comparable period of 2015. Up to 30 June 2016, the performance fee was calculated as 20% of the average annual return on paid in capital exceeding an 11% hurdle rate. A current structure of the performance fee is presented in section 6.7 "Fees and Expenses". Legal fees dropped materially to EUR 22 thousand in the first half of 2016 from EUR 107 thousand in the comparable period of 2015. Legal fees in 2015 were higher principally due to an acquisition of Europa SC.

### (3) Other operating income

Other operating income stood at EUR 78 thousand in the first half of 2016. It was mainly attributable to a received payment from an insurance company for a claim relating to Europa SC. In the first half of 2015 no other operating income was recorded.

### (4) Net loss on disposal of investment properties

In the first 6 months of 2016 no properties were sold. In the comparable period of 2015 EUR 10 thousand net loss was recorded in relation to the disposal of Babycenter, a 674 sqm standalone building acquired together with Lincona complex, which was sold for EUR 990 thousand on 3 March 2015. The net fair value loss was realized compared to 2014 year-end valuation. On the other hand, an annual return of 24% was recorded when compared to the acquisition price in 2011.

### (5) Valuation gains/losses on investment properties

No external property valuations were performed in the first half of 2016 (and 2015). The revaluation loss of EUR 441 thousand is related to the final price paid to developer TK Development for the completion of the second stage of Domus Pro in May 2016.

### (6) Financial income and expenses

Composition of the Fund's financial income and expenses are presented in the following table.

**Table 43: Financial income and financial expenses of the Fund, EUR thousand**

	Jan - Jun 2015	Jan - Jun 2016
Interest income	10	8
<b>Total financial income</b>	<b>10</b>	<b>8</b>
Interest on bank loans	515	527
Foreign currency exchange losses	4	-
Other financial expenses	14	6
<b>Total financial expenses</b>	<b>533</b>	<b>533</b>
<b>Net financial expenses</b>	<b>523</b>	<b>525</b>

Source: reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

Financial income, fully comprised of interest income, amounted to EUR 8 thousand in the first half of 2016 (EUR 10 thousand in the same period of 2015). Financial expenses stood at EUR 533 thousand and were stable year on year. Their main component, interest on bank loans, was EUR 527 thousand – only marginally up from EUR 515 thousand in the first 6 months of 2015 despite an increase in average debt level. That was explained by a material drop in average cost of debt<sup>3</sup> to 2.1% from 2.8%.

#### **(9) Income tax charge**

In the first six months of 2016 income tax stood at EUR 175 thousand (EUR 169 thousand in the comparable period of 2015) which was comprised of EUR 19 thousand current income tax (EUR 29 thousand) and EUR 156 thousand deferred income tax (EUR 140 thousand). Deferred income tax was attributable to depreciation of investment properties' historical cost which is deducted from taxable profits in determining current taxable income.

#### **6.12.4. Results of Operations in Years 2013–2014 Based on Non–Consolidated Financial Statements**

In years prior to 2015 BOF was qualified as an investment entity under IFRS 10. According to an exception in consolidation requirements in IFRS 10, investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. As a result, for years 2014 and 2013 BOF prepared statutory financial statements in a non-consolidated form. This section reviews BOF's results in years 2014 and 2013 based on non-consolidated financial statements. After the merger with BOF, the Fund does not report its financial results in a non-consolidated form.

The complete audited non-consolidated financial statements of BOF for the year 2014 are provided in Appendix E. There is an immaterial misstatement in the cash flow statement for the year 2014 which is presented on page E-25. Line "Total cash flows from investing activities" should amount to minus EUR 1,385,000 (a minus sign is missing).

The complete audited non-consolidated financial statements of BOF for the year 2013 are provided in Appendix F. They contain two immaterial misstatements. The first misstatement is in the statement of financial position as at 31 December 2013 and 2012 which is presented on page F-18. In the statement of financial position assets are presented in the order from non-liquid to liquid and, therefore, "Cash and cash equivalents" had to be presented below "Accrued income" line. Another misstatement is in the cash flow statement for the year 2012 which is presented on page F-20. Line "Total cash flows from core activities" should amount to EUR 584,493 (minus sign should be removed).

The table below presents BOF's results of operations in 2014 and 2013 based on non-consolidated financial statements. Main items are discussed in the following paragraphs.

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<sup>3</sup> Interest on bank loans for 6 months divided by average total interest-bearing debt and multiplied by 2 (to arrive at annual estimate).

**Table 44: Highlights of the non-consolidated income statement of BOF, EUR thousand**

	Note	2013	2014
<b>Income</b>			
<b>Net result on investments</b>			
<b>From investments into equity and units</b>			
Unrealised profit	1	1,969	1,354
<b>Total result on investments</b>		<b>1,969</b>	<b>1,354</b>
<b>Net result of financial activities</b>			
Interest income on loans	2	1,057	1,188
Interest income on deposits		1	-
Other financial income		-	-
<b>Total result on financial activities</b>		<b>1,057</b>	<b>1,188</b>
<b>Total income</b>		<b>3,026</b>	<b>2,542</b>
<b>Expenses</b>			
<b>Operating expenses</b>			
Management fee	3	-377	-462
Depositary fee	3	-14	-15
Transaction costs	3	-1	-
Other operating expenses	3	-84	-42
<b>Total operating expenses</b>		<b>-476</b>	<b>-519</b>
<b>Other expenses</b>			
Foreign currency loss		-	-
<b>Total other expenses</b>		<b>-</b>	<b>-</b>
<b>Total expenses</b>		<b>-476</b>	<b>-519</b>
<b>Net result of the fund</b>		<b>2,550</b>	<b>2,023</b>

Source: audited non-consolidated financial statements of BOF for years 2013 - 2014

#### (1) Unrealised profit from investments into equity and units

Investments into equity and units consisted of shares of its SPVs that held properties. In non-consolidated financial statements these shareholdings were recognized at fair value with resulting gains or losses reflected on income statement.

As of 31 December 2014 the value of equity investments in SPVs stood at EUR 3.4m while at the end of 2013 it amounted to EUR 2.1m. In 2014 EUR 1.4m unrealized profit from the change in fair value of equities and units was recorded – down from EUR 2.0m in 2013. The decrease was mostly attributable to a lower gain from revaluation of investment properties (based on independent appraisals) recognized at SPVs – EUR 0.6m in 2014 versus EUR 1.3m in 2013.

In 2013 EUR 2.0m unrealized profit from the change in fair value of equities and units was recognized while the loss of EUR 0.1m was booked in 2012. The transition from a negative to positive result was primarily explained by the fact that a EUR 0.4m revaluation loss of investment properties in 2012 was replaced by EUR 1.3m gain in 2013.

#### (2) Interest income on loans

In addition to equity investments in its SPVs, BOF also provided them internal loans. At the end of 2014 there were internal loans issued to three SPVs (representing properties of Lincona, Domus Pro and Sky Supermarket) with a total outstanding amount of EUR 18.7m (plus accrued interest of EUR 1.0m) and an average interest rate of 6.4% (fixed). At the end of 2013 issued loans (provided to the same three SPVs as at the end of 2014) amounted to EUR 17.3m (plus accrued interest of EUR 0.1m) and an average interest rate was 6.5% (fixed). Interest income from internal loans rose to EUR 1.2m in 2014 from EUR 1.1m in 2013 on the back of a slightly increased total amount of loans. The interest income in 2013 was EUR 0.4m higher compared to figure in 2012 as loans to SPVs expanded to EUR 17.3m at the end of 2013 from EUR 11.9m a year before.

### (3) Operating expenses

Operating expenses in the non-consolidated income statement reflected costs incurred by BOF directly and did not account for operating expenses incurred by SPVs. Total operating expenses increased by EUR 43 thousand to EUR 519 thousand in 2014 owing to EUR 85 thousand rise in a management fee partly offset by EUR 42 thousand decrease in other operating expenses. The management fee is identical in non-consolidated and consolidated financial statements and its calculation is explained in the discussion of consolidated results in years 2013 - 2015 (section 6.12.2 "Results of Operations in Years 2013 - 2015"). The management fee grew in 2014 because year-end NAV expanded to EUR 24.3m from EUR 19.5m. The decrease in other operating expenses was predominantly attributable to a EUR 34 thousand fall in expenses related to legal consultations and a EUR 13 thousand decline in salaries to members of an investment committee. In 2013 compared to 2012 total operating expenses rose by EUR 113 thousand comprised of a EUR 52 thousand increase in management fee and a EUR 60 thousand higher other operating expenses. The management fee expanded on the appreciation in NAV to EUR 19.5m from EUR 16.9m while the increase in other operating expenses was mainly attributable to a EUR 46 thousand increase in legal fees due to acquisitions of new properties.

#### 6.12.5. Results of Operations of Europa SPV in Years 2013 – 2015

As of 30 September 2016, the fair value of Europa SC property constituted 28% of the Fund's total assets and 29% of its property portfolio value. The property contributed to the Fund's results only from 2 March 2015 (closing of acquisition). For the benefit of investors, three years of historical financial information of Europa SPV are provided in this Offering Circular. Financial statements of Europa SPV were prepared according to Business Accounting Standards of the Republic of Lithuania. Financial statements for years 2013 - 2015 are provided in Appendices H-J.

There are immaterial misstatements in Europa SPV's audited financial statements for the years 2014 and 2013 disclosed in Appendices I and J respectively. Misstatements are in the cash flow statement for the year 2013 which is presented on pages I-11 and J-12. Line "1.11 Increase (decrease) of trade debts, other payables, long-term and short-term advances received and other current liabilities" should amount to minus EUR 839 thousand and line "Net cash flow from operating activities" should sum up to EUR 7,705 thousand. There were no dividends paid in year 2013, as presented on page I-11, and "Net cash flow from financing activities" should amount to minus EUR 5,102 thousand.

The reporting currency for years 2013 and 2014 were Lithuanian litas – the national currency of the Republic of Lithuania at that time. As of 1 January 2015 Lithuania adopted euro as its national currency. Financial figures representing years 2013 and 2014 have been converted to euros using the exchange rate of LTL 3.4528 to EUR 1 at which litas was pegged to euro (since 2 February 2002).

Financial results of Europa SPV's operations for years 2013, 2014 and 2015 are presented in the table below while detailed discussion of the relevant items is provided in the subsequent paragraphs.

**Table 45: Highlights of the income statement of Europa SPV, EUR thousand**

	Note	2013	2014	2015
Sales	1	4,643	4,032	4,043
Cost of sales	2	-1,967	-1,474	-1,713
<b>Gross profit</b>		<b>2,677</b>	<b>2,558</b>	<b>2,330</b>
Operating expenses	3	-268	-400	-116
<b>Operating profit</b>		<b>2,409</b>	<b>2,158</b>	<b>2,214</b>
Income/-expenses from other activities - net result		-	-	14
Income/-expenses from financing and investing activities – net result	4	-3,107	-4,126	670
<b>Profit from ordinary activities</b>		<b>-698</b>	<b>-1,968</b>	<b>2,898</b>
Extraordinary gains		-	-	-
Extraordinary losses		-	-	-
<b>Profit before tax</b>		<b>-698</b>	<b>-1,968</b>	<b>2,898</b>
Income tax	5	104	289	-573
<b>Net profit</b>		<b>-595</b>	<b>-1,679</b>	<b>2,325</b>

Source: audited financial statements of Europa SPV for years 2013 - 2015

## (1) Sales

Sales of Europa SPV are composed of two components: rental income and expenses reimbursement revenue. Rental income represents rents charged to tenants while expenses reimbursement revenue corresponds to supplementary charges to cover property operating expenses including utilities, repairs and maintenance, property taxes, etc. The following table provides a split of sales:

**Table 46: Breakdown of sales revenue by type, EUR thousand**

	2013	2014	2015
Rental income	3,273	2,832	2,827
Expenses reimbursement revenue	1,371	1,200	1,216
<b>Total sales revenue</b>	<b>4,643</b>	<b>4,032</b>	<b>4,043</b>

Source: audited financial statements of Europa SPV for years 2013 - 2015

In 2015 Europa SPV achieved EUR 4.0m of sales – in line with the figure recorded in 2014. Rental income and expenses reimbursement revenue were stable year on year at EUR 2.8m and EUR 1.2m respectively. Europa SC's vacancy improved to 2.8% in 2015 from 6.4% in the previous year.

In 2014 compared to 2013, sales declined by EUR 0.6m to EUR 4.0m from EUR 4.6m. Rental income fell by EUR 0.4m and expenses reimbursement revenue decreased by EUR 0.2m. The drop in rental income was impacted primarily by changes to a lease agreement with Maxima grocery store, an anchor tenant. These changes included reductions in rent price and area rented. The lease with Maxima was extended for 10 more years until 2024. Vacancy at the property increased slightly to 6.4% in 2014 from 5.1% in 2013.

In 2013 total sales of Europa SPV stood at EUR 4.6m and were approximately in line with a result achieved in 2012. An increase in rental income to EUR 3.3m from EUR 3.1m was mostly offset by a decline in expenses reimbursement revenue to EUR 1.4m from EUR 1.5m. Average vacancy rate improved to 5.1% from 7.6% in 2012.

## (2) Cost of sales

Cost of sales reflects expenses related directly to the operation of the property. The SPV aims to pass-through majority of this cost to tenants. The table below illustrates composition of cost of sales.

**Table 47: Breakdown of cost of sales by type, EUR thousand**

	2013	2014	2015
Utilities	784	396	590
Repair and maintenance	438	409	434
Sales and marketing expenses	377	262	274
Property management expenses	222	223	230
Real estate taxes	136	171	171
Property insurance	9	13	14
<b>Total cost of sales</b>	<b>1,967</b>	<b>1,474</b>	<b>1,713</b>

Source: audited financial statements of Europa SPV for years 2013 - 2015

In 2015 cost of sales rose to EUR 1.7m from EUR 1.5m in 2014. The largest element was utilities expenses constituting 34% of total (up from 27% in 2014), followed by repair and maintenance with 25% of total (28%) and sales and marketing expenses with 16% of total (18%). In absolute terms, utilities expenses grew by EUR 0.2m year on year while other cost elements recorded significantly smaller changes. Utilities expenses are highly dependent on weather conditions, especially during cold seasons due to heating bills.

In 2014 cost of sales fell by EUR 0.5m to EUR 1.5m from EUR 2.0m in 2013 explained by EUR 0.4m and EUR 0.1m decreases in utilities expenses and sales and marketing expenses respectively. A plan for marketing expenses is discussed and reviewed with tenants every year. The largest portion of the total cost of sales was composed by repair and maintenance which grew to 28% of the total from 22% in 2013, followed by utilities with 27% of total (down from 40% in 2013) and sales and marketing expenses with 18% of total (19%).

In 2013 costs of sales amounted to EUR 2.0m – EUR 0.1m or 4% lower compared to the previous year. The decrease was mainly attributable to reduced utilities expenses which were the largest element in costs constituting 40% of total (42% in 2012). Repair and maintenance, the second largest component, comprised 22% of total (22%) while sales and marketing, the third largest group, made up 19% of total (18%).

### (3) Operating expenses

Operating expenses of Europa SPV largely represent the type of costs that the Fund records under Administrative expenses in its consolidated financial statements. They consist mainly of fees paid to a management company (effective before the acquisition by BOF) and external consultants. The split is provided in the following table.

**Table 48: Breakdown of cost of sales by type, EUR thousand**

	2013	2014	2015
Management and performance fees	202	291	37
Allowances for bad debts	-7	50	-
Advisory fees	57	43	65
Audit fees	8	8	5
License fees	-	6	6
Other operating expenses	8	2	3
<b>Total operating expenses</b>	<b>268</b>	<b>400</b>	<b>116</b>

Source: audited financial statements of Europa SPV for years 2013 - 2015

In 2015 total operating expenses dropped to EUR 0.1m from EUR 0.4m in the previous year primarily thanks to a EUR 254 thousand fall in management and performance fees. Prior to the acquisition by BOF (finalized on 2 March 2015), Europa SPV paid those fees to a management company of BPT Secura AS - the owner of Europa SC at the time. BPT Secura AS computed management and performance fees at a fund level and allocated them among properties it held. In contrast, the Fund (and BOF before the merger) pays fees to the Management Company directly and does not allocate them among its SPVs.

In 2014 operating expenses grew to EUR 0.4m from EUR 0.3m in 2013. Management and performance fees, calculated at the level of BPT Secura AS, were up by EUR 89 thousand.

In 2013 total operating expenses rose by EUR 19 thousand to EUR 268 thousand on the back of a EUR 33 thousand increase in management and performance fees.

### (4) Income/-expenses from financing and investing activities – net result

This item includes financial income and expenses as well as gains/losses from changes in fair value of investment property. See the following table for the split by component.

**Table 49: Breakdown of net income/-expenses from financing and investing activities, EUR thousand**

	2013	2014	2015
Interest income	25	23	21
Interest expenses	-580	-550	-590
External interest expenses	-511	-289	-380
Intragroup interest expenses	-69	-261	-210
Foreign currency exchange loss	-8	-13	-5
<b>Net income/-expenses from financing and investing activities before change in fair value of investment property</b>	<b>-562</b>	<b>-540</b>	<b>-574</b>
Change in fair value of investment property	-2,545	-3,586	1,244
<b>Net income/-expenses from financing and investing activities</b>	<b>-3,107</b>	<b>-4,126</b>	<b>670</b>

Source: audited financial statements of Europa SPV for years 2013 - 2015

In 2015 Europa SPV recorded net income from financing and investing activities of EUR 0.7m while in 2014 it incurred net expense from financing and investing activities of EUR 4.1m. The reason for this change was that in 2015 a EUR 1.2m gain in fair value of the Europa SC property was recognized whereas in 2014 a EUR 3.6m fair value loss was recorded. The fair value of the property was determined based on year-end independent appraisals by Colliers International Advisors UAB. The appraiser carried out valuations using discounted cash flow method. The main assumptions were as follows: 7.525% discount rate and 7.25% exit yield for 31 December 2015, 7.85% discount rate and 7.0% exit yield for 31 December 2014 and 7.65% discount rate and 7.25% exit yield for 31 December 2013. Net expenses from financing and investing activities excl. changes in value of investment property slightly increased in 2015 to EUR 574 thousand from EUR 540 thousand in 2014. Total interest expenses rose by EUR 40 thousand to EUR 590 thousand as external (bank loans related) interest expenses grew by EUR 91 thousand due to higher level of bank debt whereas intragroup interest expenses fell by EUR 50 thousand. Interest income amounted to EUR 21 thousand – close to stable year over year.

In 2014 compared to 2013, net expenses from financing and investing activities increased to EUR 4.1m from EUR 3.1m as a fair value loss related to investment property expanded to EUR 3.6m from EUR 2.5m. The main assumptions used by the independent appraiser to determine the fair value of Europa SC are disclosed in the previous paragraph. Net expenses from financing and investing activities excl. changes in value of investment property declined by EUR 23 thousand to EUR 540 thousand mainly impacted by a EUR 30 thousand reduction in total interest expenses.

In 2013 net expenses from financing and investing activities fell to EUR 3.1m from EUR 12.1m in 2012 driven by a decrease in fair value loss related to investment property to EUR 2.5m from EUR 11.5m. If the revaluation effects were eliminated, the change would be much smaller. Net expenses from financing and investing activities excl. changes in value of investment property went down only by EUR 36 thousand to EUR 562 thousand owing mainly to a EUR 40 thousand reduction in interest expenses.

## (5) Income tax

Throughout the period covered by historical financial information, statutory income tax rate in Lithuania was 15%. Unlike years 2013 and 2014 when income tax credit was recognized, in 2015 income tax charge of EUR 0.6m was booked as the entity's profit before tax turned from negative to positive. In 2014 and 2013 income tax credits of EUR 0.3m and EUR 0.1m were recorded respectively explained by negative taxable profits.

### 6.12.6. Results of Operations of Europa SPV in January – June 2016

The following table illustrates Europa SPV's financial performance in the first half of 2016 with key points discussed in subsequent paragraphs. Financial information was derived from Europa SPV's reviewed interim financial statements for the 6-month period ended 30 June 2016 prepared according to Business Accounting Standards of the Republic of Lithuania and provided in Appendix G.

**Table 50: Highlights of the income statement of Europa SPV for January – June 2016, EUR thousand**

	Note	Jan - Jun 2015	Jan - Jun 2016	Change
Sales		1,860	2,008	8%
Cost of sales		-813	-854	5%
<b>Gross profit</b>	<b>1</b>	<b>1,047</b>	<b>1,154</b>	<b>10%</b>
Operating expenses	2	-92	-38	-59%
<b>Operating profit</b>		<b>955</b>	<b>1,116</b>	<b>17%</b>
Income/-expenses from other activities - net result	3	14	74	429%
Income/-expenses from financing and investing activities – net result	4	-304	-259	-15%
<b>Profit before tax</b>		<b>665</b>	<b>931</b>	<b>40%</b>
Income tax	5	-100	-140	40%
<b>Net profit</b>		<b>565</b>	<b>791</b>	<b>40%</b>

Source: reviewed interim financial statements of Europa SPV for the 6-month period ended 30 June 2016

N/A – not available

#### (1) Gross profit

In the first six months of 2016 gross profit of Europa SPV expanded by 10% year on year to EUR 1.2m. Growth in sales outpaced an increase in cost of sales with rental income up by 5% and expenses reimbursement revenue higher by 16% compared to the same period of 2015. Europa SC recorded solid operational performance too - the footfall increased by 23% and turnover of all tenants by 17% year on year. The average vacancy in the first half of 2016 stood at 6.6% but the Management Company expects vacant space to be filled within 3-6 months with strategic new tenants with whom negotiations are ongoing. New lease agreements were signed with PJazz and Cili Pica to enhance the lunch/dinner service offering in the SC.

#### (2) Operating expenses

Operating expenses were reduced by almost 60% to EUR 38 thousand from EUR 92 thousand in the corresponding period of 2015. Before the acquisition by BOF in March 2015, Europa SPV was charged with management and performance fees which constituted EUR 37 thousand in the first two months of 2015. No management and performance fees have been recorded since then including the first half of 2016 as the Fund itself pays management and performance fees to the Management Company directly and does not allocate these fees among its SPVs (BOF followed the same structure). The other reason for lower operating expenses in the first six months of 2016 was a decrease in consulting fees paid to external advisors.

### (3) Income/-expenses from other activities - net result

Europa SPV earned EUR 74 thousand of income from other activities in the first half of 2016 mostly attributable to a received compensation from an insurance company for a past claim.

### (4) Income/-expenses from financing and investing activities – net result

The table below provides a split of results from financing and investing activities.

**Table 51: Breakdown of net income/-expenses from financing and investing activities, EUR thousand**

	Jan - Jun 2015	Jan - Jun 2016
Interest income	6	8
Interest expenses	-310	-267
External interest expenses	-174	-200
Intragroup interest expenses	-136	-67
<b>Net income/-expenses from financing and investing activities before change in fair value of investment property</b>	<b>-304</b>	<b>-259</b>
Change in fair value of investment property	-	-
<b>Net income/-expenses from financing and investing activities</b>	<b>-304</b>	<b>-259</b>

Source: reviewed interim financial statements of Europa SPV for the 6-month period ended 30 June 2016

Net expenses from financing and investing activities declined to EUR 259 thousand in the first half of 2016 from EUR 304 thousand in the corresponding period of 2015. In either of the periods, no external property valuations were performed; therefore, no fair value changes were recorded. Interest expenses of Europa SPV amounted to EUR 267 thousand – EUR 43 thousand lower compared to the corresponding period of 2015 as a EUR 26 thousand increase in external interest expenses was more than offset by a EUR 69 thousand fall in intragroup interest expenses. After Europa SC was acquired by BOF in March 2015, its debt structure was revised increasing the portion of external bank loans and reducing intragroup loans.

### (5) Income tax

In January – June 2016 corporate income tax grew to EUR 140 thousand from EUR 100 thousand in the comparable period of 2015 fully explained by higher profit before tax. In both periods income tax was fully comprised of deferred income tax attributable to depreciation of the property's historical cost.

## 6.13. HISTORICAL INCOME CAPACITY

The fair value of investment properties reported on the balance sheet of the Fund includes properties acquired during a year as the property portfolio has continuously grown. This section introduces the full year normalised net rental income (NRI) derived in Appendix L and provides alternative yield levels based on acquisition prices and fair values of the portfolio.

The full year normalised NRI represents the Fund's historical NRI as if properties had been acquired on the 1st of January of their acquisition year instead of actual acquisition dates during a year. The full year normalised NRI may be interpreted as the full year income capacity of the historical portfolio.

**Table 52: Acquisition prices and fair values of properties, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
<b>Number of properties in portfolio, period end</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>5</b>
Total acquisition price	15,396	15,396	31,850	43,937	78,888	78,888
Capital expenditure related to expansion	0	0	0	0	2,437	704
Capital expenditure related to operations	0	167	25	337	530	165
Total acquisition price incl. capital expenditure	15,396	15,563	32,042	44,466	82,384	83,253
<b>Total fair value, period start</b>	<b>15,396</b>	<b>15,590</b>	<b>31,784</b>	<b>45,222</b>	<b>81,957</b>	<b>86,810</b>
Total fair value based on 30 June 2016 values	15,491	15,491	33,306	46,136	83,465	87,238
Total fair value, period end	15,590	15,330	33,135	46,170	86,810	87,238
<b>Value gain</b>	<b>194</b>	<b>-427</b>	<b>1,326</b>	<b>611</b>	<b>2,886</b>	<b>-441</b>

Source: calculations explained in Tables L-1 – L-7 in Appendix L.

**Table 53: Net rental income (NRI), EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Rental income at zero vacancy	700	1,471	2,544	3,327	6,209	3,390
Expenses reimbursement revenue	110	312	632	829	2,062	1,193
Vacancy	-34	-68	-90	-279	-136	-115
<b>Rental income and expenses reimbursement revenue</b>	<b>775</b>	<b>1,716</b>	<b>3,086</b>	<b>3,877</b>	<b>8,134</b>	<b>4,469</b>
Total vacancies, %	5%	5%	4%	8%	2%	3%
Cost of rental activities	-146	-408	-806	-1,177	-2,796	-1,554
<b>NRI (reported)</b>	<b>629</b>	<b>1,307</b>	<b>2,280</b>	<b>2,700</b>	<b>5,339</b>	<b>2,915</b>
Full year normalised NRI incl. capital expenditure related to operations	1,258	1,140	2,424	2,585	5,207	5,891
<b>Full year normalised NRI<sup>1</sup></b>	<b>1,258</b>	<b>1,307</b>	<b>2,449</b>	<b>2,922</b>	<b>5,737</b>	<b>6,057</b>
Full year normalised NRI excl. vacancy	1,292	1,375	2,539	3,201	5,873	6,172

Source: calculations explained in Tables L-9 – L-15 in Appendix L.

<sup>1</sup> Full year normalised NRI is calculated so that the normalised NRI represents the NRI of the property as if the property was acquired on the 1st of January. To derive the full year normalised NRI, the reported NRI of the property is divided by the fraction of the year during which the property has been in the Fund's portfolio. An example would be if the property was acquired on 1 July 2015, the full year normalised NRI would be: (reported NRI) / (the fraction of the year represented by the number of whole days between two dates (e.g. 1 July 2015 and 31 December 2015)) = (reported NRI) / 0.5 = 2 \* (reported NRI)

**Table 54: Yields based on full year normalised NRI, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
<b>Yields calculated on total fair value at period start</b>						
Yield, full-year normalised NRI incl. capital expenditure related to operations	8.2%	7.3%	7.6%	5.7%	6.4%	6.8%
<b>Yield, full year normalised NRI</b>	<b>8.2%</b>	<b>8.4%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>7.0%</b>	<b>7.0%</b>
Yield, full year normalised NRI excl. vacancy	8.4%	8.8%	8.0%	7.1%	7.2%	7.1%
<b>Yields calculated on total acquisition price</b>						
Yield, full-year normalised NRI incl. capital expenditure related to operations	8.2%	7.4%	7.6%	5.9%	6.6%	7.5%
<b>Yield, full year normalised NRI</b>	<b>8.2%</b>	<b>8.5%</b>	<b>7.7%</b>	<b>6.7%</b>	<b>7.3%</b>	<b>7.7%</b>
Yield, full year normalised NRI excl. vacancy	8.4%	8.9%	8.0%	7.3%	7.4%	7.8%
<b>Yields calculated on total fair value based on 30 June 2016 values</b>						
Yield, full-year normalised NRI incl. capital expenditure related to operations	8.1%	7.4%	7.3%	5.6%	6.2%	6.8%
<b>Yield, full year normalised NRI</b>	<b>8.1%</b>	<b>8.4%</b>	<b>7.4%</b>	<b>6.3%</b>	<b>6.9%</b>	<b>6.9%</b>
Yield, full year normalised NRI excl. vacancy	8.3%	8.9%	7.6%	6.9%	7.0%	7.1%

Yields are computed as full year normalised NRI figures presented in Table 53 divided by the portfolio values presented in Table 52.

**Table 55: Yields by property calculated on full year normalised NRI and fair value at period start**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	8.2%	8.4%	7.6%	5.6%	7.0%	7.9%
Sky Supermarket			8.2%	8.2%	8.1%	8.0%
Coca Cola Plaza			7.6%	7.8%	7.6%	7.7%
Domus Pro 1st stage				5.5%	7.7%	7.2%
Domus Pro 2nd stage						7.9%
Europa SC					6.6%	6.1%
<b>Total</b>	<b>8.2%</b>	<b>8.4%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>7.0%</b>	<b>7.0%</b>

Yields are computed as full year normalised NRI of each property (disclosed in Table L-14 in Appendix L) divided by the fair value at period start of each property (disclosed in Table L-5 in Appendix L).

#### **6.14. ALTERNATIVE VIEW OF INCOME STATEMENT**

Table 56 and Table 57 present the Fund's historical consolidated income statement in an alternative way in order to provide additional information about the Fund's historical performance to prospective investors. The income statements are divided into elements that represent income from operations and those related to value gains/losses. This gives two measures, firstly a measure named "ROE from operations" which includes elements from the consolidated income statement related to operations. The second measure is "Total ROE" which also includes elements from the consolidated income statements related to value gain/loss of the portfolio.

**Table 56: Alternative view of the Fund's consolidated income statement, 1 of 2**

	2013			2014		
	EUR'000	EUR/ sqm/ month	Share <sup>2</sup>	EUR'000	EUR/ sqm/ month	Share <sup>2</sup>
<b>Rental income plus expenses reimbursement revenue</b>	<b>3,086</b>	<b>11.8</b>	<b>10.6%</b>	<b>3,877</b>	<b>11.4</b>	<b>9.5%</b>
Utilities	-525	-2.0	-1.8%	-677	-2.0	-1.7%
Repair & maintenance and property management	-223	-0.9	-0.8%	-384	-1.1	-0.9%
Real estate tax	-34	-0.1	-0.1%	-56	-0.2	-0.1%
Other <sup>3</sup>	-24	-0.1	-0.1%	-60	-0.2	-0.1%
<b>Costs of rental activities</b>	<b>-806</b>	<b>-3.1</b>	<b>-2.8%</b>	<b>-1,177</b>	<b>-3.5</b>	<b>-2.9%</b>
<b>Net rental income</b>	<b>2,280</b>	<b>8.7</b>	<b>7.8%</b>	<b>2,700</b>	<b>7.9</b>	<b>6.6%</b>
Admin. expenses excl. management and performance fees	-215	-0.8	-0.7%	-203	-0.6	-0.5%
Current income tax	-44	-0.2	-0.2%	-40	-0.1	-0.1%
Capex expenditure related to operations <sup>4</sup>	-25	-0.1	-0.1%	-337	-1.0	-0.8%
<b>Operating yield</b>	<b>1,996</b>	<b>7.6</b>	<b>6.8%</b>	<b>2,120</b>	<b>6.2</b>	<b>5.2%</b>
Management fee	-377	-1.4	-1.3%	-462	-1.4	-1.1%
<b>Operating income before interest expenses</b>	<b>1,619</b>	<b>6.2</b>	<b>5.5%</b>	<b>1,658</b>	<b>4.9</b>	<b>4.1%</b>
Interest on bank loans	-430	-1.6	-3.0%	-643	-1.9	-3.1%
Performance fee	0	0.0	0.0%	0	0.0	0.0%
<b>ROE from operations</b>	<b>1,189</b>	<b>4.5</b>	<b>7.0%</b>	<b>1,015</b>	<b>3.0</b>	<b>5.2%</b>
Valuation gain / loss <sup>5</sup>	1,351			949		
Capex related to expansion <sup>6</sup>	0			0		
<b>Value gain/loss less capital expenditure into expansion</b>	<b>1,351</b>		<b>8.0%</b>	<b>949</b>		<b>4.9%</b>
Deferred income tax	-58			-15		
Other <sup>7</sup>	34			59		
<b>Total value gain/loss and other items</b>	<b>1,327</b>		<b>7.8%</b>	<b>993</b>		<b>5.1%</b>
<b>Total ROE<sup>8</sup></b>	<b>2,516</b>		<b>14.9%</b>	<b>2,008</b>		<b>10.3%</b>
NAV/unit, period end	1.07		7.3%	1.12		4.4%
Dividends per unit during a period	0.07		7.0%	0.05		4.7%
<b>ROE/unit<sup>9</sup></b>			<b>14.3%</b>			<b>9.1%</b>

The following footnotes apply to both Table 56 and Table 57.

<sup>1</sup> The figures below exclude EUR 500 thousand one-off expenses related to the capital raising completed on 29 June 2016. These expenses were recorded under administrative expenses in the Fund's consolidated income statement for the first 6 months of 2016.

<sup>2</sup> Share = Income or cost as a percentage of either: the fair value of portfolio (V.), outstanding debt (D.) or total equity at beginning of the period (E.). The figures as a % of V. are: rental income, costs of rental activities, net rental income, operating yield, management and performance fees. The key figure given as a % of D. is: interest on bank loans. The key figures given as a % of E. are: ROE from operations, value gain/loss, total value gain/loss & other items and total ROE. Share numbers for January – June 2016 were calculated by multiplying by 2 in order to show full year share.

<sup>3</sup> Sales and marketing expenses + property insurance + allowance for bad debt + other operating expenses

<sup>4</sup> See Table L-2 in Appendix L.

<sup>5</sup> This item is equal to "Valuation gains/losses on investment properties" from the consolidated income statement less capital expenditure related to operations less capital expenditure related to expansion. By adding total capital expenditure back to this item, "Valuation gains/losses on investment properties" from the consolidated income statement can be retrieved.

<sup>6</sup> See Table L-2 in Appendix L.

<sup>7</sup> Other operating income + Net gain/loss on disposal of investment properties + other income related to financial income and expenses.

<sup>8</sup> Total ROE in % is calculated by dividing by the total equity in the beginning of the period. The difference from ROE/unit in % is because of the effect of dilution.

<sup>9</sup> ROE/unit is calculated as (NAV/unit end of period + dividend paid during a period)/(NAV/unit end of previous period) - 1.

**Table 57: Alternative view of the Fund's consolidated income statement, 2 of 2**

2015			Jan - Jun 2016 <sup>1</sup>			
EUR'000	EUR/ sqm/ month	Share <sup>2</sup>	EUR'000	EUR/ sqm/ month	Share <sup>2</sup>	
<b>8,135</b>	<b>15.2</b>	<b>10.7%</b>	<b>4,469</b>	<b>15.2</b>	<b>10.3%</b>	<b>Rental income plus expenses reimbursement revenue</b>
-1,228	-2.3	-1.6%	-695	-2.4	-1.6%	Utilities
-1,028	-1.9	-1.4%	-600	-2.0	-1.4%	Repair & maintenance and property management
-215	-0.4	-0.3%	-125	-0.4	-0.3%	Real estate tax
-325	-0.6	-0.4%	-134	-0.5	-0.3%	Other <sup>3</sup>
<b>-2,796</b>	<b>-5.2</b>	<b>-3.7%</b>	<b>-1,554</b>	<b>-5.3</b>	<b>-3.6%</b>	<b>Costs of rental activities</b>
<b>5,339</b>	<b>9.9</b>	<b>7.0%</b>	<b>2,915</b>	<b>9.9</b>	<b>6.7%</b>	<b>Net rental income</b>
-303	-0.6	-0.4%	-94	-0.3	-0.2%	Admin. expenses excl. management and performance fees
0	0.0	0.0%	-19	-0.1	-0.0%	Current income tax
-530	-1.0	-0.7%	-165	-0.6	-0.4%	Capex expenditure related to operations <sup>4</sup>
<b>4,506</b>	<b>8.4</b>	<b>5.9%</b>	<b>2,637</b>	<b>9.0</b>	<b>6.1%</b>	<b>Operating yield</b>
-602	-1.1	-0.8%	-305	-1.0	-0.7%	Management fee
<b>3,904</b>	<b>7.3</b>	<b>5.1%</b>	<b>2,332</b>	<b>7.9</b>	<b>5.4%</b>	<b>Operating income before interest expenses</b>
-1,075	-2.0	-2.3%	-533	-1.8	-2.1%	Interest on bank loans
-79	-0.1	-0.1%	-81	-0.3	-0.2%	Performance fee
<b>2,750</b>	<b>5.1</b>	<b>11.3%</b>	<b>1,718</b>	<b>5.8</b>	<b>10.8%</b>	<b>ROE from operations</b>
5,853			428			Valuation gain / loss <sup>5</sup>
-2,437			-704			Capex related to expansion <sup>6</sup>
<b>3,416</b>		<b>14.0%</b>	<b>-276</b>		<b>-1.7%</b>	<b>Value gain/loss less capital expenditure into expansion</b>
-890			-156			Deferred tax
249			86			Other <sup>7</sup>
<b>2,775</b>		<b>11.4%</b>	<b>-346</b>		<b>-2.2%</b>	<b>Total value gain/loss and other items</b>
<b>5,525</b>		<b>22.7%</b>	<b>1,372</b>		<b>8.7%</b>	<b>Total ROE<sup>8</sup></b>
1.27		13.2%	1.27		0.6%	NAV/unit, period end
0.07		6.4%	-		0.0%	Dividends per unit during a period
		<b>19.6%</b>			<b>0.6%</b>	<b>ROE/unit<sup>9</sup></b>

See footnotes below Table 56.

The following table provides additional data that was used to compute *EUR/sqm/month* and *Share* figures in Table 56 and Table 57.

**Table 58: Additional data relevant for the analysis of the Fund's consolidated income statement**

	2013	2014	2015	Jan - Jun 2016
Total equity, period start (E.)	16,930	19,456	24,315	31,693
Total equity, period end	19,456	24,315	31,693	53,504
Total number of units, period end <sup>1</sup>	18,147,257	21,719,671	25,016,672	41,979,150
Fair value of portfolio, period average (V.)	29,221	40,814	75,982	87,040
Total rentable area, period average, sqm	21,825	28,322	44,718	49,032
Outstanding bank loans, period average (D.)	14,554	20,479	46,837	51,054
LTV, average over period	49.8%	51.3%	61.6%	58.7%

<sup>1</sup> Numbers of units prior to the Merger were recalculated by multiplying them by 100 to reflect the effect of the conversion of BOF units into the Fund's Units at a ratio of 1:100.

## 6.15. NAV

The table below depicts the Fund's NAV per financial statements and EPRA NAV, a measure of long-term NAV, which is presented in order to provide additional information to potential investors. Apart from disclosing NAV figures in interim and annual financial statements, the Fund also reports monthly NAV figures, the most recent of which is for 30 September 2016. Financial information as of 30 September 2016 has not been audited or reviewed.

**Table 59: NAV metrics, EUR thousand (unless stated otherwise)**

	31 Dec 2013	31 Dec 2014	31 Dec 2015	30 Jun 2016	30 Sep 2016 <i>Unaudited</i>
<b>NAV (per financial statements)</b>	<b>19,456</b>	<b>24,315</b>	<b>31,693</b>	<b>53,504</b>	<b>57,169</b>
<b>NAV per unit, EUR</b>	<b>1.07</b>	<b>1.12</b>	<b>1.27</b>	<b>1.27</b>	<b>1.36</b>
Reversals:					
Derivative financial instruments	211	209	232	261	297
Deferred tax asset related to derivative financial instruments	-	-15	-33	-39	-33
Deferred tax liability related to investment property fair and tax value differences	58	785	5,027	5,244	6,783
<b>EPRA NAV</b>	<b>19,725</b>	<b>25,294</b>	<b>36,919</b>	<b>58,970</b>	<b>64,217</b>
<b>EPRA NAV per unit, EUR</b>	<b>1.09</b>	<b>1.16</b>	<b>1.48</b>	<b>1.40</b>	<b>1.53</b>
Number of units, period end	18,147,257 <sup>1</sup>	21,719,671 <sup>1</sup>	25,016,672 <sup>1</sup>	41,979,150	41,979,150

Source: 31 Dec 2013, 31 Dec 2014 and 31 Dec 2015 are based on audited annual consolidated financial statements of BOF for the respective years while 30 Jun 2016 is based on reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> On 30 June 2016 the Fund was merged with BOF with the Fund taking over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying by 100 to reflect the conversion. The adjusted numbers or units were used to recalculate *per unit* figures.

The Fund's most recent NAV per financial statements, dated 30 September 2016, stood at EUR 57.2m corresponding to EUR 1.36 per unit. It was 6.9% higher compared to 30 June 2016 figure positively affected by fair value gains resulting from independent property appraisals for 30 September 2016. In 2015 and 2014 annual growth in NAV per unit (excluding dividends) amounted to 13.2% and 4.4% respectively thanks to increases in retained earnings which rose to EUR 6.2m in 2015 from EUR 2.5m in 2014 and EUR 1.5m in 2013. Growth in absolute NAV was higher – 30.3% in 2015 and 25.0% in 2014 – explained by additional paid-in capital raised from investors.

EPRA NAV was computed following the definition and calculation guidelines provided by European Public Real Estate Association (EPRA) in its Best Practices Recommendations (December 2014<sup>4</sup>). EPRA NAV is widely used by European listed property companies as an indicator of long term NAV. According to EPRA, EPRA NAV measure is designed to reflect the fair value of net assets of an entity that invests in real estate with a long-term investment strategy. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation gains are therefore excluded. The calculation of the Fund's EPRA NAV is explained Table 59. NAV per financial statements is adjusted to exclude:

1. Derivative financial instruments liability (EUR 297 thousand on 30 September 2016) which reflects the fair value of interest rate swap contracts. This liability would materialize only if the contracts were terminated. The Fund, however, intends to keep the contracts until their expiry which will lead to cancellation of the liability.
2. Deferred tax asset related to derivative financial instruments (EUR 33 thousand on 30 September 2016). This asset would crystallise only if the interest rate swap contracts (discussed above) were terminated. Maintaining the contracts until expiry will cancel the related tax asset.
3. Deferred tax liability related to investment property fair and tax value differences (EUR 6.8m on 30 September 2016). The tax would have to be paid only if properties were sold. However, the term of the Fund is indefinite and it invests in properties for the long term.

No adjustments are needed regarding the value of investment properties since they are recorded at fair value on the balance sheet of the Fund – in line with the definition of EPRA NAV. The Fund's most recent EPRA NAV, dated 30 September 2016, amounted to EUR 64.2m or EUR 1.53 per unit. It was 8.9% higher compared to 30 June 2016 level positively affected by fair value gains resulting from independent property appraisals for 30 September 2016 and a transfer of deferred tax liability of Upmalas Biroji which was

<sup>4</sup> Available publicly at <http://www.epra.com/regulation-and-reporting/bpr/>

acquired in a stock transaction on 30 August 2016. In 2015 and 2014 annual growth in EPRA NAV per unit (excluding dividends) amounted to 26.7% and 7.1% respectively. The higher increase in 2015 was impacted by 1) the transfer of Europa SC's deferred tax liability related to fair and tax value differences as the property was acquired in a stock transaction in March 2015 and 2) deferred tax on EUR 2.9m gain from revaluation of investment properties at the end of 2015.

## 6.16. DIVIDENDS AND DIVIDEND POLICY

In accordance with the Fund Rules, the Management Company intends to distribute the Fund's cash flows ("Dividends"). The Management Company targets to pay out to Unit-holders 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 into developments. Dividends will be determined taking into account the sustainability of the Fund's liquidity position. Up to 20% of the AFFO might be used for follow on investments. As % of invested equity, dividends are targeted to yield 7-9% per annum. The Management Company intends to pay dividends on a quarterly basis.

Table 60 illustrates historical dividend payments. For periods prior to the Merger, dividend per unit figures were adjusted to reflect the conversion of BOF units into the Fund's Units at a ratio 1:100 on the day of the Merger. On 12 October 2016 the Fund announced dividend of EUR 0.026 per unit for the third quarter of 2016 with the payment day of 28 October 2016. The amount corresponded to a 2.0% quarterly dividend yield based on the Unit's market price on the day of the announcement (EUR 1.325). This was the first dividend payment since the Fund merged with BOF on 30 June 2016. Prior to the Merger, BOF had distributed dividends to its unitholders every year from 2012 to 2015. Dividend of EUR 0.072 per unit was paid in 2015 corresponding to a 6.9% yield on year-end share capital. Unitholders representing 26.2% of a total number of units elected to convert declared dividend into new units effectively reinvesting in the Fund. As a result, cash outflow was reduced from EUR 1.8m to EUR 1.3m. In 2014 dividend of EUR 0.051 per unit was distributed implying a 4.8% yield on year-end share capital. Scrip dividend option was exercised by unitholders representing 82.6% of total equity. That reduced cash outflow from EUR 1.1m to only EUR 0.2m. In 2013 dividend was declared and paid out in two instalments: EUR 0.035 per unit in June 2013 and EUR 0.035 per unit in December 2013, which together translated into 6.8% yield on end-of-2013 share capital.

As at the date of this Offering Circular the Fund's total number of Units amounts to 41,979,150 which include 16,962,475 new Units issued as a result of the capital raising completed on 29 June 2016. When historical dividends per unit are adjusted to reflect the current number of Units, they decrease to EUR 0.042 for 2015, EUR 0.025 for 2014 and EUR 0.03 for 2013.

**Table 60: History of dividend distributions**

	2013	2014	2015	Jan - Oct 2016
<b>Per unit</b>				
Dividend per unit, EUR	0.070 <sup>1</sup>	0.051	0.072	0.026
Number of units at the time of distribution <sup>2</sup>	17,547,700	20,917,438	24,617,433	41,979,150
Dividend per unit adjusted for number of units as at the date of this Offering Circular <sup>3</sup> , EUR	0.029	0.025	0.042	0.026
<b>Total, EUR thousand</b>				
Dividends declared	1,235	1,059	1,764	1,091
Of which dividends reinvested <sup>4</sup>	-	-875	-463	-
Dividends paid out	1,235	184	1,302	1,091

<sup>1</sup> Declared and paid in two instalments: EUR 0.035 per unit in June 2013 and EUR 0.035 per unit in December 2013.

<sup>2</sup> On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). To ensure the comparability of historical *per unit* figures, numbers of units prior to the merger were recalculated by multiplying them by 100 to reflect the effect of the conversion. The recalculated numbers or units were used to compute comparable *per unit* figures.

<sup>3</sup> Calculated as total amount of dividends declared for a period divided by the number of units as at the date of this Offering Circular – 41,979,150 units.

<sup>4</sup> Prior to the Merger, unitholders of BOF were offered a scrip dividend option. Part of them elected to exchange their right to dividend into new units.

## 6.17. CAPITAL RESOURCES

On 30 June 2016 the Fund merged with BOF and took over all assets and liabilities of BOF. Units of BOF were converted into units of the Fund at a ratio of 1:100 (1 unit of BOF was exchanged into 100 units of the Fund). At the time of the merger, the Fund had no assets and liabilities of its own. In the Fund's reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016, BOF's financial results prior to the merger are presented as those of the Fund. For these reasons, past results and capital structure of BOF are presented as results and capital structure of the Fund.

The following sections 6.17.1 “Capital Resources, Borrowing Requirements and Funding Structure”, 6.17.2 “Financial Debt Structure” and 6.17.3 “Cash Flows” provide an analysis of capital resources of the Fund using consolidated financial information. The Fund reports its financial results in the consolidated form. The consolidated financial information in the following sections is derived as follows:

- For the interim period of January – June 2016: the Fund’s reviewed interim consolidated financial statements for the 6-month period ended 30 June 2016 prepared according to the IFRS (provided in Appendix B).
- For year 2015: BOF’s audited statutory consolidated financial statements for the year ended 31 December 2015 prepared according to the IFRS (provided in Appendix C).
- For years 2014 and 2013: BOF’s audited special purpose consolidated financial statements for 31 December 2014 and 2013 (provided in Appendix D). Because prior to 2015 BOF was qualified as an investment entity under IFRS 10, these statements do not comply with consolidation requirements in IFRS 10 according to which investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. Apart from this exception, these special purpose financial statements are prepared based on all other standards and interpretations of the IFRS.

In the audited consolidated financial statements of BOF for the years 2015, 2014 and 2013, the note on the capital management (presented in pages C-38 and D-39) is not fully in line with IAS.1.135, therefore, additional information is provided here. For the purpose of the BOF’s capital management, capital included share capital, retained earnings and other equity reserves attributable to the unit-holders. The primary objective of the BOF’s capital management was to maximize returns to the unitholders keeping LTV ratio at the targeted level. The exact composition of the consolidated capital items of BOF for the periods ended 31 December 2015, 2014 and 2013 is provided in Table 61 under the heading *Equity*.

### 6.17.1. Capital Resources, Borrowing Requirements and Funding Structure

The Fund’s equity capital amounted to EUR 53.5m on 30 June 2016 marking a significant increase from EUR 31.7m at the end of 2015. On 29 June 2016 the Fund successfully completed a public offering raising EUR 21.0m of new equity capital which was later invested in acquiring two new properties. As of 30 June 2016 the total proceeds from the public offering were recorded as a EUR 28.5m subscription receivable under current assets. Of that, EUR 7.5m were proceeds to unit-holders of BOF which sold units in the initial public offering and this amount was booked as payable under current liabilities. The raised cash was received by the Fund on 5 July 2016. In previous years a number of smaller private capital raisings were carried out to finance acquisitions of properties. As a result, share capital grew by EUR 7.5m (of which EUR 1.3m represented reinvested dividends) from the end of 2013 to the end of 2015. On 30 June 2016 equity ratio stood at 45.2%. Equity consisted of EUR 46.6m share capital, EUR 7.1m retained earnings and EUR -0.2m cash flow hedge result. The negative cash flow hedge reserve was related to interest rate swaps that the Fund entered into to hedge exposure to variable interest rates.

**Table 61: Highlights of capital resources and funding structure of the Fund, EUR thousand**

	31 Dec 2013	31 Dec 2014	31 Dec 2015	30 Jun 2016
<b>CAPITAL RESOURCES</b>				
<b>Financial debt</b>				
Non-current interest bearing loans and borrowings	15,415	22,395	39,586	41,557
Current interest bearing loans and borrowings	229	644	11,608	9,140
<b>Total financial debt</b>	<b>15,644</b>	<b>23,039</b>	<b>51,194</b>	<b>50,697</b>
Cash and cash equivalents	456	2,626	1,677	1,460
<b>Net financial debt</b>	<b>15,188</b>	<b>20,413</b>	<b>49,517</b>	<b>49,237</b>
<b>Equity</b>				
Share capital	18,156	22,051	25,674	46,636
Cash flow hedge reserve	-210	-194	-199	-222
Retained earnings	1,510	2,458	6,218	7,090
<b>Total equity</b>	<b>19,456</b>	<b>24,315</b>	<b>31,693</b>	<b>53,504</b>
<b>KEY INDICATORS</b>				
Interest coverage ratio <sup>1</sup>	3.9	3.2	4.3	3.8
LTV <sup>2</sup>	47.2%	49.9%	59.0%	58.1%
Equity ratio <sup>3</sup>	54.4%	49.6%	35.3%	45.2%
Current ratio <sup>4</sup>	4.5	2.1	0.2	1.6

Source: audited consolidated financial statements of BOF for years 2013 - 2015 and reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> Interest coverage ratio = ( operating profit - valuation gains or losses on investment properties - net gains or losses on disposals of investment properties ) / interest on bank loans.

<sup>2</sup> Loan-to-value = total interest bearing loans and borrowings / value of investment properties.

<sup>3</sup> Equity ratio = total equity / total assets.

<sup>4</sup> Current ratio = current assets / current liabilities.

As of 30 June 2016 consolidated total financial debt of the Fund stood at EUR 50.7m constituting 78% of total liabilities. Non-current portion of financial debt amounted to EUR 41.6m while current portion was EUR 9.1m. Debt was comprised fully of bank loans. The Fund uses debt in a combination with equity to finance acquisitions of new properties. As the number of properties in the portfolio increased over years, so did financial debt. At the end of 2013, three real estate assets were held and debt stood at EUR 15.6m. By the end of June 2016 two additional commercial properties had been purchased leading to an increase in financial debt to EUR 50.7m. For a more detailed analysis of bank loans see the subsequent section 6.17.2 “Financial Debt Structure”.

The primary indicator used by the management of the Fund to measure its indebtedness is a loan-to-value (LTV) ratio. The Fund targets LTV of 50% implying equal parts of debt and equity financing. The Management Company believes this level of financial leverage both enhances unitholder returns and ensures a sizeable safety buffer for when property markets slow down. According to the Fund Rules, at no point in time LTV of the Fund may exceed 65%. Before 2015, LTV of the Fund stood slightly below targeted 50%. It increased to 59.0% in 2015 primarily due to the acquisition of Europa SC for which a higher portion of debt financing was deployed. Over the first 6 months of 2016 LTV has declined slightly to 58.1%. It is amortizing towards the 50% mark.

At the end of June 2016 the Fund held EUR 14.1m of non-interest-bearing liabilities comprising 22% of total liabilities. Of that amount, EUR 4.6m was non-current portion and EUR 9.5m was current portion. Main elements constituting non-interest-bearing liabilities were redemption of units payable (EUR 7.5m), deferred tax liability (EUR 3.8m), trade and other payables (EUR 1.6m) and other non-current liabilities (EUR 0.5m).

Current ratio of the Fund stood at 1.6 on 30 June 2016 – an increase from 0.2 at the end of 2015. The improvement is explained primarily by the recognition of EUR 28.5m subscription receivable relating to the proceeds from the public offering in June 2016. The lower current ratio in 2015 was attributable to EUR 11.6m of current interest bearing loans and borrowings of which EUR 10.0m was bank loans related to Coca Cola Plaza and Sky Supermarket maturing in 2016. On 21 March 2016, a new bank loan with 3-year maturity was signed in order to refinance the bank debt related to Coca Cola Plaza which matured on the same day. On 1 August 2016, Sky Supermarket’s bank loan was refinanced extending its maturity by 5 years to 2021. The next bank loan maturity is on 31 December 2017 relating to Lincona’s debt.

The Fund held EUR 1.5m of cash and cash equivalents at the end of June 2016. 100% of that was denominated in euro currency. Euro is the national currency of all three Baltic countries. EUR 400 thousand of cash and cash equivalents, held by Europa SPV, were restricted following requirements set in a bank loan agreement. Only cash balance in excess of this amount could be distributed as dividends from Europa SPV.

### 6.17.2. Financial Debt Structure

The table below provides a detailed breakdown of the structure of consolidated financial debt as of 30 June 2016. Interest bearing debt was fully comprised of bank loans with a total carrying value of EUR 50.7m. 100% of them were denominated in euros – the national currency in all three Baltic States. All of the bank loans were obtained by SPVs that hold properties while properties themselves were pledged as collateral. The parent entity, the Fund, had no financial debt. A bank loan associated with Europa SC, the largest asset in the portfolio, comprised the highest portion of total debt – 47% or EUR 23.9m. The lowest level of debt of EUR 2.7m was related to Sky Supermarket – the smallest property. The Fund has arranged debt financing through tenders in order to obtain the most attractive borrowing terms.

**Table 62: Financial debt structure of the Fund, 30 June 2016**

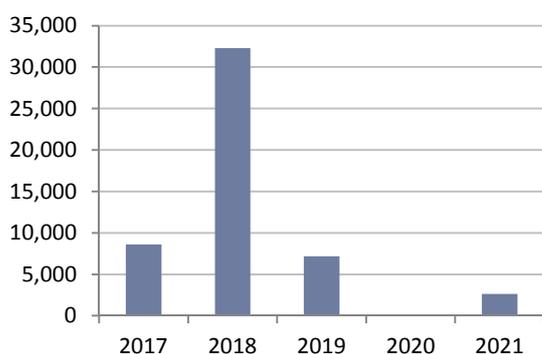
Property	Maturity	Currency	Carrying amount, EUR'000	% of total	Fixed-rate portion
Lincona	31-Dec-2017	EUR	8,591	17%	-
Europa SC	2-Mar-2018	EUR	23,896	47%	80%
Domus Pro	29-May-2018	EUR	8,404	17%	82%
Coca Cola Plaza	8-Mar-2019	EUR	7,188	14%	-
Sky Supermarket	1-Aug-2021	EUR	2,652	5%	-
<b>Total bank loans</b>			<b>50,731</b>	<b>100%</b>	<b>51%</b>
Less capitalised loan arrangement fees <sup>1</sup>			-34		
<b>Total financial debt recognised on balance sheet</b>			<b>50,697</b>		

<sup>1</sup> Amortized each month over the term of a loan.

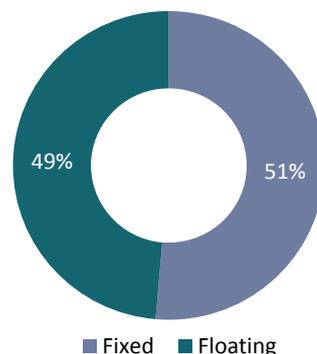
Maturities of existing financial debt cover the period 2017-2021 (see Figure 40). 2018 has the highest weight by far because loans of two large properties, Europa SC and Domus Pro, are set to mature that year. Two bank loans that were due in 2016 have been successfully refinanced. In March 2016 Coca Cola Plaza's debt was refinanced with a new bank loan that will mature in March 2019. In August 2016 Sky Supermarket's loan was refinanced extending its maturity by 5 years to August 2021. As a result, weighted average time to maturity of total financial debt increased from 1.8 years at the end of 2015 to 2.0 years as of 30 December 2016. The current debt maturity profile still reflects a fixed term of BOF. Because the Fund, in contrast, has indefinite term, the Management Company will target longer maturities when raising new debt or refinancing existing one. That will result in longer average maturity of the Fund's financial debt.

Coca Cola Plaza's bank loan of EUR 7.2m was recognised as short term debt on the Fund's balance sheet as of 30 June 2016 despite its maturity in 2019. That was because a debt service coverage ratio (DSCR) covenant relating to this bank loan was breached. However, subsequent to the reporting date, a bank revised a DSCR calculation method and, in turn, the covenant breach based on the initial DSCR calculation method was waived. As a result, in 9 month 2016 financial results of the Fund Coca Cola Plaza's bank loan will no longer be accounted as short term debt.

**Figure 40: Bank loan maturity schedule, carrying amounts as of 30 June 2016, EUR thousand**



**Figure 41: Fixed and floating portions of total bank loans, 30 June 2016**



As of 30 June 2016 51% of total bank loans had fixed interest rates while the remaining 49% was subject to floating interest rates. Initially, all of the existing loans were taken from banks at floating interest rates with a structure of EURIBOR (either 1-month or 3-month) plus a margin. Fixed-rate portion of loans was achieved by using interest rate swaps to exchange floating rates into fixed. Maturities of all swaps that were in place at the end of June 2016 were identical to maturities of associated loans.

### 6.17.3. Cash Flows

#### Cash Flows in Years 2013 - 2015

The following table summarizes consolidated cash flows over 2013-2015. For the full consolidated cash flow statements see BOF's consolidated financial statements for year 2015 in Appendix C and BOF's special purpose consolidated financial statements for years 2014 and 2013 in Appendix D.

**Table 63: Highlights of consolidated cash flows of the Fund for years 2013 - 2015, EUR thousand**

	2013	2014	2015
<i>Cash and cash equivalents at the beginning of the period</i>	5,231	456	2,626 <sup>1</sup>
Cash flow from operating activities	1,600	1,767	4,966
Before working capital adjustments	1,666	2,078	4,662
Working capital adjustments	-66	-311	304
Cash flow from investing activities	-11,904	-1,825	-8,863
Cash flow from financing activities	5,529	2,228	2,948
<b>Net change in cash and cash equivalents</b>	<b>-4,775</b>	<b>2,170</b>	<b>-949</b>
<i>Cash and cash equivalents at the end of the period</i>	456	2,626	1,677

Source: audited consolidated financial statements of BOF for years 2013 - 2015

<sup>1</sup> In BOF's audited consolidated financial statements for 2015, *cash and cash equivalents at the beginning of the period* is equal to EUR 1,293 thousand which reflects a non-consolidated cash position of BOF. In the table above EUR 1,333 thousand of cash and cash equivalents held by SPVs of BOF at the beginning of 2015 are added in order to consolidate cash position.

In 2015 total net cash flow was negative EUR 0.9m leading to a decline in cash and cash equivalents from EUR 2.6m to EUR 1.7m. The net outflow was mainly attributable to investing activities as cash was spent on the acquisition of Europa SC which, on the other hand, led to materially increased operating cash flow.

Cash flow from operating activities rose to EUR 5.0m in 2015 from EUR 1.8m in 2014. Excluding changes in working capital, operating cash flow increased to EUR 4.7m in 2015 from EUR 2.1m in 2014. The increase was explained primarily by the contribution from the new property - Europa SC - which was bought in March 2015. A decrease in net working capital resulted in positive EUR 0.3m cash flow adjustment in 2015.

Cash flow from investing activities was negative EUR 8.9m in 2015. EUR 7.7m (net of cash acquired) were paid for the acquisition of Europa SC via a stock transaction and EUR 2.2m were invested in previously acquired assets including EUR 1.6m into development of the second stage of Domus Pro. This expenditure was partly offset by EUR 1.0m proceeds from the disposal of Babycenter (a standalone building of 674 sqm acquired together with Lincona office complex).

Financing activities contributed positive EUR 2.9m cash flow in 2015. EUR 4.8m of new debt financing was raised from banks offset by EUR 2.7m of loans repaid. EUR 3.2m of new equity capital was attracted from investors mainly for the purpose of financing the acquisition of Europa SC. Out of declared dividends of EUR 1.8m for 2015, EUR 1.3m was distributed to unitholders while the remaining part was elected by unitholders to be reinvested (for more on dividends please see section 6.16 "Dividends and Dividend Policy").

In 2014 total net cash flow amounted to positive EUR 2.2m while it was negative EUR 4.8m in 2013. Reduced cash outflow from investing activities was the primary reason for the total net cash flow turning from negative to positive. At the end of 2014, EUR 2.6m of cash and cash equivalents were held.

Operating cash flow of EUR 1.8m was generated in 2014 – up from EUR 1.6m the year before. Excluding working capital adjustments, the increase was larger – to EUR 2.1m from EUR 1.7m. Improved operating cash flow generation was attributable to the larger property portfolio as Domus Pro was added in May 2014 and Coca Cola Plaza (acquired in March 2013) contributed for the full year. Changes in net working capital constituted negative cash flow adjustment of EUR 0.3m in 2014.

Cash flow from investing activities stood at negative EUR 1.8m in 2014 – a material reduction from negative EUR 11.9m in 2013. In 2014 Domus Pro was bought through a stock transaction constituting a EUR 1.4m outflow. A EUR 11.9m outflow in 2013 reflects a payment for Coca Cola Plaza which was acquired in an asset transaction. EUR 4.5m price for the acquisition of Sky Supermarket (asset transaction) which was finalised in January 2013 was pre-paid in 2012; hence, the amount is reflected not in 2013 but 2012 cash flows.

Cash flow from financing activities dropped to EUR 2.2m in 2014 from EUR 5.5m in 2013. Main variations in 2014 compared to 2013 include lower proceeds from new bank loans (EUR 0.5m in 2014 versus EUR 8.1m in 2013), higher reimbursement of loans (EUR 0.5m versus EUR 0.2m), more capital raised from unitholders (EUR 3.0m versus EUR 1.2m) and lower dividend payment (EUR 0.2m versus EUR 1.2m; unitholders decided to reinvest EUR 0.9m of EUR 1.1m dividends declared for 2014). In 2013 EUR 2.0m loan was granted to the developer of Domus Pro which was set-off during the acquisition of the property in May 2014.

#### Cash Flows in January – June 2016

The table below presents a summary of consolidated cash flows of the Fund for the first six months of 2016. For the full interim consolidated cash flow statement see the Fund's interim consolidated financial statements for January – June 2016 in Appendix B.

**Table 64: Highlights of consolidated cash flows of the Fund for January – June 2016, EUR thousand**

	Jan - June 2015	Jan - June 2016
<i>Cash and cash equivalents at the beginning of the period</i>	2,626 <sup>1</sup>	1,677
Cash flow from operating activities	2,122	2,407
Before working capital adjustments	1,932	2,019
Working capital adjustments	190	388
Cash flow from investing activities	-7,466	-1,615
Cash flow from financing activities	4,384	-1,009
<b>Net change in cash and cash equivalents</b>	<b>-960</b>	<b>-217</b>
<i>Cash and cash equivalents at the end of the period</i>	1,666	1,460

Source: reviewed interim consolidated financial statements of the Fund for the 6-month period ended 30 June 2016

<sup>1</sup> In Fund's interim consolidated financial statements for January – June 2016, cash and cash equivalents at the beginning of 2015 is equal to EUR 1,293 thousand which reflects a non-consolidated cash position of the Fund. In the table above EUR 1,333 thousand of cash and cash equivalents held by SPVs of the Fund at the beginning of 2015 are added in order to consolidate cash position.

In the first half of 2016, cash and cash equivalents declined by EUR 0.2m to EUR 1.5m as compared to EUR 1.0m reduction in cash position in the corresponding period of 2015. A higher negative net cash flow in 2015 was primarily due to the acquisition of Europa SC in March 2015 for EUR 7.7m (representing equity portion). In contrast, no property acquisitions were closed in the first six months of 2016.

Cash flow from operating activities amounted to EUR 2.4m and was approximately EUR 0.3m higher than in the first half of 2015. Excluding working capital, operating cash flow improved by EUR 0.1m to EUR 2.0m.

Cash outflow relating to investment activities was reduced greatly – to EUR -1.6m from EUR -7.5m – as no properties were purchased in the first half of 2016 while Europa SC was purchased in the corresponding period of 2015. All investments in 2016 were made into existing properties with EUR 1.4m attributable to development of the second stage at Domus Pro (fully completed in May 2016). No investments in property developments were made in the first half of 2015.

Financing activities led to EUR 1.0m reduction in cash consisting of interest payments on bank loans and their repayments. EUR 21.0m cash proceeds from the initial public offering, completed on 29 June 2016, was received on 5 July 2016 and, thus, are not visible in the six-month cash flow statement. In the first half of 2015, a EUR 4.4m positive cash flow from financing activities was mainly attributable to EUR 2.5m raised from new bank loans and EUR 2.7m from new Units issued.

#### 6.17.4. Capital Resources in Years 2013 – 2014 Based on Non-Consolidated Financial Statements

In years prior to 2015 BOF was qualified as an investment entity under IFRS 10. According to an exception in consolidation requirements in IFRS 10, investment entities are required to measure their subsidiaries at fair value through profit and loss rather than consolidate them. As a result, for years 2014 and 2013 BOF prepared statutory financial statements in a non-consolidated form. This section reviews BOF's capital resources in years 2014 and 2013 based on non-consolidated financial statements. After the merger with BOF, the Fund does not report its financial results in a non-consolidated form.

##### Capital Resources, Borrowing Requirements and Funding Structure

Since all of bank loans were obtained by SPVs, BOF itself had no financial debt as visible in non-consolidated financial statements. Cash and cash equivalents amounted to EUR 1.3m at the end of 2014 (up from EUR 60 thousand in 2013) and none of it was restricted. NAV in non-consolidated financial statements is identical to that in consolidated financial statements. It rose to EUR 24.3m at the end of 2014 from EUR 19.5m at the end of 2013.

**Table 65: Highlights of capital resources of BOF based on non-consolidated financial statements, EUR thousand**

	31 Dec 2013	31 Dec 2014
<b>CAPITAL RESOURCES</b>		
Financial debt	-	-
Cash and cash equivalents	60	1,293
<b>Net financial debt</b>	<b>-60</b>	<b>-1,293</b>
<b>Fund net asset value</b>	<b>19,456</b>	<b>24,314</b>
<b>ASSETS AND LIABILITIES</b>		
Loans to subsidiaries	17,268	18,745
Securities	2,141	3,404
Accrued income	135	1,043
Cash and cash equivalents	60	1,293
<b>Total assets</b>	<b>19,604</b>	<b>24,485</b>
Fund net asset value	19,456	24,314
Non-interest bearing liabilities	149	170
<b>Liabilities and fund net asset value</b>	<b>19,604</b>	<b>24,485</b>

Source: audited non-consolidated financial statements of BOF for years 2013 - 2014

##### Cash Flows

The table below summarizes non-consolidated cash flows in years 2013 and 2014. The full non-consolidated cash flow statements are disclosed with complete non-consolidated financial statements for the year 2014 in Appendix E and for the year 2013 in Appendix F.

**Table 66: Highlights of non-consolidated cash flows of BOF, EUR thousand**

	2013	2014
<i>Cash and cash equivalents at the beginning of the period</i>	5,054	60
Cash flow from core activities	459	-217
Cash flow from investing activities	-5,415	-1,385
Cash flow from financing activities	-38	2,836
<b>Net change in cash and cash equivalents</b>	<b>-4,994</b>	<b>1,233</b>
<i>Cash and cash equivalents at the end of the period</i>	60	1,293

Source: audited non-consolidated financial statements of BOF for years 2013 - 2014

In 2014 net change in cash and cash equivalents amounted to positive EUR 1.2m while in 2013 it was negative EUR 5.0m. Cash flow from core activities dropped to negative EUR 0.2m from positive EUR 0.5m impacted by a fall in interest received (on loans to SPVs) to EUR 0.3m from EUR 0.9m. Operating expenses paid were largely stable at EUR 0.5m. Cash outflow relating to investing activities decreased to EUR 1.4m from EUR 5.4m owing mainly to EUR 6.5m reduction in loans issued to SPVs partly offset by EUR 2.5m lower repayments of these loans. Cash flow from financing activities stood at positive EUR 2.8m consisting of EUR 3.0m proceeds from issuance of new Units and EUR 0.2m outflow due to dividends paid to unitholders. In 2013 EUR 1.2m of new capital raised from unitholders was largely offset by EUR 1.2m dividends distributed.

### 6.17.5. Capital Resources of Europa SPV

As of 30 September 2016, the fair value of Europa SC property constituted 28% of the Fund's total assets and 29% of its property portfolio value. This section provides an analysis of capital resources of Europa SPV. Financial information presented in this section is derived from Europa SPV's reviewed interim financial statements for the 6-month period ended 30 June 2016 and audited financial statements for years 2013 - 2015 disclosed in Appendices G-J. Europa SPV's financial statements have been prepared according to Business Accounting Standards of the Republic of Lithuania

#### Capital Resources, Borrowing Requirements and Funding Structure

Total equity of Europa SPV stood at EUR 7.2m on 30 June 2016 comprised of EUR 0.9m authorised capital, EUR -0.1m revaluation reserve of derivative financial instruments, EUR 1.3m legal reserve and EUR 5.1m retained earnings. Compared to the end of 2015, total equity grew by EUR 0.8m thanks to net profit generated in the first six months of 2016. When looking at historical changes in Europa SPV's equity position, it is important to highlight that because of a decision on 28 July 2014 to reduce authorised capital, total equity fell from EUR 18.6m at the end of 2013 to EUR 4.2m at the end of 2014. The authorised capital was reduced from EUR 13.0m to EUR 0.9m while released capital was granted as an intragroup loan to Europa SPV. Effectively, part of equity was replaced with internal debt. The decision to reduce the authorised capital was adopted in order to optimise the capital structure of Europa SPV.

**Table 67: Highlights of capital resources and funding structure of Europa SPV, EUR thousand**

	31 Dec 2013	31 Dec 2014	31 Dec 2015	30 Jun 2016
<b>CAPITAL RESOURCES</b>				
<b>Financial debt</b>				
Non-current loans	1,140	30,065	23,440	26,605
Current loans	17,588	379	5,171	913
<b>Total financial debt</b>	<b>18,728</b>	<b>30,444</b>	<b>28,611</b>	<b>27,518</b>
<b>Of which:</b>				
Bank loans	17,470	17,415	24,333	23,888
Intragroup loans	1,258	13,029	4,278	3,630
Cash and cash equivalents	1,375	1,543	958	814
<b>Net financial debt</b>	<b>17,353</b>	<b>28,901</b>	<b>27,653</b>	<b>26,704</b>
<b>Equity</b>				
Authorised capital	13,033	869	869	869
Revaluation reserve of derivative financial instruments (results)	-14	-	-98	-130
Legal reserve	1,303	1,303	1,303	1,303
Retained earnings	4,275	2,018	4,343	5,134
<b>Total equity</b>	<b>18,597</b>	<b>4,190</b>	<b>6,417</b>	<b>7,176</b>
<b>KEY INDICATORS (excl. intragroup loans)</b>				
Interest coverage ratio <sup>1</sup>	4.7	7.5	5.8	5.6

LTV <sup>2</sup>	45.4%	48.9%	65.4%	64.0%
Equity ratio <sup>3</sup>	48.6%	45.2%	27.3%	27.7%
Current ratio <sup>4</sup>	0.1	1.8	0.8	0.7

Source: audited annual financial statements of Europa SPV for 2013-2015 and reviewed interim financial statements of Europa SPV for the 6-month period ended 30 June 2016

<sup>1</sup> Interest coverage ratio = operating profit / external interest expenses.

<sup>2</sup> Loan-to-value = total bank loans / value of investment property.

<sup>3</sup> Equity ratio = ( total equity + total intragroup loans ) / total assets.

<sup>4</sup> Current ratio = current assets / ( current liabilities - current intragroup loans ).

On 30 June 2016 total financial debt of Europa SPV amounted to EUR 27.5m which consisted of a EUR 23.9m bank loan and a EUR 3.6m intragroup loan granted by a direct shareholder – BOF Europa Holding UAB. Non-current debt accounted for EUR 26.6m while current portion stood at EUR 0.9m. All of financial debt was denominated in euros.

The existing EUR 23.9m bank loan will mature on 3 March 2018. According to the loan agreement with a bank, bank debt is senior to intragroup loans. Europa SC property was pledged as collateral for the bank loan. As of 30 June 2016, interest rate was fixed for 80% of Europa SPV's bank debt using an interest rate swap whose maturity was in line with that of the underlying debt.

The EUR 3.6m intragroup loan will mature on 31 January 2018. Interest rate is fixed at 4.0%.

LTV of Europa SPV, taking into account external financial debt (bank loans) only, reached 64.0% at the end of June 2016 – slightly lower than 65.4% at the end of 2015 but above 40-50% levels recorded in 2014 and 2013. While total debt including intragroup loans decreased to EUR 28.6m in 2015 from EUR 30.4m in 2014, bank financing rose to EUR 24.3m from EUR 17.4m in effect replacing large part of internal debt. That reduced a cash amount that BOF needed to pay for acquiring Europa SC. The Management Company foresees that external debt-based LTV of Europa SPV will gradually decline towards 50% - the LTV target for the overall property portfolio.

Non-interest bearing liabilities stood at EUR 4.3m or 11% of total assets on 30 June 2016. Non-current portion amounted to EUR 3.1m of which deferred tax liability comprised EUR 2.8m. Current non-interest bearing liabilities were EUR 1.2m with largest components being EUR 0.6m accrued dividend to related parties, EUR 0.3m trade amounts payable and EUR 0.2m prepayments received.

As of 30 June 2016 Europa SPV held EUR 0.8m of cash and cash equivalents of which EUR 400 thousand was restricted as security deposit as per bank loan agreement.

### Cash Flows in Years 2013 - 2015

The table below summarizes cash flows of Europa SPV for years 2013, 2014 and 2015.

**Table 68: Highlights of cash flows of Europa SPV for years 2013 - 2015, EUR thousand**

	2013	2014	2015
<i>Cash and cash equivalents at the beginning of the period</i>	600	1,375	1,543
Cash flow from operating activities	2,232	2,056	2,058
Before working capital adjustments	2,462	2,109	2,222
Working capital adjustments	-231	-53	-164
Cash flow from investing activities	20	-491	-240
Cash flow from financing activities	-1,478	-1,396	-2,403
<b>Net change in cash and cash equivalents</b>	<b>774</b>	<b>169</b>	<b>-585</b>
<i>Cash and cash equivalents at the end of the period</i>	<i>1,375</i>	<i>1,543</i>	<i>958</i>

Source: audited financial statements of Europa SPV for years 2013 - 2015

In 2015 cash and cash equivalents of Europa SPV decreased by EUR 0.6m to EUR 1.0m. The entity achieved operating cash flow of EUR 2.1m – almost identical to 2014. Excluding working capital adjustments, operating cash flow grew by approximately 5% compared to the previous year driven predominantly by higher operating profit. Changes in working capital resulted in negative EUR 164 thousand adjustment while in the year before they amounted to negative EUR 53 thousand adjustment. Cash outflow arising from investing activities was reduced around by a half to EUR 0.2m reflecting a decrease in capital expenditure to EUR 0.4m from EUR 0.7m. Majority of investments in 2015 was comprised of tenant improvements – in line with 2014. Financing activities in 2015 translated into a negative cash flow of EUR 2.4m consisting of EUR 11.5m reimbursement of loans, partly offset by EUR 9.6m proceeds from new borrowings, and EUR 0.5m interest paid. No dividends were distributed by Europa SPV in 2015 whereas EUR 0.3m were paid in 2014.

In 2014 cash and cash equivalents rose by EUR 0.2m to EUR 1.5m. Europa SPV generated operating cash flow of EUR 2.1m – slightly lower than EUR 2.2m in 2013. Excluding working capital adjustments, operating cash flow dropped by EUR 0.4m year on year explained by the decline in the operating profit. An increase in working capital translated into EUR -53 thousand cash adjustment in 2014 (EUR -0.2m in 2013). Net investing cash flow amounted to negative EUR 0.5m in 2014 contrasting to positive EUR 20 thousand in 2013. That was attributable to capital expenditure which grew to EUR 0.7m from just EUR 5 thousand in the year before. Of capital expenditure in 2014, tenant improvements accounted for EUR 0.5m. Negative cash flow from financing activities fell to EUR 1.4m in 2014 from EUR 1.5m in the previous year. All items represented cash outflow to the entity: EUR 0.8m reimbursement of loans (EUR 1.0m in 2013), EUR 0.3m dividend payment (no dividend in 2013) and EUR 0.3m interest paid (EUR 0.5m).

### Cash Flows in January – June 2016

A summary of Europa SPV's cash flows in January – June 2016 and in the comparable period of 2015 is provided in the following table.

**Table 69: Highlights of cash flows of Europa SPV for January – June 2016, EUR thousand**

	Jan - Jun 2015	Jan - Jun 2016
<i>Cash and cash equivalents at the beginning of the period</i>	1,543	958
Cash flow from operating activities	1,033	1,331
Cash flow from investing activities	-358	-113
Cash flow from financing activities	-1,715	-1,362
<b>Net change in cash and cash equivalents</b>	<b>-1,040</b>	<b>-144</b>
<i>Cash and cash equivalents at the end of the period</i>	503	814

Source: reviewed interim financial statements of Europa SPV for the 6-month period ended 30 June 2016

In the first six months of 2016 cash and cash equivalents of Europa SPV declined by EUR 0.1m to EUR 0.8m while in the same period of 2015 cash and cash equivalents fell by EUR 1.0m. All three types of cash flows were more positive in 2016. Cash flow from operating activities grew by EUR 0.3m year on year to EUR 1.3m explained by a similar increase in operating profit. Cash outflow due to investing activities decreased by EUR 0.2m to EUR -0.1m thanks to lower capital expenditure – EUR 0.1m versus EUR 0.4m in the first half of 2015. Finally, negative cash flow from financing activities fell by EUR 0.4m to EUR -1.4m as lower loan repayments (net of new debt raised) more than offset higher interest paid.

## 6.18. RELATED PARTY TRANSACTIONS

In accordance with the Fund rules, the Management Company carries out fund management functions for Baltic Horizon Fund and the Fund is paying management fees respectively. For further information on the management fees, see section 6.12.2 "Results of Operations - Administrative expenses". The Management Company, acting for the benefit and on behalf of the Fund, has entered into the following agreements with related parties:

1. Property development agreement with TK Development Lietuva UAB, dated 30 July 2013, regarding development of Domus Pro retail park. For further information on the Domus Pro development project see section 6.9.1 "Property Portfolio – Domus Pro".

For additional information about related party transactions of the Fund, see Note 16 to the semi-annual condensed consolidated financial statements for the period ended 30 June 2016 (page B-32), Note 25 to the consolidated financial statements for the year ended 31 December 2015 (page C-62) and Note 22 to the special purpose consolidate financial statements for the years ended 31 December 2014 and 2013 (page D-59).

## 6.19. INTRAGROUP LOAN AGREEMENTS

The Fund provides intragroup loans to its SPVs. As BOF was merged into the Fund on 30 June 2016, all intragroup loans that were originally granted by BOF were taken over by the Fund. The Fund has the following intragroup loan agreements with its SPVs:

1. Loan facility agreement between BOF Europa Holding UAB and BOF Europa UAB, dated 28 July 2014, as amended on 24 March 2016, regarding a loan amounting to EUR 12,164,041 granted by BOF Europa Holding UAB to BOF Europa UAB for a term expiring on 31 January 2018. As of 30 September 2016, the principal balance outstanding was EUR 3,475,446. The loan shall be repaid in full at maturity. Interest on the outstanding amount of the loan accrues at the rate of 3 per cent per annum. The annual interest rate shall be paid once per year on 31 December of the corresponding year.
2. Loan agreement between the Fund and BOF Europa Holding UAB, dated 19 July 2016, regarding a loan facility amounting to EUR 18,000,000 granted by the Fund to BOF Europa Holding UAB for a term expiring on 31 December 2026. As of 30 September 2016, the principal balance outstanding was EUR 3,398,241. The loan shall be repaid in full at maturity. The

loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.

3. Loan facility agreement between the Fund and BOF Lincona OÜ, dated 7 July 2011, as amended on 1 February 2015, regarding a loan facility of EUR 8,000,000 granted by the Fund to BOF Lincona OÜ for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 4,342,000. The loan shall be repaid in one bullet instalment at maturity and shall bear interest at an annual rate of 4 per cent.
4. Loan agreement between the Fund and BPT Baltic Fund 2 UAB, dated 26 October 2012, as amended on 1 February 2015, regarding a loan facility amounting to EUR 5,000 granted by the Fund to BPT Baltic Fund 2 UAB for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 5,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year. On 29 December 2015 BPT Baltic Fund 2 UAB was merged to BOF Domus PRO UAB. BOF Domus PRO UAB took-over all assets, rights and obligations of BPT Baltic Fund 2 UAB.
5. Loan facility agreement between the Fund and BPT Baltic Fund 2 UAB, dated 27 November 2012, as amended on 1 February 2015, regarding a loan facility amounting to EUR 20,000 granted by the Fund to BPT Baltic Fund 2 UAB for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 10,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year. On 29 December 2015 BPT Baltic Fund 2 UAB was merged to BOF Domus PRO UAB. BOF Domus PRO UAB took-over all assets, rights and obligations of BPT Baltic Fund 2 UAB.
6. Loan facility agreement between the Fund and BPT Baltic Fund 2 UAB, dated 7 August 2013, as the last time amended on 27 June 2016, regarding a loan facility, in total amounting to EUR 8,200,000 granted by the Fund to BPT Baltic Fund 2 UAB for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 4,817,540. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 3 per cent. The annual interest shall be paid once per year at the end of the calendar year. On 29 December 2015 BPT Baltic Fund 2 UAB was merged to BOF Domus PRO UAB. BOF Domus PRO UAB took-over all assets, rights and obligations of BPT Baltic Fund 2 UAB.
7. Loan agreement between the Fund and BOF Sky SIA, dated 23 November 2012, as amended on 1 February 2015, regarding a loan facility amounting to EUR 4,400,000 granted by the Fund to BOF Sky SIA for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 1,349,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.
8. Loan agreement between the Fund and BOF CC Plaza OÜ, dated 6 March 2013, as amended on 1 February 2015, regarding a loan facility amounting to EUR 6,065,000 granted by the Fund to BOF CC Plaza OÜ for a term expiring on 31 December 2017. As of 30 September 2016, the principal balance outstanding was EUR 3,036,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.
9. Loan agreement between the Fund and BH G4S OÜ, dated 7 July 2016, regarding a loan facility amounting to EUR 15,500,000 granted by the Fund to BH G4S OÜ for a term expiring on 31 December 2026. As of 30 September 2016, the principal balance outstanding was EUR 7,675,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.
10. Loan agreement between the Fund and Kontor SIA, dated 22 August 2016, regarding a loan facility amounting to EUR 8,000,000 granted by the Fund to Kontor SIA for a term expiring on 31 December 2026. As of 30 September 2016, the principal balance outstanding was EUR 6,841,625. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.
11. Loan agreement between the Fund and Kontor SIA, dated 29 September 2016, regarding a loan facility amounting to EUR 3,000,000 granted by the Fund to Kontor SIA for a term expiring on 31 December 2026. As of 30 September 2016, the principal balance outstanding was EUR 2,900,000. The loan shall be repaid in full at maturity. The loan shall bear interest at an annual rate of 4 per cent. The annual interest shall be paid once per year on 31 December of the corresponding year.

All the loans discussed above are unsecured.

## **6.20. LEGAL AND ARBITRATION PROCEEDINGS**

During the last 12 months period there have not been any governmental, legal or arbitration proceedings which may have, or have had in the recent past significant effects on the Fund's, the Europa SPV's and/or the Management Company's, acting for the benefit of the Fund, financial position or profitability.

## **6.21. SIGNIFICANT CHANGE IN THE FINANCIAL OR TRADING POSITION**

Since 30 June 2016 - the last reporting date of the Fund - the main financial and operational developments have been as follows:

- On 6 July 2016, the Fund units were listed and started trading on Nasdaq Tallinn.
- On 12 July 2016, the acquisition of G4S Headquarters, a 9,179 sqm office in Tallinn, was closed at a price of EUR 15.4m implying 7.5% yield.
- On 1 August 2016, a EUR 2.7m Sky Supermarket's bank loan was refinanced extending its maturity by 5 years to 1 August 2021.
- On 30 August 2016, the acquisition of Upmalas Biroji, a 10,846 sqm office in Riga, was completed at a price of EUR 23.6m implying 7% yield.
- On 12 October 2016 the Fund announced dividend of EUR 0.026 per unit for the third quarter of 2016 with the payment day of 28 October 2016.

## 7. SERVICE PROVIDERS

### 7.1. GENERAL INFORMATION

The main service providers for the Fund are the Management Company, the Depositary, the Registrar, the Fund Administrator, auditors and property management service providers.

The Management Company is not informed of any actual or potential conflicts of interest which any of the service providers to the Fund may have as between their duty to the Fund and duties owed by them to third parties and their other interests. For the purposes of efficient identification and management of actual and potential conflicts of interest situations, the Management Company has established Conflicts of Interest Policy that applies to its activities in managing the Fund. The Management Company shall consult with the Supervisory Board of the Fund any issues that may or do involve conflicts of interest in relation to the Fund.

Swedbank AS and other financial institutions belonging to the same consolidation group with it provide different services to the Fund (e.g. the fund depositary service, fund administration service, and arranging the offer of units). Swedbank AS maintains and operates effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent potential conflicts of interest in its activities, especially those potentially affecting the independence of its activities as the Depositary.

### 7.2. THE MANAGEMENT COMPANY

#### General Information

Northern Horizon Capital AS, a public limited company (in Estonian: *aktsiaselts*) registered in the Estonian Commercial Register under the registry code 11025345 acts as the fund management company of the Fund. The sole shareholder of the Management Company is Northern Horizon Capital A/S, a public limited company registered in the Central Business Register of Denmark with the registry code 27599397.

The contact details of the Management Company are the following:

City Plaza  
Tartu mnt 2  
10145Tallinn  
Estonia  
Phone: +372 616 4420

On 23 May 2016, the EFSA issued the Management Company a license to operate as an alternative investment fund manager, as defined in § 9<sup>1</sup> (1) of the Estonian Investment Funds Act. Prior to obtaining the alternative investment fund manager license, the Management Company held the investment fund management license issued by the EFSA on 14 October 2009.

As at the date of this Offering Circular, the Management Company acts as the fund management company only for the Fund. No other services are provided to any other person or fund, except for the services provided to SPVs of the Fund. No other person provides investment advice or investment management service in relation to the assets of the Fund.

The Management Company was established in 2004. After receiving investment fund management license in 2009, the Management Company managed only BOF with EUR 89.7 million under management in total as of 31 December 2015 and from 23 May 2016 also the Fund (while from 30 June 2016 only the Fund remained as the merger of the Fund and BOF was completed).

#### Key Responsibilities of the Management Company

The Management Company is responsible for the investment management, administration and marketing of the Fund. In performing its obligations, the Management Company acts in accordance with the IFA, the Fund Rules and its internal rules.

The Management Company makes the investment and divestment decisions regarding the Fund's assets in accordance with the investment policy and restrictions set out in Fund Rules. The Management Company is also responsible for arranging risk management in connection with the investment management. See sections 6.3 "Investment Objective and Policy" and 6.4 "Investment Restrictions".

In addition to the investment management, the Management Company is also responsible for the following tasks:

- account keeping of the Fund's assets and arranging the accounting of the Fund and SPVs;
- arranging the issue and redemption, if required by law, of the Units;
- calculation of the Fund's net income and arranging the distribution of the cash flows to the unit-holders in accordance with the Fund Rules;

- arranging sales and marketing of the Units;
- determining the NAV of the Fund;
- preparing information on the Fund and SPVs to be reported to the authorities and disclosed to the unit-holders of the Fund;
- monitoring compliance of the activities of the Management Company itself and the Fund with legislation;
- any other activities directly related to the above tasks and necessary for management of the Fund.

In accordance with the Fund Rules, the Management Company may delegate its responsibilities to third party service providers. As at the date of this Offering Circular, the Management Company has delegated certain of its responsibilities to third parties as is described in more detail in sections 7.5 “Registrar”, 7.4 “Fund Administration” and 7.8 “Property Management Service” below. The Management Company remains liable to the Unit-holders for the services that are provided by third party service providers.

For the purposes of covering potential professional liability risks resulting from its activities as the management company, the Management Company has additional own funds which are appropriate to cover potential liability risks arising from professional negligence.

For description of the fees payable to the Management Company, and expenses to be reimbursed, on account of the Fund, see section 6.7 “Fees and Expenses”.

## Supervisory Council, Management Board and Key Executives

### Supervisory Council

As at the date of the Offering Circular, the Management Company’s Supervisory Council is composed of three members. The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Supervisory Council as at the date of the Offering Circular.

<b>Name</b>	<b>Position/Function</b>	<b>Date of Appointment</b>	<b>Expiration of term of office</b>
Michael Rudolf Schönach	Chairman of the Supervisory Council	23 January 2013	23 January 2018
Dalia Garbuzienė	Member of the Supervisory Council	23 January 2013	23 January 2018
Milda Darguzaite	Member of the Supervisory Council	22 February 2016	22 February 2021

The following table sets out current and past directorships held by the Management Company’s Supervisory Council members over the past five years:

<b>Name</b>	<b>Former positions</b>	<b>Current positions</b>	
Michael Rudolf Schönach	EPI Baltic I Oy, Chairman of the Board	Northern Horizon Capital A/S, CEO	
	BPTS Europa UAB, Member of the Board	NH CAP A/S, Member of the Board	
	Dansk Farm Management A/S, Member of the Board	Northern Horizon Capital Health Care Denmark K/S, Chairman of the Board	
	BPT Real Estate AS, Member of the Supervisory Board	Northern Horizon Capital GmbH, Managing Director	
	BPT Real Estate Sp. z.o.o., Member of the Board	Northern Horizon Capital OOO, Member of the Board	
	Baltic Property Trust Asset Management LLC, Member of the Board	Northern Horizon Capital AIFM Oy, Member of the Board	
	BPT Asset Management LLP, Member of the Board	Northern Horizon Capital Oy, Chairman of the Board	
	BPT Capital Limited, Member of the Board	Northern Horizon Russia Partners I Oy, Chairman of the Board	
	Citycon Oyj, different positions		BPT Healthcare Partners Oy, Chairman of the Board
			Northern Horizon Healthcare Partners II Oy Chairman of the Board
		Northern Horizon Capital UAB, Member of the Board	
		Northern Horizon Capital AB, Chairman of the	

		Board Asunto Oy Vehkasaarentie 4, Member of the Board EsVest Oy, Chairman of the Board Nordiska Vårdhem AB, Member of the Board Pohjoismaiden Hoivatilat Oy, Member of the Board
Dalia Garbuzienė	BPT Real Estate AS, Member of the Board BPT Real Estate Sp. z.o.o., Member of the Board  BPT Asset Management LLP, Member of the Board  BPT Capital Limited, Member of the Board  BPT Real Estate UAB, Member of the Board  BPT Real Estate SIA, Member of the Board  Baltic Property Trust Asset Management OOO, Member of the Board	NH CAP A/S, Member of the Board Northern Horizon Capital GmbH, Managing Director Northern Horizon Capital OOO, Member of the Board Northern Horizon Capital AIFM Oy, Member of the Board Northern Horizon Capital Oy, Member of the Board Northern Horizon Capital UAB, Managing director Northern Horizon Capital AB, Member of the Board
Milda Darguzaitė	Invest Lithuania, Managing Director  Barclays Technology Centre Lithuania, Local Head	Northern Horizon Capital A/S, Member of the Board

**Michael Rudolf Schönach.** Mr. Schönach, born 1975, is the member of the Supervisory Council of the Management Company. Mr. Schönach has long-time experience in real estate investment management and has served in several key positions in the Northern Horizon Capital group. He graduated from Helsinki School of Economics (B.Sc., Economics) in 1999, and received MBA from University of South Carolina (Columbia SC, USA) in 2000.

**Dalia Garbuzienė.** Mrs. Garbuzienė, born 1976, is the member of the Supervisory Council of the Management Company. Mrs. Garbuzienė has long-time experience in real estate investment management and has served in several key positions in the Northern Horizon Capital group. Prior to joining Northern Horizon Capital group she worked as an auditor at KPMG Russia and as a chief accountant in SEB group companies in Lithuania. She graduated from Vilnius University in Lithuania (B.Sc., Business Management and Administration) in 1998, and received MBA in Accounting and Audit from Vilnius University in 2000.

**Milda Darguzaitė.** Ms. Darguzaitė, born 1976, is the member of the Supervisory Council of the Management Company. Prior to joining Northern Horizon Capital group, Ms. Darguzaitė has headed the Barclays Technology Centre in Lithuania and worked as a Vice President at Goldman Sachs. She graduated from Middlebury College (BA in Mathematics and Economics), in Middlebury, VT, USA, in 1999, and obtained MSE in Operations Research and Financial Engineering from Princeton University in 2004.

#### Management Board

As at the date of the Offering Circular, the Management Company's Management Board is composed of three members. The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Management Board as at the date of the Offering Circular.

<u>Name</u>	<u>Position/Function</u>	<u>Date of Appointment</u>	<u>Expiration of term of office</u>
Tarmo Karotam	Chairman of the Management Board Fund Manager	17 April 2014	17 April 2018
Ausra Stankevičienė	Member of the Management Board	17 April 2014	17 April 2018
Algirdas Vaitiekunas	Member of the Management Board	29 January 2016	29 January 2020

The following table sets out past and current directorships held by the Company's Management Board members over the past five years:

<b>Name</b>	<b>Former positions</b>	<b>Current positions</b>
Tarmo Karotam	Baltic Opportunity Fund, Fund Manager	Euro-Products OÜ, Member of the Board Estonian Academy of Sciences Male Choir, Chairman of the Board
Ausra Stankevičienė	-	Northern Horizon Capital A/S, Head of Fund Administration
Algirdas Vaitiekunas	BPT Secura A/S, CEO	Northern Horizon Capital UAB, Business Development Director Koalos Investicijos UAB, General Director DMGL UAB, General Director

**Tarmo Karotam.** Mr. Karotam, born 1981, is the member of the Management Board of the Management Company. Mr. Karotam has been a long-time member of Northern Horizon Capital investment management team and has acted as the Fund Manager for BOF from the beginning. Mr. Karotam is a member of RICS (MRICS). He graduated from École Hôtelière de Lausanne (B.Sc.) in 2005.

**Ausra Stankevičienė.** Mrs. Stankevičienė, born 1974, is the member of the Management Board of the Management Company. Prior to joining Northern Horizon Capital group, she has worked at Swedbank Lithuania. She holds a Chartered Financial Analyst (CFA) credential. She graduated from Vilnius University (MBA) in 1998.

**Algirdas Vaitiekunas.** Mr. Vaitiekunas, born 1963, is the member of the Management Board of the Management Company. Prior to joining Northern Horizon Capital group, he has held senior positions at PwC in Melbourne, Hong Kong and Vilnius. He is Chairman of RICS Baltics being also a Fellow member (FRICS), and a member of the ICAA, Institute Chartered Accountants Australia. He graduated from University of Melbourne (B.Sc.) in 1984 and again from the same university (B.Com.) in 1988.

Both Mr Karotam and Mrs Stankevičienė also serve as management board members of all SPVs of the Fund.

#### **Key executives**

In the opinion of the Management, except for members of the Management Company's corporate bodies, the following persons are the most important for the Management Company and the Fund:

<b>Name</b>	<b>Position/Function</b>	<b>Date of Appointment</b>	<b>Expiration of term of office</b>
Darius Urbonas	General Director of Europa SPV	2 March 2012	-*
Nerijus Žebrauskas	Management Board member of Europa SPV	26 May 2015	26 May 2019

\* Mr Urbonas has been appointed as the General Director without a term.

Mr. Urbonas is a Managing Director of BPT Real Estate UAB, the property management service provider to the Fund in Lithuania. Mr. Urbonas has held the position since December 2011. Mr. Urbonas graduated from Kaunas University of Technology (MBA in Business Administration and Management) in 2002. Under the property management service agreement entered into between the Europa SPV and the BPT Real Estate UAB, Mr Urbonas holds the General Director position in Europa SPV and is responsible for the property management of Europa SPV.

Mr. Žebrauskas is a Head of Fund Controlling unit of Northern Horizon Capital UAB. He graduated from Stockholm School of Economics in Riga (B.Sc. Economics and Business) in 2001 and holds a M.Sc. degree in Economic Analysis and Planning from Vilnius University (2003). He holds the management board position in Europa SPV and is responsible for financial management of Europa SPV.

The Management Board members and General Directors, in jurisdictions where applicable, are the only personnel of the SPVs, there are no other employees.

#### **Other information on the Management Board, Supervisory Council and key executives**

The business address of the members of the Supervisory Council and the Management Board and also of the Key executives is the Management Company's principal place of business at Tartu mnt 2, 10 Tallinn, Estonia.

Member of the Management Board Tarmo Karotam holds at the date of this Offering Circular 7,642 Units in the Fund. Member of the Management Board Algirdas Jonas Vaitiekunas holds at the date of this Offering Circular 16,250 Units in the Fund.

Other Management Board and Supervisory Council members and Key executives of the Management Company do not hold Units in the Fund prior to the Offering.

The Management Company is not aware of any compulsory liquidations of companies in which any of the members of its Supervisory Council, Management Board or other key executives has acted as a member of the administrative, management or supervisory body or as a senior manager. The Management Company is not aware of any convictions in relation to fraudulent offences, bankruptcies, receiverships or any official public incrimination and/or sanctions with respect to the members of its Supervisory Council or Management Board or other key executives. The Management Company is not aware of any potential conflicts of interest between the duties of the members of its Supervisory Council or Management Board or other key executives to the Management Company and the Fund, and their private interests or other duties.

### 7.3. THE DEPOSITARY

Pursuant to the IFA, the Fund shall have a depositary. Swedbank AS, a public limited company registered in the Estonian Commercial Register under the registry code 10060701, with a registered address at Liivalaia 8, 15040 Tallinn, Estonia, acts as the depositary for the Fund. The Depositary holds a credit institution license issued by the EFSA on 26 January 1993.

In accordance with the IFA and the depositary agreement entered into between the Management Company and Swedbank AS on 3 June 2016 for an unlimited period (the "Depositary Agreement"), the Depositary provides the following services:

- safekeeping of the Fund's assets; and
- monitoring and overseeing the Management Company's activities in managing the Fund in the following aspects:
  - ensuring that the sale, issue, repurchase, redemption, and cancellation of Units are carried out in accordance with the IFA and the Fund Rules;
  - ensuring that the NAV of the Units is calculated in accordance with the IFA and the Fund Rules;
  - carrying out the instructions of the Management Company, and assessing their compliance with the IFA, and with the Fund Rules;
  - ensuring that in transactions involving the Fund's assets, any consideration is remitted to the Fund in full and within the usual time limits;
  - ensuring that the income of the Fund is applied in accordance with the IFA and the Fund Rules;
  - ensuring that the cash flows of the Fund are properly monitored, and, in particular, that all payments made by or on behalf of Unit-holders, upon the subscription of Units, have been received, and credited to the Fund account.

In accordance with the Depositary Agreement, the Depositary safekeeps financial instruments that are eligible for safekeeping with the Depositary (e.g. instruments in book-entry form recorded on securities accounts). Regarding other types of assets of the Fund the Depositary shall verify the ownership of the Fund or the Management Company acting on behalf of the Fund of such assets and shall maintain a record of those assets for which it is satisfied that the Fund or the Management Company acting on behalf of the Fund holds the ownership of such assets. A description of the custody arrangements and the Fund's assets is provided in sections 6.11 "Custody of the Fund's Assets".

The Depositary may delegate its tasks to third party service provider, provided however, that (i) the intention of delegation is not to avoid the requirements of IFA; (ii) there is an objective reason for the delegation; (iii) the Depositary has exercised all due skill, care and diligence in the selection and the appointment of any third party to whom it wants to delegate parts of its tasks, and keeps exercising all due skill, care and diligence in the periodic review and ongoing monitoring of any third party to whom it has delegated parts of its tasks and of the arrangements of the third party in respect of the matters delegated to it; (iv) the Depositary ensures that the third party has the structures and the expertise that are adequate and proportionate to the nature and complexity of the assets of the Fund, or the Management Company acting on behalf of the Fund, which have been entrusted to it, and the third party is subject to effective prudential regulation, including minimum capital requirements, and supervision in the jurisdiction concerned and; (v) the third party is subject to an external periodic audit to ensure that the financial instruments are in its possession. The third party may sub-delegate its tasks only if that other third party meets the same requirements as applicable to the Depositary.

Depositary is liable to the Fund and the Unit-holders for any damages due to a breach of its obligations under IFA and the Depositary Agreement. The Depositary shall be liable to the Fund or to the Unit-holders, for the loss of the Fund's assets safe-kept by the Depositary or a third party to whom the custody of financial instruments held in custody has been delegated. In the case of such a loss of a financial instrument held in custody, the Depositary shall return a financial instrument of identical type or the corresponding amount to the Fund or the Management Company acting on behalf of the Fund without undue delay. The Depositary shall not be liable if it can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

For description of the fees payable to the Depository on the account of the Fund, see section 6.7 “Fees and Expenses”.

#### **7.4. FUND ADMINISTRATION**

Swedbank AS, a public limited company (in Estonian: *aktsiaselts*) registered in the Estonian Commercial Register under the registry code 10060701, provides fund administration services to the Management Company in relation to the Fund.

The Management Company and Swedbank AS have entered into Fund Administration Agreement on 3 June 2016 for an unlimited period, according to which the following main services are provided by Swedbank AS:

- accounting of the Fund;
- determining and calculation the NAV of the Fund.

#### **7.5. REGISTRAR**

AS Eesti Väärtpaberikeskus, a public limited company registered in the Estonian Commercial Register under the registry code 10111982 keeps the Register of the Units (the “Registrar”). In accordance with the Estonian Central Register of Securities Act units of a fund that is registered in Estonia and the units of which are traded on a regulated securities market must be registered at the Register kept by the Registrar. The Register is kept in accordance with the Estonian Central Register of Securities Act. Further information on the Registrar and the Register is available at the website of the Registrar – [www.e-register.ee](http://www.e-register.ee).

The Register and the registration of the Units is described in more detail in section 6.5 “Units and Rights of the Unit-holders”.

#### **7.6. EUROCLEAR SWEDEN**

Euroclear Sweden AB, a public limited liability company registered with the Swedish Companies Registration Office with the registration number 556112-8074, is a central securities depository in Sweden. Units Listed on Nasdaq Stockholm (the “Swedish Registered Fund Units”) will be held by Euroclear Sweden. Euroclear Sweden is a subsidiary within the Euroclear group of companies and is authorised and regulated by the Swedish Financial Supervisory Authority (*Finansinspektionen*) as a central securities depository within the meaning of the Swedish Financial Instruments Accounts Act (1998:1497) and as a clearing organisation within the meaning of the Swedish Securities Markets Act (2007:528).

Euroclear Sweden is described in more detail in section 8.8 “Admission to trading and dealing arrangements”.

#### **7.7. APPRAISER**

In accordance with the Fund Rules, the Management Company, after consultation with the Supervisory Board, appoints a licensed and independent real estate appraiser. Only a person with high repute and sufficient experience in appraising similar property and operating in a country where any relevant real estate property is located may appraise the real estate belonging to the Fund. The Management Company will assess different valuation service providers and carefully select the service provider for the Fund prior to every valuation of the Fund’s property.

The most recent external property valuations for the Fund’s portfolio were performed for the value date of 30 September 2016. Condensed valuation reports are provided in Appendix K. For the purposes of appraising Lincona and Coca Cola Plaza properties in Tallinn, the valuation reports were performed by the Colliers International Advisors OÜ, a private limited company registered in the Republic of Estonia under the registry code 11330404 on 13 December 2006. Colliers International Advisors OÜ is established and operates under the laws of the Republic of Estonia. The registered address of Colliers International Advisors OÜ is Lõõtsa 2a, Tallinn 11415, Estonia, and telephone number in the registered office is +372 6160 777. Colliers International Advisors OÜ has provided professional and independent real estate property valuation service in Estonia since 2006. For the purposes of appraising Upmalas Biroji and Sky Supermarket properties in Riga, the valuation reports were prepared by licensed appraisers of Colliers International Advisors SIA, a private limited company registered in the Republic of Latvia under the registry code 40103255403. For the purposes of appraising Europa SC and Domus Pro properties in Vilnius, the valuation reports have been prepared by licensed appraisers of UAB Colliers International Advisors, a private limited company registered in the Republic of Lithuania under the registry code 302424118. For the purposes of appraising G4S Headquarters property in Tallinn, the valuation report was performed by Kinnisvaraekspert OÜ, a private limited company registered in the Republic of Estonia under the registry code 10708639, on 6 November 2000. Kinnisvaraekspert OÜ operates under the business name DTZ Kinnisvaraekspert with its registered address at Ahtri 6a, 10151 Tallinn, Estonia, and telephone number in the registered office is +372 626 4250.

#### **7.8. PROPERTY MANAGEMENT SERVICE**

Successful management of properties with a property management partner is an important value driver for the Fund as it maximises returns of owned real estate assets. Renting out vacant spaces and renegotiating expiring lease agreements result in

higher rent revenue, cash flows and, in turn, property value. Therefore, the Management Company puts high emphasis on selecting a strong property management company to partner in managing day-to-day operations for its properties.

For the purposes of arranging the day-to-day management of the property investments of the Fund, the Management Company has procured the property management service from the following persons:

- BPT Real Estate AS, a public limited company registered under the laws of the Republic of Estonia under the registry code 12203487, with a registered address at Rävåla pst 5, Tallinn 10143, Estonia, and telephone number +372 6 309 420. As at the date of the Offering Circular, BPT Real Estate AS provides services to BOF CC Plaza OÜ, BOF Lincona OÜ and BH GHS OÜ.
- BPT Real Estate SIA, a private limited company registered under the laws of the Republic of Latvia under the registry code 40003674473, with a registered address at 21 K. Valdemara Street, Riga LV 1010, Latvia, and telephone number +371 6 735 7392. As at the date of the Offering Circular, BPT Real Estate SIA provides services to BOF Sky SIA.
- BPT Real Estate UAB, a private limited company registered under the laws of the Republic of Lithuania under the registry code 302702539, with a registered address at Gediminas ave 20, LT-01103 Vilnius, Lithuania, and telephone number +370 5 268 3337. As at the date of the Offering Circular, BPT Real Estate UAB provides services to Domus Pro SPV and Europa SPV.
- Bauplan Nord SIA, a private limited company registered under the laws of the Republic of Latvia under the registry code 40003697298, with a registered address at 101 Mūkusalas street, Riga LV-1004, Latvia, and the telephone number +371 6 707 9223. As at the date of the Offering Circular, Bauplan Nord SIA provides services to Upmalas Biroji SPV.

BPT Real Estate companies have operated in the property management and administration field in the Baltics for more than ten years. BPT Real Estate was owned by the Management Company until September 2015 when its shareholding was fully sold to Baltcap, a Baltic private equity firm.

Property management service entails mostly the following services regarding the real estate property of the Fund:

- managing tenant and owner relationships;
- marketing and letting activities management;
- organising lease agreement negotiations;
- coordination of services provided in the building (cleaning, security, maintenance, utilities, etc.);
- coordination of repair and construction works;
- arranging of utility agreements (water, electricity, gas, etc.);
- bookkeeping of property turnover and expenditures, invoice issuing and reporting;
- budgeting on a property level;
- arranging the good standing of respective SPV;
- property business planning.

Property management service providers for newly acquired properties will be selected via tenders on a property by property basis. The Management Company prioritizes property management firms with extensive experience in Baltic property markets, strong track record of managing properties and long term relationships with major tenants.

## 7.9. STATUTORY AUDITORS

Pursuant to the IFA, the Fund shall have an auditor and the annual report of the Fund must be audited. In accordance with the IFA, the Supervisory Council of the Management Company appoints the auditor of the Fund.

The auditor of the Fund is the audit company KPMG Baltics OÜ, Narva mnt 5, 10117 Tallinn, Estonia. KPMG Baltics OÜ is a member of the Estonian Board of Auditors.

The consolidated financial information of the Fund for the 6-month period ended 30 June 2016 was reviewed (but not audited) by auditors of KPMG Baltics OÜ. The financial information of BOF for the year ending 31 December 2015 and the special purpose consolidated financial information of BOF for the years ending 31 December 2014 and 31 December 2013 were audited by auditors of KPMG Baltics OÜ. The financial information of BOF for the years ending 31 December 2013 and 31 December 2014 was audited by auditors of Ernst & Young Baltic AS. The Management Company changed the auditor of BOF as part of regular rotation of auditors. Ernst & Young Baltic AS is a member of the Estonian Board of Auditors.

In addition, the financial information of Europa SPV for the years ending 31 December 2013, 31 December 2014 and 31 December 2015 were audited by auditors of KPMG Baltics UAB. The financial information of Europa SPV for the 6-month period ended 30 June 2016 was reviewed (but not audited) by auditors of KPMG Baltics UAB. Certified auditors of audit firm KPMG Baltics UAB are members of Lithuanian Chamber of Auditors.

For Europa SPV's financial statements for the year ending 31 December 2013, independent auditors issued a qualified opinion noting that they were unable to obtain sufficient audit evidence that certain valuation assumptions used by independent appraisers to determine the value of Europa SC property for 31 December 2012 were appropriate in the market conditions at that time. The fair value of investment property as at 31 December 2012 had an impact to revaluation amount recognised in the income statement for 2013 and, consequently, auditors were unable to determine whether any adjustments might be necessary to expenses from financing and investing activities and net result for the year ended 31 December 2013. Auditors concluded that, except for the possible effect of this matter, the financial statements gave a true and fair view of the financial position of Europa SPV at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.

## 8. THE OFFERING

### 8.1. GENERAL INFORMATION

In the course of the Offering, up to 37,131,000 Offer Units will be offered by the Management Company and issued by the Fund. None of the existing Unit-holders sell any Units in the Offering. Together with determining the completion of the allocation process the Management Company has the right to exercise the Upsizing Option, taking into consideration the total demand in the Offering and the quality of such demand. In exercising the Upsizing Option the Management Company has the right to increase the number of new Offer Units by up to 22,279,000 Offer Units.

The Offering consists of (i) the Retail Offering in Sweden, Denmark, Finland and Estonia and (ii) the Institutional Offering in and outside Estonia in reliance on certain exemptions available under the laws of each jurisdiction where the Institutional Offering is being made. Investors in the Offering are collectively referred to as the "Investors", investor in the Retail Offering as the "Retail Investor", and an investor in the Institutional Offering as the "Institutional Investor".

The Offering Circular has been approved by the EFSA in its capacity as the competent authority in the Republic of Estonia, the Member State of EU where the Fund is registered.

The Management Company will be authorised to carry out the Retail Offering in Sweden and Finland once the Offering Circular has been published and EFSA has notified the Swedish and Finnish financial supervision authorities of the registration of the Offering Circular pursuant to § 39<sup>1</sup> (2) of the Securities Market Act of Estonia.

The Management Company will be authorised to carry out the Retail Offering in Denmark once the following conditions have been met:

- the Offering Circular has been published and EFSA has notified the Danish financial supervision authority of the registration of the Offering Circular pursuant to § 39<sup>1</sup> (2) of the Securities Market Act of Estonia;
- marketing authorisation has been received from the Danish financial supervision authority.

In addition, the Management Company has notified the EFSA in accordance with the Estonian Investment Funds Act of its intention to market the Offer Units in certain other Member States of the European Union to professional investors as part of the Institutional Offering. EFSA has forwarded these notifications to the respective competent authorities in these Member States and the Management Company is authorised to market the Offer Units to Institutional Investors in Member States to where the notification is forwarded. For further information on selling restrictions regarding the Offer Units, see section 8.7 "Terms and Conditions of the Offering - Selling Restrictions" below, and with respect to the rights pertaining to the Units, see section 6.5 "Units and Rights attached to Units".

The Management Company expects to announce the results of the Offering, including the final number of New Units on or about 1 December 2016 on the Website and through the Nasdaq Tallinn (<http://www.nasdaqbaltic.com/market/>).

### 8.2. REASONS FOR THE OFFERING

The purpose of the Offering is to raise new equity capital to the Fund which will be used to acquire new properties on account of the Fund and thus achieve wider diversification of the investments. The Fund was established with the aim to become the largest publicly listed property group in the Baltics and to generate its prospective investors attractive returns by investing into commercial, primarily office and retail, properties located in the capital cities of the Baltic States. Reasons for the Offering in particular are the following:

1. **To attract new equity capital which will be deployed to acquire fully developed and cash flow-generating commercial properties in the capital cities of the Baltic States.** The Management Company sees attractive opportunities in the Baltic real estate market to acquire properties at favourable economic terms. This view is supported by the Management Company's broad knowledge and extensive experience in the Baltic and international property markets. The Management Company carried out a thorough screening of the Baltic market for potential acquisition targets and entered into acquisition negotiations with owners of the most attractive properties (see section 6.10 "Investment Pipeline").
2. **To increase liquidity of Units and expand Unit-holders base.** Following the successful capital raising completed on 29 June 2016, 41,979,150 Fund Units started trading on Nasdaq Tallinn on 6 July 2016. The Management Company believes that the sale and listing of the New Units on Nasdaq Stockholm and Nasdaq Tallinn will substantially increase trading activity and liquidity of Units. Moreover, it will help to widen existing Unit-holders base further.
3. **To increase awareness of the Fund among existing and prospective stakeholders and general public:** investors, tenants of its properties, people shopping and working at its properties, owners of other properties. The Management Company expects that the Offering and the listing of the New Units will increase recognition of the Fund in the Baltics and foreign markets and strengthen the Fund's position as a high-profile real estate investor. This should have a positive effect on both day-to-day and long term operations of the Fund and its properties.

### 8.3. USE OF PROCEEDS

The Management Company will use the net proceeds of the Fund from the Offering to acquire commercial properties comprising the Fund's investment pipeline (see section 6.10 "Investment Pipeline"). The Management Company estimates that the investment pipeline has an aggregated value of approximately EUR 360m and assets could be acquired at a 7.2% average yield. It consists of 14 commercial properties at central and strategic locations in the capital cities of the Baltic States. The target properties are fully operational (except for 1 property which is under construction) and cash flow generating with attractive risk-return profile, high-quality tenants mix, low vacancy rates and long lease maturities. To ensure a rapid deployment of the proceeds, the Management Company has entered into negotiations with owners of the most attractive targets and/or has been participating in tenders for such assets.

To the extent the net proceeds of the Offering are not used according to the purposes stated above, they will otherwise be used for the general purposes of the Fund in accordance with the Fund Rules.

The exact amount of gross and net proceeds from the Offering depends on the total amount of New Units issued. The Management Company is offering 37,131,000 Offer Units and has the Upsizing Option to increase the number of new Offer Units by up to 22,279,000 Offer Units. Assuming all Offer Units will be issued and paid in, and the Upsizing Option is exercised in full, the gross proceeds from the Offering are estimated to be EUR 80.0m.

Majority of the expenses related to the Offering are variable and linked to the amount of capital raised. Assuming all Offer Units will be issued and paid in, and the Upsizing Option is exercised in full, the variable expenses of the Offering are estimated to amount to approximately EUR 3.6m or 4.4% of the capital raised. This corresponds to 2.6% of the Fund's total NAV immediately after the Offering. In addition, the Fund is estimated to incur approximately EUR 200 thousand of fixed expenses related to legal advice, audit and marketing in conjunction with the Offering. Assuming all Offer Units will be issued and paid in, and the Upsizing Option is exercised in full, the total expenses of the Offering are estimated to be approximately EUR 3.8m.

After deducting the expenses, and assuming that the Upsizing Option is exercised in full, the Fund is estimated to receive net proceeds of approximately EUR 76.2m.

### 8.4. LOCK-UP

As part of the Fund's initial public capital raising in June 2016, unitholders of BOF that immediately after the capital raising held 17,558,443 Units of the Fund (constituting 41.8% of the total number of Units as of the date of this Offering Circular) agreed not to sell, pledge or otherwise dispose of their Units without the prior written consent of Swedbank AB. Of them, unitholders holding 8,061,604 Units (19.2%) agreed for a lock-up period until 1 April 2017 while the remaining unitholders with 9,496,839 Units (22.6%) agreed for a lock-up period until 2 January 2017 (originally stipulated as 180 calendar days subsequent to the listing of Units on Nasdaq Tallinn which took place on 6 July 2016).

### 8.5. DILUTION

Immediately after the completion of the Offering, the New Units (including the Offer Units under the Upsizing Option) will together amount to 58.6% of the total number of Units of the Fund provided that the Upsizing Option is exercised in full. If the Upsizing Option is not exercised at all, the New Units will amount to 46.9% of the total number of Units of the Fund.

### 8.6. MANAGERS AND GLOBAL LEAD SALES PARTNER OF THE OFFERING

Catella Bank S.A. a Luxembourg registered credit institution, address 38 r. Pafebruch - Parc d'Activités, 8308, Luxemburgis acting as the Global Lead Sales Partner of the Offering, Sales Partner to Retail Investors in Sweden, Denmark and Finland and Lead Sales Partner of the Institutional Offering in the Nordics, Luxemburg and other selected European markets. Swedbank AB, a licensed credit institution registered in Lithuania, address Konstitucijos pr. 20A, 03502 Vilnius, Lithuania, is acting as the Lead Manager of the Offering in the Baltics, together with AS LHV Pank, a licensed credit institution registered in Estonia, address Tartu rd 2, Tallinn 10145, Estonia, as co-Manager.

In connection with the Retail Offering in Sweden Catella Bank S.A. will act as paying and settlement agent.

The Placement Agreement to be entered into among the Management Company, Global Lead Sales Partner and the Managers will provide for the obligations of the Managers and the Global Lead Sales Partner to place the Offer Units on best efforts basis. The Placement Agreement is planned to be executed no later than 20 November 2016.

The Managers and the Global Lead Sales Partner or their related parties have, from time to time, performed banking and advisory services for the Management Company or its affiliates for which they have received fees. The Managers and the Global Lead Sales Partner or their related parties may, from time to time, engage in transactions with the Management Company and perform services for the Management Company in the ordinary course of its business. For example, Catella Corporate Finance Stockholm

HB, an investment services provider registered in Sweden (address P.O. Box 5130 Birger Jarlsgatan 6, SE-102 43 Stockholm, Sweden) has acted as the financial advisor to the Management Company in connection with the Offering. The Managers and the Global Lead Sales Partner or their related parties may acquire financial instruments issued by the Management Company, its related parties, or out of the Fund, or financial instruments related to the financial instruments issued by any of these entities or the Fund.

In connection with the Offering, the Managers and the Global Lead Sales Partner or their affiliates may also, acting as an investor on his own account, purchase the Offer Units in the Offering, and either hold, sell or otherwise dispose of them. The Managers and the Global Lead Sales Partner will be obliged to deliver information regarding the purchase of the Offer Units or performance of the transactions described above in the event the obligation to disclose such information arises under general binding laws or regulations.

## 8.7. TERMS AND CONDITIONS OF THE OFFERING

### Offer Period and Timetable of the Offering

Investors may submit purchase orders for the Offer Units (a "Purchase Order") during the offer period, which commences at 9:00 on 8 November 2016 (Central European Time) and terminates at 12:00 (Central European Time) on 30 November 2016 (the "Offer Period").

The timetable below lists key dates related to the Offering:

8 November 2016 to 30 November 2016	Offer Period
On or about 1 December 2016	Determination and announcement of the results of the Offering and of the allotment of the Offer Units ("Allotment Date")
On or about 5 December 2016	Delivery of the New Units to Investors and payment for the New Units ("Settlement Date")
On or about 5 December 2016	Start of trading on the Nasdaq Tallinn ("Listing Date in Tallinn")
On or about 8 December 2016	Start of trading on the Nasdaq Stockholm ("Listing Date in Stockholm")

After consultation with the Managers and the Global Lead Sales Partner, the Management Company may decide to amend the above dates. Changes made to the stated dates, if any, will be made public in the form of an announcement pursuant to the Estonian Securities Market Act. If in the Management Company's opinion, a change of dates for subscriptions would be a material factor affecting the evaluation of the Offer Units, then such changes would be made public in the form of a supplement to this Offering Circular.

### Offering of Units listed on Nasdaq Stockholm and Offering of Units listed on Nasdaq Tallinn

The Offering consists of Units to be listed on Nasdaq Tallinn and Units to be listed on Nasdaq Stockholm. Although initially all Units are registered with the Register in EUR, Units listed on Nasdaq Stockholm will be traded and settled in SEK. Nevertheless, Investors can subscribe to Units listed on Nasdaq Stockholm also in Euros, whereas the conversion will be made into Swedish kronas. Investors can subscribe to Units traded on either of the stock exchanges depending on the type of the investor (Table 70).

**Table 70**

Unit	Collector of the Purchase Orders	Type of Investor	Currency of Investor's Purchase Order
Units listed on Nasdaq Tallinn	1) Swedbank AB	1) Institutional Investors in Baltics	1) EUR
	2) Catella Bank S.A.	2) Institutional Investors in Nordics, Luxemburg and other selected European markets	2) EUR
	3) AS LHV Pank	3) Retail Investors in Estonia, Institutional Investors in Baltics	3) EUR
Units listed on Nasdaq Stockholm	Catella Bank S.A.	Retail Investors in Sweden, Denmark, Finland; Institutional Investors in Nordics, Luxemburg and other selected European markets	EUR and SEK

Only Units held with Euroclear Sweden will be subject to trading on the Nasdaq Stockholm following the Listing. A securities account or a custodian account with a Swedish bank or investment firm is required in order for the Units to be held with Euroclear Sweden. Holders of Units listed on the Nasdaq Tallinn are entitled to instead have those Units held with Euroclear Sweden in order to trade their Units on Nasdaq Stockholm. In order to trade Units on Nasdaq Stockholm, Unit-holders are advised to contact their bank or investment firm.

## Placement of Purchase Orders

Purchase Orders can only be submitted for a full number of Units, but there is no required minimum amount of the Purchase Order. Purchase Orders may be withdrawn (and new orders placed) at any time until the end of the Offer Period. Investors have the right to place multiple Purchase Orders.

The Retail Offering in Sweden is directed to natural and legal persons in Sweden who are clients of Catella Bank S.A.. Investor is considered to be a client of Catella Bank S.A. if it has opened a deposit account with Catella Bank S.A.. The Retail Offering in Finland and Denmark is directed to natural and legal persons in Finland and Denmark who are private banking customers and retail customers of Nordnet Bank AB as well as customers that through third parties receive advice for capital that is placed with Nordnet Bank AB. The Retail Offering in Estonia is directed to natural and legal persons in Estonia. For the purposes of the Offering, a natural person is considered to be "in Estonia" if such person has a securities account with the ECRS and such person's address recorded in the ECRS records in connection with such person's securities account is located in Estonia. A legal person is considered to be "in Estonia" if such person has a securities account with the ECRS and such person's address recorded in the ECRS records in connection with such person's securities account is located in Estonia or its registration code recorded in the ECRS records is the registration code of the Estonian Commercial Register.

An Investor must ensure that all information contained in the Purchase Order is correct, complete and legible. The Purchase Orders which are incomplete, incorrect unclear or illegible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions may be rejected.

By submitting a Purchase Order an Investor authorizes the Managers and the Global Lead Sales Partner to amend the information contained in the Investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to insert in the transaction instruction (i) the number of Offer Units allocated to the Investor as the number of securities, and (ii) the amount reached by multiplying the Offer Price with the number of Offer Units allocated to the Investor as the transaction amount.

An Investor may amend or cancel a Purchase Order at any time before the expiry of the Offer Period in accordance with the procedure described in section "Amendment or cancellation of Purchase Orders".

By submitting a Purchase Order each Investor:

- confirms that they have read and understood the Offering Circular and accepts the terms and conditions of the Offering as described in the Offering Circular;
- in relation to Retail Investors in Sweden, confirms that they have read the KIID for the Fund;
- accepts the terms and conditions of the Offering set out in this section and elsewhere in this Offering Circular and agrees with the Management Company that such terms will be applicable to the Investor's acquisition of any Offer Units;
- acknowledges that the Offering does not constitute an offer of the Offer Units by the Management Company in legal terms or otherwise and that the submission of a Purchase Order does not itself entitle the Investor to acquire the Offer Units nor result in a contract for the sale of the Offer Units;
- accepts and agrees to the Fund Rules;
- accepts that the number of the Offer Units indicated by the Investor in the Purchase Order will be regarded as the maximum number of the Offer Units which the Investor wishes to acquire (the maximum amount) and that the Investor may receive less (but not more) Offer Units than the aforementioned maximum amount;
- undertakes to acquire and pay for any number of the Offer Units allocated to them in accordance with these terms and conditions.

Any costs or fees to be paid by the Investors in submitting their Purchase Orders are expected to be charged in accordance with the price list of the Managers, the Global Lead Sales Partner or respective custodian in case of Retail Investors in Estonia. The Management Company shall not deduct any subscription fees from Offer Price paid by the Investor.

### *Placement of Purchase Orders by Retail Investors in Estonia*

In order to subscribe for the Offer Units, an investor must have a securities account with the ECRS. Such securities account may be opened through any custodian (securities account administrator) of the ECRS. As of the date hereof, the following banks operate as custodians of the ECRS:

- a) AS LHV Pank;

- b) Swedbank AS;
- c) AS SEB Pank;
- d) Nordea Bank AB Estonian branch;
- e) Danske Bank A/S Estonian branch;
- f) AS Eesti Krediidipank;
- g) Tallinna Äripanga AS;
- h) AS Citadele banka; and
- i) Versobank AS.

An Investor wishing to subscribe for the Offer Units should contact a custodian that operates such investor's ECRS securities account and submit a Purchase Order for the purchase of Offer Units materially in the form set out below. The investor may use any method or form that such Investor's custodian offers to submit the Purchase Order (e.g. physically at the client service venue of the custodian, over the internet or by other means). The Purchase Order must include the following information:

Owner of the securities account:	<i>name of the investor</i>
Securities account:	<i>number of the investor's securities account</i>
Custodian:	<i>name of the investor's custodian</i>
Security:	Unit of Baltic Horizon Fund
ISIN code:	EE3500110244
Amount of securities:	<i>the number of Offer Units for which the investor wishes to subscribe</i>
Price (per one Offer Unit):	
Transaction amount:	<i>the number of Offer Units for which the investor wishes to subscribe multiplied by the Offer Price</i>
Counterparty	Swedbank AS
Securities account of counterparty:	99000011822
Custodian of the counterparty:	Swedbank AS
Value date of the transaction:	
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

An Investor may submit a Purchase Order through a nominee account only if such investor authorises the owner of the nominee account to disclose the investor's identity to the registrar of the ECRS in writing. The Purchase Order submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor to the registrar of the ECRS in writing. Among other information it is also requested to disclose a permanent address and personal identification code in case of a natural person or a registration address for a legal entity. An investor may submit a Purchase Order either personally or through a representative whom the investor has authorised (in the form required by law) to submit the Purchase Order. A Purchase Order is deemed submitted from the moment the registrar of the ECRS receives a duly completed transaction instruction from the custodian of the respective investor.

#### *Placement of Purchase Orders by other Investors than Retail Investors in Estonia*

An Investor wishing to submit a Purchase Order should contact the Manager or the Global Lead Sales Partner in Sweden, Denmark and Finland, and register a transaction instruction for the purchase of securities in the form as set out by the respective Manager or the Global Lead Sales Partner. The Purchase Order can be submitted by any means accepted by the Manager or the Global Lead Sales Partner.

#### **Amendment or Cancellation of Purchase Orders**

An Investor may amend or cancel a Purchase Order at any time before the expiry of the Offer Period. To do so, the Investor must contact respective Manager, the Global Lead Sales Partner or in case of investor from Estonia, its custodian through whom the Purchase Order in question has been made and carry out the procedures required by the Manager, the Global Lead Sales Partner or respective custodian for amending or cancelling a Purchase Order. All fees payable in connection with an amendment and/or cancellation of the Purchase Order will be borne by the Investor.

A cancellation or amendment of the Purchase Order becomes effective at the moment when the transaction instruction of the Investor in question has been cancelled by the respective Manager, the Global Lead Sales Partner or custodian.

## Pricing

The Offer Price is not included in the Offering Circular as allowed under Article 17 (3) of the Estonian Securities Market Act. However, the Offer Price shall not exceed EUR 1.37 per Offer Unit. The Offer Price will be determined based on the NAV of the Fund divided by the total number of the Fund's Units as at 31 October 2016. See for further information on the NAV of the Fund in section 6.15 "NAV". Final information on the Offer Price will be filed as soon as possible, but not later than on 15 November 2016, to the EFSA and will be made public immediately on the Website.

The Offer Price will be expressed in Euros, but Investors subscribing for Units listed on Nasdaq Stockholm can subscribe also in Swedish kronas. As the Offer Price is in Euros, Investors wanting to subscribe in Swedish kronas will pay such amount in SEK corresponding to the Offer Price based on the currency exchange rate of Catella Bank S.A. as at the Allotment Date.

The Offer Price will be the same in the Institutional Offering and in the Retail Offering.

## Distribution and Allocation Plan

The Management Company together with the Managers and the Global Lead Sales Partner will decide on the allocation on discretionary basis after the expiry of the Offer Period, and no later than on 1 December 2016. The division of the Offer Units between the Institutional Offering and the Retail Offering has not been predetermined and no Offer Units have been reserved for any tranche. For the purposes of allocation of the Offer Units, multiple Purchase Orders by one Investor, if submitted, will be merged.

The Managers and the Global Lead Sales Partner shall inform all Investors about the number of the Offer Units allocated to them immediately after the results of the Offering are announced.

## Payment and Delivery of Units

By submitting a Purchase Order, an Investor agrees to pay for the subscribed Offer Units the Offer Price. In accordance with the allotments determined and announced for each specific Investor, trade instructions for the Offer Units may be placed on or after 1 December 2016 and must reach the relevant custodian bank in a manner which allows the settlement on 5 December 2016. Payments must be made in Euros or Swedish kronas (SEK) as shown in Table 70.

By submitting a Purchase Order, a Retail Investor in Estonia authorises and instructs the institution operating such investor's cash account connected to its securities account (which may or may not also be such investor's custodian) to immediately block the whole transaction amount on investor's cash account until the settlement is completed or funds are released in accordance with Section 8.7 "Terms and Conditions of the Offering". The transaction amount to be blocked will be equal to the Offer Price multiplied by the amount of Units such investor has subscribed to. Investor may submit a Purchase Order only when there are sufficient funds on the cash account connected to its ECRS securities account or its securities account to cover the whole transaction amount for that particular Purchase Order.

The Offer Units allocated to the Investors will be transferred to their securities accounts on or about 5 December 2016 simultaneously with the transfer of payment for such Units. Any excess amounts paid by Investors to the Managers or the Global Lead Sales Partner in advance (i.e. the actual allocation is lower than the amount indicated in the Purchase Order), shall be released or returned to the Investor on the Settlement Date or immediately thereafter. The Management Company, the Managers or the Global Lead Sales Partner will not be liable for the payment of interest on the payment amount paid in advance or blocked in excess of the actual payment amount.

In order to receive New Units listed on Nasdaq Tallinn, all Investors are required to have a securities account with the Register. To receive New Units listed on Nasdaq Stockholm requires a securities account (*VP-konto*) or a custodian account (*värdepappersdepå*) with a Swedish bank or investment firm (only Units held with Euroclear Sweden will be subject to trading on Nasdaq Stockholm).

The number of New Units to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a full number of New Units is transferred to each securities account. In the event that the settlement cannot be completed due to lack of sufficient funds on the Investor's cash account, the Purchase Order which was made through the securities account connected to such cash account will be rejected and the Investor will lose all rights to the respective Offer Units covered by such Purchase Order.

## Cancellation of the Offering

The Management Company may cancel all or part of the Offering and/or modify the terms and dates of the Offering at any time prior to the completion of the Offering, without disclosing any reason for doing so. Information on modification of the terms of the Offering will be made available publicly in the form of an announcement on the Website and through Nasdaq Tallinn.

The Management Company may also cancel or suspend the Offering at any time after the opening of the Offer Period up until completion of the settlement of the Offering, if it considers there are reasons to believe that proceeding with the Offering is, or has become, impracticable or inadvisable. Such reasons may include, but are not limited to: (i) the suspension of, or material limitation in, trading in securities generally on the Nasdaq Stockholm or Nasdaq Tallinn, as well as on any other official stock exchange in the U.S. or EU; (ii) a sudden and material adverse change in the economic or political situation in the Republic of Lithuania, Republic of Latvia, Republic of Estonia or elsewhere in Europe; (iii) a material loss, or interference with the Fund's business or assets; (iv) an insufficient, in the opinion of the Management Company, the Global Lead Sales Partner or the Managers, expected free float of the Units on the Nasdaq Stockholm or on Nasdaq Tallinn, or (v) an unsatisfactory level of demand for the Offer Units in the book-building process.

Any cancellation of the Offering or any part thereof will be announced on the Website and through the Nasdaq Tallinn ([www.nasdaqbaltic.com/market/](http://www.nasdaqbaltic.com/market/)). All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated at the moment when such announcement is made public.

If the Offering is cancelled, Purchase Orders for the Offer Units that have been made will be disregarded, Offer Units are not allocated to an Investor, and

1. the funds blocked on the Investor's cash account or a part thereof (the amount in excess of the payment for the allocated Offer Units) will be released. The Management Company will not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked; or
2. the payments already made by Investors, if any, will be returned. The Management Company, the Global Lead Sales Partner or the Managers will not be liable for the payment of the interest on the payment amount for the time it was held.

## **Supplements to the Offering Circular**

In accordance with the Estonian Securities Market Act applicable to public securities offerings, and to the admission of securities to trading on a regulated market, any significant new factor, material error or inaccuracy related to the information included in this Offering Circular which could affect the assessment of the Offer Units, and which arises or becomes known between the date of approval of this Offering Circular and the Listing dates on Nasdaq Tallinn and Nasdaq Stockholm, will be communicated through a supplement to this Offering Circular. If a supplement is published no later than on the Settlement Date, then the Investors who have placed their Purchase Orders before publication of the supplement shall have the right to withdraw their Purchase Order within 2 business days of its publication, and any paid-in moneys shall be repaid to the Investors not later than within 10 business days. In such case, and if necessary, the Allotment Date will be adjusted in order to enable the Investors to withdraw their Purchase Orders.

## **Selling Restrictions**

### **No Public Offering Outside Sweden, Finland, Denmark and Estonia**

This Offering Circular has been prepared on the basis that there will be no offers of the Offer Units in territories which would require publication of the prospectus other than the Offering to the Retail Investors in the territories of Sweden, Finland, Denmark and Estonia in accordance with the Prospectus Directive and AIFMD, as implemented in respective countries. Accordingly, any person making or intending to make any offering, resale or other transfer within the European Economic Area (the "EEA"), other than in respective countries, of the Offer Units may only do so in circumstances under which no obligation arises for the Fund, the Management Company, the Global Lead Sales Partner or the Managers to produce an approved prospectus or other offering circular for such offering. Neither the Management Company, the Global Lead Sales Partner nor the Managers have authorised, nor will any of them authorise, the making of any offer of the Offer Units to the public through any financial intermediary other than offers made by the Managers or the Global Lead Sales Partner under this Offering Circular.

No action has been or will be taken by the Management Company, the Global Lead Sales Partner or the Managers in any jurisdiction other than Sweden, Finland, Denmark and Estonia that would permit a public offering of the Offer Units, or the possession or distribution of the Offering Circular or any other offering material related to the Fund or the Offer Units in any jurisdiction where action for that purpose is required. Accordingly, the Offer Units may not be offered or sold, directly or indirectly, and neither the Offering Circular, nor any other offering material or advertisements in connection with the Offer Units may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of the Offering Circular and the Offering in certain jurisdictions may be restricted by law and therefore, persons into whose possession the Offering Circular comes should inform themselves of and observe any such restrictions on the distribution of the Offering Circular and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. The Offering Circular does not constitute an offer to subscribe for or buy any of the Offer Units offered hereby to any person/entity in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

## **European Economic Area**

Offer Units will be marketed as part of the Institutional Offering to professional investors, as defined in Article 4 (1)(ag) of the AIFM Directive, in countries within the EEA in accordance with laws implementing AIFM Directive, and also to other types of investors in reliance on certain exemptions available under the laws of each jurisdiction where the Offering is being made.

The Management Company has notified the EFSA of the countries where it intends to market the Offer Units to professional investors in accordance with Article 33<sup>2</sup> (1) of the Estonian Investment Funds Act. Notification was in place before this Offering regarding the following countries within the EEA: Latvia, Lithuania, Finland, Sweden, Norway, Germany, Poland, Austria, France, the Netherlands, Cyprus, Portugal, Spain, Denmark, the United Kingdom and Luxembourg. The Management Company will inform EFSA about the change of information in the notice in accordance with Article 33<sup>2</sup> (4) of the Estonian Investment Funds Act.

## **United Kingdom**

This Offering Circular is exempt from the restriction set out in section 21 of the Financial Services and Markets Act 2000 (FSMA) on the communication of invitations or inducements to engage in investment activity on the grounds that it is made to a certified sophisticated investor as defined in article 50 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO). A certified sophisticated investor is a person who has a current certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with the investment set out in this communication and has, within the previous 12 months, signed a statement complying with article 50(1)(b) of the FPO. The content of this Offering Circular has not been approved by an authorised person and such approval is, unless this exemption or any other exemption applies, required by section 21 of FSMA.

Reliance on this Offering Circular for the purpose of engaging in any investment activity may expose an Investor to a significant risk of losing all of the property invested or of incurring additional liability. If an Investor is in doubt about the investment to which this Offering Circular relates, the Investor should consult an authorised person specialising in advising on investments of the kind in this communication.

## **United States**

The Offer Units have not been, and will not be, registered under the U.S. Securities Act, or the securities laws of any state in the U.S., and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

## **Switzerland**

The Fund has not been licensed for distribution to non-qualified investors with the Swiss Financial Market Supervisory Authority as a foreign collective investment scheme pursuant to Article 120 para 1 of the Swiss Federal Act on Collective Investment Schemes of 23 June 2006, as amended ("CISA"). Accordingly, pursuant to Article 120 para. 4 CISA, the Units may only be offered and this Offering Circular may only be distributed in or from Switzerland by way of distribution to qualified investors as defined in the CISA and its implementing ordinance ("Qualified Investors") if the Fund has entered into written agreements with a representative (the "Representative") and a paying agent (the "Paying Agent") in Switzerland.

The Representative of the Fund is Fundbase Fund Services AG, Bahnhofstrasse 3, CH-8808 Pfaeffikon Switzerland. The Paying Agent is Neue Helvetische Bank Ltd., Seefeldstrasse 215, CH-8008 Zurich, Switzerland.

The statutory documents of the Fund such as the Fund Rules, the Offering Circular, and the annual reports are available only to Qualified Investors free of charge from the Representative. In respect of the Units distributed in or from Switzerland to Qualified Investors, the place of performance and jurisdiction is at the registered office of the Representative.

This document may only be issued, circulated or distributed so as not to constitute an offering to the general public in Switzerland. Recipients of the document in Switzerland should not pass it on to anyone without first consulting their legal or other appropriate professional adviser, or the Representative.

The fees and expenses of the Representative and the Paying Agent will be payable by the Fund. Further information in respect of fees and expenses of the Fund is disclosed in the Fund Rules and in the audited annual report of the Fund. The Fund, the Management Company and each of their agents do not pay any retrocessions to third parties as remuneration for distribution activity in respect of Units in or from Switzerland. In respect of distribution activity in or from Switzerland, the Fund, the Management Company and their agents will not pay any rebates that aim to reduce the fees or costs incurred by the investor and that are charged to the Fund.

## 8.8. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

### Listing

At the date this Offering Circular, the Fund is admitted to trading on Nasdaq Tallinn under the symbol "NHCBHFFT" and ISIN code EE3500110244 and commenced trading on 6 July 2016. The Fund Units are issued under Estonian law, and are traded on the Nasdaq Tallinn in EUR. The Management Company intends to improve the availability of the Fund Units to both current and prospective investors by listing Fund Units on the Nasdaq Stockholm through a secondary listing.

The Management Company has decided to apply for a secondary listing of the Fund Units on the Alternative Investments Funds market on Nasdaq Stockholm under the symbol NHCBHFFS and the ISIN code EE3500110244 (the "Listing in Stockholm"). The Fund Units will be traded in SEK and settled in SEK. The estimated first day of trading on Nasdaq Stockholm is on or about 8 December 2016, assuming that Nasdaq Stockholm approves the Listing. Notice regarding the Listing will be made public through a press release in conjunction with the approval by Nasdaq Stockholm.

The purpose of the Offering is also to add part of the New Units on Nasdaq Tallinn. For that purpose the Management Company is going to file an application to list additional Units with Nasdaq Tallinn. It is expected that the trading of the New Units in Nasdaq Tallinn will start on or about 5 December 2016. After the Offering, successful Listing and if all Offer Units (including the Upsizing Option) will be issued, 101,389,150 Units will be listed altogether on Nasdaq Tallinn and on Nasdaq Stockholm.

### Registration with Euroclear Sweden

In respect of the Swedish Registered Fund Units, the Fund will appoint one or more issuer agent(s) acting on its behalf in Sweden. The Swedish Registered Fund Units listed for trading on Nasdaq Stockholm will be mirrored with the Swedish central securities depository, Euroclear Sweden. Euroclear Sweden will hold all interests in relation to the Swedish Registered Fund Units for the sole purpose of enabling clearing and settlement of such interests in uncertificated and dematerialised book-entry form in the records maintained by Euroclear Sweden, for the benefit of the ultimate beneficial owners. No beneficial owner is entitled to transfer (and Euroclear Sweden will not allow such transfer) any such Swedish Registered Fund Units directly to the register of another settlement system and thereby removing such Swedish Registered Fund Units from the records of Euroclear Sweden.

Euroclear Sweden is a subsidiary within the Euroclear group of companies and is authorised and regulated by the Swedish Financial Supervisory Authority (*Finansinspektionen*) as a central securities depository within the meaning of the Swedish Financial Instruments Accounts Act (1998:1497) and as a clearing organisation within the meaning of the Swedish Securities Markets Act (2007:528).

Beneficial interests in the Swedish Registered Fund Units will be held in uncertificated and dematerialised book-entry form and all transactions relating to the beneficial interests in the Swedish Registered Fund Units (such as issuance, sale and transfer, pledge arrangements and other dispositions and redemptions) are executed as computerised book-entry registrations in accordance with the Swedish Financial Instruments Accounts Act and all such other Swedish laws, regulations and operating procedures applicable to and/or issued by Euroclear Sweden (the "CSD Rules"). Consequently, in order to affect such entries, beneficial owners must establish a book-entry account through a Swedish bank or an investment firm acting as an account operator with Euroclear Sweden. Beneficial interests in Swedish Registered Units shown in the records of Euroclear Sweden will be treated as negotiable instruments and not subject to any restrictions on free negotiability under Swedish Law.

Beneficial interests in the Swedish Registered Fund Units shown in the records of Euroclear Sweden will be transferable only in accordance with the CSD Rules. Title to such beneficial interest in the Swedish Registered Fund Units shall pass in the record maintained by Euroclear Sweden in accordance with the CSD Rules.

#### *Dividend procedure*

Each holder of beneficial interests in the Swedish Registered Fund Units must observe Euroclear Sweden's interest in the Swedish Registered Fund Units, for its share of the payments made by the Fund. Euroclear Sweden does not assume the obligations of the Fund and is only obliged to distribute payments it has received in its capacity of Swedish central securities depository in respect of the Swedish Registered Fund Units.

It is expected that payments in respect of the Swedish Registered Fund Units will be received by holders of the beneficial interests in the Swedish Registered Fund Units no later than the seventh business day (as defined by the (then) applicable CSD Rules) after the date on which such payment becomes due and payable in accordance with the Fund Rules.

Pursuant to the CSD Rules, payments in respect of any such beneficial interest shall be made to the holders shown as such holder on the record date (as defined by the (then) applicable CSD Rules) before the due date for such payment.

### *Trading between the two markets*

Only Units held with Euroclear Sweden will be subject to trading on the Nasdaq Stockholm following the Listing. A securities account or a custodian account with a Swedish bank or an investment firm is required in order for the Units to be held with Euroclear Sweden. Holders of Units listed on the Nasdaq Tallinn are entitled to instead have those Units held with Euroclear Sweden in order to trade their Units on Nasdaq Stockholm. In order to trade Units on Nasdaq Stockholm, Unit-holders are advised to contact their bank or investment firm.

### **Market maker**

The Management Company has appointed Mangold Fondkommission AB ("Mangold") as market maker in conjunction with the admission to trading of the Swedish Registered Fund Units (i.e. the Fund Units listed on Nasdaq Stockholm). This appointment as market maker will continue as such in conjunction with the admission to trading on Nasdaq Stockholm with the objective to promote a good liquidity in the Fund Units on this market. Under the agreement Mangold commits to during regular trading hours continuously and for its own account quote prices on both the bid and ask sides in the Swedish Registered Fund Units.

## 9. TAXATION

*The following provides a general overview of taxation principles in Estonia, Finland, Denmark and in Sweden as in effect on the date of this Offering Circular, and subject to changes in such laws, including changes that could have a retroactive effect. The Offering Circular contains only a summary of the main taxation principles, and does not address the specific aspects that apply to taxation of the Unit-holder income. This Swedish taxation overview does not cover situations in which Units are held as inventory in business operations or are held by a trading partnership, investment company or investment fund. Tax consequences that are not described below may become applicable to certain categories of taxpayers. Contact professional tax adviser with specific questions. The Management Company does not act as an adviser on tax matters for the Unit-holders, and this applies even if the Management Company has referred to a particular aspect of taxation in the Fund's documents or other informative materials. The legislation concerning tax application may change over time and the tax system's applicability to a particular Unit-holder depends on the Unit-holder's residence, legal form and other circumstances.*

### ESTONIAN TAXATION

#### General

The Fund's investment income may arise from the sale of shares, the sale of real estate property, interest income, dividend income and changes in shares'/securities' prices. The cash flows of the Fund shall be distributed to the Unit-holders in accordance with the Fund Rules.

The Unit-holders' income arises from the sale or redemption of Units, payment received upon liquidation of the Fund, and also from distributions made out of the cash flows of the Fund.

Estonia does not apply gift tax, inheritance tax, or real-estate tax.

#### Taxation of income of the Fund

A contractual investment fund is considered to be a taxable person in Estonia since 1<sup>st</sup> of January 2014 and income earned by the Fund is subject to taxation in Estonia if income received is connected with immovables located in Estonia (transfer of immovables; rental and lease income; sale of shares in SPV). Income taxed on the Fund level then exempted from tax upon redistribution to Unit-holders. The fund does not aim to make real estate investments at the fund level, therefore SPV taxation of profits (if any) applies.

By request of a Unit-holder, the Management Company of the Fund is required to provide a certificate by the 5th day of the following month making the payment upon the redemption of units, liquidation of the Fund or interest, that underlying income has been taxed with income tax.

The merger of funds managed by the same Management Company is not taxable.

The income earned by the Fund in a foreign country may be also subject to taxation pursuant to applicable regulations in the respective country.

#### Taxation of Unit-holders

Income earned by the Unit-holder from the transfer of Units is taxed as gains arising from the transfer of assets. A Unit-holder has the right to deduct all certified expenses that are directly related to the sale or switch of the Units from any gains or to add certified expenses to any losses.

The Unit-holders will not be taxed on the exchange of Units that will occur at during the merger of the funds managed by the same management company.

#### Taxation of residents of the Republic of Estonia

##### *Natural person*

A Unit-holder's income may arise from the difference between the sales price and acquisition cost of the Units. The sales profit is the difference between the sales price and the purchase or subscription price. If Units are sold at a price that is lower than their purchase or subscription price, the Unit holder suffers a sales loss. Sales losses may be deducted from sales profits during the tax year in which the loss is suffered and as gains are generated. The switch between different fund units is treated from taxation perspective as a sale.

Unit-holder is obliged to declare such income in the tax declaration for the relevant tax year unless this income has already been taxed on the Fund level. When using an investment account, the transfers made into and from the account must be indicated on the tax return.

Unit-holder income may arise also from the payment received upon the redemption of Units or the liquidation of the Fund, if that payment amount exceeds the acquisition cost of the Unit. In case of the redemption of Units or the liquidation of the Fund, the taxable income is the amount of the payment that exceeds the acquisition cost of the Unit.

Distributions (dividends) made to Unit-holders on behalf of the Fund are considered to be interest in Estonia and are taxable on the level of Unit-holder, unless it is already taxed on the Fund level.

#### Investment account

The investment account system allows Unit-holders who are Estonian tax resident private individuals to defer their payment of income tax on income received if they are reinvesting the income through the same investment account (i.e. an ordinary bank account that is opened and held for investment purposes and declared as such). The income tax liability arises when an amount of cash withdrawn from the investment account exceeds the amount paid into the account.

#### Legal person

The income earned from transactions involving Units, payments received from the redemption of Units, liquidation of the Fund and distributions by resident legal persons is exempt from income tax. Such income forms part of the legal person's profit and is subject to taxation in Estonia under general principles upon distribution of profit. In general, if a resident legal person does not distribute dividends, no taxation obligation arises. As an exception, income tax is not charged on dividend payments by the resident legal person, provided that income tax has been paid or exempted on Fund's level.

A legal person is obliged to declare such income in its profit and loss statement under financial income/loss in the relevant accounting period.

#### **Taxation of non-residents**

Estonian law does not distinguish non-resident taxation regarding individuals and legal persons.

Non-resident Unit-holder income may arise from the sale or redemption of Units, if the Fund's property directly or indirectly was made up of more than 50% immovables or structures as movables located in Estonia at the time of the payment or during the previous 2 year period and in which the non-resident Unit-holder had a holding of at least 10% at the time of conclusion of the transaction. Also income tax is levied on the income earned from the liquidation of the Fund on the same conditions as specified above. The Fund had invested more than 50% of its assets into immovables located in Estonia until the acquisition of Europa SC, i.e. 2 March 2015.

A non-resident Unit-holder is obliged to declare such income in the tax declaration (yearly basis) of the relevant accounting period by the 31st of March of the following year, unless this income has already been taxed on the Fund level.

Unit-holder income is exempted from tax liability in case of redemption of Units or liquidation of the Fund if the income has been already taxed at the level of Fund.

Distributions (dividends) made to Unit-holders on behalf of the Fund are treated as interests. Income tax is charged on interests which a non-resident Unit-holder received in connection with holding in a Fund if at the time of the payment of interest or during a previous 2 years period, more than 50% of the Fund's property was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident Unit-holder had a holding of at least 10% at the time of the receipt of interest. Interest is taxable on the level of the Unit-holder, unless it has already been taxed on the Fund level.

Non-resident Unit-holder income may be also subject to taxation in the country of residence of the Unit-holder pursuant to the tax laws applicable in that country.

#### **Stamp Duty and Other Transfer Taxes**

There are currently no stamp duties or other transfer taxes payable on the transfer of Units. However, fees and charges are generally levied by the operators of securities accounts in the Registrar on transactions in the Units which are cleared and settled through the Register.

## SWEDISH TAXATION

### General

The Units can be held via an investment savings account and an endowment insurance. The Fund is not considered as equivalent to a Swedish UCITS fund or a special fund. The summary below is based on the assumption that the Units are listed, and traded on Nasdaq Tallinn and Nasdaq Stockholm when the investment is made and throughout the investment period.

### Natural persons

#### Units held directly

Since the Fund is not considered as equivalent to a Swedish UCITS fund or a special fund the Fund would not be considered as a legal entity, but transparent (however not a partnership) for tax purposes.

Since considered as transparent Unit-holders would be taxed as holding part of the Fund assets directly. This implies that the Unit-holder would have to pay taxes before any actual income have been distributed from the Fund. Depending on the nature of the assets held via the Fund the income could be subject to taxation levied at a tax rate between 30-60 percent. It may however be possible for the Unit-holder to deduct their part of any capital losses assignable to the Fund investments.

The possibility to set off capital losses assignable to the Fund investments would depend on the nature of the Fund asset which has generated the loss. If the loss for instance derives from an investment in unlisted shares any loss should be deductible to 5/6 against capital gains on listed or unlisted shares. An assessment would be required in each individual case to decide the possibility to set off a loss against capital gains.

The calculation of capital gains or losses deriving from the disposal of the Units would be dependent on the underlying Fund assets, at the time of disposal. A Unit-holder would be considered to dispose of their share in the Fund assets. An assessment is required in each individual case to calculate the taxable capital gain or loss.

#### Units held through an investment savings account

If the Units are held via an investment savings account capital gains and distributions attributable to the Units would not be subject to regular income taxation. Hence, even if the Fund would be considered as transparent, any returns on Fund investments would not be subject to taxation with the Unit-holder. In return capital losses attributable to the assets will not be deductible for income tax purposes.

Instead of income taxation on the returns, the account holder pays income tax on an imputed income. The imputed income is based on the fair market value of the Units held through the account.

- The capital base for imputed income purposes is calculated as 1/4th of the sum of the account's market value at the beginning of each quarter including payments made to the account. This means that any change in the fair market value of the assets (including returns) will be taken into account.
- The imputed income is calculated as the capital base multiplied by the government borrowing rate increased by 0.75 percent. The imputed income cannot be lower than 1.25 percent of the capital base. The imputed income is taxed at a 30 percent tax rate.

Even in years of negative returns tax will be levied for an investment savings account. The imputed income for an investment savings account can be set off against capital losses and other capital expenses, such as interest.

#### Units held through an endowment insurance policy

If Units are held through an endowment insurance policy capital gains and distributions attributable to Units would not be subject to income taxation. Hence, even if the Fund would be considered as transparent, the Unit-holder will not be taxed for any capital gains or distributions deriving from the Units. In return capital losses assignable to the Units will not be deductible for tax purposes.

Instead of income tax, the policyholder pays an annual yield tax. The yield tax is based on the insurance value

- The insurance value is normally calculated as the sum of the fair market value of held assets at the beginning of the year, deposits made in the first six months of the year, and 50 per cent of the deposits made in the last six months of the year.
- The tax base for yield tax is calculated as the insurance value multiplied by the sum of the government borrowing rate increased with 0.75 percent.
- The tax base is subject to a 30 percent tax rate. The tax base cannot be lower than 1.25 percent of the insurance value.

Even in years of negative returns tax will be levied for an endowment insurance policy.

The yield tax is considered as a definitive withholding tax. Potential losses derived from other forms of capital assets can therefore not be offset against the deemed income of the insurance. This differs from an investment savings account, where the imputed income can be set off against other capital losses and expenses.

## **Legal persons**

### **Units held directly**

Since the Fund is not considered as equivalent to a Swedish UCITS fund or a special fund the Fund would not be considered as a legal entity, but transparent (however not a partnership) for tax purposes.

Since considered as transparent the Unit-holders would be taxed as holding part of the Fund assets directly. This implies that the Unit-holder would have to pay taxes before any actual income have been distributed from the Fund. The income from the assets held via the Fund could be subject to corporate income tax levied at a tax rate of 22 percent depending on the source of the underlying income. It may therefore also be possible for the Unit-holder to deduct their part of any capital losses assignable to the Fund investments. The possibility to set off capital losses assignable to the Fund investments would depend on the nature of the Fund asset which has generated the loss.

The calculation of capital gains or losses deriving from the disposal of the Units would be dependent on the underlying Fund assets, at the time of disposal. The Unit-holder would be considered to dispose of their share in the Fund assets. For certain assets, for example shares in non-listed limited liability companies, gains may not be fully taxable or even tax free, and losses not fully deductible or deductible at all. An assessment is required in each individual case to calculate the taxable capital gain or loss.

In Sweden the possibility to set off capital losses is depending on the asset which has generated the loss. If, for instance, a company is considered as the owner of listed shares (due to the fact that a transparent fund's assets comprise of listed shares) any capital loss may be offset only against gains on shares or other securities that are taxed in the same manner as shares. Such capital losses may, under certain circumstances, also be deductible against capital gains on such securities within the same group of companies, provided the requirements for group contributions are met. Capital losses on shares or other such securities, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against similar capital gains in future years without any limitation in time. An assessment is required in each individual case to decide the possibility to set off a loss against capital gains.

### **Units held through an endowment insurance policy**

If held through an endowment insurance policy capital gains and distributions attributable to Units would not be subject to income taxation. Hence, even if the Fund would be considered as transparent, the Unit-holder will not be taxed for any capital gains or distribution deriving from the Units. In return capital losses assignable to the Units will not be deductible for tax purposes. Instead of income tax, the policyholder pays an annual yield tax.

The yield tax is based on the insurance value.

- The insurance value is normally calculated as the sum of the fair market value of held assets at the beginning of the year, deposits made in the first six months of the year, and 50 percent of the deposits made in the last six months of the year.
- The tax base for yield tax is calculated as the insurance value multiplied by the sum of the government borrowing rate increased with 0.75 percent.
- The tax base is subject to a 30 percent tax rate. The tax base cannot be lower than 1.25 percent of the insurance value.

Even in years of negative returns tax will be levied for an endowment insurance policy.

The yield tax is considered as a definitive withholding tax. Potential losses derived from other forms of capital assets can therefore not be offset against the deemed income of the insurance.

## **Possibility to credit Estonian withholding tax**

### **General**

Distributions (dividends) made to the Unit-holders, on behalf of the Fund, will be characterized as interests for Estonian tax purposes. For further information on the Estonian taxation of dividends, see "Estonian Taxation – Taxation of non-residents" above.

### **Units held directly**

If withholding tax would be levied the possibility to credit any withheld tax against Swedish income tax would have to be investigated in each individual case.

### **Units held through an investments savings account**

If withholding tax were to be levied on income assignable to Units held through an investments savings account it would generally be possible to credit such withholding tax against the income tax based on the imputed income.

### **Units held through an endowment insurance policy**

If withholding tax were to be levied on income assignable to Units held through an endowment insurance policy it would generally be possible to credit such withholding tax against the annual yield tax.

## **DANISH TAXATION**

### **Danish Tax Considerations**

In the below, certain Danish tax considerations relevant to an investment in Units in the Fund are summarised. This summary contains general information only and does not constitute exhaustive tax advice. This summary addresses most, but not all, tax consequences relating to an investment in Units in the Fund. This summary is based upon Danish laws in effect on the date of this Offering Circular only and any subsequent amendments have not been taken into account. Please note that Danish laws may be subject to change, including retroactive changes.

The summary below is based on the assumption that the Units are listed and traded on Nasdaq Tallinn and the Nasdaq Stockholm throughout the investment period.

This summary does not cover investors subject to special tax schemes, and should thus not be relied on by, for example, pension providers, banks, stockbrokers, professional investors, institutional investors, and investors with tax liability on return on pension investments. Furthermore, this summary does not cover the taxation of individuals or corporations whose line of business is trading in shares. When mentioned in the below, sales are understood to be sales to a third party.

Investors buying Units in the Fund should consult their own tax advisers in order to clarify the specific tax consequences resulting from acquiring, owning and disposing of Units in the Fund. Investors possibly subject to tax legislation in jurisdictions other than Denmark should consult their own tax advisers in order to clarify the specific tax consequences as these may differ significantly from the below description.

Brief overview of Danish tax qualification of the fund

In our assessment, the Fund qualifies as non-transparent for Danish tax purposes. Accordingly, the Units may be taxable as either (i) ordinary shares or (ii) as shares in an "investment company" cf. s. 19 of the Danish Share Capital Gains Act (Aktieavancebeskatningsloven). The qualification may change depending on the composition of assets held by the Fund, see further in the below.

#### **1. Taxation of Units qualifying as ordinary shares**

##### **1.1 Qualification issues**

As mentioned above, provided that at least 85% of the accounting value (as an average over the accounting year) of the Fund's assets consist of (i) real property, and/or (ii) shares in companies in which the Fund owns at least 10% (not themselves qualifying as "investment companies"), the Fund will not be deemed an "investment company", cf. s. 19 of the Danish Share Capital Gains Act. Instead, the Units will be deemed ordinary shares and, as such, subject to tax as described in this section 1.

If the composition of assets held by the Fund changes to the extent that less than 85% of the accounting value of the assets are invested in (i) real property, and/or (ii) shares in companies in which the Fund holds at least 10% (not themselves qualifying as "investment companies"), the Units will cease to be subject to taxation as ordinary shares. Following such change in qualification, the Units will be deemed shares in an "investment company", subject to tax as described in section 2 below.

The change in qualification of the Units will for tax purposes be deemed a disposal.

##### **1.2 Future disposal of Units**

###### **1.2.1 Natural persons**

Gains realised on the disposal of ordinary shares are subject to tax as share income at a rate of 27 per cent on any share income up to DKK 50,600 (DKK 101,200 for cohabiting spouses). Any excess share income is taxed at a rate of 42 per cent. The threshold is subject to annual adjustment (for 2017, the threshold will be DKK 51,700/DKK 103,400). All and any share income (i.e. including other capital gains and dividends received) is included when computing the applicable tax rate.

Gains and losses realised on the disposal of shares are computed as the difference between acquisition price and the price on disposal. The purchase price is generally determined on the basis of the average method and set as a proportion of the combined acquisition price for all shares held by the individual in the Fund.

Losses realised on the disposal of listed shares can only be set off against positive share income stemming from listed shares. Losses not set off will be used to set off a cohabiting spouse's positive income from listed shares. Unused losses may be carried forward indefinitely and subsequently used to set off income from listed shares.

Losses may, however, only be set off if the Danish Tax Authorities have been informed about ownership, etc. The necessary information will normally be submitted to the Danish Tax Authorities by the securities depository.

### **1.2.2 Legal persons**

For the purposes of Danish taxation of the disposal of listed shares, a distinction is made between:

- Subsidiary Shares (shares owned by a shareholder holding at least 10 per cent of the issuing company)
- Group Shares (shares owned by a shareholder subject to either mandatory Danish joint taxation or fulfilling the requirements for voluntary international tax consolidation).
- Portfolio Shares (shares not falling within the abovementioned categories)

Gains and losses on the disposal of Subsidiary Shares and Group Shares are not included in the taxable income. Specific regimes are in place to prevent avoidance of the 10 percent ownership requirement through the use of holding company structures.

Gains and losses realised on the disposal of listed Portfolio Shares are included in the taxable income of the investor.

Gains and losses relating to listed Portfolio Shares are subject to tax according to the mark-to-market principle, meaning that the taxable gains and losses are computed as the difference between the market value of the shares at the beginning and the end of a fiscal year. Accordingly, taxation will take place regardless of whether shares have been disposed of. If listed Portfolio Shares are disposed of before end of the fiscal year, the difference between market value at the beginning of the fiscal year and the value at the time of disposal will be included as taxable income. Similarly, for shares acquired during a fiscal year, the difference between acquisition value and value at year's end will be included as taxable income. If Portfolio Shares are acquired and disposed of in the same fiscal year, the difference between acquisition value and disposal value will be included as taxable income in that fiscal year.

A change of category from Subsidiary Shares/Group Shares to listed Portfolio Shares (or vice versa) will, for tax purposes, be deemed a disposal of the shares followed by acquisition at market value on the date of change.

## **1.3 Dividends**

### **1.3.1 Natural persons**

Dividends received by Danish tax resident individuals are included as share income and subject to tax according to the rules described above.

### **1.3.2 Legal persons**

Dividends from Portfolio Shares constitute taxable income subject to the standard Danish corporate tax rate of 22 per cent.

Dividends from Subsidiary Shares/Group Shares are exempt from Danish tax.

## **2. Taxation of Units qualifying as "investment company"-shares**

### **2.1 Qualification issues**

As mentioned above, provided that less than 85% of the accounting value (based on an average over the accounting year) of the Fund's assets are invested in (i) real property directly held by the Fund, and/or (ii) shares in companies in which the Fund owns at least 10% if these companies do not itself qualify as an investment company for Danish tax purposes, the Fund will be deemed an "investment company", cf. s. 19 of the Danish Share Capital Gains Act. Accordingly, the Units will be subject to tax as described in this section 2.

If the composition of assets held by the Fund change during an accounting year to the extent that more than 85% of the accounting value of the assets are invested in (i) real property held directly and/or (ii) shares in companies in which the Fund holds at least 10% and not themselves qualifying an “investment company”, the Units will be subject to taxation as ordinary shares as described in section 1 above.

The change in qualification of the Units will for tax purposes be deemed a disposal.

## **2.2 Natural persons**

Shares in an investment company, cf. section 19 of the Danish Share Capital Gains Tax Act, are subject to tax according to the mark-to-market principle.

Accordingly, the taxable gains and losses are computed as the difference between the market value of the shares at the beginning and the end of a fiscal year. Accordingly, taxation will take place regardless of whether shares have been disposed of. If listed Portfolio Shares are disposed of before end of the fiscal year, the difference between market value at the beginning of the fiscal year and the value at the time of disposal will be included as taxable income. Similarly, for shares acquired during a fiscal year, the difference between acquisition value and value at year’s end will be included as taxable income. If Portfolio Shares are acquired and disposed of in the same fiscal year, the difference between acquisition value and disposal value will be included as taxable income in that fiscal year.

The income will be subject to tax as capital income subject to Danish tax at a marginal rate of 42%.

## **2.3 Legal persons**

Shares in an investment company, cf. section 19 of the Danish Share Capital Gains Tax Act, are subject to tax according to the mark-to-market principle.

Accordingly, the taxable gains and losses are computed as the difference between the market value of the Units at the beginning and the end of a fiscal year. Accordingly, taxation will take place regardless of whether Units have been disposed of. If listed Units are disposed of before end of the fiscal year, the difference between market value at the beginning of the fiscal year and the value at the time of disposal will be included as taxable income. Similarly, for Units acquired during a fiscal year, the difference between acquisition value and value at year’s end will be included as taxable income. If Units are acquired and disposed of in the same fiscal year, the difference between acquisition value and disposal value will be included as taxable income in that fiscal year.

The income will be included in the taxable income of the legal person and subject to tax at the standard corporate tax rate of 22%.

## **3. Taxation of investment of pension funds**

### **3.1 Pension schemes covered by chapter I of the Danish Pension Tax Act**

If funds placed in a pension scheme covered by the Danish Pension Tax Act, (Pensionsbeskatningsloven) chapter I, are invested in the Fund, taxation will take place according to the mark-to-market principle in accordance with the Danish Pension Yields Tax Act (Pensionsafkastbeskatningsloven), meaning that the taxable gains and losses are computed as the difference between the market value of the shares at the beginning and the end of a fiscal year. Accordingly, taxation will take place regardless of whether Units have been disposed of. If listed Units are disposed of before end of the fiscal year, the difference between market value at the beginning of the fiscal year and the value at the time of disposal will be included as taxable income. Similarly, for Units acquired during a fiscal year, the difference between acquisition value and value at year’s end will be included as taxable income. If Units are acquired and disposed of in the same fiscal year, the difference between acquisition value and disposal value will be included as taxable income in that fiscal year.

Taxation of income subject to tax under the Danish Pension Yields Tax Act computed according to the mark-to-market principle is subject to tax at a rate of 15.3% (2016).

### **3.2 Pension placement regulations**

Certain rules restrict investment of funds placed on a pension scheme covered by chapter I of the Danish Pension Tax Act. If these rules are not complied with, the pension scheme will cease to be covered by the favourable Danish tax regime applicable to such pension schemes and taxation will take place as had the all fund been withdrawn from the pension scheme.

In order for the pension scheme to remain covered by chapter I of the Danish Pension Tax Act, no more than 20% of the funds may be invested in the same securities.

### **3.3 Pension schemes covered by section 53A of the Danish Pension Tax Act**

For pension schemes not covered by chapter I of the Danish Pension Tax Act (generally covered by section 53A of the Danish Pension Tax Act instead), yields are taxable as capital income in the hands of the owner of the pension scheme at a marginal rate of 42%.

The taxable income is computed by applying the mark-to-market principle as described above.

## **4. Tax Credits**

4.1 Distributions (dividends) made to the Unit-holders, on behalf of the Fund, will be characterized as interests for Estonian tax purposes. For further information on the Estonian taxation of dividends, see "Estonian Taxation – Taxation of non-residents" above.

4.2 If withholding tax would be levied the possibility to credit any withheld tax against Danish income tax would have to be investigated in each individual case.

## **5. Share Transfer Tax and Stamp Duties**

5.1 No share transfer taxes or stamp duties are payable on the acquisition or disposal of the Units in Denmark.

## **FINNISH TAXATION**

### **General**

The following section briefly summarizes specific Finnish income taxation issues related to the Units in the Fund. It only deals with particular aspects of the taxation issues and does not in any way represent a comprehensive analysis of all the tax consequences of the purchase, sale and redemption of the respective products. Furthermore, no account is taken of the tax regulations of countries other than Finland, nor of the individual circumstances of the investor. Exceptions to the legal position presented here may apply to specific situations or to specific investors.

This analysis is based on the Finnish legal position applicable at the date of the Offering Circular. The applicable legal position and its interpretation by the tax authorities may be subject to change, which change may take place also retrospectively.

It should be noted that currently, there is no legislation and only very limited case law, guidelines by the tax authorities or tax practice relating to the Finnish tax treatment of units in foreign funds. The assessment of the tax status is always made on a case by case basis and there is thus a significant possibility that the tax authorities, courts or banks may consider the tax position to be different from the position presented here. The Management Company is not aware that any advance ruling or other authority guidance would have been applied for regarding the taxation of the Units in the Fund. The below analysis has been made based on the assumption that the Fund would be deemed equivalent to a special common fund in accordance with the Finnish Act on Common Funds (48/1999, Fi: sijoitusrahastolaki) for Finnish taxation purposes.

As the Finnish tax treatment is highly uncertain, potential investors are recommended to consult their personal tax advisors in order to obtain further information on the overall tax consequences and tax reporting obligations applicable with respect to the acquisition, ownership and disposal of the Units in the Fund. Those advisers alone are in a position to make an adequate assessment based on the particular tax circumstances of the individual investor.

### **Finnish Resident Corporate Investors**

Corporate entities established under the laws of Finland are regarded as residents of Finland and thus subject to corporate income tax on their worldwide income. The taxable income of a Finnish corporation is determined separately for business activities and for other activities. Income from both income baskets is taxed with a fixed corporate income tax rate which currently is 20 per cent.

### **Distributions received based on the Units in the Fund**

Distributions (dividends) received based on the Units in the Fund constitute taxable income for a Finnish resident corporate Unit holder.

### **Disposal of the Units in the Fund: Capital Gains and Losses**

Income accrued from the disposal of Units that are included in the business assets of corporations with unlimited tax liability in Finland are deemed income subject to taxation. Correspondingly, the depreciable acquisition cost of Units is treated as a deductible expense. Thus, the profit being the difference between the sales price and the depreciable acquisition cost of the Units is taxed as a corporate income of the legal entity. Confirmed tax losses of the business activities are deductible from taxable business income in the same tax year and the ten subsequent tax years.

In the event the Units are not included in a corporation's business assets, income accrued from the Units may be taxed as capital gains as described below, see Finnish Resident Individual Investors. However, a corporation may not use a presumed acquisition cost and the capital loss arising from the sale of Units is deductible only from capital gains arising in the same year and during the following five tax years.

### **Finnish Resident Individual Investors**

The general information below only relates to the taxation of private individuals who are resident in Finland for income tax purposes, and who hold the Units as private assets.

Generally, a natural person is deemed a resident of Finland for tax purposes if they stay in Finland for more than six consecutive months or if their permanent home and domicile is in Finland. A Finnish citizen is deemed a resident of Finland for tax purposes during the year they have emigrated from Finland and three subsequent years unless they prove that no essential ties to Finland have existed during the relevant tax year.

Capital income of a Finnish resident individual up to EUR 30,000 is taxed at a rate of 30 per cent and capital income of more than EUR 30,000 at a rate of 34 per cent.

### **Distributions received based on the Units in the Fund**

Distributions (dividends) received based on the Units in the Fund constitute taxable capital income for a Finnish resident individual Unit holder.

### **Disposal of the Units in the Fund: Capital Gains and Losses**

Capital gains from the disposal of Units are subject to taxation in Finland as capital income of the Finnish resident individual investor. The tax rate applicable to capital income is 30 per cent at the date of this Offering Circular. The tax rate for the part of capital income which exceeds EUR 30,000 per year is 34 per cent. Capital gains are not subject to tax withholding in Finland, and the taxes due are payable by the Finnish resident individual investor personally. Capital gains arising from a sale of assets are exempted from tax if the total amount of the sales prices of the assets sold by the Finnish resident individual investor does not exceed EUR 1,000 in a tax year.

Capital losses arising from the disposal of Units are deductible from all capital income in the same year or during the following five years. The capital losses will not, however, be tax deductible if the total amount of the acquisition prices of the assets sold by the Finnish resident individual investor does not exceed EUR 1,000 in a tax year.

Taxable capital gains and losses are calculated as the difference between the sales proceeds and the aggregate of the actual acquisition cost of the Units and the sales related expenses. When calculating capital gains, Finnish resident individual investors may choose to apply the so-called presumptive acquisition cost instead of the actual acquisition cost. The presumptive acquisition cost is normally 20 per cent of the sales proceeds, but it is 40 per cent of the sales proceeds for Units that have been held by the Finnish resident individual investor for a period of at least ten years. If the presumptive acquisition cost is applied instead of the actual acquisition cost, any sales related expenses are deemed to be included in the above 20 or 40 per cent and, therefore, cannot be separately deducted from the sales or exercise proceeds. In their income tax return, Finnish resident individual investors must include information on the sale of Units taken place during the tax year.

### **Non-resident investors**

In case of non-resident investors, distributions (dividends) received based on the Units or capital gains from the disposal of the Units is not subject to taxation in Finland, unless the Units relate to business carried out in Finland through a permanent establishment.

### **Transfer tax**

Finnish transfer tax is not applicable on transfer of the Units.

## **APPENDIX A**

### **Fund Rules**

*The text of the Fund Rules included as Appendix A to the Offering Circular is an English translation of the original Estonian text. In the event of discrepancies between the original Estonian text and the English translation, the Estonian text shall prevail.*



## **Baltic Horizon Fund**

Fund rules  
(hereinafter “the Rules”)

These Rules are in force as of 23 May 2016.

### **1. GENERAL**

- 1.1. Baltic Horizon Fund is a closed-ended contractual investment fund (the “Fund”) registered and acting in accordance with the Estonian Investment Funds Act (the “IFA”). The Fund is a real estate fund as defined in the IFA.
- 1.2. The Fund is managed by Northern Horizon Capital AS, a fund management company established and registered in the Republic of Estonia, with a register code 11025345 and its seat in Tallinn, Estonia (the “Management Company”).
- 1.3. The Fund is situated at the registered address of the Management Company.
- 1.4. The Fund is established for an undetermined period.
- 1.5. The Fund is a public fund.
  - 1.5.1. The Management Company shall pursue for the units of the Fund (the “Units”) to be admitted to trading on a regulated securities market in the European Economic Area within a reasonable time after the first capital raising of the Fund.
  - 1.5.2. The Management Company shall retain the Units traded on a regulated securities market or multilateral trading facility in the European Economic Area. In case the Units are de-listed for any reason, the Management Company shall immediately seek new admission to trading in the same or another market.
  - 1.5.3. The Management Company may seek simultaneous trading of Units on different trading venues.
- 1.6. The Rules have been registered by the Estonian Financial Supervision Authority (the “FSA”). The Rules set out the basis for the activities of the Fund and the Management Company, and relations between the unit-holders of the Fund (the “Investors”) and the Management Company. The Fund is operating and managed under the laws of Estonia. In case specific provisions of the Rules conflict with mandatory provisions of legislation, the provisions of legislation will apply. In case different provisions of the Rules conflict with each other or in case the Rules include misleading provisions, such provisions will be interpreted in accordance with the best interests of the Investors.

- 1.7. The depositary of the Fund is Swedbank AS (the “Depositary”) (as further described in section 13 below).
- 1.8. The register of the Units (the “Register”) is kept by the AS Eesti Väärtpaberikeskus (the “Registrar”) (as further described in section 14 below).
- 1.9. The exact contact details of the Management Company, the Depositary, and the Registrar, including relevant office addresses, e-mail addresses, and phone numbers, are disclosed on the website of the Fund, [www.baltichorizon.com](http://www.baltichorizon.com) (the “Website”).

## **2. THE BASIS AND OBJECTIVE OF THE FUND’S ACTIVITY**

- 2.1. The Fund is a pool of money raised through the issue of Units, and of other assets acquired from investing this money that belongs collectively to the Investors and that is managed by the Management Company.
- 2.2. The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing primarily in real estate, portfolios of real estate, and/or real estate companies and successfully exiting from these investments. The objective of the Fund is to provide its Investors with consistent and above average risk-adjusted returns by acquiring high quality cash flow-generating commercial properties with the potential for adding value through active management, thereby creating a stable income stream of high yielding current income combined with capital gains. Although the objective of the Fund is to generate positive returns for the Investors, the profitability of the Fund is not guaranteed to the Investors.

## **3. THE FUND’S INVESTMENT POLICY**

- 3.1. Subject to certain restrictions outlined in the Rules and the law, the focus of the Fund is to invest into real estate properties located in Estonia, Latvia, and Lithuania. Such investments may include real estate properties experiencing financial or economic distress.
- 3.2. Up to 100% of the assets of the Fund may be invested in real estate and securities related to real estate. The Fund will invest in all types of real estate properties, including retail, office, and logistics properties.
- 3.3. The Fund shall invest, directly or indirectly, in real estate located in Estonia, Latvia, and Lithuania, with a particular focus on the capitals - Tallinn, Riga, and Vilnius - and a preference for city centres within or near the central business districts.

## **4. INVESTMENT RESTRICTIONS**

- 4.1. At least 80% of the Fund’s gross asset value (as defined in section 6.1 below) shall be invested in real estate and securities relating to real estate. The following are securities relating to real estate:
  - 4.1.1. the units or shares of a fund which is deemed to be a real estate fund according to the legislation of Estonia or other states;
  - 4.1.2. the shares of special purpose vehicles whose main activity is direct or indirect (through subsidiaries) investment in real estate or management of real estate (“SPV”);

- 4.1.3. derivative instruments whose underlying assets are securities specified in subsections 4.1.1 and 4.1.2 above.
- 4.2. Up to 20% of the Fund's gross asset value (as defined in section 6.1 below) may be invested in the following assets not specified in section 4.1:
  - 4.2.1. deposits with credit institutions;
  - 4.2.2. shares and other similar tradable rights in companies investing directly or indirectly into real estate property;
  - 4.2.3. bonds, convertible bonds, and other tradable debt obligations issued;
  - 4.2.4. subscription rights and other tradable rights granting the right to acquire securities specified in subsections 4.2.2 and 4.2.3 above;
  - 4.2.5. money market instruments;
  - 4.2.6. tradable depositary receipts;
  - 4.2.7. derivative instruments.
- 4.3. The weighting of each asset class, type of issuer, region, and sector of the assets of the Fund shall be determined in the course of the everyday management of the Fund in compliance with the Rules.
- 4.4. **Investment in real estate and securities relating to real estate**
  - 4.4.1. The assets of the Fund may be invested in real estate either directly or indirectly through SPV(s). Therefore, every reference made to investments in real estate properties in the Rules also means investments into SPVs.
  - 4.4.2. The real estate assets into which the Fund directly or indirectly invests are located in Estonia, Latvia, and Lithuania. Although the Fund shall invest mainly into commercial real estate properties, such as retail and office properties, up to 20% of the Fund's gross asset value (as defined in section 6.1 below) may be invested into other types of properties.
  - 4.4.3. Securities of investment vehicles (including, but not limited to, joint ventures, SPVs and other real estate funds) into which the Fund may invest under section 4.1 above may be registered in any jurisdiction provided that the investment strategy of those investment vehicles is not in conflict with the investment strategy of the Fund under these Rules. Shares of SPVs may only be registered in other countries than Estonia, Latvia or Lithuania with prior approval by the Depositary.
  - 4.4.4. The Fund shall meet the following risk diversification requirements:
    - (a) up to 50% of the gross asset value (as defined in section 6.1 below) of the Fund may be invested in any single real estate property, or in any single real estate company or fund;
    - (b) the annual rental income from one single tenant shall not form more than 30% of the total annual net rental income of the Fund.
  - 4.4.5. At least 80% of gross asset value (as defined in section 6.1 below) shall be allocated for projects which involve investment in real estate with a stabilised cash flow, and also into properties with the potential to add value through active asset management, refurbishment, and development. Up to 20% of gross asset

value (as defined in section 6.1 below) may be allocated to investments of a more opportunistic nature such as participating in forward funding development projects and undeveloped land purchases.

- 4.4.6. The Fund may not invest in assets that to a significant degree are used for gambling, pornographic, or tobacco-producing activities. The Fund shall be considered as having invested into assets that to a significant degree are used for the above activities if the net rental income for the space (square meters) used for the above activities would exceed 10% of the total net rental income of that asset. The Fund shall not solicit new tenants proposing to use the assets for the above activities.

#### 4.5. **Transactions with derivative instruments**

- 4.5.1. Transactions with derivative instruments may be performed on account of the Fund provided that the requirements set forth in legislation, the internal rules of the Management Company for transactions with derivative instruments, and the Rules are met. The assets of the Fund may be invested in derivative instruments only for the purpose of hedging the property loan risks. An agreement, which includes a right or an obligation of the Fund to acquire, swap, or sell real estate, such as forward financing or commitment arrangements, shall not be considered to be a derivative instrument.

#### 4.6. **Miscellaneous**

- 4.6.1. The Management Company has, on account of the Fund, the right to guarantee an issue of securities, provide surety, take a loan, issue debt securities, enter into repurchase or reverse repurchase agreements, and conclude other securities-borrowing transactions. Subject to the discretion of the Management Company, the Fund aims to leverage its assets by borrowing an amount of up to 50% of the value of its assets. At no point in time may the Fund's leverage exceed 65% of the value of its assets. Loans may be taken for periods of up to 30 years.
- 4.6.2. The Fund may grant loans only to SPVs and may issue guarantees or provide surety only to secure the fulfilment of the obligations of SPVs.
- 4.6.3. As the purpose of the Fund is to invest in real estate property, the acquisition process of which may be time-consuming, the Management Company aims to invest any new capital raised for the Fund within a reasonable time period.
- 4.6.4. The investment restrictions set forth in sections 4.1 and 4.2 above do not apply for the first 12 months after the date the Rules are registered with the FSA and for the first 12 months after each additional capital raising for the Fund.
- 4.6.5. Risk diversification requirements provided for in these Rules may be temporarily exceeded for reasons outside the control of the Management Company. Exercising a right of pre-emption to acquire securities, a bonus issue, a change in the market value of securities, and other such reasons are deemed to be reasons outside the control of the Management Company if the objective of the transactions performed on account of the Fund is to observe the aforementioned requirements, taking into account the interests of the Investors.

## **5. UNITS AND THE RIGHTS AND OBLIGATIONS ATTACHED TO THE UNITS**

- 5.1. A Unit represents the Investor's share in the assets of the Fund. The Fund has one class of Units. Units are held in the registered form and no Unit certificates will be issued.
- 5.2. Units are issued with no nominal value.
- 5.3. A Unit is divisible.
  - 5.3.1. The fractions of Units, if any, that emerge from dividing Units are rounded to three decimal points. The following rules are applied for rounding: numbers NNN.NNN0 until NNN.NNN4 are rounded down to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded up to NNN.NN(N+1).
  - 5.3.2. Trading in Units on any trading venue where the Units are admitted to trading may occur only in whole number of Units, unless fractions of Units can be traded under the rules of the trading venue.
- 5.4. Units acquired by an Investor shall be registered in the Investor's, or in a nominee holder's registry account in the Register, acting on the account of the Investor.
- 5.5. An Investor cannot request that the common ownership of the Fund be terminated or that the Investor's share be separated from the Fund's assets.
- 5.6. The Investors have the following rights deriving from the Units:
  - 5.6.1. to purchase, sell, pledge or otherwise dispose of the Units;
  - 5.6.2. to own the share of the Fund's assets corresponding to the number of Units owned by the Investor;
  - 5.6.3. to receive, when payments are made, pursuant to the Rules, the share of the cash flows of the Fund proportional to the number of Units owned by the Investor;
  - 5.6.4. to receive, pursuant to the Rules, the share of the assets remaining upon liquidation of the Fund proportional to the number of Units owned by the Investor;
  - 5.6.5. to convene a general meeting of Investors (the "General Meeting") in accordance with the Rules and the law;
  - 5.6.6. to participate and vote in the General Meeting pursuant to the number of votes provided for in section 10.10;
  - 5.6.7. to propose supervisory board (as defined in section 11, the "Supervisory Board") member candidates for election in the General Meeting;
  - 5.6.8. to request that the Registrar issue a certificate or an extract from the Register concerning the Units owned by the Investor;
  - 5.6.9. to demand that the Management Company compensate for any damage caused by a breach of its obligations;
  - 5.6.10. to access, at the registered address of the Management Company, the documents and information specified in section 16.1 and receive, upon respective request, copies of any of the documents specified in sections 16.1.1, 16.1.2, 16.1.4 and 16.1.12 without charge;

- 5.6.11. to exercise other rights and take other action as prescribed by law or the Rules.
- 5.7. The exchange of Units with fund units of other funds managed by the Management Company is not allowed.
- 5.8. The rights and obligations attached to a Unit with respect to an Investor shall enter into force upon acquisition of a Unit and shall terminate upon disposal or redemption of a Unit. Each Investor acquiring a Unit or Units is deemed to have agreed to the Rules by subscribing for new Units or upon the Units being credited to the securities account of the Investor as a result of a trade with a third person. A Unit is deemed issued upon registration thereof with the Register and a Unit is deemed redeemed upon cancellation thereof with the Register.
- 5.9. An Investor must exercise the rights attached to the Units in good faith and in accordance with legislation and the Rules. The objective of exercising the rights of an Investor may not be to cause damage to other Investors, to the Fund, to the Management Company, to the Depositary, or to third persons.
- 5.10. An Investor is not personally liable for the obligations of the Fund, obligations assumed by the Management Company on account of the Fund, or for obligations the performance of which the Management Company has the right to demand from the Fund pursuant to the Rules. The liability of an Investor for performance of such obligations is limited to the Investor's share in the assets of the Fund.
- 5.11. An Investor shall pay any transaction fees and service charges which may be demanded by brokers, custodians, or other intermediaries (including the Registrar) upon purchase or sale of Units.

## **6. ESTABLISHING GROSS PROPERTY VALUE, FUND NET ASSET VALUE, AND GROSS ASSET VALUE OF PROPERTY**

- 6.1. The gross property value shall be determined based on the aggregate market value of all real estate properties belonging to the Fund (the "Gross Property Value"). The gross asset value shall be determined based on the aggregate of the Gross Property Value and the market value of all other consolidated assets of the Fund and the SPVs (excluding shares of SPVs holding real estate) (the "GAV"). The Gross Property Value and GAV shall be calculated in Euros as of the last banking day of each calendar month (the "Valuation Day"). A banking day shall mean any calendar day that is not Saturday, Sunday, a national or public holiday in Estonia, or another day which is considered to be a public holiday by a relevant payment system operator (a "Banking Day").
- 6.2. The net asset value of the Fund shall be determined based on the aggregate market value of the securities (including shares of SPVs), other property, and rights belonging to the assets of the Fund from which claims against the Fund are deducted (the "NAV").
- 6.3. The NAV of a Unit equals the NAV of the Fund divided by the number of Units issued and not redeemed as at the point of valuation (the "NAV of the Unit").
- 6.4. The NAV of the Fund shall be established in accordance with the relevant principles set forth in the internal rules of the Management Company and in legislation and shall be calculated on each Valuation Day. The NAV of the Fund and of a Unit shall be calculated in Euros.
- 6.5. If, after determining the NAV of the Fund, an event or circumstance occurs or appears which in the Supervisory Board's best professional opinion materially affects the NAV

of the Fund, then the Supervisory Board may order a re-evaluation of the fixed market value and re-evaluate the NAV of the Fund or of a Unit provided that failure to carry out such re-evaluation would damage the interests of the Investors.

- 6.6. The NAV of a Unit shall be calculated as of each Valuation Day and as of each day when Units are issued. A Unit's NAV shall be rounded up to four decimal points. The NAV of the Fund and of a Unit as of each Valuation Day and issue price of a Unit shall be made available on the Website and at the registered office of the Management Company on the 15th day of the following month at the latest. If such day is not a Banking Day, then the above information shall be made available on the first Banking Day after such day.
- 6.7. The Management Company may suspend the determination of the NAV of the Fund during the existence of any state of affairs which constitutes an emergency as a result of which disposals or accurate valuation of a substantial portion of the assets owned by the Fund would be impracticable or when, for any other reason, the prices of any investments owned by the Fund cannot be promptly or accurately ascertained, provided the suspension is justified with regard to the interests of Investors. The suspension of the determination of the NAV of the Fund will be announced on the Website.

## **7. VALUATION OF REAL ESTATE**

- 7.1. To determine the market value of real estate property belonging to the Fund, the Management Company shall ensure appraisal of such property at least once a year at the end of the financial year and prior to the auditing of the Fund's annual report. The Supervisory Board may propose the Management Company to undertake appraisal more often, if there are exceptional circumstances which in the Supervisory Board's opinion could have a material impact on the fair market value of the properties.
- 7.2. Any real estate belonging to the Fund shall be appraised by an independent real estate appraiser appointed from time to time by the Management Company after consultation with the Supervisory Board. Only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where any relevant real estate property is located may evaluate real estate belonging to the Fund.
- 7.3. The appraiser may not be an affiliate of the Management Company. The appraiser shall value only real estate properties for which it can act as independent expert, without any conflicts of interest arising due to other connections with the respective property.
- 7.4. The appraiser(s) appointed by the Management Company shall be disclosed in the annual report of the Fund for each year and the Management Company shall inform the FSA of the appointed appraiser and the criteria under which the appointment was decided.
- 7.5. The real estate appraiser shall prepare an appraisal report outlining the results of the appraisal. The appraisal reports shall be prepared in accordance with a recognised property valuation standard. If so provided in the internal rules of the Management Company, such appraisal report shall be accompanied by the Management Company's internal valuation statement in which case the overall valuation process of Fund's assets (including real estate) shall be considered internal. Real estate shall be reflected in the Fund's Gross Property Value, GAV, and NAV on the basis of the value of the real estate recorded in the appraisal report and, if relevant, the Management Company's internal

valuation statement. The Management Company shall make a condensed form of the appraisal report regarding real estate belonging to the Fund available to Investors on the Website.

## **8. ISSUE, REDEMPTION, AND PURCHASE OF UNITS**

- 8.1. Units are issued by the Management Company on behalf of the Fund.
- 8.2. The Management Company may issue and offer Units to the public or through a private placement in accordance with applicable laws and the Rules. Units are issued and offered only during specific times determined by the Management Company; Units are not available for subscription at all times.
- 8.3. The issue of new Units may be determined:
  - 8.3.1. at the General Meeting, or
  - 8.3.2. by the Management Company, if it has received approval from the Supervisory Board and if new Units will be issued at the most recent NAV.
- 8.4. New Units shall be issued in accordance with the Rules, applicable laws and regulations, and the terms and conditions of the specific issue. The terms and conditions of the first issue of the Units after the registration of the Rules shall be determined by the Management Company.
- 8.5. In order to acquire Units, an Investor must subscribe for the Units and pay the full issue price. By submitting the subscription order, an Investor agrees to the Rules and to the terms and conditions of the specific issue of Units and undertakes to adhere thereto.
- 8.6. An Investor shall be required to pay in full for the Units, and on the dates, as specified in the terms and conditions of the specific issue of Units. The Management Company shall not charge nor deduct any subscription fees from the paid in issue price.
- 8.7. The issue price of a Unit shall be determined by the Management Company. If the issue of new Units is resolved at the General Meeting in accordance with sections 8.3.1 and 10.3.1, the Management Company shall follow the terms and conditions set forth in the General Meeting resolution. If so determined at the General Meeting and provided that the IFA allows that, Units may be issued at discount or in excess of the NAV. The Management Company shall have the right to solely determine the issue price for the first issue of Units.
- 8.8. An investor can subscribe only for a whole number of Units without fractions, unless otherwise specified in the terms and conditions of the specific issue of Units. The allocation of Units shall be determined by the Management Company under the terms and conditions of the specific issue of Units.
- 8.9. Units shall be issued and registered in the Investor's securities account in the Register on the payment date specified in the terms and conditions of respective issue.
- 8.10. If an Investor fails to pay in the issue price in accordance with the terms and conditions of the issue, or is otherwise in violation of the terms and conditions of the issue or the Rules, no Units shall be issued to the Investor.
- 8.11. The Units are not redeemable at the request of the Investor. The Units shall be redeemed upon liquidation of the Fund.

- 8.12. The Management Company is entitled to purchase Units on account of the Fund, provided that:
- 8.12.1. such transactions are, or the purchase plan is, approved by the General Meeting. After the Units have been admitted to trading, the Management Company has the right to decide the purchase of the Units on account of the Fund within 1 month for the purposes of stabilisation in accordance with European Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments;
  - 8.12.2. the aggregate number of Units bought back and held by the Fund shall not exceed 10% of the total number of Units at any time;
  - 8.12.3. Units held by the Fund shall not grant any unit-holder rights to the Fund or to the Management Company;
  - 8.12.4. any purchase shall be executed in accordance with applicable legislation and with the rules of the trading venue; and
  - 8.12.5. the Management Company shall either cancel or sell the Units within 3 months after the purchase.

## **9. DISTRIBUTIONS TO INVESTORS**

- 9.1. The Management Company intends to make distributions from the cash flow of the Fund at least annually in cash to the Investors on a pro rata basis.
- 9.2. A distribution shall be paid to Investors if all of the following conditions are met:
- 9.2.1. the Fund has retained such reserves as required for the proper running of the Fund;
  - 9.2.2. the distribution does not endanger liquidity of the Fund;
  - 9.2.3. the Fund has made necessary follow-on investments in existing properties, i.e. investments into the development of existing properties of the Fund, and making 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.
- 9.3. The Management Company shall disclose the Record Date (as defined in section 9.5) and the payment date of each distribution event on the Website and by a stock exchange release disclosed on the website of the trading venue where the Units are admitted to trading (the "Stock Exchange Release"), at least ten Banking Days prior to the Record Date.
- 9.4. Net disposal proceeds received, if any, shall either be reinvested or distributed to the Investors depending on whether the Management Company sees suitable investment opportunities in the market.
- 9.5. The Investors entitled to the distribution payments under this section 9 shall be determined two Banking Days prior to the payment date (the "Record Date").
- 9.6. Distributions will be made in cash to the current account of the Investor connected to the securities account in the Register.

## **10. GENERAL MEETING**

- 10.1. Investors participate in the governance of the Fund through the General Meeting.
- 10.2. General Meetings shall be held at the seat of the Management Company unless otherwise prescribed in the notice convening the meeting.
- 10.3. The Investors at the General Meeting are entitled to resolve the following matters:
  - 10.3.1. issue new Units;
  - 10.3.2. amend the procedure for the making of distributions to Investors;
  - 10.3.3. approve and recall the members of the Supervisory Board and determine the remuneration of the members;
  - 10.3.4. change the Management Company at the initiative of the Investors;
  - 10.3.5. liquidate the Fund;
  - 10.3.6. amend the procedure for the redemption of Units;
  - 10.3.7. increase the Management Fee and Depositary Fee and other fees and charges payable on account of the Fund;
  - 10.3.8. decide on the merger and transformation of the Fund unless otherwise provided by the IFA;
  - 10.3.9. amend the fundamental principles of the investment policy of the Fund;
  - 10.3.10. establish a term for the Fund and amending the term, if established;
  - 10.3.11. amend the Rules;
  - 10.3.12. purchase of Units on account of the Fund.
- 10.4. The Management Company shall convene the General Meeting at least once a year, after the Management Company has approved the annual report of the Fund. In addition to the annual meeting, the Management Company shall convene the General Meeting as often as there is a need to resolve issues specified in section 10.3. The Management Company shall convene the General Meeting within 6 months after the Units have been de-listed and the Management Company has not succeeded in having the Units re-admitted to trading.
- 10.5. The FSA or Investors whose Units represent at least 1/10 of the votes are entitled to request the Management Company convene the General Meeting and propose issues to be included in the agenda of the General Meeting. If the Management Company does not convene the General Meeting within one month after receipt of a request, the FSA or Investors have the right to convene the General Meeting themselves.
- 10.6. Notice of the General Meeting shall be published at least three weeks in advance. A notice convening a General Meeting is published on the Website and via the Stock Exchange Release. At the same time as the publication of a notice, if the IFA so stipulates, it also shall be published in at least one of the daily national (Estonian) newspapers.
- 10.7. The notice shall be accompanied with information related to the items in the agenda. Investor(s) requesting a change of the Management Company under section 10.3.4. shall submit to the Investors the consent of the new management company to undertake the duties of the management company.

- 10.8. The Investor, who is a registered unit-holder in the Register, or a representative of the Investor, who has been granted an authorisation document in writing, may participate in a General Meeting. The participation of a representative shall not deprive the Investor of the right to participate in the General Meeting.
- 10.9. A list of the Investors participating in a General Meeting including the names of the Investors, the number of votes attached to their Units, and the names of the representatives of the Investors, is prepared at the General Meeting. The list shall be signed by the chair of the General Meeting, the secretary of the meeting, and each Investor or his or her representative participating in the General Meeting. The authorisation documents of representatives shall be appended to the minutes of the General Meeting.
- 10.10. In order to adopt resolutions at the General Meeting, the proportion of votes belonging to the Investor is determined pursuant to the ratio of the number of votes arising from Units belonging to the Investor and the number of votes arising from all Units which have been issued as of ten days before the General Meeting is held. To participate in any General Meeting, an Investor is required to have Units registered in its name in the Register as of ten days before the date of the General Meeting.
- 10.11. At the General Meeting, Investors may adopt resolutions if more than 1/2 of the votes represented by the Units are present. If there are less than, or equal to, 1/2 of votes represented at the General Meeting, the Management Company may, within three weeks but not earlier than after seven days, convene another General Meeting with the same agenda. The new General Meeting is permitted to adopt resolutions regardless of the number of votes represented at the meeting. Except for resolutions to be adopted under sections 10.14 and 10.15 below.
- 10.12. An issue which is initially not on the agenda of the General Meeting may be added to the agenda during the General Meeting with the consent of at least 9/10 of the Investors who participate in the General Meeting if their Units represent at least 2/3 of the votes.
- 10.13. A resolution of the General Meeting shall be adopted if more than 1/2 of the votes represented at the General Meeting are in favour, unless a greater majority requirement is prescribed under sections 10.14 or 10.15 below.
- 10.14. In order to adopt resolutions in matters specified in sections 10.3.2, 10.3.5, 10.3.6, 10.3.8, 10.3.9, 10.3.10, and 10.3.11 above, more than 3/4 of the votes represented by the Units shall be present and more than 4/5 of the votes represented at the General Meeting shall vote in favour to adopt those resolutions.
- 10.15. In order to adopt a resolution as specified in section 10.3.4, more than 3/4 of the votes represented by the Units shall be present and more than 4/5 of the votes represented at the General Meeting, excluding votes represented by the Management Company and its related parties (as defined in section 10.17 below), and also excluding votes represented by any Investor holding, directly or indirectly via its related persons (as defined in section 10.17 below for the Management Company), more than 50% of all units, shall vote in favour to adopt the resolution.
- 10.16. The General Meeting may adopt a resolution to amend the procedure for the redemption of Units (section 10.3.6) only together with a resolution on liquidation of the Fund (section 10.3.5).
- 10.17. The Management Company and its related parties who hold Units and are participating in the General Meeting shall abstain from voting in all issues where there is a potential

conflict of interest between the Fund and the Management Company, including but not limited to voting on raising the Management Fee. Related parties shall mean companies belonging to the same consolidation group as the Management Company, shareholders of the Management Company and of the companies belonging to the same consolidation group as the Management Company and members of management bodies of the Management Company and of the companies belonging to the same consolidation group as the Management Company.

## **11. SUPERVISORY BOARD**

- 11.1. The Fund shall have a supervisory board consisting of three to five members (the “Supervisory Board”). The Supervisory Board acts solely in an advisory capacity and the Management Company shall remain responsible for making decisions related to the fund management.
- 11.2. The members of the Supervisory Board shall be appointed at the General Meeting for a period of at least two years. The Management Board shall appoint the first members of the Supervisory Board and determine their remuneration immediately after the registration of the Fund. The following principles shall be followed when appointing the Supervisory Board members:
  - 11.2.1. a member shall have recognized experience in the real estate market(s) in Estonia, Latvia, or Lithuania, an impeccable business reputation, and an appropriate education;
  - 11.2.2. only one of the members may be related to the Management Company, i.e. the person is a member of the management board or supervisory council or shareholder of the Management Company or of any other company belonging to the same consolidation group with the Management Company, or is otherwise related to or appointed by the Management Company;
  - 11.2.3. at least one of the members should represent Investors who are not related to the Management Company and are not related to the ten largest Investors in terms of Units held as of ten days before the date of the General Meeting, or be an independent member not related to any Investor.
- 11.3. The Supervisory Board and its members are not allowed to delegate their rights to other persons.
- 11.4. Supervisory Board members shall elect a chairman from among themselves in the first meeting after election of any new member(s).
- 11.5. The Management Company shall consult with the Supervisory Board on the following matters:
  - 11.5.1. the approval of an appraiser for the valuation of real estate in the Fund to be appointed by the Management Company;
  - 11.5.2. the approval of an auditor of the Fund to be appointed by the supervisory council of the Management Company;
  - 11.5.3. the approval of the depositary bank of the Fund to be chosen by the Management Company;
  - 11.5.4. the approval of the issue of new units under section 8.3.2;

- 11.5.5. any issues that may involve conflicts of interest related to the Fund;
- 11.5.6. any other issues in accordance with the Rules.
- 11.6. A meeting of the Supervisory Board shall be convened by the Management Company at least once per quarter. Each member of the Supervisory Board and the Fund Manager(s) (as defined in section 12.3 below) has the right to convene a meeting. The Supervisory Board has the right to pass decisions without convening a meeting in case all the Supervisory Board members agree not to convene a meeting. The meetings of the Supervisory Board shall be arranged by the chairman of the Supervisory Board.
- 11.7. The Supervisory Board is entitled to pass decisions if more than half of the members take part in the meeting.
- 11.8. A decision of the Supervisory Board shall be adopted if more than half of the members present at the meeting vote in favour of the decision. In case the Supervisory Board adopts decisions without convening a meeting a decision shall be adopted if more than half of the members vote in favour of the decision.
- 11.9. The minutes of the Supervisory Board meetings shall be recorded and sent to all Supervisory Board members. The minutes of the meeting shall be signed by all Supervisory Board members who participated in the meeting and the person who took the minutes. In case the Supervisory Board member does not agree with the passed decisions, the member's different opinions will be added to the minutes and that member of the Supervisory Board will confirm the opinion with a signature.
- 11.10. In order to pass decisions, the Supervisory Board may request reports and clarifications from the Management Company and the Fund Manager(s) (as defined in section 12.3 below) and give them reasonable time to prepare such reports.
- 11.11. Supervisory Board members are entitled to remuneration for their service. The amount of remuneration payable to the chairman and members of the Supervisory Board shall be decided at the General Meeting.

## **12. RIGHTS AND OBLIGATIONS OF THE MANAGEMENT COMPANY**

- 12.1. The basis of the activities of the Management Company is set forth in the articles of association of the Management Company, the Rules, and legislation.
- 12.2. The Management Company has the right to dispose of and possess the assets of the Fund and other rights arising therefrom. The Management Company shall conclude transactions with the Fund's assets (including investing the Fund's assets) in its own name and on account of the Fund.
- 12.3. To manage the assets of the Fund, the management board of the Management Company shall appoint one or more fund managers whose duty it is to coordinate the investment of the Fund's assets and other activities related to management of the Fund and to monitor that the Fund is managed pursuant to the provisions of legislation and the Rules (the "Fund Manager"). The Management Company is responsible for making and implementing investment and divestment decisions in its own name and exclusively in the interests of and on joint account of the Investors.
- 12.4. The Management Company shall determine the Fund's investment policy and perform the duties specified in subsection 12.11, unless such duties have been delegated to third parties. The Management Company shall invest the Fund's assets in compliance with the

investment policy specified in the Rules and observe the investment restrictions specified in the Rules and legislation. The Management Company shall obtain sufficient information about the assets it plans to acquire or has acquired on account of the Fund, monitor the financial and economic situation of the issuer whose securities it plans to acquire or has acquired on account of the Fund, and obtain sufficient information about the solvency of counterparties with whom transactions are made on account of the Fund.

- 12.5. The Management Company shall manage the assets of the Fund separately from its own assets, assets of other funds, and pools of assets managed by the Management Company. The assets of the Fund do not form part of the bankruptcy estate of the Management Company and any claims of creditors of the Management Company shall not be satisfied out of the Fund's assets.
- 12.6. The Management Company shall arrange the maintenance and preservation of immovables directly or indirectly owned by the Fund. In arranging the maintenance and preservation of immovables, the Management Company shall observe the following principles: (i) immovables must be kept and maintained prudently, (ii) immovables must be insured, if possible, and (iii) in case of extraordinary 'wear and tear' of an immovable (including a building constituting an essential part of an immovable) or extraordinary deterioration in its condition, the immovable (including a building constituting an essential part of the immovable) must, if possible, be restored to its former condition, repaired, or improved.
- 12.7. The Management Company may (but is not obliged to) acquire and own Units. The Units owned by the Management Company may not exceed 5% of all Units. In cases addressed by legislation, the Management Company shall notify FSA of its acquisition of Units. Information on the size of the holding of the Management Company in the Fund shall be made available according to section 16.1.10.
- 12.8. The Management Company has the right and the duty to submit a claim in its own name on behalf of the Investors or the Fund against the Depositary or third parties if not submitting such a claim would or could result in significant damage to the Fund or the Investors. The Management Company is not required to submit such a claim if the Fund or the Investors have already submitted a claim.
- 12.9. The Management Company shall be liable for any damage caused to the Fund or the Investors due to a violation of its duties under the Rules and applicable laws.
- 12.10. The Management Company shall arrange the accounting of the Fund. The Management Company shall keep the accounting of the Fund separate from the accounting of the Management Company and the accounting of its other funds.
  - 12.10.1. The financial information of the Fund shall be prepared in accordance with the International Financial Reporting Standards (IFRS).
  - 12.10.2. The financial year of the Fund lasts from 1 January to 31 December.
- 12.11. The Management Company may delegate the following duties to third parties to the extent provided in the IFA and pursuant to the procedure set forth in the IFA:
  - 12.11.1. investing the Fund's assets, which means making of investment decisions upon investment of the Fund's assets;
  - 12.11.2. organising the issue and redemption of Units;

- 12.11.3. issuing of documentation proving the registration of Units in the Register belonging to the Investor;
  - 12.11.4. arranging the sales and marketing of the Units;
  - 12.11.5. providing necessary information and other customer services to the Investors;
  - 12.11.6. keeping account of the Fund's assets and organising the accounting of the Fund;
  - 12.11.7. determining the Fund's NAV;
  - 12.11.8. organising of maintenance of the register of Units;
  - 12.11.9. calculating of the Fund's net income and arranging the distribution from the cash flows to the Investors;
  - 12.11.10. monitoring compliance of the activities of the Management Company and the Fund with legislation, including applying a relevant internal audit system;
  - 12.11.11. maintaining and preserving of immovables and any related activities;
  - 12.11.12. any of the activities directly related to the activities listed above.
- 12.12. In delegating the services related to the maintenance and preservation of immovables (section 12.11.11), respective service agreements may be entered into directly between a third party service provider and the SPV.
- 12.13. Any delegation of duties does not exempt the Management Company from liability related to the management of the Fund.
- 12.14. The duties of the Management Company in full may be transferred to a third party fund management company in accordance with the IFA. The change of the Management Company may be initiated by the Management Company in accordance with a resolution of the supervisory council of the Management Company, or by the Investor(s) in accordance with section 10.15 of the Rules.
- 12.15. The transfer of the fund management to another management company shall be arranged based on the approval by the FSA.
- 12.15.1. The Management Company shall act in good faith in negotiating and signing the transfer agreement, obtaining FSA approval, and performing other tasks under the decision of the supervisory council of the Management Company or the resolution of the General Meeting to transfer the fund management to another management company. The costs of the transfer shall be borne by the new service provider, unless otherwise agreed in the transfer agreement.
  - 12.15.2. The duties of the Management Company shall be transferred to the new management company under the transfer agreement not earlier than one year from the approval by the FSA, unless shorter term is agreed in the transfer agreement.

### **13. ACTIVITIES OF THE DEPOSITARY**

- 13.1. The Management Company shall enter into a depositary contract with the Depositary for the safekeeping of the Fund's money and assets, including financial instruments and other assets, with the Depositary, and for overseeing and monitoring of the Fund's activities.

- 13.2. The Depositary shall hold in custody all financial instruments of the Fund that can be registered in a financial instruments account opened in the Depositary's books (the "Safekept Instruments"). Assets that can be held in custody by the Depositary shall be determined in a depositary contract.
- 13.3. All other assets of the Fund that are not considered financial instruments, including cash, immovable and movable property, rights, and shares of SPVs not registered with central securities depositories in Estonia, Latvia or Lithuania, shall be subject to verification of ownership and record keeping duties by the Depositary. The Management Company may execute transactions with the Fund's assets only through the Depositary or after prior notification of the Depositary.
- 13.4. In performing the monitoring and oversight of the Fund's activities, the Depositary shall be responsible for:
- 13.4.1. ensuring that the sale, issue, repurchase, redemption, and cancellation of Units are carried out in accordance with the IFA and the Rules;
  - 13.4.2. ensuring that the NAV of the Units is calculated in accordance with the IFA and the Rules;
  - 13.4.3. carrying out the instructions of the Management Company, and assessing their compliance with the IFA, and with the Rules;
  - 13.4.4. ensuring that in transactions involving the Fund's assets, any consideration is remitted to the Fund in full and within the usual time limits;
  - 13.4.5. ensuring that the distributions from the Fund cash flow are made in accordance with the IFA and the Rules;
  - 13.4.6. ensuring that the cash flows of the Fund are properly monitored, and, in particular, that all payments made by or on behalf of Investors, upon the subscription of Units, have been received, and credited to the Fund account.
- 13.5. The functions, rights, obligations and liability of the Depositary with regard to the Fund and the Management Company derive from the Rules and the depositary contract between the Management Company and the Depositary, IFA and other applicable regulations. The Depositary shall be liable to the Fund or to the Investors, for the loss of the Safekept Instruments held in custody by the Depositary or a third party to whom the custody of financial instruments held in custody has been delegated. In the case of such a loss of the Safekept Instruments, the Depositary shall return a financial instrument of identical type or the corresponding amount to the Fund or the Management Company acting on behalf of the Fund without undue delay. The Depositary shall not be liable if it can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts by the Depositary to the contrary.
- 13.6. The Depositary has the right to enter into contracts with third parties for the delegation of its duties (including the duty to safekeep the Fund's assets) pursuant to the IFA and other applicable regulations and the depositary contract, provided that the following conditions are met:
- 13.6.1 the intention of delegation is not to avoid the requirements of the IFA;
  - 13.6.2 there is an objective reason for the delegation;

- 13.6.3 the Depositary has exercised all due skill, care, and diligence in the selection and the appointment of any third party to which it delegates duties, and continues to exercise all due skill, care and diligence in the periodic review and ongoing monitoring of any third party to whom it has delegated duties and of the third party's performance of those duties;
- 13.6.4 the Depositary ensures that the third party has structures and expertise adequate and proportionate to the nature and complexity of the assets of the Fund, or the Management Company acting on behalf of the Fund, which have been entrusted to it, and the third party is subject to effective prudential regulation, including minimum capital requirements, and supervision in the relevant jurisdiction; and
- 13.6.5 the third party is subject to an annual external periodic audit to ensure that the financial instruments are in its possession.

#### **14. REGISTER OF UNITS**

- 14.1. The Register is kept by the Registrar. The Registrar operates under the laws of Estonia applicable to the registration of securities and the settlement of securities trades.
- 14.2. The Units are deemed to belong to the person in whose name the securities account is held in the Register, except for the Units held in a nominee account, in which case the Units are deemed to belong to the client of the nominee holder. Despite the foregoing, only persons in whose name a securities account is held are entitled to exercise rights arising out of the Units under the Rules. A unit-holder has the right to rely on the entry in the Register when performing his/her rights and duties in relation to third parties. The Registrar shall issue a statement of Units owned by the unit-holder upon the unit-holder's request.
- 14.3. By subscribing for or purchasing Units, the Investor consents to the processing of their information (including personal data) by the Registrar and the Management Company to the extent necessary for keeping the Register and performing other duties under the Rules or applicable law.
- 14.4. The Registrar shall make entries in the Register on the basis of the transaction information related to the Units. Entries may also be based on court judgments or other grounds approved by the Registrar.
- 14.5. Information and documents submitted to the Registrar for an entry to be made shall be preserved by the Registrar for at least ten years from the date of the corresponding entry. Information shall be preserved in the form of documents or in a format which can be reproduced in writing.
- 14.6. The Registrar shall be liable for breach of its obligations arising from the law and agreement on keeping the Register, and it shall reimburse any damages caused, except when the breach did not occur because of the activities of Registrar.

#### **15. FEES AND EXPENSES PAID OUT OF THE FUND**

##### **15.1. Management fee**

- 15.1.1. The Management Company shall be paid a management fee on account of the Fund for managing the Fund (the duties of the Management Company are set forth in section 12 and in the IFA) (the "Management Fee"). The value added tax

(if applicable) shall be added to the Management Fee and paid on account of the Fund.

15.1.2. The Management Fee shall be calculated as follows:

- (a) The Management Fee shall be calculated quarterly based on the 3-month average market capitalisation of the Fund. After each quarter, the Management Fee shall be calculated on the first Banking Day of the following quarter (the "Fee Calculation Date"). Quarters shall mean 3-month periods that start on 1 January, 1 April, 1 July, and 1 October;
- (b) Average market capitalisation shall mean the average closing prices of all days in the previous 3 month period multiplied with the respective daily number of the Units outstanding on the marketplace(s) where Units are admitted to trading (the "Market Capitalisation");
- (c) The Management Fee shall be calculated based on the following rates and in the following tranches:
  - (i) 1.50% of the Market Capitalisation below EUR 50 million;
  - (ii) 1.25% of the part of the Market Capitalisation that is equal to or exceeds EUR 50 million and is below EUR 100 million;
  - (iii) 1.00% of the part of the Market Capitalisation that is equal to or exceeds EUR 100 million and is below EUR 200 million;
  - (iv) 0.75% of the part of the Market Capitalisation that is equal to or exceeds EUR 200 and is below EUR 300 million;
  - (v) 0.50% of the part of the Market Capitalisation that is equal to or exceeds EUR 300 million.
- (d) The Management Fee shall be calculated after each quarter as follows:
  - (i) the Market Capitalisation as calculated on the Fee Calculation Date, split into the tranches and each tranche of the Market Capitalisation ( $MCap_t$ ) multiplied by
  - (ii) respective fee rate ( $F_n$ ) applied to the respective tranche, then the aggregate of the fees from each tranches multiplied by
  - (iii) the quotient of the actual number of days in the respective quarter ( $Actual_q$ ) divided by 365 days per calendar year, as also indicated in the formula below

$$((MCap_1 \times F_1) + \dots + (MCap_5 \times F_5)) \times (Actual_q / 365)$$

- (e) 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. In this case, the NAV of the Fund means the average quarterly NAV of the Fund and such Management Fee adjustments shall be calculated and paid annually after the annual report of the Fund for the respective period(s) has been audited.
- (f) For periods during which the Units are not traded on any marketplace, the Management Fee shall be calculated and paid quarterly based on the average

NAVs over preceeding 3 months. Management Fee adjustments, if any, shall be made annually after the annual report of the Fund for the respective period(s) has been audited.

- 15.1.3. The Management Company shall be responsible for the calculation of the Management Fee.
- 15.1.4. The Management Fee calculated and accrued in accordance with section 15.1.2 above shall be paid to the Management Company quarterly within 5 Banking Days after the issue of the invoice by the Management Company.
- 15.1.5. The Management Fee shall be calculated and paid in Euros unless calculation or payment must be made in another currency under applicable mandatory law.

## 15.2. **Performance fee**

- 15.2.1. For each year, if the annual adjusted funds from operations of the Fund divided by the average paid in capital during the year (calculated on a monthly basis) 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"). The adjusted funds from operations shall mean 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.
- 15.2.2. The Performance Fee is calculated annually by the Management Company and is accrued to the Performance Fee reserve. Once the Performance Fee reserve becomes positive, the Performance Fee can be paid to the Management Company.
- 15.2.3. The Performance Fee for a year can be both positive and negative. However, the Performance Fee for the year shall not exceed 0.4% of the Fund's average NAV per year (upper Performance Fee limit). Negative Performance Fee shall not be less than -0.4% of the Fund's average NAV per year (lower Performance Fee limit).
- 15.2.4. A Performance Fee for the first year of the Fund (i.e. 2016) shall not be calculated.
- 15.2.5. The Performance Fee first becomes payable in the fifth year of the Fund (i.e. 2020) for the period of 2017, 2018, and 2019. After that, the Performance Fee shall be payable annually, depending on the accrued Performance Fee reserve over the period starting from the second year of the Fund (i.e. 2017).
- 15.2.6. The Performance Fee shall be paid to the Management Company within 8 calendar days after the issue of the invoice by the Management Company.
- 15.2.7. If the Performance Fee reserve becomes negative, the Management Company is not obliged to return any paid Performance Fee. However, the next Performance Fee becomes payable only after the Performance Fee reserve becomes positive.
- 15.2.8. The value added tax (if applicable) shall be added to the Performance Fee and paid on account of the Fund.

15.3. **Depository Fee**

- 15.3.1. The Depository shall be paid a depository fee for the provision of depository services (the “Depository Fee”). The annual Depository Fee is 0.03% of the GAV, but the Depository Fee shall not be less than EUR 10,000.00 per annum. The value added tax specified by law shall be added to the Depository Fee. The Depository Fee plus value added tax shall be paid on account of the Fund. An Investor can access the effective rate of the Depository Fee at the registered address of the Management Company.
- 15.3.2. In addition to the Depository Fee, the Depository shall be paid or reimbursed for fees and out-of-pocket expenses related to the transactions made on account of the Fund.
- 15.3.3. The Depository Fee shall be calculated monthly from the GAV and paid to the Depository on the basis of an invoice submitted by the Depository.

15.4. **Other Expenses**

- 15.4.1. The following other expenses are payable on account of the Fund for the functioning of the Fund:
- (a) fees for property management services;
  - (b) fees and costs related to the administration and maintenance of real estate properties belonging, directly or indirectly, to the Fund;
  - (c) costs (including interest costs) relating to borrowing by the Fund or SPV;
  - (d) costs for the valuation of real estate belonging, directly or indirectly, to the Fund (when related to the regular valuation pursuant to section 7);
  - (e) costs and expenses related to set-up, restructuring, and liquidation of the Fund, including fees of external consultants;
  - (f) the Registrar’s fees for registering Units and for other services provided by the Registrar to the Investors (when not payable directly by the Investors);
  - (g) remuneration payable to Supervisory Board members;
  - (h) costs related to convening and holding General Meetings;
  - (i) costs related to convening and holding Supervisory Board meetings;
  - (j) costs for translating regular Investor notifications and reports that are required under legislation or the Rules;
  - (k) costs for the Fund’s and SPVs’ tax planning/tax structuring and tax advice, unless related to a direct or indirect acquisition of real estate by the Fund;
  - (l) fees for the auditing of the annual reports of the Fund and SPVs;
  - (m) costs of accounting and preparing the quarterly, semi-annual, and annual reports of the Fund and SPVs, including tax statements and tax returns;
  - (n) tenant brokerage fees related to real estate belonging, directly or indirectly, to the Fund;
  - (o) insurance costs and property taxes related to real estate belonging, directly or indirectly, to the Fund;

- (p) fees for marketing services related to the Fund and real estate belonging, directly or indirectly, to the Fund, including expenses in relation to the marketing and distribution of the Fund;
- (q) costs and fees related to the listing of the Fund pursuant to section 1.5;
- (r) all other operational and financial expenses attributable to investments of the Fund, including but not limited to capital expenditures;
- (s) damages reimbursable in connection with the real estate investments of the Fund and with the management of such property;
- (t) other charges concerning the Fund and the SPVs associated with the sourcing, acquisition, managing, valuation (including by independent property appraisers), structuring, holding, and disposal of the investments, including costs and expenses related to the formation, maintenance, disposal and/or liquidation of SPVs, and costs and expenses related to contemplated but unconsummated investments (including in SPVs);
- (u) bank fees, commissions, fees associated with depositing or pledging securities, securities account management fees, state duties, advisory services, legal fees, adjudication fees, fees for address services, representation and publicity expenses, delivery of documents, translation, administration and management fees paid to persons not associated with the Management Company, provided that such costs are related to the activities of the Fund or SPVs;
- (v) salaries (to the extent employment is legally required) related to chief executive officers/directors of any SPV, as long as such salaries are set at the minimum required level;
- (w) the costs of reasonable directors' and officers' liability insurance on behalf of the members of the Supervisory Board and the members of the board of directors of the Fund's SPVs;
- (x) the costs incurred in connection with any litigation, arbitration, or other proceedings in relation to the Fund's assets, including any such proceedings in relation to assets held by SPVs;
- (y) all expenses related to entering and exiting investments (i.e. expenses related to the acquisition and disposal of real estate as well as shares of SPVs and other assets of the Fund as well as broken deal expenses), including, without limitation, state duties, notary fees, fees for real estate valuations by certified appraisers (when related to entering and exiting investments), fees for legal, tax, and other due diligence investigations directly related to the acquisition of real estate;
- (z) taxes to be added to costs provided in subsections 15.4.1(a) - 15.4.1(y) above.

15.4.2. For the purpose of clarity, the Fund covers also investment costs related to preserving the value of its real estate properties (including, without limitation, costs related to improvements and repair). Among others, such investment costs include construction costs, development costs and fees, brokerage fees, architects' fees, fees related to detail planning and other consultants' costs. Investment costs are not considered to be expenses, but rather as investments of the Fund.

- 15.5. For the purpose of clarification, fees and expenses that according to this section 15 are paid out of the Fund may also be directly paid out of the SPVs relative to which such fees or expenses have been incurred to the extent that is allowed under applicable legislation.
- 15.6. The fees (i.e. Management Fee, Performance Fee, and Depositary Fee) and other expenses paid out of the Fund (including out of SPVs) shall not exceed 30% of the NAV of the Fund per calendar year.

## **16. PUBLISHING INFORMATION**

- 16.1. The Management Company shall make available at the registered address of the Management Company and on the Website at least the following information and documents:
  - 16.1.1. the Rules;
  - 16.1.2. the three most recent annual reports of the Fund;
  - 16.1.3. details of the Management Company, the Fund Manager, the Depositary, the Registrar, the auditor of the Fund, and any other third party to whom the fund management or safekeeping functions have been delegated;
  - 16.1.4. the most recent prospectus of the public offer of Units;
  - 16.1.5. the NAV of the Fund and of a Unit;
  - 16.1.6. internal rules and procedures of the Management Company for the determination of the NAV;
  - 16.1.7. the rules for the valuation of real estate;
  - 16.1.8. the rules for handling conflicts of interest;
  - 16.1.9. a description of the Fund's liquidity risk management;
  - 16.1.10. information on the size of the holding by the Management Company in the Fund;
  - 16.1.11. marketplaces where Units are admitted to trading, and the latest closing price of a Unit on each marketplace;
  - 16.1.12. the most recent semi-annual report of the Fund if this was approved after the most recent annual report;
  - 16.1.13. the three most recent annual reports of the Management Company;
  - 16.1.14. other information required under the laws, regulations, or guidelines by any competent authority.
- 16.2. The Management Company shall publish information about the circumstances and events that materially affect the operation or financial status of the Fund, the assets of the Fund or the Management Company, or the formation of the NAV, or which are otherwise likely to have a significant effect on the Unit price via the Stock Exchange Release. Any such information shall be published immediately after the circumstances have come into existence or are expected to come into existence or the event has occurred or is expected to occur.

- 16.3. The annual report of the Fund and the annual report of the Management Company shall be made available within 4 months after the end of the financial year of the Fund or the Management Company, respectively, and the semi-annual and quarterly financial reports of the Fund shall be made available within 2 months from the end of the corresponding period on the Website and via the Stock Exchange Release.

## **17. LIQUIDATION OF THE FUND**

- 17.1. If Investors at the General Meeting decide to liquidate the Fund, the Management Company shall act as the liquidator.
- 17.2. To liquidate the Fund, the Management Company shall obtain the relevant approval from the FSA.
- 17.3. Upon obtaining approval for the liquidation of the Fund from the FSA, the Management Company shall without delay publish a notice regarding the liquidation of the Fund in at least one daily national (Estonian) newspaper, on the Website, and via the Stock Exchange Release, specifying in the notice the information required by law. From the day following the publication of the liquidation notice, no Units shall be issued or redeemed, trading in the Units shall be halted, and distributions to the Investors shall be suspended. Liquidation must be completed within a period of six months starting from the publication of the liquidation notice. The liquidation period may be extended with approval by the FSA if requested by the Management Company; however, as a result of the extension, the period of liquidation may not exceed 18 months.
- 17.4. Upon liquidation of the Fund, the Management Company shall transfer the assets of the Fund, collect the debts of the Fund, and satisfy the claims of the creditors of the Fund. Up to 2% of the NAV of the Fund, as of the day of adopting the liquidation decision, may be used to cover the expenses of liquidation of the Fund on account of the Fund. If the actual liquidation expenses exceed this amount, the Management Company or a third party operating as a liquidator shall be liable for the expenses exceeding that amount.
- 17.5. The Management Company shall distribute the assets remaining upon liquidation among the Investors in proportion to the number of Units owned by each Investor. Assets will be divided among Investors in cash unless otherwise authorised by the FSA.
- 17.6. The FSA may decide to liquidate of the Fund if within two months of the termination of the Management Company's right to manage the Fund (subject to provisions of the IFA), the General Meeting has not amended the Rules to appoint a new management company or decided to liquidate of the Fund. If the FSA decides to liquidate the Fund, the FSA shall appoint the liquidator and the limit on liquidation expenses set forth in section 17.4 shall not apply.

## **18. AMENDMENT OF THE RULES**

- 18.1. The Rules may be amended by a resolution at the General Meeting.
- 18.2. After the amended Rules have been registered with the FSA, the Management Company shall publish the amended text of the Rules on the Website, and publish respective notice in at least one of the daily national (Estonian) newspapers and via the Stock Exchange Release, and shall immediately thereafter inform the FSA of the date of publication of the amendments.

- 18.3. Amendments enter into force one month after the publication of the notice under section 18.2 above in at least one of the daily national (Estonian) newspapers, unless the notice prescribes a later date for entry into force. The amendments to the Rules may enter into force earlier than the one month period if so decided at the General Meeting and allowed by the law.

## **APPENDIX B**

**Reviewed Interim Condensed Consolidated Financial Statements of the Fund for the 6-Month Period  
Ended 30 June 2016**



# BALTIC HORIZON

## **Baltic Horizon Fund**

**Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2016**

## Baltic Horizon Fund

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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	Hobujaama 5 Tallinn 10151 Estonia
Phone	+372 6 743 200
Fund manager	Tarmo Karotam
Fund Supervisory Board	Raivo Vare (Chairman) Andris Kraujins Per Moller
Fund Supervisory Board remuneration	EUR 37,000 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 Garbuziene Milda Darguzaite
Depositary, Fund administrator and Registrar	Swedbank AS

**DEFINITIONS OF KEY TERMS AND ABBREVIATIONS**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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<b>AIFM</b>	Alternative Investment Fund Manager
<b>AFFO</b>	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.
<b>EPRA NAV</b>	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 REITs.
<b>Fund</b>	Baltic Horizon Fund
<b>IFRS</b>	International Financial Reporting Standards
<b>Management Company</b>	Northern Horizon Capital AS, register code 11025345, registered address at Hobujaama 5, Tallinn 10151, Estonia
<b>NAV</b>	Net asset value for the Fund
<b>NAV per unit</b>	NAV divided by the amount of units in the Fund at the moment of determination.
<b>NOI</b>	Net operating income
<b>Direct Property Yield</b>	NOI divided by acquisition value of a property
<b>Net Initial Yield</b>	NOI divided by market value of a property
<b>GAV</b>	Gross Asset Value of the Fund
<b>Triple Net Lease</b>	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.



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## Independent Auditors' Report on Review of Interim Financial Statements

To the shareholders of Baltic Horizon Fund

We have reviewed the accompanying condensed consolidated statement of financial position of Baltic Horizon Fund as at 30 June 2016, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 6 month period then ended, and notes to the interim financial statements ("the condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (Estonia). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2016 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

### Other matter

The corresponding information in the statements of profit or loss and other comprehensive income and cash flows as well as related notes to the condensed consolidated interim financial statements is prepared based on not reviewed financial information for the 6 months period ended 30 June 2015.

Tallinn, 4 November 2016



Eero Kaup  
Certified Public Accountant, Licence No 459  
KPMG Baltics OÜ  
Licence No 17

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## MANAGEMENT REVIEW

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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### GENERAL INFORMATION ABOUT THE FUND

Baltic Horizon Fund (further 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 Estonian Financial Supervision Authority.

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

Following a successful capital raising Baltic Horizon Fund merged with Baltic Opportunity Fund (further "BOF") on 30 June 2016. Baltic Horizon Fund is the remaining entity which took over 5 assets of BOF and its investor base. The raised proceeds will be allocated according to the investment strategy of the Fund and the acquisition pipeline that has been built throughout the process. The trading of Baltic Horizon Fund units on the Nasdaq Tallinn Stock Exchange began on 6 July 2016. In total approx. 42 million of fund units were listed on the exchange.

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

The Fund will focus on established cash flow generating properties with potential to add value through active management within retail, office and logistic 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 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 continuously diversify the risks geographically, across real estate segments, across tenants and debt providers.

### Structure and Governance

The Fund is a tax transparent and cost efficient vehicle. As from 1 July 2016, the management fee is linked to the market capitalisation of the tradable units (Up to 30 June 2016 the management fee was based on the NAV figure). It is also imbedded in the Fund Rules that the management fee will decrease from 1.5% to as low as 0.5% from the market capitalisation as the Fund's assets grow.

The Fund operates under the REIT concept where the vast majority of the Fund's cash earnings are paid 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 3 independent board members.

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

**MANAGEMENT REVIEW**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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The 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 a strong commitment, transparency and fair dealings. The investor's best interest is always considered in the Management Company to guard that the investor is treated fairly. The Management Board ensures that conflicts of interests between the related parties are avoided or are as small as possible. Business units are obliged to establish, maintain and document procedures to identify, prevent and manage conflicts of interest and to, when necessary issue supplementing instructions to the policies, instructions and guidelines issued by the Group.

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

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

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

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

The Fund's activities are monitored on a regular basis by the Estonian Financial Supervision Authority, the Investment Committee, and the Fund administrator and depository bank Swedbank.

**MANAGEMENT REPORT**

In March, BOF investors approved the listing and merging of BOF into the Baltic Horizon Fund conditional to a successful and sufficient capital raising. In Q2 the public offering started in Sweden and private placement in other jurisdictions. In total, investors participated in the Combined Offering subscribed for 22,709,723 Offer Units that corresponds approximately to EUR 30 million. In total, 16,962,475 New Units were issued, and together with the Sale Units, a total of 22,709,723 Offer Units were allocated to the investors in the Combined Offering. As a result, the net proceeds for the Fund to be invested in new properties will be approximately EUR 20.5 million. The cost of the IPO and capital raising was approx. 3.5% and was reflected in the NAV at the end of June.

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

On 26 July 2016, Baltic Horizon signed a binding agreement to acquire an office building from Bauplan Nord in Riga. Upmala Biroji is an office building built in 2008 by the German developer Bauplan Nord. The building is anchored by SEB and CABOT under medium- to long-term leases and the property is fully leased

**MANAGEMENT REVIEW**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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out. The net leasable area is over 10,500 sq. m.. The property is acquired at an approx. 7.25% yield based on the first full year. The closing of the transaction is expected to be finalized in Q3 2016.

**MACROECONOMIC FACTORS IN THE BALTIC STATES**

In Q1 the Baltic economies continued to grow at a steady pace. The annual GDP of Lithuania increased by 2.5%, the Latvian by 2.1% and the Estonian by 1.7%. All three economies are expected to grow in 2016 at a 2.7-2.8% rate according to SEB economists. Other key economic indicators are forecasted to remain stable (CPI, debt levels, budget deficits) or continue to improve (unemployment).

It is noted by Newsec that new offices coming to the market in the capitals are demanding slightly higher rents, including paid parking places and triple net leases. The trend of pre-lease has also returned for new developments and agreements are often signed 6–9 months in advance. Demand in the retail market is increasing since the majority of retailers have expansion in their plans. All of the largest shopping centres are attracting new ‘big brand’ tenants and improving their tenant mix by replacing small and medium local brands with internationally famous brands such as H&M, Next, Subway, Debenhams, Sports Direct, Pier 1 and others.

Commercial yields in Baltics remained stable at around 7.00-7.50% in office and retail segments. Vacancies are at the moment at record low levels (2-3%) and it is foreseen not to increase notably as the newly built premises and expansions will be absorbed by the new demand. Rent levels in most segments are also expected to somewhat increase in 2016 especially in new buildings.

In 2015, the Baltic real estate market was very active with record high transaction volumes reaching some EUR 1.3 billion. The Baltics saw several international investors entering the market such as Partners Group, Blackstone and others. The new Baltic Horizon Fund will also continue to look for attractive cash-flow investments to build and diversify the portfolio further.

**FINANCIAL REPORT*****Financial position of the Fund***

As at 30 June 2016 the GAV of the Fund increased to EUR 118.3 million (EUR 89.7 million as at 31 December 2015).

As of 30 June 2016, the Fund NAV was EUR 53.5 million, compared to EUR 31.7 million as at 31 December 2015. The increase in NAV is mainly related to the new issue of units (EUR 21.0 million) and the performance of the Fund (net result EUR 872 thousand during the first half of 2016).

During the first half of 2016, the Fund recorded a net profit of EUR 872 thousand (EUR 1,232 thousand during the first half of 2015) which had a positive effect on the Fund NAV. The result was negatively affected by the IPO related costs. During H1 2016, the Fund accrued EUR 500 thousand of IPO related expenses that are to be settled to the Management Company.

In H1 2016, the net rental operating income (NOI) earned by the Group amounted to EUR 2,915 thousand (EUR 2,369 thousand during H1 2015). Compared to 2015, the increase in NOI is mainly related to full income earned from Europa Shopping Centre after its acquisition in March 2015.

**MANAGEMENT REVIEW**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

The Fund also calculates EPRA NAV, which was EUR 59 million as at 30 June 2016. EPRA NAV is calculated according to EPRA Best practice recommendations that were issued in December 2014. EPRA NAV is calculated adjusting IFRS NAV for the items summarised in the table below:

**Table 1: Adjustments for recalculating NAV to EPRA NAV**

<i>Euro '000</i>	<b>30.06.2016</b>
<b>IFRS NAV as of 30 June 2016</b>	<b>53,504</b>
Deferred tax liability resulting from the assessment of fair value of properties	5,244
Reversal of fair value of financial instruments	261
Elimination of deferred tax asset resulting from the assessment of fair value of financial instruments	(39)
<b>EPRA NAV*</b>	<b>58,970</b>
Amount of units	41,979,150
<b>EPRA NAV per unit</b>	<b>1.4047</b>

\* 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**

Going forward, the management team expects the most resilient occupancies and potential for rental and value growth to lie in the Baltic retail sector. This is supported by the expectations that the Baltic economic growth is largely being driven by domestic consumption. Especially resilient cash flows are expected to result from established neighbourhood shopping centres in the capital cities.

With the absence of traditional high streets in the Baltic capitals, the shopping is concentrated to shopping centres. The established centres in the market have all been focusing on growing further through expansions while only a few new stand-alone centres are being planned in Tallinn and Riga. Retail rent levels for all tenant sizes reached 2007 levels and are expected to continue increasing along with the positive outlooks of the economies. Vacancies remain between 1-3% in established centres. In addition to H&M, Debenhams, Subway, Sports Direct entering the market over the past years, more new retail companies are expected to look for ways to take advantage of the growing spending power of the Baltic people.

In the Baltic retail sector in H1 2016, rents for small spaces increased and were in the range of EUR 21-60 sq. m. per month. Average retail rents were EUR 13-22 sq. m for 150-350 sq. m. spaces in the Baltic capitals while anchor tenants mostly paid EUR 6-11 sq. m. Rent rates for medium and larger retail units are forecasted to be rather stable. The average rent range of retail assets in the Fund's portfolio was EUR 9.3-13 per sq. m. per month, therefore well in line with average market brackets.

In the office segment, Vilnius is leading the way in terms of growth of new space and construction of new modern office buildings. The trend of pre-lease is also coming back to Vilnius with agreements often signed 6-9 months in advance. There will be more than 100,000 sq. m. of new office space added within the next 2 years in Vilnius, much of it pre-leased and in the city centre. Moderate growth in prime rents continued in Riga during 2015 as a result of shortage of new developments and low vacancies in prime locations. Tallinn office market has gotten over its state of deficit and is gradually moving towards the tenants' market.

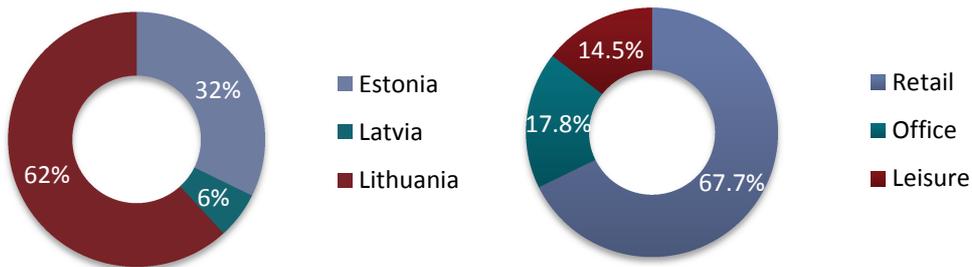
Capital city office rents were EUR 12.5-17.4 EUR per sq. m. per month for class A premises and EUR 8.0-13.0 sq. m. for modern class B class offices. For comparison, the average rental level in Lincona was EUR 10.3 sq. m, therefore also well in line with average market brackets.

**MANAGEMENT REVIEW**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

The Baltic property yields in both office and retail segments have decreased during the past year by approx. 50 bp to 7 – 8% depending on the exact micro location, age, rent level and history of the property. The Baltic States continue to maintain a yield value gap of 200-300 bp compared to Western European and the Nordic countries.

**Picture 1: Fund segment and country distribution**



***Property performance***

During the first half of 2016, the average occupancy of the portfolio was 96.2% and average Direct Property Yield 7.1%. The level of the property operating costs was stable throughout the whole period.

Lincona

The average occupancy level of the property remained high at 95.3% at the end of this reporting period. Net yield was at 8% and with no debts the tenant payment discipline was very good. In the coming quarters, the management team continues to maintain the attractiveness of the property by upgrading its façade and main entrance in order to obtain its maximum occupancy.

Domus PRO

The construction of Domus Pro II stage was finalized in May and the last tenant of stage II (Fitus gym) opened their doors after the final fit-out was completed. The manager is currently working on pre-leases of the third development stage of the site, which shall add some 4,380 sq. m. of office and retail space to the complex. At the end of the reporting period, 47% of stage three has already been pre-leased.

The plan is to build a mixed use building of 4,380 sq. m. of net leasable area on 6 floors (ground floor for retail) with an additional 2 floors of underground parking. The aim is to start construction in September 2016 at the latest after the required level of pre-leases has been achieved and complete the building within 12 months by Q3 2017.

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

SKY supermarket

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

During the year, the management team has developed a new architectural project to modernize the façade of the building in cooperation with the main tenant SKY. Total investment EUR 170 thousand. Further investments are planned by SKY supermarket within their premises.

**MANAGEMENT REVIEW**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Coca-Cola Plaza

In Coca-Cola Plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. In addition, the team has continued to test the feasibility of the vision to expand the property and connect to the neighbouring shopping centre. With further support from the neighbours, the tenants and the city of Tallinn, the management team will undertake an architectural competition to find the best and most economical solution for all stakeholders within the course of the coming year.

In H1 2016 Coca Cola Plaza bank loan was refinanced with the same Pohjola bank for a 3-year period at slightly better commercial terms than previously. That increased the weighted loan portfolio maturity by 2 years.

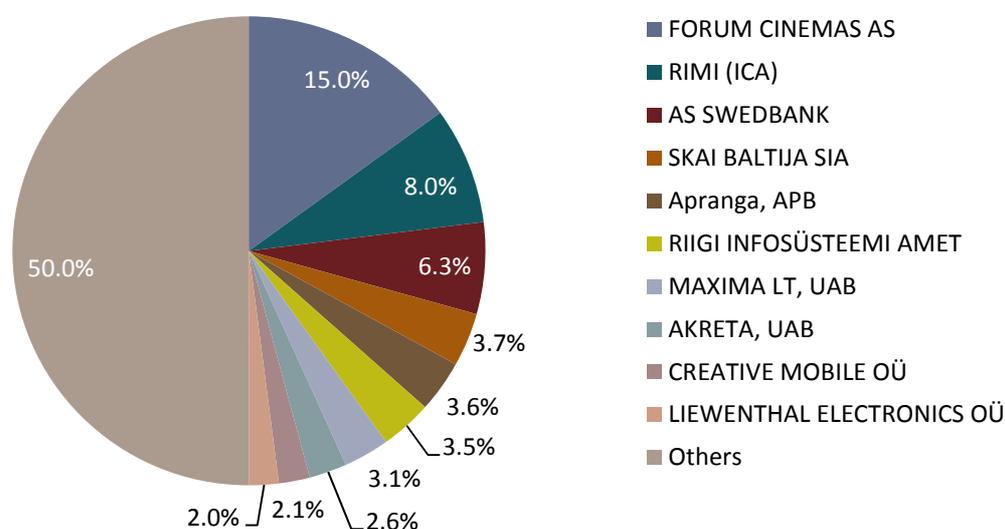
Europa Shopping Centre

After taking over Europa Shopping Centre, the management team has set goals to actively increase the foot flow and tenant quality of the centre. Located in the heart of Vilnius central business district the shopping centre caters to the higher end of the market with a focus on having an A-class mix of fashion tenants. In the immediate neighbourhood there are a number of new office buildings being built which is expected to contribute to the success of the centre in the long term. The largest office complex Quadrum opened its first stage of 24 000 sq. m. in Q2 2016 and positive signs in Europa SC footfall have already been noted.

By successfully managing tenant movements and marketing efforts for the centre, management was able to achieve strong property level results. NOI of EUR 1.13 million is 6.5% higher than budgeted for H1 2016. Furthermore, in H1 2016 the footfall increased by 23% and turnover for all tenants by 17.2% compared to H1 in 2015. The average occupancy during H1 2016 was 93.4%. The vacancy is expected to be filled within 3-6 months with strategic new tenants with whom negotiations are ongoing. New lease agreements have also been signed with PJazz and Cili Pizza to enhance the lunch/dinner service offering in the centre.

During H1 2016, 50.0% of the total gross rental income was generated by the ten largest tenants of the real estate portfolio, with Forum Cinemas AS making up 15.0% of the revenue as a single tenant of the Coca-Cola Plaza property in Tallinn, Estonia. Compared to H1 2015, 56.3% of the Fund's total gross rental income was generated by the ten largest tenants of the real estate portfolio. As further discussed in the risk management section, credit risk is mitigated by the high quality of the existing tenant base.

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



## MANAGEMENT REVIEW

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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### RISK MANAGEMENT

The risk management function of the Fund is the responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying the Fund's market risk portfolio, preparing proposals regarding market risk limits, monitoring the limit utilization and producing overall risk analyses of 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 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 the retail market in Riga, Tallinn, and Vilnius through its indirect investments in investment property (through subsidiaries).

Investment yields in the Baltic states remain stable at around 7.0% and 7.5% in the office and retail segments, depending on property type and location. Rent levels in most segments are also expected to somewhat increase in 2016 especially in new buildings.

##### Interest rate risk

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

##### Credit risk

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

##### Liquidity risk

Liquidity risk means the risk of failure to liquidate open positions, to realise assets by the due time at the prescribed fair price or to refinance loan obligations.

Many of the investments will be highly illiquid and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicity, downturns in demand, market disruptions and the lack of available capital for potential purchasers and are therefore often difficult or time consuming to liquidate. The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

## MANAGEMENT REVIEW

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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In order to minimise liquidity risk, a part of the real estate fund assets may be invested in deposits of credit institutions, in short-term debt securities and in other securities with a high level of liquidity. Also, derivative instruments may be used to reduce liquidity risk.

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

### Operational risk

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

### **OUTLOOK FOR 2016**

After completing two new acquisitions with the IPO proceeds during Q3, the portfolio of Baltic Horizon Fund is expected to increase to 7 properties located in the Baltic capitals with a gross asset value above EUR 125 million. The management team will consider in the coming months the possibility to pay out the first dividend from the net rental proceeds of the portfolio in order to demonstrate the Fund's capability to start making regular dividend distributions to investors.

Moreover, in the case where attractive investment opportunities in the Baltic capitals remain available, the Management Company may seek for new capital to take advantage of such opportunities in a secondary public offering. The management team continues to search for highly bankable cash flow-producing investment opportunities where the dividend potential is comparable with the remainder of the properties in the portfolio.

Active risk management vis-à-vis properly diversifying the Fund's portfolio across new tenants and financing banks will continue on a regular basis.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

<i>Euro '000</i>	Note	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015
Rental income		3,276	2,704
Expenses reimbursement revenue		1,193	885
Cost of rental activities	4	(1,554)	(1,220)
<b>Net rental income</b>	<b>3</b>	<b>2,915</b>	<b>2,369</b>
Administrative expenses	5	(980)	(435)
Other operating income / (expenses)		78	-
Net loss on disposal of investment property	9	-	(10)
Valuation gains / (loss) on investment properties	3, 9	(441)	-
<b>Operating profit</b>		<b>1,572</b>	<b>1,924</b>
Financial income		8	10
Financial expenses	6	(533)	(533)
<b>Net financing costs</b>		<b>(525)</b>	<b>(523)</b>
<b>Profit before tax</b>		<b>1,047</b>	<b>1,401</b>
Income tax charge	3, 8	(175)	(169)
<b>Profit for the period</b>	<b>3</b>	<b>872</b>	<b>1,232</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net gains (losses) on cash flow hedges	12b	(29)	93
Income tax relating to net gains (losses) on cash flow hedges	12b, 8	6	(3)
<b>Other comprehensive income/ (expense), net of tax, to be reclassified to profit or loss in subsequent periods</b>		<b>(23)</b>	<b>90</b>
<b>Total comprehensive income/ (expense) for the period, net of tax</b>		<b>849</b>	<b>1,322</b>
<b>Basic and diluted earnings per unit (Euro)</b>	<b>7</b>	<b>0.03</b>	<b>5.27</b>

The accompanying notes on pages from B-18 to B-36 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

<i>Euro '000</i>	Note	30.06.2016	31.12.2015
<b>Non-current assets</b>			
Investment properties	3, 9	87,238	86,810
Other non-current assets		280	263
<b>Total non-current assets</b>		<b>87,518</b>	<b>87,073</b>
<b>Current assets</b>			
Trade and other receivables	10	724	840
Prepayments		98	81
Subscriptions receivable	12a	28,483	-
Cash and cash equivalents	11	1,460	1,677
<b>Total current assets</b>		<b>30,765</b>	<b>2,598</b>
<b>Total assets</b>	3	<b>118,283</b>	<b>89,671</b>
<b>Equity</b>			
Share capital	12a	46,636	25,674
Cash flow hedge reserve	12b	(222)	(199)
Retained earnings		7,090	6,218
<b>Total equity</b>		<b>53,504</b>	<b>31,693</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	13	41,557	39,586
Deferred tax liabilities		3,811	3,673
Derivative financial instruments	18	260	215
Other non-current liabilities		494	451
<b>Total non-current liabilities</b>		<b>46,122</b>	<b>43,925</b>
<b>Current liabilities</b>			
Redemption of units payable	12a	7,521	-
Interest bearing loans and borrowings	13	9,140	11,608
Trade and other payables	14	1,597	2,036
Income tax payable		168	112
Derivative financial instruments	18	1	17
Other current liabilities		230	280
<b>Total current liabilities</b>		<b>18,657</b>	<b>14,053</b>
<b>Total liabilities</b>	3	<b>64,779</b>	<b>57,978</b>
<b>Total equity and liabilities</b>		<b>118,283</b>	<b>89,671</b>

The accompanying notes on pages from B-18 to B-36 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

<i>Euro '000</i>	Notes	Share capital	Cash flow hedge reserve	Retained earnings	Total equity
<b>As at 1 January 2015</b>		<b>22,051</b>	-	<b>2,263</b>	<b>24,314</b>
Net profit for the year		-	-	1,232	<b>1,232</b>
Other comprehensive income / (expense)		-	90	-	<b>90</b>
<b>Total comprehensive income / (expense)</b>		-	<b>90</b>	<b>1,232</b>	<b>1,322</b>
Units issued	12a	2,660	-	-	<b>2,660</b>
Cash flow hedge reserve in acquired subsidiaries	12b	-	(194)	194	-
<b>As at 30 June 2015</b>		<b>24,711</b>	<b>(104)</b>	<b>3,689</b>	<b>28,296</b>
<b>As at 1 January 2016</b>		<b>25,674</b>	<b>(199)</b>	<b>6,218</b>	<b>31,693</b>
Net profit for the period		-	-	872	<b>872</b>
Other comprehensive income / (expense)		-	(23)	-	<b>(23)</b>
<b>Total comprehensive income / (expense)</b>		-	<b>(23)</b>	<b>872</b>	<b>849</b>
Units issued/redeemed	12a	20,962	-	-	<b>20,962</b>
<b>As at 30 June 2016</b>		<b>46,636</b>	<b>(222)</b>	<b>7,090</b>	<b>53,504</b>

The accompanying notes on pages from B-18 to B-36 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

<i>Euro '000</i>	Note	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015
<b>Cash flows from core activities</b>			
<b>Profit (loss) before tax</b>		<b>1,047</b>	<b>1,401</b>
Adjustments for non-cash items:			
Value adjustment of investment properties	9	441	-
(Gain)/loss on property disposal	9	-	10
Value adjustment of derivative finance instruments		6	(2)
Financial income		(8)	(10)
Financial expenses	6	533	533
Working capital adjustments:			
Decrease/(Increase) in trade and other accounts receivable		140	60
(Increase)/decrease in other current assets		(40)	(60)
(Decrease)/Increase in other non-current liabilities		43	20
Increase/(Decrease) in trade and other accounts payable		247	(24)
(Decrease)/increase in other current liabilities		43	210
Refunded/(paid) income tax		(45)	(16)
<b>Total cash flows from core activities</b>		<b>2,407</b>	<b>2,122</b>
<b>Cash flows from investing activities</b>			
Interest received		8	6
Acquisition of subsidiaries, net of cash acquired		-	(6,324)
Disposal of investment properties	9	-	990
Capital expenditure on investment properties		(1,623)	(805)
<b>Total cash flows from investing activities</b>		<b>(1,615)</b>	<b>(6,133)</b>
<b>Cash flows from financial activities</b>			
Proceeds from bank loans		445	2,539
Repayment of bank loans		(954)	(315)
Proceeds from issue of units	12	-	2,660
Interest paid		(500)	(500)
<b>Total cash flows from financing activities</b>		<b>(1,009)</b>	<b>4,384</b>
<b>Net change in cash and cash equivalents</b>		<b>(217)</b>	<b>373</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,677</b>	<b>1,293</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>1,460</b>	<b>1,666</b>

The accompanying notes on pages from B-18 to B-36 are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**ACCOUNTING POLICIES**

**1. Corporate information**

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

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

The Fund's registered office is at Hobujaama 5, Tallinn, Estonia.

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

Name	30.06.2016	31.12.2015
BOF Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BOF CC Plaza OÜ	100%	100%
BOF Domus Pro UAB	100%	100%
BOF Europa Holding UAB	100%	100%
BOF Europa UAB	100%	100%

**Basis of preparation**

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

**Going concern assessment**

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

**2. Significant accounting judgments, estimates and assumptions**

The preparation of the Group's interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the reported item affected in the future. The assumptions and judgements applied in these interim financial statement are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2015.

**Significant accounting policies**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**New standards, amendments and interpretations not yet effective**

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

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

*IFRS 11: Accounting for Acquisitions of Interests in Joint Operations*

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

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

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

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

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

*IAS 19 – Defined Benefit Plans: Employee Contributions*

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

*IAS 27 – Separate Financial Statements*

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

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

*IFRS 9 Financial Instruments (2014)*

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

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

*IFRS 15 Revenue from contracts with customers*

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

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

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

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

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

*IFRS 16 "Leases"*

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

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

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

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

**Fair value measurements**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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

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

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

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

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

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

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

On 30 June 2016 Baltic Horizon Fund was merged with Baltic Opportunity Fund by issuing 100 units in exchange for each unit in Baltic Opportunity Fund (ratio 1:100). During the public offering 41,979,150 units were listed on 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 remaining amount of EUR 8.7 million was used to redeem the units for investors who decided to exit the Fund (EUR 7.5 million) and to pay off subscription fees (EUR 1.2 million).

The merger is treated as a group restructuring under common control. During the merger of Baltic Horizon Fund and Baltic Opportunity Fund, the assets and liabilities of the involved parties were shown based on the Baltic Opportunity Fund's book values. As a result of this merger, no goodwill was created. At the time of the merger, the Fund had no assets and liabilities of its own. Thus, historical financial and operational performance of Baltic Opportunity Fund prior to the merger is directly comparable the Fund's performance after the merger. In these interim consolidated financial statements for the 6-month period ended 30 June 2016, Baltic Opportunity Fund's financial results prior to the merger are presented as those of the Fund.

**3. Operating segments**

The Group's reportable segments are as follows:

- Retail segment – includes Europa Shopping Centre, Domus Pro Retail Park (Lithuania), and SKY Supermarket (Latvia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia) investment property.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment property.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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 of assessing performance. Segment performance is evaluated based on net rental income.

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

Operating segments – 30 June 2016

'000 Euro	Retail	Office	Leisure	Total
<b>01.01.2016 – 30.06.2016:</b>				
External revenue <sup>1</sup>	3,184	794	491	4,469
<b>Segment net rental income</b>	<b>1,824</b>	<b>607</b>	<b>484</b>	<b>2,915</b>
Net gains or losses from fair value adjustment	(441)	-	-	(441)
Interest expenses	(468)	(168)	(160)	(796)
Income tax expenses	(175)	-	-	(175)
<b>Segment net profit / (loss)</b>	<b>900</b>	<b>525</b>	<b>379</b>	<b>1,804</b>
<b>As at 30.06.2016:</b>				
<b>Segment assets</b>	<b>61,155</b>	<b>15,714</b>	<b>12,745</b>	<b>89,614</b>
Investment properties	59,097	15,491	12,650	87,238
<b>Segment liabilities</b>	<b>40,514</b>	<b>8,697</b>	<b>7,197</b>	<b>56,408</b>

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

Operating segments – 30 June 2015

'000 Euro	Retail	Office	Leisure	Total
<b>01.01.2015 – 30.06.2015:</b>				
External revenue <sup>1</sup>	2,307	796	486	3,589
<b>Segment net rental income</b>	<b>1,316</b>	<b>573</b>	<b>480</b>	<b>2,369</b>
Net gains or losses from fair value adjustment	-	-	-	-
Interest expenses	(385)	(278)	(203)	(866)
Income tax expenses	(169)	-	-	(169)
<b>Segment net profit</b>	<b>836</b>	<b>260</b>	<b>271</b>	<b>1,367</b>
<b>As at 31.12.2015:</b>				
<b>Segment assets</b>	<b>61,077</b>	<b>15,611</b>	<b>12,759</b>	<b>89,449</b>
Investment properties	58,700	15,460	12,650	86,810
<b>Segment liabilities</b>	<b>41,480</b>	<b>8,870</b>	<b>7,353</b>	<b>57,703</b>

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

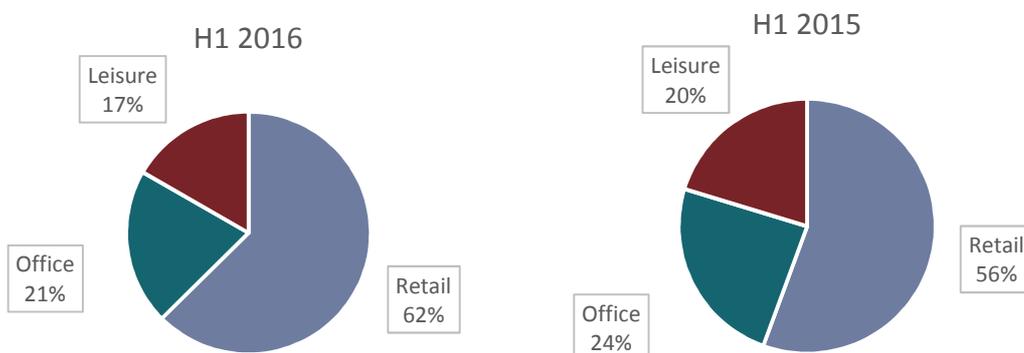


Baltic Horizon Fund

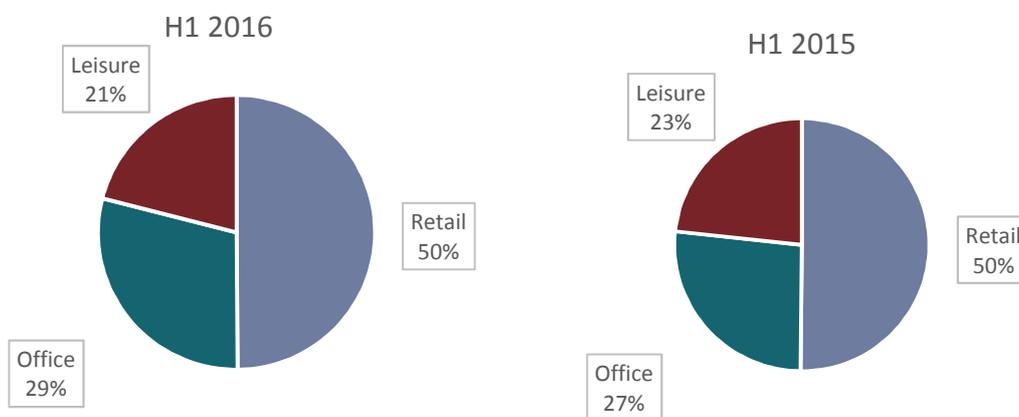
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

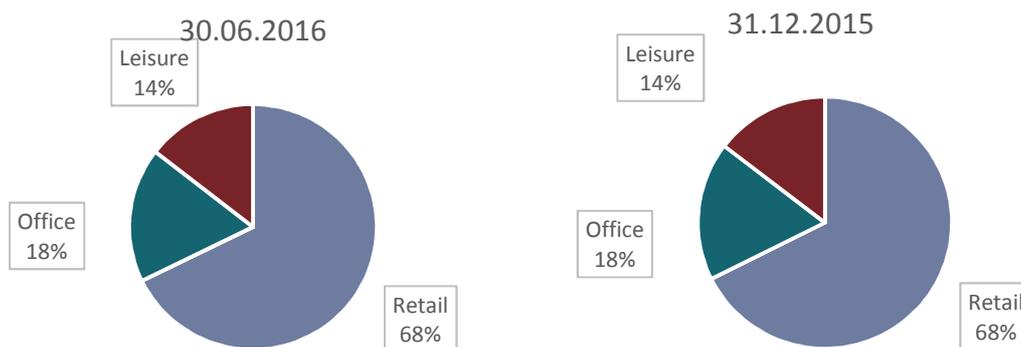
Segment net rental income\*



Segment net profit (loss)\*



Investment properties\*



\*As a percentage of the total for all reportable segments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Reconciliation of information on reportable segments to Consolidated measures

Operating segments – 30 June 2016

'000 Euro	Total Reportable Segments	Adjustments	Consolidated
<b>01.01.2016 – 30.06.2016:</b>			
Interest expenses	(796)	269 <sup>1</sup>	(527)
<b>Net profit / (loss)</b>	<b>1,804</b>	<b>(932)<sup>2</sup></b>	<b>872</b>
<b>As at 30.06.2016:</b>			
<b>Segment assets</b>	<b>89,614</b>	<b>21,148<sup>3</sup></b>	<b>110,762</b>
<b>Segment liabilities</b>	<b>56,408</b>	<b>851<sup>4</sup></b>	<b>57,259</b>

1. Eliminated intercompany financing transactions between Group entities.
2. Segment net profit does not include accrual for IPO related expenses (EUR 500 thousand), Fund management fee expense (EUR 305 thousand), performance fee accrual (EUR 81 thousand), fund custodian fee (EUR 9 thousand) and other Fund-level administrative expenses (EUR 37 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 186 thousand) and IPO proceeds receivable (EUR 20,962 thousand).
4. Segment liabilities do not include accrual for IPO costs (EUR 500 thousand), management fee payable (EUR 154 thousand), performance fee accrual (EUR 160 thousand) and other short-term payables (EUR 37 thousand) at Fund level.

Operating segments – 31 December 2015

'000 Euro	Total reportable segments	Adjustments	Consolidated
<b>01.01.2015 – 30.06.2015:</b>			
Interest expenses	(866)	351 <sup>1</sup>	(515)
<b>Net profit (loss)</b>	<b>1,541</b>	<b>(309)<sup>2</sup></b>	<b>1,232</b>
<b>As at 31.12.2015:</b>			
<b>Segment assets</b>	<b>89,447</b>	<b>261<sup>3</sup></b>	<b>89,708</b>
<b>Segment liabilities</b>	<b>57,703</b>	<b>313<sup>4</sup></b>	<b>58,015</b>

1. Eliminated intercompany transactions between Group entities.
2. Segment net profit does not include Fund management fee expense (EUR 250 thousand), fund custodian fee (EUR 7 thousand) and other administrative expenses (EUR 52 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 261 thousand).
4. Segment liabilities do not include management fee payable (EUR 214 thousand), performance fee accrual (EUR 80 thousand) and other short term payables (EUR 19 thousand) at Fund level.

Geographic information

Segment net rental income

'000 Euro	External revenue		Investment property value	
	01.01.2016-30.06.2016	01.01.2015-30.06.2015	30.06.2016	31.12.2015
Lithuania	2,774	1,905	53,932	53,550
Latvia	410	402	5,165	5,150
Estonia	1,285	1,282	28,141	28,110
<b>Total</b>	<b>4,469</b>	<b>3,589</b>	<b>87,238</b>	<b>86,810</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**Major tenant**

In H1 2016, rental income from one tenant in leisure segment represented EUR 491 thousand of the Group's total rental income (EUR 486 thousand in H1 2015).

**4. Cost of rental activities**

'000 Euro	01.01.2016 - 30.06.2016	01.01.2015 - 30.06.2015
Utilities	695	574
Repair and maintenance	412	248
Property management expenses	188	163
Real estate taxes	125	92
Sales and marketing expenses	99	108
Property insurance	13	12
Other	22	23
<b>Total cost of rental activities</b>	<b>1,554</b>	<b>1,220</b>

During H1 2016, EUR 1,193 thousand (EUR 885 thousand during H1 2015) of the total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants.

**5. Administrative expenses**

'000 Euro	01.01.2016 - 30.06.2016	01.01.2015 - 30.06.2015
IPO related expenses	500	-
Management fee	305	250
Performance fee	81	-
Legal fees	22	107
Audit fee	20	18
Property valuation fee	4	19
Custodian fees	8	7
Other consultancy fees	28	29
Other administrative expenses	12	5
<b>Total administrative expenses</b>	<b>980</b>	<b>435</b>

Up to 30 June 2016, the Management Company (Note 16) 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).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**6. Financial expenses**

'000 Euro	01.01.2016 - 30.06.2016	01.01.2015 - 30.06.2015
Interest on bank loans	527	515
Foreign currency exchange loss	-	4
Loan arrangement fee amortisation	6	14
<b>Total financial expenses</b>	<b>533</b>	<b>533</b>

**7. Earnings per unit**

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

Profit attributable to unit holders of the Fund:

'000 Euro	01.01.2016 - 30.06.2016	01.01.2015 - 30.06.2015
Profit for the period, attributed to the unit holders of the Fund	872	1,232
<b>Profit for the period, attributed to the unit holders of the Fund</b>	<b>872</b>	<b>1,232</b>

Weighted-average number of units:

	Note	30.06.2016	30.06.2015
Issued units at 1 January		250,167	217,197
Effect of units issued in February 2015		-	16,668
Effect of conversion from BOF to Baltic Horizon Fund		24,766,533	-
Effect of units issued in June 2016*	12a	-	-
<b>Weighted-average number of units issued</b>		<b>25,016,700</b>	<b>233,865</b>

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

Basic and diluted earnings per unit

	30.06.2016	30.06.2015
Basic and diluted earnings per unit*	<b>0.03</b>	<b>5.27</b>

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

**8. Income tax**

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where real estate is situated. The Fund's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income. The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2016 was 17% (six months ended 30 June 2015: 12%). The change in effective tax rate was caused mainly by the deferred tax accumulation in BOF Europa Holding UAB for the full six months period (BOF Europa Holding UAB was acquired together with the Europa property on 2 March 2015).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

The major components of income tax for the periods ended 30 June 2016 and 30 June 2015 are:

'000 Euro	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015
<b>Consolidated statement of profit or loss</b>		
Current income tax for the period	(19)	(29)
Deferred tax for the period (Note 12b)	(156)	(140)
<b>Income tax expense reported in profit or loss</b>	<b>(175)</b>	<b>(169)</b>
<b>Consolidated statement of other comprehensive income</b>		
Deferred income tax related to items charged or credited to equity:		
Revaluation of derivative instruments to fair value	6	(3)
<b>Income tax expense reported in other comprehensive income</b>	<b>6</b>	<b>(3)</b>

9. Investment property

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

'000 Euro	30.06.2016	31.12.2015
<b>Balance at 1 January</b>	<b>86,810</b>	-
Investment property acquired in business combination	-	81,957
Additions (subsequent expenditure)	869	2,967
Disposals	-	(1,000)
Net revaluation gain / (loss)	(441)	2,886
<b>Closing balance</b>	<b>87,238</b>	<b>86,810</b>

No external property valuations were performed as at 30 June 2016. The revaluation loss of EUR 441 thousand for H1 2016 is related to Domus Pro Retail Park after stage II of the property was completed and the final price was paid to the property developer TK Development. The management has assessed the fair values of investment properties as at 30 June 2016 and 30 June 2015 using the same key assumptions as at 31 December 2015 and concluded that the fair values of investment properties do not differ significantly from those as at 31 December 2015.

The carrying book values of investment properties as at 30 June 2016 were as follows:

'000 Euro	Total
Lithuania – Europa (retail)	37,329
Lithuania – Domus Pro (retail)	16,603
Latvia – SKY (retail)	5,165
Estonia – Lincona (office)	15,491
Estonia – Coca-Cola Plaza (leisure)	12,650
<b>Total</b>	<b>87,238</b>

During H1 2016, the Group did not acquire or sell investment property.

The acquisitions after 30 June 2016 were as follows:

Acquisition of G4S Headquarters

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Acquisition of Upmalas Biroji

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

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

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

'000 Euro	Fair value recognized on acquisition
Investment property	23,576
Deferred tax asset	33
Trade and other receivables	103
Cash and cash equivalents	230
<b>Total assets</b>	<b>23,942</b>
Interest bearing loans and borrowings	14,539
Trade and other payable	487
<b>Total liabilities</b>	<b>15,026</b>
<b>Net assets</b>	<b>8,916</b>
<b>Total consideration</b>	<b>8,916</b>

**10. Trade and other receivables**

'000 Euro	30.06.2016	31.12.2015
Trade receivables, gross	499	570
Less impairment allowance for doubtful receivables	(22)	(22)
Accrued income	106	174
Other accounts receivable	141	118
<b>Total</b>	<b>724</b>	<b>840</b>

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

As at 31 December 2015, trade receivables at nominal value of EUR 22 thousand were impaired and fully provisioned.



## Baltic Horizon Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Movements in the impairment allowance for receivables were as follows:

'000 Euro	30.06.2016	31.12.2015
Balance at 1 January	(22)	-
Charge for the period	-	(22)
<b>Balance at end of period</b>	<b>(22)</b>	<b>(22)</b>

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

'000 Euro	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
30.06.2016	<b>477</b>	227	62	18	11	9	150
31.12.2015	<b>548</b>	241	93	29	24	6	155

### 11. Cash and cash equivalents

'000 Euro	30.06.2016	31.12.2015
Cash at banks and on hand	1,460	1,677
<b>Total cash</b>	<b>1,460</b>	<b>1,677</b>

As at 30 June 2016, the Group had to keep at least EUR 400 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

### 12. Equity

#### 12a. Share capital

New units were offered through public offering from 8 June 2016 until 29 June 2016. During the public offering 41,979,150 units were listed on 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 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 Fund received the cash raised during the public offering on 5 July 2016. Therefore, a receivable of EUR 21 million was recorded as of 30 June 2016. As at 30 June 2016, the share capital of Baltic Horizon Fund is represented by 41,979,150 units (as at 31 December 2015: 250,167).

Units issued are presented in the table below:

'000 Euro	Number of units	Amount
<b>As at 1 January 2016</b>	<b>250,167</b>	<b>25,674</b>
Effect of conversion from BOF to Baltic Horizon Fund*	24,766,508	-
Units issued in June 2016**	22,709,723	28,483
Units redeemed in June 2016	(5,747,248)	(7,521)
<b>Total issued during the year</b>	<b>41,728,983</b>	<b>20,962</b>
<b>As at 30 June 2016</b>	<b>41,979,150</b>	<b>46,636</b>

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

\*\*net of subscription fees of EUR 1,235 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

Subsidiaries did not hold any units of the Fund as at 30 June 2016 and 31 December 2015. The Fund did not hold its own units as at 30 June 2016 and 31 December 2015.

**12b. Cash flow hedge valuation reserve**

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the period ended on 30 June 2016.

'000 Euro	30.06.2016	31.12.2015
<b>Balance at the beginning of the year</b>	<b>(199)</b>	-
Fair value of hedge acquired*	-	<b>(194)</b>
Movement in fair value of existing hedges	(29)	(23)
Movement in deferred income tax (Note 8)	6	18
<b>Net variation during the period</b>	<b>(23)</b>	<b>(5)</b>
<b>Balance at the end of the period</b>	<b>(222)</b>	<b>(199)</b>

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

**12c. Dividends**

The Fund did not pay dividends during H1 2016.

**13. Interest bearing loans and borrowings**

'000 Euro	Maturity	Effective interest rate	30.06.2016	31.12.2015
<b>Non-current borrowings</b>				
Bank 1	Dec 2017	1M EURIBOR + 1.45%	7,093	7,169
Bank 1	Dec 2017	3M EURIBOR + 3.00%	1,493	1,533
Bank 3	May 2018	3M EURIBOR + 2.50%	8,396	8,141
Bank 1	Mar 2018	3M EURIBOR + 1.50%	23,888	24,331
Bank 1	Aug 2021	3M EURIBOR + 1.75%	2,652	-
Less current portion			(1,965)	(1,588)
<b>Total non-current debt</b>			<b>41,557</b>	<b>39,586</b>
<b>Current borrowings</b>				
Bank 2	Mar 2019*	3M EURIBOR + 1.90%	7,175	-
Bank 1	Aug 2016	3M EURIBOR + 2.10%	-	2,708
Bank 2	Mar 2016	3M EURIBOR + 2.60%	-	7,312
Current portion of non-current borrowings			1,965	1,588
<b>Total current debt</b>			<b>9,140</b>	<b>11,608</b>
<b>Total</b>			<b>50,697</b>	<b>51,194</b>

\*The Group has a long-term bank loan which is subject to certain financial covenants. As at 30 June 2016, the Group has breached a DSCR covenant, however, subsequent to reporting period the bank revised DSCR calculation method and covenant breach based on initial DSCR calculation method was waived. . The loan breach would not have given the right to other banks to call back the other loans. The loan is shown as a current borrowing following the IFRS 7 standard which requires to show such loans under current liabilities. The covenant breach waiver is considered as a non-adjusting event and, therefore, the loan should be shown as current borrowings even though the breach is already remediated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**Loan securities**

For the borrowings received, the following pledges and securities were present as of 30 June 2016:

	<b>Mortgages of the property</b>	<b>Second rank mortgages for derivatives</b>	<b>Pledges of receivables</b>	<b>Pledges of bank accounts</b>	<b>Share pledge</b>
<b>Bank 1</b>	Lincona, SKY and Europa	Lincona, SKY and Europa	Lincona, SKY and Europa	BOF Europa UAB, SKY	
<b>Bank 2</b>	Coca-Cola Plaza	Coca-Cola Plaza	Coca-Cola Plaza	Coca-Cola Plaza	
<b>Bank 3</b>	Domus Pro	Domus Pro	Domus Pro		BOF Domus Pro UAB

**14. Trade and other payables**

<b>'000 Euro</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Trade payables	476	686
Accrued expenses	304	235
Accrued expenses related to Domus Pro stage II acquisition	-	745
Accrued financial expenses	14	17
Tax payables	110	120
Other payables	693	233
<b>Total trade and other payables</b>	<b>1,597</b>	<b>2,036</b>

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.

**15. Commitments and contingencies**

**15a. 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 Group's investment properties portfolio which include a clause allowing tenants to terminate the leasing arrangements by giving up to six-month notice are not considered as non-cancellable leases.

Lease payments receivable from 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.

<b>'000 Euro</b>	<b>30.06.2016</b>		<b>31.12.2015</b>	
	<b>Amount receivable</b>	<b>%</b>	<b>Amount receivable</b>	<b>%</b>
<b>Year of expiry or first break option</b>				
Within 1 year	5,221	20 %	5,179	19 %
Between 1 and 5 years	14,938	56 %	15,154	56 %
5 years and more	6,369	24 %	6,955	25 %
<b>Total</b>	<b>26,528</b>	<b>100 %</b>	<b>27,288</b>	<b>100 %</b>

**15b. Litigation**

As at 30 June 2016, there was no ongoing litigation, which could materially affect the consolidated financial position of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**15c Contingent liabilities**

On 1 December 2015, the Group entered into agreement with TK Development to increase the value of Domus Pro Retail Park by constructing and developing office and commercial building (stage III) on the land plot nearby the Domus Pro stage II. Construction of stage III may be commenced if at least 50% of gross letting area of office and retail building of stage III is preleased and at least 20% of gross letting area of office and retail building of stage III are under the head of terms and the building permitting of the stage III is obtained. In case the commencement conditions precedent was not met until 30 November 2016, the Group:

1. is released from any obligations of this agreement, however, if the commencement conditions precedent of stage III were not met due to the fault of the Group, it must cover the costs related to preparation for the development of stage III;
2. if the commencement conditions precedent of stage III were not met due to the fault of TK Development by 30 November 2016, the Group should initiate separation of the part of the land plot related to stage III. Once the land plot is legally formed and registered, the Group shall sell the land plot in land SPA to TK Development for the price equal to the market price. The Group shall also pay to TK Development remuneration for development services delivered until the date of concluding land separation;
3. In case the land is not separated until 31 May 2017 and/or the land SPA is not signed until 31 July 2017 due to the fault of the Group, the Group shall pay to TK Development the amount of EUR 1,000 thousand.

The Group did not have any other contingent liabilities at the end of 30 June 2016.

**16. Related parties**

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

Northern Horizon Capital AS

As set out in Baltic Horizon Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund pays management fees for it (Note 5).

TK Development Lietuva UAB

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

The following table provides the total amount of the transactions and balances at period-end, which have been entered into with related parties for the relevant reporting period:

	<b>2016</b>	<b>2015</b>
<b>Northern Horizon Capital AS group</b>		
<i>Transactions:</i>		
Management fees	(305)	(250)
Performance fees	(81)	-
<i>Balances:</i>		
Payables	315	294
<b>UAB TK Development Lietuva</b>		
<i>Balances:</i>		
Accrued expenses related to Domus Pro stage II acquisition*	-	745

\*Accrual for services to develop Domus Pro stage II by TK Development.

Up to 30 June 2016, the Management Company was entitled to receive an annual management fee which was calculated as 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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

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

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

As at 30 June 2016 Northern Horizon Capital AS owns 2,261,110 units of the Fund on behalf of the investors.

Entities having control or significant influence over the Fund

The holders of units owning more than 5 % of the units in total as of 30 June 2016 and 31 December 2015 are provided in the tables below:

**As at 30 June 2016**

	Number of units	Percentage
Swedbank AS Clients	22,709,723	54.10%
Skandinaviska Svenska Kyrkans Pensionskassa	8,061,604	19.20%
SEB Pank Clients AS	4,170,314	9.93%
Northern Horizon Capital AS*	2,261,110	5.39%

\*Northern Horizon Capital AS, in its capacity of a licensed fund management company temporarily held these units on behalf of the investors.

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

**As at 31 December 2015**

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

Except for dividends paid, there were no transactions with Swedbank AS Clients, Svenska Kyrkans Pensionskassa and SEB Pank Clients AS. Transactions with Northern Horizon Capital AS are disclosed in the table above.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

**17. 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	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
<b>Financial assets</b>				
Trade and other receivables	724	840	724	840
Cash and cash equivalents	1,460	1,677	1,460	1,677
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	(50,697)	(51,194)	(50,697)	(51,670)
Trade and other payables	(1,597)	(2,036)	(1,597)	(2,036)
Derivative financial instruments	(261)	(232)	(261)	(232)

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 30 June 2016 and 31 December 2015:

Period ended 30 June 2016	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Trade and other receivables	-	-	724	<b>724</b>
Cash and cash equivalents	-	1,460	-	<b>1,460</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(50,697)	<b>(50,697)</b>
Trade and other payables	-	-	(1,597)	<b>(1,597)</b>
Derivative financial instruments	-	(261)	-	<b>(261)</b>
<b>Year ended 31 December 2015</b>				
	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Trade and other receivables	-	-	840	<b>840</b>
Cash and cash equivalents	-	1,677	-	<b>1,677</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(51,670)	<b>(51,670)</b>
Trade and other payables	-	-	(2,036)	<b>(2,036)</b>
Derivative financial instruments	-	(232)	-	<b>(232)</b>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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

- Trade and other receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses on these receivables. As at 30 June 2016 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.
- The fair values of the Group's interest-bearing loans and borrowings are determined by using the discounting the expected future cash flows at prevailing interest rates.
- Cash and cash equivalents are attributed to level 2 in the fair value hierarchy.

**18. Derivative financial instruments**

The Group has entered into a number of interest rate swaps ('IRS') with Pohjola, DnB Nord and SEB banks. The purpose of interest rate swaps is to hedge the interest rate risk arising from the interest rate fluctuations of the Group's non-current loans and some of the Group's current loans because the Group's policy is to have fixed interest expenses. According to the IRS agreements, the Group makes fixed interest payments to the bank and receives variable interest rate payments from the bank.

IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument is recognised in an equity reserve rather than the income statement. Specific documentation on each financial instrument is required to be maintained to ensure compliance with hedge accounting principles (Note 12b).

Derivative type	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						30.06.2016	31.12.2015
IRS	Sep 2013	Aug 2016	1,100	3M Euribor	0.60 %	(1)	(4)
IRS	Sep 2013	Mar 2016	5,975	3M Euribor	0.74 %	-	(13)
IRS	Dec 2014	May 2018	7,542	3M Euribor	0.50 %	(107)	(99)
IRS	Sep 2015	Mar 2018	19,474	3M Euribor	0.15 %	(153)	(116)
<b>Derivative financial instruments, liabilities</b>						<b>(261)</b>	<b>(232)</b>

Derivative financial instruments were accounted for at fair value as at 30 June 2016 and 31 December 2015. The maturity of the derivative financial instruments of the Group is as follows:

Classification according to maturity	Liabilities		Assets	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Non-current	(260)	(215)	-	-
Current	(1)	(17)	-	-
<b>Total</b>	<b>(261)</b>	<b>(232)</b>	<b>-</b>	<b>-</b>

**19. Subsequent events**

On 7 July 2016, the Fund received EUR 21 million proceeds from initial public offering.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

On 12 July 2016, the Fund acquired G4S property located in Tallinn, Estonia, in an asset deal for a purchase price of EUR 15.4 million. The building was built in 2013 as built to suit for G4S global security company's regional headquarters. The total gross space of the G4S office center is 9,179 sq, m.. It maintains one key tenant – G4S, who has rented out the whole building on a long-term agreement. G4S together with the landlord sub-leases 2 floors of the building to a leading Estonian software company Pipedrive and works with other smaller sub-tenants as well.

On 30 August 2016, the Group acquired 100% of the voting shares of Kontor SIA, an unlisted company based in Latvia. Kontor SIA owns Upmalas Biroji property. Upmala Biroji is an office complex built in 2008 with NLA of 10,599 sq, m.. The property currently accommodates a mix of 13 quality tenants of which 8 could be regarded as international blue chip tenants (77% of total NLA). Upmala is positioned as Shared Service Center/Back office destination and accommodates such tenants as SEB, CABOT, Bosch, Johnson&Johnson, Strabag and others. Please refer to note 9 for further information.

On 12 October 2016, the Fund declared a dividend distribution of EUR 1,091,458 (EUR 0.026 per unit).

There were no other significant events after period end.

**20. List of consolidated companies**

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Interest in capital
BOF Lincona OÜ	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BOF Domus Pro UAB	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BOF CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BOF Europa Holding UAB	Gynėjų 16, Vilnius, Lithuania	111811998	2 March 2015	Holding company*	100%
BOF Europa UAB	Gynėjų 16, Vilnius, Lithuania	300059140	2 March 2015	Asset holding company	100%

\*BOF Europa Holding UAB holds 100% of Europa UAB. BOF Europa UAB is owned by the Fund indirectly.

**MANAGEMENT APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016

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The interim condensed consolidated financial statements for the period ended 30 June 2016 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. The interim condensed consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company.

The interim management report gives a true and fair view of the main events occurred during the 6 months of the financial year and of their effect to the condensed interim financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

The financial statements of Baltic Horizon Fund were approved by the management board of the Management Company on 4 November 2016.

Name and position	Signature	Date
Tarmo Karotam Chairman of the management board		<u>4. NOV. 2016</u>
Aušra Stankevičienė Member of the management board		<u>4 Nov 2016</u>
Algirdas Jonas Vaitiekūnas Member of the management board		<u>2016. 11. 04</u>

## **APPENDIX C**

**Audited Consolidated Financial Statements of BOF for the Year 2015**

# ***Baltic Opportunity Fund***

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2015**

## Baltic Opportunity Fund

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Beginning of financial year	1 January
End of financial period	31 December
Management company	Northern Horizon Capital AS
Business name	Baltic Opportunity Fund
Type of fund	Non-public closed-ended contractual real estate fund
Style of fund	Core plus
Market segment	Retail / Offices
Life time/ Investment stage	Finite / closed for investments
Key milestone dates	21 December 2010 (first closing) 21 December 2014 (end of commitment period) 21 December 2017 (fund term)
Address of the fund	Hobujaama 5 Tallinn 10151 Estonia
Phone	+372 6309 420
Fax	+372 6309 421
Fund manager	Tarmo Karotam
Investment committee	Andris Kraujins (Chairman) Janis Abasins Lars Ohnemus
Investment committee remuneration	15 000 euros p.a.
Management board of the Management Company	Tarmo Karotam (Chairman) Aušra Stankevičienė
Supervisory board of the Management Company	Michael Schönach (Chairman) Dalia Garbuziene Jussi Erkki Pelkonen
Depositary, Fund administrator and Registrar	Swedbank AS

# Baltic Opportunity Fund

## DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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<b>FSA</b>	the Estonian Financial Supervision Authority (in Estonian: Finantsinspektsioon)
<b>Fund</b>	Baltic Opportunity Fund (REIF)
<b>IFRS</b>	International Financial Reporting Standards
<b>IFRS NAV</b>	NAV
<b>INREV</b>	European Association for Investors in Non-listed Real Estate Vehicles
<b>INREV NAV</b>	IFRS NAV, adjusted to comply with INREV guidelines
<b>Investor(s)</b>	An institutional investor who qualifies as professional investor within the meaning of Article 6(2) of the Estonian Securities Market Act, another institutional investor and an individual each acquiring or at any time possessing units for the amount of at least 50 000 euro
<b>Management Company</b>	Northern Horizon Capital AS (formerly known as <i>BPT Asset Management A/S</i> ), register code 11025345, registered address at Hobujaama 5, Tallinn 10151, Estonia
<b>NAV</b>	Net asset value for the Fund
<b>NAV per unit</b>	NAV divided by the amount of units in the Fund at the moment of determination
<b>NOI</b>	Net operating income
<b>Direct Property Yield</b>	NOI divided by acquisition value of a property
<b>Net Initial Yield</b>	NOI divided by market value of a property



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## Independent Auditors' Report

To the Shareholders of Baltic Opportunity Fund

We have audited the accompanying consolidated financial statements of Baltic Opportunity Fund ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. Audited consolidated financial statements are presented on pages from 18 to 62.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Baltic Opportunity Fund as at 31 December 2015, 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.

Tallinn, 15 April 2016

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17

KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, Reg no 10008082.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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Baltic Opportunity Fund is a direct real estate fund (“the Fund”) with an aim to invest in core cash-flow generating properties with prime characteristics and strong business concepts across the Baltic capitals. The focus is on retail and office properties which hold long-term tenants and opportunities for active asset management. The financial objective of the Fund is to provide its Investors with an above average risk-adjusted return by primarily acquiring commercial real estate properties or forward funding projects that provide for potential capital gains through realizing income enhancement possibilities, while not excluding a stream of high yielding current income. During year 2015 the strategy of the Fund did not change.

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

The 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 a strong commitment, transparency and fair dealings. The Investor’s best interest is always considered in the Management Company to guard that the Investor is treated fairly. The Board ensures that conflicts of interests between the related parties are avoided or are as small as possible. Business units are obliged to establish, maintain and document procedures to identify, prevent and manage conflicts of interest and to, when necessary issue supplementing instructions to the policies, instructions and guidelines issued by the Group.

Investors participate in management of the Fund through General Meetings. The General Meeting is called by the Management Company as often as the need to decide issues, which fall into the competence of the General Meeting, arises. Notice of the General Meeting is given at least three weeks in advance. The General Meeting may adopt resolutions if at least 2/3 of the votes represented by the Units are present.

The Fund has an independent Investment Committee which consists of qualified members with recognized experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education. The Investment Committee is solely competent to make all investment and divestment decisions for accomplishing the Fund’s investment objectives.

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

The real estate property valuation policies of the Fund are determined in the Fund rules based on the common market practice. Only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where any relevant real estate property is located may evaluate real estate belonging to the Fund. At the end of 2015, Fund properties were valued externally by independent valuator Colliers International.

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 Board of Auditors.

## Baltic Opportunity Fund

### MANAGEMENT REVIEW

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The Fund's activities are monitored on a regular basis by the Estonian FSA, the investment committee, Fund administrator and depositary bank Swedbank. The Management Company follows the INREV guidelines and FSA requirements for corporate governance as well as ensures transparency through accurate, direct and timely communication to Investors. In addition, Management Company has assessed the level of compliance with INREV's reporting, NAV and fee and expense metrics modules. The results of such self-assessment are summarised below:

**Table 1: Statement of level of adoption of INREV Guidelines**

INREV module	Guidelines	Level of adoption or compliance
1	Corporate Governance	The compliance with the INREV corporate governance module has been considered by the manager. The intended framework partially complies with the INREV corporate best practices. The vehicle assessed at the end of the financial year that it is currently following its intended corporate governance framework.
2	Reporting	Although not detailed in the fund documentation, the INREV reporting module has been considered. The INREV requirements are complied.
3	Property valuation	The Fund's property valuations are carried out in line with INREV best practices. Though not separately documented, the valuation performed by the external valuer is subject to the manager's internal review.
4	INREV NAV	The Fund calculates INREV NAV as per guidelines set by INREV.
5	Fee and expense metrics	The Fund calculates INREV fee and expense metrics as per guidelines set by INREV. However, the forward looking ratios have not been computed and disclosed at vehicle launch.
6	Liquidity	The manager has assessed that it is currently follows the liquidity framework defined by INREV except that the Fund as a closed-end fund does not maintain a liquidity protocol document and the secondary trading policy has not been described in the Fund documentation as it is not practiced by the Fund.
7	INREV data delivery	The Fund is in compliance with the INREV data delivery module.

The Fund currently is not engaged in property development activities, joint ventures, associate investments or other non-property related investments.

All the financial information disclosed in this review coincides with the financial statements for the financial year ended 31 December 2015.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### MANAGER'S REPORT

The year 2015 has been the most successful one for the Fund since its inception. The management has strictly followed its core investment strategy focusing only on the capital cities and has therefore gathered an attractive portfolio of cash-flow generating assets.

On March 2nd the fund acquired Europa Shopping Center in the heart of Vilnius. This was the 5th and the largest deal for the fund which now owns and operates 2 properties in Tallinn and Vilnius and 1 in Riga. As a result, the fund gross assets base increased to EUR 86.8 million and there are more than 48.7 thousand sq.m. of rentable space in the portfolio. The management deemed further investments in 2015 into Vilnius retail sector most attractive due to high vacancy and rent growth risks in other sectors and unattractive property pricings in Tallinn and Riga.

On March 3rd, the management team closed the sale of Babycenter to a local Estonian investor. Babycenter was a neighbouring stand-alone fully let building of 674 sq. m which was acquired in 2011 together with Lincona office complex. The sale was completed at 8% yield for 990 000 EUR and the net return from this investment was 24% p.a.

Moreover, construction of the second stage (NLA 3.700 sq. m.) of Domus Pro retail center was initiated in March 2015. The new space was fully pre-let to two tenants. In December 2015 the 1,500 sq. m. portion of the new stage was successfully opened. It houses a home-improvement store. BOF expects to commission the second part with 2,200 sq. m. of space in May 2016. This will add a fitness club to Domus Pro complex. Total construction cost of the second stage is estimated at EUR 1.7m.

At the end of the reporting period, 32.4% of the real estate assets of the Fund were located in Estonia with investments to Lincona office complex and Coca-Cola Plaza cinema and retail complex. 5.9% real estate assets are invested in SKY shopping center in Latvia and 61.7% in Domus Pro shopping center and Europa shopping Center in Lithuania. From sectoral point of view, 17.8% of the assets have been invested into offices, 67.6% to retail and the remaining 14.6% into other (retail/ leisure) type of assets.

As a result of the portfolio's high occupancy in a low cost of debt environment, net cash flow from the portfolio was strong. On the back of a healthy cash flow generation, cash distribution of EUR 7.2 per unit was paid out to unitholders for 2015 in December. That was the 4th year in a row when BOF delivered dividends. Total return on paid in capital for 2015 was 23.15% of which return solely from operations formed 12.92%.

At the end of the reporting period, LTV of the Fund was 59.0%, amortizing towards 50.0% goal.

### MACROECONOMIC FACTORS IN THE BALTIC STATES

The Baltic region became a full member of Eurozone with Lithuania being the last member to adopt the euro in 2015. The Baltic countries have continuously shown resilience and strength in growing their economies resulting in improved domestic consumption while increasing interest and investments from international companies to take advantage of the post-crises growth of this European economic area of approx. 6.3 million people.

Geopolitical tension in Russia and still quite sluggish growth in the export markets of the Baltics, which mainly includes EU, was the key factor that affected market sentiment and inhibited consumption and investment growth during the year. Still, Baltic economies have been among the fastest growing in the EU. Their GDP growth has significantly outperformed EU average. In 2014 economies of Baltic countries were 17-18% larger in real terms compared to 2010 level. In contrast, EU's GDP increased by only 3% real over

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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the same period. EC forecasts that buoyed by growing private consumption Baltic countries will continue expanding at a considerably faster pace than EU as a whole. Overall EU is expected to achieve real GDP growth of 2.0% in 2016 and 2.1% in 2017. In contrast, Estonia is forecasted to deliver 2.6% growth both years while Lithuania and Latvia are projected to expand by 2.9% and 3.0% in 2016 and 3.4% and 3.3% in 2017 respectively.

Real estate industry and the Fund are materially exposed to macroeconomic fluctuations. Such factors as general business cycle, GDP growth, inflation, employment, wage growth and interest rates influence demand and supply in the property market. Fund's revenue is mainly comprised of rents paid by tenants at its retail and office properties. The Fund seeks to minimize this risk by limiting concentration of tenants, signing long term lease agreements with strong tenants and scattering the agreement ending dates over several years. There is also a risk that a tenant may not pay rent on time or at all failing to meet its contractual obligations to the Fund. Currently however, there are virtually no bad debts among the Fund's tenant base.

Another significant factor affecting the returns of the Fund is cost of debt. Debt is a significant source of financing for the Fund. It targets 50% LTV ratio implying that approx. half of the capital requires interest payments. Fund's cost of debt depends primarily on the market interest rates, margin demanded by credit providers and Fund's targeted debt management strategy – variable debt hedged by interest rate swaps. For the past years, total cost of debt has been low and it is expected to remain low in short to medium term considering the current economic environment in Europe.

## CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS

As at 31 December 2015, the Fund's paid in capital from Investors amounts to 25.7 million euros, out of which 3.6 million euros were paid in during 2015. As at 31 December 2015, all called capital was invested. The maximum amount of capital allowed in the Fund rules is 100.0 million euros.

The Fund made an interim net profit distribution of EUR 7.2 per unit (1.76 million euros) in November 2015. 26.2% of the investors decided to receive the payout in new fund units.

## FINANCIAL REPORT

### *Financial position of the Fund*

As at 31 December 2015 the GAV of the Fund (incl. the Fund's subsidiaries) increased to 89.7 million euros (49.0 million as at 31 December 2014).

As of 31 December 2015, the Fund NAV was 31.7 million euros (126.6876 euros per unit), compared to 24.3 million euros (111.9458 euros per unit) as at 31 December 2014. The increase in NAV is mainly related to the new issue of units (3.6 million euros) and the performance of the Fund (net result 5.5 million euros in 2015).

The Fund also calculates INREV NAV, which was 31.7 million euros (126.9130 euros per unit) as at 31 December 2015, compared to 24.4 million euros (112.4523 euros per unit) as at 31 December 2014.

The INREV NAV is calculated according to Internal Rules for Determination of the Net Asset Value of the Fund of Northern Horizon Capital AS, prepared in conformity of INREV guidelines that were amended on 1 April 2014. The INREV NAV is calculated adjusting NAV for the items summarised in the table below:

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

**Table 3: Adjustments for recalculating NAV to INREV NAV**

No.	Item	Amounts in euros	Notes
1.	<b>IFRS NAV as of 31 December 2015</b>	<b>31,693,014</b>	
2.	Capitalization and amortization of Fund's set-up costs*	-	1
3.	Capitalization and amortization of property acquisition costs*	62,948	2
4.	Estimation of tax effect of (3.) above	(6,557)	
5.	<b>INREV NAV</b>	<b>31,749,404</b>	
6.	Amount of units	250,167	
7.	<b>INREV NAV per unit</b>	<b>126.9130</b>	

\* The costs are amortized during 5 years

### Notes to INREV NAV

1. In 2010 the Fund incurred 74 thousand euros of set up costs that were expensed in the income statement. In accordance with INREV guidelines the Fund set up costs have been capitalized and amortized over the five years of the life of the Fund. During 2015 the Fund has amortized 15 thousand euros, resulting in a cumulative amortization of 74 thousand euros. During 2015, the capitalized set up costs were fully amortised.
2. From 2011 to 2013 acquisition expenses amounting to 210 thousand euros were incurred in relation to acquisition of properties in Fund subsidiaries BOF Lincona OÜ, BOF SKY SIA , BOF CC Plaza OÜ. In accordance with INREV guidelines, these acquisition expenses are capitalized and amortised over the five years after the acquisition of properties. In 2015, the Fund amortized 42 thousand euros, resulting in a cumulative amortization of 148 thousand euros. The residual capitalized acquisition expenses as at 31 December 2015 amount to 63 thousand euros.

### Financial results of the Fund

In 2015, the Fund recorded net profit of 5.5 million euros (2.0 million euros in 2014) which had a positive effect on the Fund NAV.

The change in net assets of Fund's subsidiaries was positive and amounted to 6 077 thousand euros (1 354 thousand euros in 2014), whereas interest income accrued from IC loans to the subsidiaries amounted to 635 thousand euros (1 188 thousand euros in 2014). The Fund level expenses constituted 811 thousand euros (519 thousand in 2014). More details are provided in the statement of comprehensive income.

In 2015, the net rental operating income (NOI) earned by the unconsolidated Fund subsidiaries amounted to 5 339 thousand euros (2 700 thousand euros in 2014). Compared to 2014, the increase in gross rental income is mainly related to income earned in Europa after the acquisition in March 2015.

In 2015, there have been no significant one-off events that would have an impact on the results of the Fund.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### Fees and expenses

The Fund calculates the fee and expense metrics based on INREV guidelines as a percentage of GAV and INREV NAV. There have been no material changes in the Fund fee structure as determined in the Fund rules that were approved by the FSA. The detail calculations are provided in table 4.

**Table 4: Expense ratios of the Fund and Fund's subsidiaries based on INREV fee metrics guidelines**

Classification	Fee/Expense Item		Amount (EUR)
<b>Management fees</b>	Management fees		602,172
<b>Vehicle costs</b>	Custodian fees		14,690
	Valuation fees		24,231
	Audit fees		28,444
	Legal fees		164,816
	Other Consultancy Services		42,923
	Bank charges		2,031
	Administration and secretarial fees		9,640
	Amortisation of fund establishment costs		14,795
<b>Total vehicle costs before performance fees</b>		<b>A</b>	<b>903,742</b>
<b>Performance fees</b>		<b>B</b>	<b>79,686</b>
<b>Total vehicle costs after performance fees</b>		<b>C=A+B</b>	<b>983,428</b>
<b>Property expenses</b>	Property management fees		406,579
	Property insurance		27,606
	Sales and Marketing Expenses		240,187
	Service charge shortfall		38,186
	Amortisation of property acquisition costs		42,098
<b>Total property expenses</b>		<b>D</b>	<b>754,656</b>
<b>Total expenses before financing costs and taxes</b>		<b>E=C+D</b>	<b>1,738,084</b>
<b>Average INREV NAV</b>			
	Weighted average INREV NAV	<b>F</b>	28,481,576
<b>Average INREV GAV</b>			
	Weighted average INREV GAV	<b>G</b>	81,082,268
<b>TER before performance fees</b>			
	Fund expenses before performance / Average NAV	<b>=A/F</b>	<b>3.17%</b>
	Fund expenses before performance / Average GAV	<b>=A/G</b>	<b>1.11%</b>
<b>TER after performance fees</b>			
	Fund expenses after performance / Average NAV	<b>=C/F</b>	<b>3.45%</b>
	Fund expenses after performance / Average GAV	<b>=C/G</b>	<b>1.21%</b>
<b>REER</b>			
	Property expenses / Average NAV	<b>= D/F</b>	<b>2.65%</b>
	Property expenses / Average GAV	<b>= D/G</b>	<b>0.93%</b>

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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The main expense categories are described below:

### Annual Management Fee

The Management Company provides all economic and financial information which is necessary for the operation of the Fund as well as investment management of the Fund's portfolio on a day to day basis. Therefore, the Management Company is entitled to receive an Annual Management Fee which is calculated 1.9% of the NAV per annum of the Fund's portfolio. In 2015, the annual management fee amounted to 602 thousand euros (462 thousand euros in 2014).

The equity raised during the Commitment Period of the Fund will be fully invested only with the completion of Stage II part of Domus PRO, estimated in Q2 2016. Management fee for 2015 is calculated similarly as for the previous years.

### Performance Fee

From the first year of operations of the Fund, the Management Company is entitled to calculate the Performance Fee of 20% if the average annual Return on Paid in Capital of the Fund exceeds 11% per annum. The Performance Fee, if any, is paid out to the Management Company after the exit of the Fund has been completed (i.e. all assets of the Fund have been transferred) and the audited annual report of the Fund for the final year of the Fund has been approved by the Management Board.

Annual Performance Fee is calculated based on the example in Appendix 1 of the fund rules and follows a 3 year rolling average calculation principle. Claw-back method is applied similarly based on 3 year rolling average, i.e. in case Performance Fee average result over 3 preceding years is negative, it shall be offset against any positive Performance Fees. As of 31 December 2015, the performance fee amounted to 79 thousand euros (none in 2014).

### Property Management Fee

The Property Management Fee is calculated from the net rental income of the real estates in respect of which the Management Company provides property management services. The rate of the Property Management Fee is 3-6% of the net rental income of the real estates managed by the Management Company. Property management service means arranging of provision of services related to a real estate such as (i) SPV accounting, (ii) communication with lessees, conclusion of lease agreements and collection of lease payments, (iii) finding, planning and realisation of small expansion possibilities and other possibilities to increase the cash flow of a real estate (excluding large scale construction and development projects), (iv) utility services and (v) property maintenance.

Property management costs are effectively paid by the tenants as a surcharge to the rent fees. Only approx. 10% of the total property management fee is not remunerated to the Fund by the tenants.

## PROPERTY REPORT

On 3 March, the management team closed the sale of Babycenter to a local investor. Babycenter was a neighbouring stand-alone fully let building of 674 sq. m which was acquired in 2011 together with Lincona office complex. The sale was completed at 8% yield for 990 000 EUR and the net return from this investment was 24% p.a. The reasoning of the management to divest the smallest property of the portfolio as the interest from investors in the EUR 1 million investment range was high and due to management's plan to use the divestment proceeds for Follow-on investments such as Domus Pro's expansion phases.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Going forward, the management team expects the most resilient occupancies and potential for rental and value growth to lie in Baltic retail sector. This is supported by the expectations that the Baltic economic growth is largely being driven by domestic consumption. Especially resilient cash flows are expected to be from established neighbourhood shopping centers in the capital cities.

With the absence of traditional high streets in the Baltic capitals, the shopping is concentrated to shopping centres. The established centres in the market have all been focusing on growing further through expansions while only a few new stand-alone centres are being planned in Tallinn and Riga. Retail rent levels for all tenant sizes are at 2007 levels and are expected to continue increasing along with the positive outlooks of the economies. Vacancies remain between 1-3% in established centres. In addition to H&M, Debenhams, Subway, Sports Direct entering the market over the past years, more new retail companies are expected to look for ways how to take advantage of the growing spending power of the Baltic people.

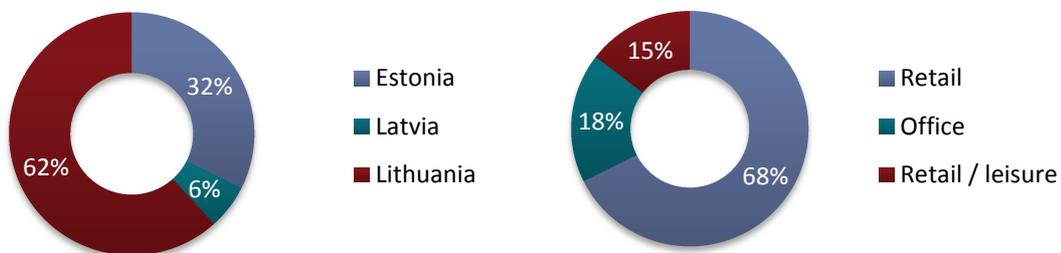
In Baltic retail sector, rents for small spaces increased and were in the range of 21-60 EUR sq. m. per month. Average retail rents were 13-22 EUR sq. m for 150-350 sqm spaces in Baltic capitals while anchor tenants were usually paying 6-11 EUR sq. m. Rent rates for medium and larger retail units are forecasted to be rather stable. As compared to the retail assets in the portfolio, the average rent range per property was 9.3-13 EUR per sq. m. per month, therefore well in line with average market brackets.

In office segment, Vilnius is leading the way in terms of growth of new space and construction of new modern office buildings. The trend of pre-lease is also coming back to Vilnius with agreements often signed 6-9 months in advance. There will be more than 100 000 m<sup>2</sup> of new office space added within the next 2 years in Vilnius, much of it pre-leased and in the city center. Moderate growth in prime rents continued in Riga during 2015 as a result of shortage of new development and low vacancy in prime locations. Tallinn Office market has gotten over its state of deficit and is gradually moving towards the tenants' market.

Capital city office rents have been 12.5-17.4 EUR per sq. m. per month for class A premises and 8.0-13.0 EUR sq. m. for modern class B offices. For comparison, average rental level in Linconia was 10.3 EUR sq. m, therefore also well in line with average market brackets.

The Baltic prime property yields in both office and retail segments have decreased during the past year by approx. 50 bp to 7 – 8% depending on the exact micro location, age, rent level and history of the property. Baltic States continue to maintain a yield value gap of 200-300 bp compared to Western European and Nordic countries.

**Picture 1: Fund segment and country distribution**



### **Property valuations**

The breakdown of each property market value is shown in the table below.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Table 5: Property portfolio, in million euros

Property	Subsidiary	Market value 31 December 2015	Market value 31 December 2014
Lincona office*	BOF Lincona OÜ	15.46	16.41
SKY supermarket	BOF SKY SIA	5.15	5.10
Coca-Cola Plaza	BOF CC Plaza OÜ	12.65	12.62
Domus Pro	BOF Domus PRO UAB	16.34	12.04
Europa	BOF Europa UAB	37.21	n/a

\*On March 3, 2015 the management team sold part of Lincona complex (Babycenter).

As of 31 December 2015, 100% of Fund properties were valued externally by independent valuator Colliers International. 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 in accordance with IAS 40. The valuations are performed on an annual basis.

The fair value of investment property in the subsidiaries is determined using recognized valuation techniques. The ranges of discount rates used by the appraisers to value the investment properties as of 31 December 2015 were as follows per country: Latvia 7.75%, Estonia 8.0%, and Lithuania 7.25-8.00% (Discounted Cash Flow method).

### ***Property performance***

In 2015, the average occupancy of the portfolio was 97.2% and average Net Initial Yield 7.2%. The level of the property operating costs was stable throughout the whole year. Recent net yield of the portfolio has been slightly below expectations mainly due to certain unexpected costs in Europa SC and Domus PRO. In Europa SC, these costs are related to additional marketing of the center after Maxima had reopened their new store in April and extra legal costs. There have also been some tenant relocation vacancies due to Michael Kors Baltic flagship store which opened in Europa in Q4 2015.

### Lincona

In Lincona office, a large governmental tenant Estonian Information System Authority has moved into the building on a 10-year lease filling up most of the remaining vacancy at the end of 2014. The occupancy level of the property increased from 82% to 95.5% by the end of this reporting period. In June, negotiations were concluded with one of the anchor tenants in the building on their premature exit from the office complex and satisfactory agreement has been reached for both parties resulting in BOF receiving a compensation of 268 203 EUR. At the same time, the management team was successful in immediately letting out the premises to a new tenant and thus managing the unexpected vacancy risk in the building.

### Domus PRO

Moreover, construction of the second stage (NLA 3.700 sq. m.) of Domus Pro retail center was initiated in March 2015. All of the new space was fully pre-let to two tenants. In December 2015 the 1,500 sq. m. portion of the new stage was successfully opened. It houses a home-improvement store. BOF expects to commission the second part with 2,200 sq. m. of space in May 2016. This will add a fitness club to Domus Pro complex. Total construction cost of the second stage is estimated at EUR 1.7m.

In December 2015, the Fund has started in cooperation with the original developer of the property TK Development, preparations for final stage three of the Domus PRO complex to create synergies between the first two stages. At the end of the reporting period, 25% of stage three has already been pre-leased.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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The plan is to build a BREEAM mixed use building of 4380 sq. m. NLA on 6 floors (ground floor for retail) with additional 2 floors underground parking. The aim is to get final BREEAM level construction permit in spring 2016, start construction latest in July 2016 after required level of pre-leases and complete the building within 12 months by July 2017.

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

#### SKY supermarket

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

During the year, the management team has developed a new architectural project to modernize the façade of the building in cooperation with the main tenant SKY. Total investment 170 thousand euros. The negotiations with the anchor tenants for the recovery of the investments into the facade are ongoing.

#### Coca-Cola Plaza

In Coca-Cola plaza, the master lease agreement with Forum Cinemas holds strong and tenant risk remains very low. In addition, the team has continued to test the feasibility of the vision to expand the property and connect to the neighbouring shopping centre. With further support from the neighbours, the tenants and the city of Tallinn, the management team will undertake an architectural competition to find the best and most economical solution for all stakeholders within the course of the coming years.

#### Europa Shopping Centre

After taking over Europa Shopping Centre, the management team has set goals to actively increase the foot flow and average rent of the center. Located in the heart of Vilnius CBD the shopping centre caters to the higher end of the market with a focus on having an A-class mix of fashion tenants. In the immediate neighbourhood there are a number of new office buildings being built which is expected to contribute to the success of the centre in the long-term.

2015 were remarkable for the property as totally about 25% of NLA i.e. more than 4.100 m<sup>2</sup> was renovated and reopened. Maxima enlargement to 1.869 sq. m. was opened 14th of April; 1.210 sq. m. sport club Lemon GYM on 27th of April; Mohito 610 sq. m. on 27th March and new concept Danija 170 sq. m. on 21st of August. The historic moment in the center in 2015 was the opening of the flagship Michael Kors store of 345 sq. m. on 8th of October. The vacancy after tenant mix management has remained low at 3,1%.

By successfully managing tenant movements and reviewing marketing efforts within the center, the management was able to achieve strong property level results especially for the second half of the year. In particular, in Q4 the footfall increased by 34% and turnover for all tenants by 32% compared to Q4 in 2014.

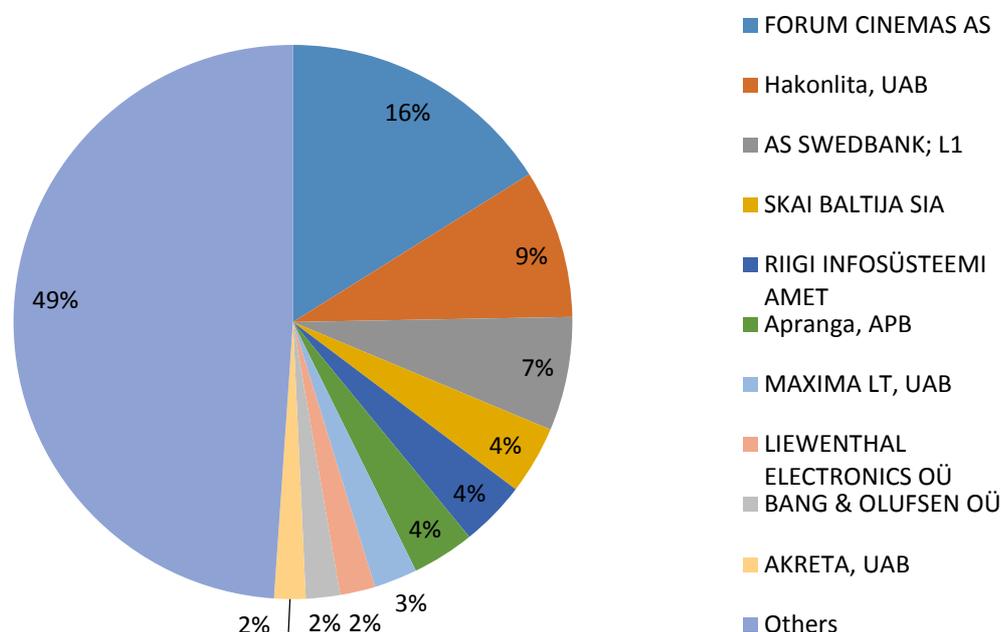
The Fund significantly reduced the tenants risk in the Fund after the Europa Shopping Centre has been acquired. During 2015, 51.7% of the total gross rental income was generated by the ten largest tenants of the real estate portfolio, with Forum Cinemas AS making 16.4% of the revenue as a single tenant of the Coca-Cola Plaza property in Tallinn, Estonia. In 2014, the Fund had 94.0% of the total gross rental income generated by the ten largest tenants of the real estate portfolio. As further discussed in Risk management section, the credit risk is mitigated by the high quality of the existing tenant base.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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



## RISK MANAGEMENT

The risk management function of the Fund is 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, monitor these compared to internationally recommended best practice, and initiate changes and improvements when needed. The manager assessed at the end of the financial year that it is currently in compliance with intended risk management framework.

### ***Principal risks faced by the Fund***

#### Market risk

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

In 2015 prime investment yields in the Baltic states fluctuated between 7.0% and 8.0% depending on property type and location. Due to high activity in office and retail investment market and lack of attractive investment alternatives, it is expected that in 2016 the yields for these properties will decline to 6.75% in Vilnius and will remain stable in Tallinn and Riga.

#### Interest rate risk

The Fund's policy is that long term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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expensive, the Fund hedges interest rate exposure by using derivative instruments such as interest rate swaps, forwards and options.

The Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

#### Currency risk

Currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

#### Credit risk

The credit risk of the tenants in the Baltic portfolio of properties remains relatively low. During 2015 provisions for bad debts in all properties of the Fund amounted to 22 thousand euros (29 thousand in 2014).

After the acquisition of Europa Shopping Center in March 2015 and the completion of Domus PRO second phase, there are more tenants in the portfolio thus the tenant risk is more diversified as compared to 2014.

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

#### Liquidity risk

Liquidity risk means the risk of failure to liquidate open position, to realise the assets by the due time at the prescribed fair price or to refinance loan obligations.

Many of the investments will be highly illiquid and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicalities, downturns in demand, market disruptions and the lack of available capital for potential purchasers and are therefore often difficult or time consuming to liquidate. The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

In order to minimise liquidity risk, a part of the real estate fund assets may be invested in deposits of credit institutions, in short-term debt securities and in other securities with high level of liquidity. Also, derivative instruments may be used to reduce liquidity risk.

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

#### Operational risk

Operational risk represents the potential for loss resulting from inadequate or failed internal processes or systems, human factors, or external events, including business disruptions and system failure. The Fund is exposed to many types of operational risk and attempts to mitigate them by maintaining a system of

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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internal control procedures and processes that are designed to control risk within appropriate levels. Also, training and development of personnel competences, and active dialogue with investors help the company to identify and reduce risks related to its operation

## OUTLOOK FOR 2016

The portfolio of the Fund is expected to perform strongly in 2016. Based on the signed medium to long-term lease and loan agreements, the cash flow is expected to remain predictable throughout the year. Since 2016 shall be the first full year for Europa Shopping Center and with the completion of Domus PRO second stage, the NOI and net cash flows of the fund is expected to increase further.

Baltic States have an attractive value gap compared to Western European and Nordic countries. Average yields for prime retail and office assets in the city centers in 2016 are expected to be between 6.75% to 7.25% and for other modern properties in the Baltic capitals between 7.25% to 8.0%. Investment market activity is at the level of 2007, however the development of tradable properties over the past years has also increased significantly. The aforementioned is considered as a sign of maturing Baltic commercial real estate investment markets where more emphasis will be on long-term sustainable net cash flows for investors. That being said, a diligent buyer with a long term strategy is expected to still secure attractive and sustainable dividend yielding properties in the Baltics.

Current term of the Fund is December 2017. Exit or restructuring process may take considerable amount of time and since the markets are positive, discussions about timely exit or restructuring of the Fund have been initiated.

The discussions with the investor base, for whom regular above market cash distributions from a known portfolio have been highly valued, have led to plans of restructuring the Fund into the first evergreen Baltic real estate fund to be listed through an IPO on Tallinn OMX stock exchange. In accordance with the Fund Rules clause 20.1. this has also been one of the exit strategies of the Fund since its inception.

Overview of the IPO concept of the Fund at the end of the reporting period:

- General meeting of investors to decide IPO of the Fund in Q1 2016
- IPO with minimum new equity of EUR 30 million attracting wide capital markets investor base in Q2 2016
- Same core cash-flow strategy – Baltic capitals only, targeting 50% LTV
- Focus on retail & office
- Flexibility for investors to enter / exit the Fund at suitable moments
- Flexibility for manager to buy / sell / hold matching cycle movements
- Strict dividend policy
- Diversification – new acquisitions at yield 7-8% and cost of debt of 1.5-2%
- Estonian REIF – proven cost and tax efficient fund structure
- Asset management value add (Long term expansion potential within portfolio)

# Baltic Opportunity Fund

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

<i>Euro '000</i>	<b>Note</b>	<b>2015</b> Consolidated	<b>2014</b>
Rental income		6,073	-
Expenses reimbursement revenue		2,062	-
Cost of rental activities	8	(2,796)	-
<b>Net rental income</b>	<b>7</b>	<b>5,339</b>	<b>-</b>
Administrative expenses	9	(984)	(519)
Other operating income	10	267	-
Change in the fair value of investments in subsidiaries	11	-	1,354
Net loss on disposal of investment property	16	(10)	-
Valuation gains / (loss) on investment properties	7, 16	2,886	-
<b>Operating profit</b>		<b>7,498</b>	<b>835</b>
Interest income on loans to subsidiaries		-	1,188
Financial income	12	17	-
Financial expenses	13	(1,100)	-
<b>Net financing costs</b>		<b>(1,083)</b>	<b>1,188</b>
<b>Profit before tax</b>		<b>6,415</b>	<b>2,023</b>
Income tax charge	7, 15	(890)	-
<b>Profit for the year</b>		<b>5,525</b>	<b>2,023</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net gains (losses) on cash flow hedges	20b	(23)	-
Income tax relating to net gains (losses) on cash flow hedges	20b, 15	18	-
<b>Other comprehensive income/ (loss), net of tax, to be reclassified to profit or loss in subsequent periods</b>		<b>(5)</b>	<b>-</b>
<b>Total comprehensive income/ (loss) for the year, net of tax</b>		<b>5,520</b>	<b>2,023</b>
<b>Basic and diluted earnings per unit (Euro)</b>	<b>14</b>	<b>23.10</b>	<b>10.23</b>

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

# Baltic Opportunity Fund

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

<i>Euro '000</i>	Note	31.12.2015 Consolidated	31.12.2014
<b>Non-current assets</b>			
Investment properties	7, 16	86,810	-
Investments in subsidiaries	11	-	3,404
Loans to subsidiaries	11	-	3,650
Other non current assets	17	263	-
<b>Total non-current assets</b>		<b>87,073</b>	<b>7,054</b>
<b>Current assets</b>			
Trade and other receivables	18	840	-
Prepayments		81	-
Loans to subsidiaries	11	-	15,095
Accrued interest income from subsidiaries	11	-	1,043
Cash and cash equivalents	19	1,677	1,293
<b>Total current assets</b>		<b>2,598</b>	<b>17,431</b>
<b>Total assets</b>		<b>89,671</b>	<b>24,485</b>
<b>Equity</b>			
Paid in capital	20a	25,674	22,051
Cash flow hedge reserve	20b	(199)	-
Retained earnings		6,218	2,263
<b>Total equity</b>		<b>31,693</b>	<b>24,314</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	21	39,586	-
Deferred tax liabilities	15	3,673	-
Derivative financial instruments	27	215	-
Other non-current liabilities		451	-
<b>Total non-current liabilities</b>		<b>43,925</b>	<b>-</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	21	11,608	-
Trade and other payables	22	2,036	171
Income tax payable		112	-
Derivative financial instruments	27	17	-
Other current liabilities	23	280	-
<b>Total current liabilities</b>		<b>14,053</b>	<b>171</b>
<b>Total liabilities</b>		<b>57,978</b>	<b>171</b>
<b>Total equity and liabilities</b>		<b>89,671</b>	<b>24,485</b>

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

## Baltic Opportunity Fund

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

<i>Euro '000</i>	Notes	Paid in capital	Cash flow hedge reserve	Retained earnings	Total equity
<b>As at 1 January 2014</b>		<b>18,156</b>	-	<b>1,300</b>	<b>19,456</b>
Net profit for year		-	-	2,023	<b>2,023</b>
<b>Total comprehensive income / (loss)</b>		-	-	2,023	<b>2,023</b>
Paid in capital – units issued	20a	3,895	-	-	<b>3,895</b>
Profit distribution to unit holders	20c	-	-	(1,060)	<b>(1,060)</b>
<b>As at 31 December 2014</b>		<b>22,051</b>	-	<b>2,263</b>	<b>24,314</b>
Net profit for the year		-	-	5,525	<b>5,525</b>
Other comprehensive income / (loss)		-	(5)	-	<b>(5)</b>
<b>Total comprehensive income / (loss)</b>		-	<b>(5)</b>	<b>5,525</b>	<b>5,520</b>
Paid in capital – units issued	20a	3,623	-	-	<b>3,623</b>
Profit distribution to unit holders	20c	-	-	(1,764)	<b>(1,764)</b>
Cash flow hedge reserve in acquired subsidiaries	20b	-	(194)	194	-
<b>As at 31 December 2015</b>		<b>25,674</b>	<b>(199)</b>	<b>6,218</b>	<b>31,693</b>

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

# Baltic Opportunity Fund

## CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Euro '000	Note	2015 Consolidated	2014
<b>Cash flows from core activities</b>			
<b>Profit (loss) before tax</b>		<b>6,415</b>	<b>2,023</b>
Adjustments for non-cash items:			
Change in the fair value of investments in subsidiaries		-	(1,354)
Value adjustment of investment properties	16	(2,886)	-
(Gain)/loss on property disposal	16	10	-
Value adjustment of derivative finance instruments		18	-
Allowance for bad debts	18	22	-
Financial income	12	(17)	(1,188)
Financial expenses	13	1,100	-
Working capital adjustments:			
Decrease/(Increase) in trade and other accounts receivables		(156)	-
(Increase)/(decrease) in other current assets		(82)	-
(Decrease)/Increase in other non-current liabilities		120	-
Increase/(Decrease) in trade and other accounts payable		69	22
(Decrease) in other current liabilities		407	-
Refunded/(paid) income tax		(54)	-
Interest received from subsidiaries		-	280
<b>Total cash flows from core activities</b>		<b>4,966</b>	<b>(217)</b>
<b>Cash flows from investing activities</b>			
Interest received		17	-
Acquisition of subsidiaries, net of cash acquired	16	(6,324)	-
Disposal of investment properties	16	990	-
Capital expenditure on investment properties		(2,213)	-
Loans granted to subsidiaries		-	(1,750)
Loan repayments received from subsidiaries		-	365
<b>Total cash flows from investing activities</b>		<b>(7,530)</b>	<b>(1,385)</b>
<b>Cash flows from financial activities</b>			
Proceeds from bank loans		4,804	-
Repayment of bank loans		(2,684)	-
Proceeds from issue of units	20	3,160	3,019
Profit distribution to unit holders	20	(1,302)	(184)
Interest paid		(1,030)	-
<b>Total cash flows from financing activities</b>		<b>2,948</b>	<b>2,835</b>
<b>Net change in cash and cash equivalents</b>		<b>384</b>	<b>1,233</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,293</b>	<b>60</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,677</b>	<b>1,293</b>

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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### ACCOUNTING POLICIES

#### 1. Corporate information

Baltic Opportunity Fund (the Fund) is a real estate fund investing in commercial properties in the Baltic States (Estonia, Latvia and Lithuania). The Fund is a non-public closed-ended contractual investment fund (i.e. the Fund units cannot be redeemed at the request of an investor) founded on 1 September 2010. The Fund is a fixed-term fund with the duration of 7 years from the first closing (a date of launching of the Fund specified by the Management Company, being the date of completion of the initial subscription of Units). The Fund term may be extended for up to two years in one year increments by a resolution of the General Meeting.

The Fund's registered office is at Hobujaama 5, Tallinn, Estonia.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing in primarily commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring and managing a portfolio of high quality cash flow-generating commercial properties, thereby creating a stable income 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 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 managed by Northern Horizon Capital AS. The Depository of the Fund is Swedbank AS.

The financial Statements of Baltic Opportunity Fund have been approved by the management board of the Management Company on 15 April 2016.

The Fund held the following 100% interest in subsidiaries:

Name	2015	2014
BOF Lincona OÜ	100%	100%
BOF SKY SIA	100%	100%
BOF CC Plaza OÜ	100%	100%
BOF Domus Pro UAB	100%	100%
BOF Europa Holding UAB	100%	n/a
BOF Europa UAB	100%	n/a

In early 2015, the Fund's objectives expanded beyond simply holding and managing a portfolio of real estate properties, to include active property management and the possibility to develop real estate projects. Consequently, the Fund no longer meets the investment entity exemption under IFRS 10 and fully consolidates its subsidiaries from 1 January 2015.

#### Basis of preparation

The Group's consolidated financial statements for year end of 2015 have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") as adopted for use in the European Union.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### **New standards, amendments and interpretations not yet effective**

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Group does not plan to adopt these amendments, standards and interpretations early.

*IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)*

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

It is expected that the Amendments, when initially applied, will not have a material impact on the Group's financial statements because the Group has an existing accounting policy to account for acquisitions of joint operations in a manner consistent with that set out in the Amendments.

*IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

*IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)*

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

It is expected that the Amendments, when initially applied, will not have material impact on the Group's financial statements, as the Group does not apply revenue-based methods of amortisation/depreciation.

*IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)*

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

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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*IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)*

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

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

*IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

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

The Entity does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries in accordance with IAS 39.

*Annual Improvements to IFRSs*

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group.

*IFRS 9 Financial Instruments (2014)*

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

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

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and 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 amortized 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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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.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required. The Group does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds.

#### *IFRS 15 Revenue from contracts with customers*

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Not yet adopted by the EU)

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

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

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

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

#### *IFRS 16 "Leases"*

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

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

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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

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

#### Going concern assessment

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

## 2. Change in the Fund status

The Fund ceased to qualify as an investment entity under IFRS 10 at the start of 2015 and consequently began to consolidate all of its subsidiaries under IFRS prospectively from 1 January 2015. IFRS 10 requires the Fund to apply IFRS 3 to any subsidiary that was previously measured at fair value through profit or loss, with the change in the status of the Fund being deemed to be the acquisition date (note 16a).

#### *Classification of entity as Investment entity in 2014*

In 2014, the Fund was determined to be an Investment entity in accordance with IFRS 10. As discussed in note 2, the Fund ceased to qualify as an investment entity from 1 January 2015. The Fund qualified as an investment entity according to IFRS 10 prior year as it:

- obtained funds from Investors to provide them with investment management or other investment-related services;
- committed to Investors that its business purpose was to invest for returns solely from capital appreciation and investment income;
- used fair value information as the primary attribute in evaluating the performance of investments and in making investment decisions;
- held more than one investment;
- had more than one Investor; and
- had Investors that are not related parties.

In 2015, the Management of the Fund reassessed its investment entity status based on the following factors:

- during 2015, the Group was involved in the developing activity of the land plot available which was acquired together with the Domus Pro Retail Park.
- the Group's key management personnel changed its view on the investment returns. The Management is no longer rely on fair value of the properties as the primary attribute to evaluate the performance of substantially all its investments and to make investment decisions. Instead, other indicators are used to evaluate performance and make investment decisions which comprise of prospective leases, occupancy rate, lease term, future rents, property yield, property location, net property income, tenant quality/ profile and many other variables and market conditions.
- the Management has intentions to convert the Fund structure into an evergreen vehicle which will further allow to conduct on a limited scale development projects and consider other real estate sectors as well.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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The Management of the Fund has therefore concluded that the Fund does not meet anymore the definition of an investment entity and therefore is not exempted from consolidating its controlled entities.

### 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these special purpose 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:**

#### 3a. Presentation currency

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

#### 3b. 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 they are probable and 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.

#### 3c. 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 exchange rates prevailing at the date of the transactions. 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 classified as realised gains and losses in the consolidated income statement 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 statements of 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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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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 the consolidated statement of 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.

#### 3d. 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".

#### 3e. Dividends

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

#### 3f. 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.

#### 3g. 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 fair value of derivative financial instruments, which are not classified as hedging instruments, are recognised in the income statement as they arise.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### 3h. Hedge accounting

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 the income statement. 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.

### 3i. 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.

### 3j. 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.

### 3k. 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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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.

### 3l. 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.

### 3m. 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.

### 3n. 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.

### 3o. 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### 3p. 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.

Expense reimbursement income are recognised on gross basis in the income statement when the Group is not acting as agent on behalf of third parties and charging the commissions for the collections. Otherwise, recharge revenue is recognised based on the commissions earned.

### 3q. 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.

### 3r. Administrative expenses

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

### 3s. 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 immovables 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 this Chapter or at the level of a company that has repurchased the holding or paid the liquidation proceeds.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### 3t. Deferred taxation

The Fund is not subject to 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 other comprehensive income or directly in equity.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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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.

### 3u. 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, 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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### 4. 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 expense reimbursement:

- 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.

#### 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 another party, the lessor, are classified as operating leases. The Group had 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 Sale-lease back transaction. Based on the terms and conditions, the lease arrangement is treated as an operating lease due to the 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;

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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- 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 do not amounts 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 issues 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 income 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 16.

#### 5. Financial risk management

The risk management function of the Fund is 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, monitor these compared to internationally recommended best practice, and initiate changes and improvements when needed. The manager assessed at the end of the financial year that it is currently in compliance with intended risk management framework.

##### 5a. Credit risk

The Group's procedures are in force to ensure that rental agreements are entered with customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Credit risk related to tenants is also reduced by collecting rental deposits and taking rental guaranttes. 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 high credit rating domestic and international banks and financial institutions.

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 2015, the total credit risk exposure was EUR 840 thousand.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

During 2015 provisions for bad debts in all properties of the Group amounted to 22 thousand euros.

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

#### 5b. Interest rate risk

The Group's interest rate risk is interest cash flow related. Fluctuations in interest rates affect the interest expense. (Note 20b), the Group exposure to interest rate cash flow risk is mitigated by the use of use of interest rate swaps.

At 31 December 2015, after taking into account the effect of interest rate swaps, 66% of the Group's borrowings are at fixed rate of interest (2014: 95%).

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

	2015		2014	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Increase in basis points, +50	(88)	307	(5)	183
Decrease in basis points, -50	88	(307)	5	(183)

The Group's uses interest rate swaps to fix interest rate of long term loans with floating interest rate. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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.

#### 5c. 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 Group's financial liabilities at 31 December 2015. The amounts are gross and undiscounted, and include contractual interest payments.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

'000 Euro	Less than 3 months	3 months - 1 year	1-2 years	2-5 years	More than 5 years	Total	Carrying amount
<b>Year ended 31 December 2015</b>							
Interest bearing loans and borrowings	7,939	4,464	10,568	30,130	-	<b>53,101</b>	<b>51,194</b>
Derivative financial instruments	13	4	-	215	-	<b>232</b>	<b>232</b>
Trade and other payables	2,036	-	-	-	-	<b>2036</b>	<b>2,036</b>
<b>Total current and non-current</b>	<b>9,988</b>	<b>4,468</b>	<b>10,568</b>	<b>30,345</b>	-	<b>55,369</b>	<b>53,462</b>

As of 31 December 2015, current liabilities of the Fund exceeded current assets by EUR 11,455 thousand. This was mainly because of two bank loans of EUR 7,312 thousand and EUR 2,708 thousand, expiring in March 2016 and August 2016 respectively. The bank loan of EUR 7,312 has already been extended for three years with the final repayment date of 21 March 2019. Also, Management of the Fund has already received a non-committed bank offer to extend the bank loan of EUR 2,708 expiring in August 2016. Management of the Fund is confident that expiring loan can be extended or refinanced with other banks. Assuming this, cash flows budget of the Fund for year 2016 indicates that Fund will be able to cover other current liabilities from existing current assets and operating cash flow.

#### 5d. Foreign exchange risk

The main Fund's currency is euro. The currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. In 2014 and 2015 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than Euro from this date. Lithuanian national currency Litas was pegged to euro at a fixed rate, i.e. LTL 3.4528 for EUR 1. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

#### 6. Capital management

The Group monitors capital using loan-to-value ratio, which is borrowings divided by property value. The Group's target loan to value ratio is 50 %. During 2015, the higher loan to value ratio was caused by Europa acquisition deal. Due to a favorable current interest environment, the Europa acquisition was financed with a higher loan to value ratio than the target. The management is aiming to decrease the current Group loan to value ratio to 50% in subsequent years. The plan is to finance new acquisitions with lower than current loan to value ratio. Also, no new loans are planned for the current properties. As at 31 December 2015, the Group complied with all externally imposed capital requirements.

'000 Euro	2015 Consolidated	2014
Interest bearing loans and borrowings	51,194	-
Investment properties	86,810	-
<b>Gearing ratio (loan-to-value)</b>	<b>59%</b>	-

#### 7. Operating segments

The Group's reportable segments are as follows:

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

- Retail segment – includes Europa Shopping Centre, Domus Pro Retails Park (Lithuania), and SKY Supermarket (Latvia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia) investment property.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment.

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 of assessing performance. Segment performance is evaluated based on net rental income.

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

#### Operating segments – 31 December 2015

'000 Euro	Retail	Office	Leisure	Total
External revenue <sup>1</sup>	5,587	1,574	974	8,135
<b>Segment net rental income</b>	<b>3,234</b>	<b>1,143</b>	<b>962</b>	<b>5,339</b>
Net gains or losses from fair value adjustment	2,961	(105)	30	2,886
Interest expenses	(853)	(460)	(397)	(1,711)
Income tax expenses	(890)	-	-	(890)
Segment net profit / (loss)	4,549	1,050	738	6,337
<b>Segment assets</b>	<b>61,077</b>	<b>15,611</b>	<b>12,759</b>	<b>89,449</b>
Investment properties	58,700	15,460	12,650	86,810
Additions to non-current assets	38,439	155	-	38,594
<b>Segment liabilities</b>	<b>41,480</b>	<b>8,870</b>	<b>7,353</b>	<b>57,703</b>

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

#### Operating segments – 31 December 2014

'000 Euro	Retail	Office	Leisure	Total
External revenue <sup>1</sup>	1,559	1,355	964	3,878
<b>Segment net rental income</b>	<b>849</b>	<b>898</b>	<b>953</b>	<b>2,700</b>
Net gains or losses from fair value adjustment	222	(47)	435	611
Interest expenses	(476)	(870)	(485)	(1,831)
Income tax expenses	(55)	-	-	(55)
<b>Segment net profit</b>	<b>778</b>	<b>573</b>	<b>1,175</b>	<b>2,526</b>
<b>Segment assets</b>	<b>17,884</b>	<b>16,806</b>	<b>13,051</b>	<b>47,741</b>
Investment properties	17,140	16,410	12,620	46,170
Additions to non-current assets	12,087	337	-	12,424
<b>Segment liabilities</b>	<b>10,995</b>	<b>7,496</b>	<b>6,045</b>	<b>24,536</b>

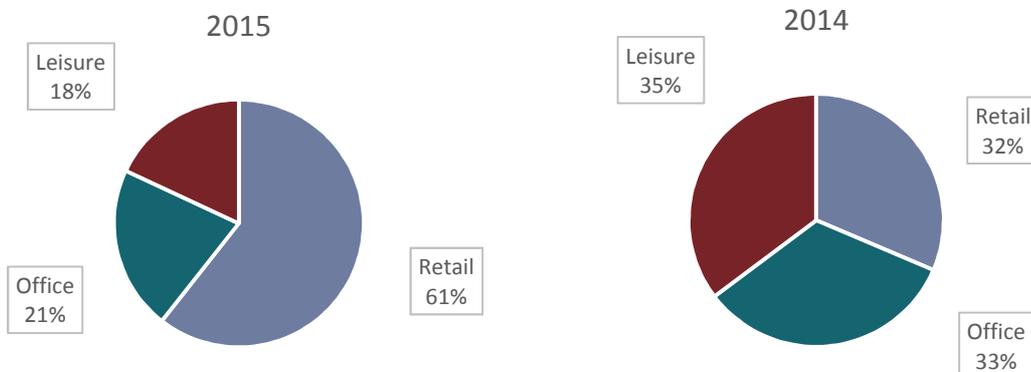
1. External revenue includes rental income and expense reimbursement revenue. Also, segments do not have inter-segment revenue.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

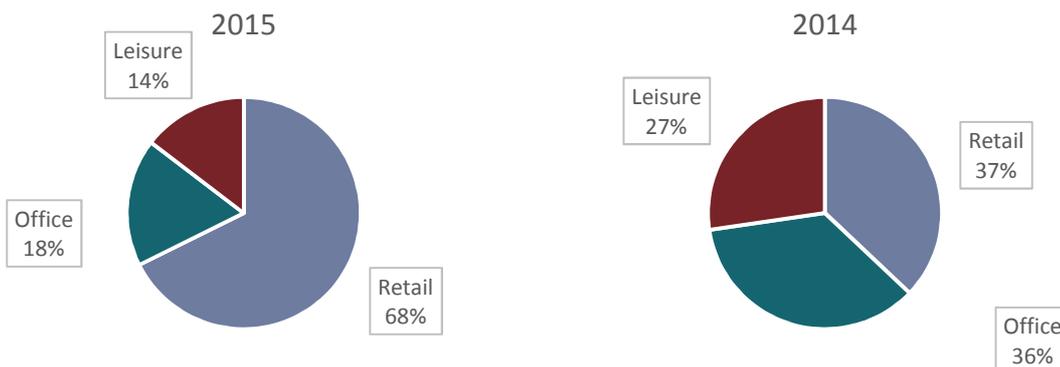
### Segment net rental income\*



### Segment net profit (loss)\*



### Investment properties\*



\*As a percentage of the total for all reportable segments

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2015

'000 Euro	Total Reportable Segments	Adjustments	Consolidated
Interest expenses	(1,711)	635 <sup>1</sup>	(1,075)
Net profit / (loss)	6,337	(812) <sup>2</sup>	5,525
<b>Segment assets</b>	<b>89,447</b>	<b>261<sup>3</sup></b>	<b>89,708</b>
<b>Segment liabilities</b>	<b>57,703</b>	<b>313<sup>4</sup></b>	<b>58,015</b>

1. Eliminated intercompany transactions between companies.
2. Segment net profit does not include Fund management fee expense (EUR 602 thousand), performance fee accrual (EUR 80 thousand), fund custodian fee (EUR 15 thousand) and other Fund administrative expenses (EUR 115 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 261 thousand).
4. Segment liabilities do not include management fee payable (EUR 214 thousand), performance fee accrual (EUR 80 thousand) and other short term payables (EUR 19 thousand) at Fund level.

Operating segments – 31 December 2014

'000 Euro	Total reportable segments	Adjustments	Consolidated
Interest expenses	(1,831)	1,188 <sup>1</sup>	(430)
Net profit (loss)	2,526	(519) <sup>2</sup>	2,007
<b>Segment assets</b>	<b>47,741</b>	<b>1,293<sup>3</sup></b>	<b>49,034</b>
<b>Segment liabilities</b>	<b>24,536</b>	<b>170<sup>4</sup></b>	<b>24,720</b>

1. Eliminated intercompany transactions between companies.
2. Segment net profit does not include Fund management fee expense (EUR 462 thousand), fund custodian fee (EUR 12 thousand) and other administrative related expenses (EUR 45 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 1,293 thousand).
4. Segment liabilities do not include management fee payable (EUR 159 thousand) and other short term payables (EUR 11 thousand) at Fund level.

### Geographic information

#### Segment net rental income

'000 Euro	External revenue		Investment property value	
	2015 Consolidated	2014	2015 Consolidated	2014
Lithuania	4,787	-	53,550	-
Latvia	800	-	5,150	-
Estonia	2,548	-	28,110	-
<b>Total rental income</b>	<b>8,135</b>	<b>-</b>	<b>86,810</b>	<b>-</b>

#### Major tenant

Rental income from one tenant in leisure segment represented EUR 974 thousand in 2015 of the Group's total rental income.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### 8. Cost of rental activities

'000 Euro	2015 Consolidated	2014
Utilities	1,228	-
Repair and maintenance	621	-
Real estate taxes	215	-
Property management expenses	407	-
Sales and marketing expenses	240	-
Property insurance	28	-
Allowance / (reversal of allowance) for bad debts	22	-
Other	35	-
<b>Total cost of rental activities</b>	<b>2,796</b>	<b>-</b>

In 2015, EUR 2,062 thousand of total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants.

### 9. Administrative expenses

'000 Euro	2015 Consolidated	2014
Management fee	602	462
Performance fee	79	-
Legal fees	165	16
Audit fee	28	14
Property valuation fee	24	-
Custodian fees	15	15
Other consultancy fees	54	-
Other administrative expenses	17	10
<b>Total administrative expenses</b>	<b>984</b>	<b>519</b>

The Management Company (Note 25) is entitled to receive an Annual Management Fee which is calculated 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as gross NAV at the certain dates (the last Banking Day of each calendar month). The NAV of the Fund is determined based on the market value of the securities (including shares of SPV's), other balances and rights belonging to the assets of the Fund from which liabilities against the Fund are deducted.

From the first year of operations of the Fund, the Management Company is entitled to calculate the Performance Fee of 20% of the average annual return on Paid in Capital if the average annual Return on Paid in Capital of the Fund exceeds 11% per annum. The Performance Fee, if any, is paid out to the Management Company after the exit of the Fund has been completed (i.e. all assets of the Fund have been transferred) and the audited annual report of the Fund for the final year of the Fund has been approved by the Management Board.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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Annual Performance Fee is calculated based on the example in Appendix 1 of the fund rules and follows a 3 year rolling average calculation principle. Claw-back method is applied similarly based on 3 year rolling average, i.e. in case Performance Fee average result over 3 preceding years is negative, it shall be offset against any positive Performance Fees. As of 31 December 2015, the performance fee amounted to 79 thousand euros (none in 2014).

#### 10. Other operating income

'000 Euro	2015 Consolidated	2014
Income from terminated tenancy agreement	267	-
<b>Total other operating income</b>	<b>267</b>	<b>-</b>

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

#### 11. The summary of the Fund investments in subsidiaries as at 31 December 2014

Name	ISIN	Country	Nominal	Maturity	Interest rate	Rating	Currency	Proportion of ownership held	Amount of units	Average acquisition cost per item	Average acquisition cost total ('000 Euro)	Market value per item	Market value total ('000 Euro)	Proportion of fund asset market value
<b>Investments in subsidiaries</b>														
BOF Lincona OÜ		EE					EUR	100.00%	1	2,500	3	1,224	1,224	5.00%
BOF Domus PRO UAB		LT					LTL	100.00%	1	2,895	3	2,4	2,4	0.01%
BOF Sky SIA		LV					LVL	100.00%	1	2,860	3	756	756	3.09%
BOF CC Plaza OÜ		EE					EUR	100.00%	1	2,500	3	1,421	1,421	5.81%
<b>Total investments</b>											<b>12</b>	<b>3,404</b>	<b>13.90%</b>	
<b>Loans to subsidiaries*</b>														
BOF Domus PRO UAB		LT		12/31/2015	5.00%		EUR		5,000		5	111.00	6	0.02%
BOF Domus PRO UAB		LT		12/31/2015	5.00%		EUR		10,000		10	110.07	11	0.04%
BOF Sky SIA		LV		12/31/2015	5.00%		EUR		2,200,000		2,200	102.42	2,253	9.20%
BOF Lincona OÜ		EE		12/30/2015	8.50%		EUR		7,480,000		7,480	108.12	8,087	33.03%
BOF CC Plaza OÜ		EE		12/31/2015	5.00%		EUR		5,400,000		5,400	103.40	5,584	22.81%
BOF Domus PRO UAB		LT		8/7/2016	5.00%		EUR		3,650,000		3,650	105.40	3,847	15.71%
<b>Total loans to subsidiaries</b>											<b>18,745</b>	<b>19,788</b>	<b>80.82%</b>	
<i>*Accrued interest in the amount of 1 042 828 euros has been added to the value of long term loans; the accrued interest is recorded in the balance sheet under "Accrued income"</i>														
<b>TOTAL SECURITIES</b>											<b>18,757</b>	<b>23,192</b>	<b>94.72%</b>	
<b>Cash</b>														
Current account		EE					EUR				1,293		1,293	5.28%
<b>TOTAL</b>											<b>20,050</b>	<b>24,485</b>	<b>100.00%</b>	

Distribution of investments	31.12.2014	31.12.2014
Euros	Amount	Proportion
Other securities	23,192	94.72%
Cash	1,293	5.28%
<b>Total</b>	<b>24,485</b>	<b>100.00%</b>

The Fund has recorded unrealized profit from change in the fair value of investments in subsidiaries in 2014 in the value of 1,354 thousand euros.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### 12. Financial income

'000 Euro	2015 Consolidated	2014
Interest income	17	-
<b>Total financial income</b>	<b>17</b>	<b>-</b>

### 13. Financial expenses

'000 Euro	2015 Consolidated	2014
Interest on bank loans	1,075	-
Foreign currency exchange loss	1	-
Loan arrangement fee amortisation	24	-
<b>Total financial expenses</b>	<b>1,100</b>	<b>-</b>

### 14. Earnings per unit

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

Profit attributable to unit holders of the Fund:

'000 Euro	2015 Consolidated	2014
Profit for the year, attributed to the Unit holders of the Fund	5,525	2,023
<b>Profit for the year, attributed to the Unit holders of the Fund</b>	<b>5,525</b>	<b>2,023</b>

Weighted-average number of units:

'000 Euro	Note	2015	2014
Issued Units at 1 January	20a	217,197	181,473
Effect of Units issued in February	20a	20,573	-
Effect of Units issued in March	20a	-	2,031
Effect of Units issued in April	20a	-	8,627
Effect of Units issued in May	20a	-	4,075
Effect of Units issued in August	20a	1,159	-
Effect of Units issued in September	20a	-	-
Effect of Units issued in October	20a	-	1,046
Effect of Units issued in December	20a	219	419
<b>Weighted-average number of Units issued</b>		<b>239,148</b>	<b>197,672</b>

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Basic and diluted earnings per unit

'000 Euro 2015 2014

Basic and diluted earnings per unit\* 23.10 10.23

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

#### 15. Income tax

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where 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 2015 and 2014 are:

'000 Euro 2015 2014  
Consolidated

#### Consolidated statement of comprehensive income

Current income tax for the year - -

Deferred tax for the year (Note 20b) (890) -

**Income tax expense reported profit or loss** **(890)** **-**

#### Consolidated statement of other comprehensive income

Deferred income tax related to items charged or credited to equity:

Revaluation of derivative instruments to fair value 18 -

**Income tax expense reported in other comprehensive income** **18** **-**

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Deferred income tax as at 31 December 2015 and 2014 relates to the following:

'000 Euro	Consolidated statement of financial position		Recognised in profit or loss	
	2015 Consolidated	2014	2015 Consolidated	2014
Tax losses brought forward	1,341	-	(32)	-
Revaluation of derivative instruments to fair value	33	-	-	-
<b>Deferred income tax assets</b>	<b>1,374</b>	-		
Investment property	(5,027)	-	(861)	-
Other tax liability	(20)	-	(12)	-
<b>Deferred income tax liabilities</b>	<b>(5,047)</b>	-		
<b>Deferred income tax income / (expense)</b>			<b>(890)</b>	-
<b>Deferred tax liabilities net</b>	<b>(3,673)</b>	-		

Reflected in the statement of financial position as follows:

Deferred tax assets	-	-
Deferred tax liabilities	(3,673)	-
<b>Deferred tax liabilities net</b>	<b>(3,673)</b>	-

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

'000 Euro	2015 Consolidated		2014	
	(Loss) / profit before income tax		6,415	
At statutory tax rate	(0.0)%	-	-	-
Effect of tax rates in foreign jurisdictions	(13.2)%	(849)	-	-
Tax effect of non-deductible expenses	(0.2)%	(16)	-	-
Change in unrecognized deferred tax	(0.4)%	(25)	-	-
<b>Total income tax expenses</b>	<b>(13.9)%</b>	<b>(890)</b>	-	-

As at 31 December 2015, the Group had tax losses of EUR 1,341 thousand that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may only be used to offset the taxable profits of certain companies in the Group, and there is uncertainty whether these companies will generate taxable profit in the future.

Summary of taxation rates by country is presented below:

'000 Euro	2015	2014
Lithuania	15%	15%
Latvia	15%	15%
Estonia*	0%	0%

\*20 % income tax rate applies on income distributions (in 2012-2014 the tax rate in Estonia was 21%).

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### 16. Investment property

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

The fair value of the investment properties is approved by the Board of Directors 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 and approved by both the International Valuation Standards Committee (IVSC) and by the European Group of Valuers' Association (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 of 31 December 2015 all of Fund properties were valued externally by independent valuers Colliers International and Newsec.

Valuations are prepared using the direct capitalization approach. Under the direct capitalization approach, the income and expenses of one year are stabilised and the net resulting operating income is capitalised at a capitalisation or return rate in proportion to the title to the subject property. Such income capitalisation considers the competitive return resulting from alternative instruments of investment into real estate or other property. This calculation excludes the effects of taxes and disposal costs borne by the seller, and is net of transaction costs normally borne by the purchaser. Depreciation is not provided on investment properties.

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

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

Investment properties were valued on an annual basis, as required by the Fund's Rules.

'000 Euro	2015	2014
<b>Balance at 1 January</b>	-	-
Investment property acquired in business combination	81,957	-
Additions (subsequent expenditure)	2,967	-
Disposals	(1,000)	-
Net revaluation gain / (loss)	2,886	-
<b>Closing balance at 31 December</b>	<b>86,810</b>	-

#### 16a. Deemed acquisitions of subsidiaries in connection with the change in the Fund status

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

For the reporting purposes, investments in Lincona, Coca-Cola Plaza, SKY and Domus PRO are treated as acquisitions as at 1 January 2015. As at 1 January 2015, the assets and liabilities were already recorded close to fair value in these investments and, therefore, no goodwill or badwill arose.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### Acquisition of Lincona

The fair value of the consolidated identifiable assets and liabilities of as at the date of acquisition of BOF Lincona OÜ were:

'000 Euro	Fair value recognized on acquisition
Investment property	16,410
Trade and other receivables	125
Cash and cash equivalents	271
<b>Total assets</b>	<b>16,806</b>
Interest bearing loans and borrowings	7,329
Intercompany borrowings	8,087
Other-non current liabilities	8
Trade and other payable	158
<b>Total liabilities</b>	<b>15,582</b>
<b>Net assets</b>	<b>1,224</b>
<b>Total consideration</b>	<b>1,224</b>

No cash was paid at acquisition. Net cash acquired with the subsidiary was EUR 271 thousand.

#### Acquisition of SKY

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

'000 Euro	Fair value recognized on acquisition
Investment property	5,100
Trade and other receivables	50
Cash and cash equivalents	152
<b>Total assets</b>	<b>5,302</b>
Interest bearing loans and borrowings	2,125
Intercompany borrowings	2,253
Trade and other payable	85
Deferred tax liability	83
<b>Total liabilities</b>	<b>4,546</b>
<b>Net assets</b>	<b>756</b>
<b>Total consideration</b>	<b>756</b>

No cash was paid at acquisition. Net cash acquired with the subsidiary was EUR 151 thousand.

#### Acquisition of Coca-Cola Plaza

The fair value of the consolidated identifiable assets and liabilities of as at the date of acquisition of BOF CC Plaza OÜ were:

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'000 Euro	Fair value recognized on acquisition
Investment property	12,620
Cash and cash equivalents	430
<b>Total assets</b>	<b>13,050</b>
Interest bearing loans and borrowings	5,969
Intercompany borrowings	5,584
Trade and other payable	76
<b>Total liabilities</b>	<b>11,629</b>
<b>Net assets</b>	<b>1,421</b>
<b>Total consideration</b>	<b>1,421</b>

No cash was paid at acquisition. Net cash acquired with the subsidiary was EUR 430 thousand.

#### Acquisition of Domus Pro

The fair value of the consolidated identifiable assets and liabilities of as at the date of acquisition of BOF Domus Pro UAB were:

'000 Euro	Fair value recognized on acquisition
Investment property	12,040
Non-current assets	13
Trade and other receivables	49
Cash and cash equivalents	481
<b>Total assets</b>	<b>12,583</b>
Interest bearing loans and borrowings	7,615
Intercompany borrowings	3,864
Other-non current liabilities	209
Trade and other payable	293
Deferred tax liability	600
<b>Total liabilities</b>	<b>12,581</b>
<b>Net assets</b>	<b>2</b>
<b>Total consideration</b>	<b>2</b>

No cash was paid at acquisition. Net cash acquired with the subsidiary was EUR 481 thousand.

#### Acquisition of Europa

On 2 March 2015, the Group acquired 100% of the voting shares of BOF Europa Holding (former BPT Secura UAB) an unlisted company based in Lithuania. BOF Europa Holding owns shares in BOF Europa UAB which owns Europa Shopping centre. The management of the Group was of opinion that this acquisition qualifies to be a business combination because of the following reasons:

- Complex property management process.
- The acquired property had existing lease agreements with all related processes needed for property operation;

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

- No employees exist to manage the processes, however, these processes are outsourced to the external property management company.

The fair value of the consolidated identifiable assets and liabilities of BOF Europa Holding UAB and BOF Europa UAB as at the date of acquisition were:

'000 Euro	Fair value recognized on acquisition
Investment property	35,787
Other non-current assets	341
Trade and other receivables	524
Cash and cash equivalents	416
<b>Total assets</b>	<b>37,068</b>
Interest bearing loans and borrowings	26,012
Trade and other payable	808
Deferred tax liability	2,175
<b>Total liabilities</b>	<b>28,995</b>
<b>Net assets</b>	<b>8,073</b>
<b>Total consideration</b>	<b>8,073</b>

The total cost of the acquisition (including transaction costs) was EUR 8,073 thousand which was paid in cash.

Cash outflow on acquisition:

'000 Euro	Total
Net cash acquired with the subsidiary	416
Cash paid for the acquisition	(8,073)
<b>Net cash outflow</b>	<b>(7,657)</b>

From the date of acquisition on 3 March 2015 until 31 December 2015, BOF Europa UAB and BOF Europa Holding have contributed EUR 3,433 thousand to the revenue of the Group and EUR 2,646 thousand to the net profit of the Group. If the combination had taken place at the beginning of 2015, the revenue contribution would be 4,043 and net profit for the Group would have been 2,963 thousand for the full year.

#### Sales of properties

On 2 March 2015, the Group disposed Babycenter in Tallinn, Estonia. The property was a neighbouring stand-alone building acquired in 2011 together with Lincona office complex. The disposal price was EUR 990 thousand resulting in a loss of EUR 10 thousand.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

#### Fair value hierarchy

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

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Total gain or (loss) in year 2015 in the income statement</b>
Lithuania – Europa (retail)	-	-	37,210	37,210	1,093
Lithuania – Domus Pro (retail)	-	-	16,340	16,340	1,863
Latvia – SKY (retail)	-	-	5,150	5,150	5
Estonia – Lincona (office)	-	-	15,460	15,460	(105)
Estonia – Coca-Cola Plaza (leisure)	-	-	12,650	12,650	30
<b>Total</b>	-	-	<b>86,810</b>	<b>86,810</b>	<b>2,886</b>

Compared to 2014, the value of Domus Pro Retail Park was mainly affected by the opening of stage II of the property. As at 31 December 2015, the market value of stage II was EUR 3,500 thousand (2014: EUR 850 thousand). The valuation method used for the value calculated in 2015 was Discounted Cash Flows method. The valuation method used for the value calculated in 2014 was residual method which takes into account the income potential ability after accounting for the true cost of its capital. The value of stage II was significantly increased in 2015 due to the fact that the stage II started to operate (one of the tenants started lease as from November 2015 and the other tenant is currently refurbishing its premises and is expected to finish its work in Q2 2016).

The value of Europa property is based on appraisers experience and knowledge about other transactions with cash flow generating properties, the average yield of prime retail properties is currently assessed at around 6.75% - 7.25%. Taking into account the excellent location of Europa Shopping Centre, its age, size, structure, architectural – engineering solutions, strong tenant mix, also the forecast that the overall market and economic situation will probably improve to some extent in perspective, the valuator used the exit yield of 7.25% as the expected rate of return of the this property.

There were no transfers between Levels during the years. Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to gain of EUR 2,886 thousand as at 31 December 2015 (2014: gain of EUR 611 thousand) and are presented in the consolidated income statement in line 'Gross valuation gains / (loss) on investment properties'.

#### Valuation techniques used to derive Level 3 fair values

As of 31 December 2015 valuations of all investment properties were performed by Colliers. As of 31 December 2014 valuation of investment property located in Lithuania was performed by Independent valuer Newsec and valuations of investment properties located in Estonia and Latvia were performed by Colliers.

The table below presents the following for each class of the investment property:

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

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

As of 31 December 2015:

Property	Valuation technique	Key unobservable inputs	Range
<b>Europa Shopping centre, Vilnius (Lithuania)</b>	DCF	- Discount rate	7.5%
Total rentable space – 22,611 m <sup>2</sup>		- 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/m <sup>2</sup> )	13.6
<b>Domus Pro Retail Park, Vilnius (Lithuania)</b>	DCF	- Discount rate	8.4%
Total rentable space – 7,505 m <sup>2</sup>		- Rental growth p.a.	0.0% - 3.0%
Segment – Retail		- Long term vacancy rate	2.0% - 14.0%
Year of construction/renovation – 2013		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	10.4
<b>Lincona Office Complex, Tallinn (Estonia)**</b>	DCF	- Discount rate	8.6%
Total rentable space – 10,849 m <sup>2</sup>		- Rental growth p.a.	0.0% - 2.4%
Segment – Office		- Long term vacancy rate	5.0% - 10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	10.2
<b>Coca-Cola Plaza , Tallinn (Estonia)</b>	DCF	- Discount rate	8.2%
Total rentable space – 8,664 m <sup>2</sup>		- Rental growth p.a.	0.8-1.7%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 1999		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	9.4
<b>SKY Supermarket, Riga (Latvia)</b>	DCF	- Discount rate	8.2%
Total rentable space – 3,240 m <sup>2</sup>		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail		- Long term vacancy rate	2.5%
Year of construction/renovation – 2000 / 2010		- Exit yield	7.75%
		- Average rent (EUR/m <sup>2</sup> )	11.3

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

As of 31 December 2014:

Property	Valuation technique	Key unobservable inputs	Range
<b>Domus Pro Retail Park, Vilnius (Lithuania)</b>	DCF*	- Discount rate	10.4%
Total rentable space – 7,505 m <sup>2</sup>		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	10.4
<b>Lincona Office Complex, Tallinn (Estonia)**</b>	DCF	- Discount rate	8.60-9.20%
Total rentable space – 11,336 m <sup>2</sup>		- Rental growth p.a.	0.0% - 5.0%
Segment – Office		- Long term vacancy rate	5.0%-10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	9.7
<b>Coca-Cola Plaza , Tallinn (Estonia)</b>	DCF	- Discount rate	8.50%
Total rentable space – 9,929 m <sup>2</sup>		- Rental growth p.a.	2.0%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 1999		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	9.3
<b>SKY Supermarket, Riga (Latvia)</b>	DCF	- Discount rate	8.50%
Total rentable space – 3,240 m <sup>2</sup>		- Rental growth p.a.	0.0%-3.0%
Segment – Retail		- Long term vacancy rate	3.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	8.0%
		- Average rent (EUR/m <sup>2</sup> )	11.1

\* Residual method was used to assess of land plot area that is un-build and potentially can be additionally developed for Domus Pro stage 2. The value of this land plot was EUR 850 thousand.

\*\*Lincona property complex consists of 3 connected office buildings and 1 standalone retail unit; as at end of 2014 the separate valuations were performed for the retail unit and office complex.

The table below sets out information about significant unobservable inputs used at 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of asset class	Fair value at 31 December	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	2015: 86,810	Discounted cash flow	Exit yield	2015: 7.25%-8.0% 2014: 8.0%	Increase in exit yield in isolation would result to lower value of Investment property.
			Discount rate	2015: 7.5% - 8.6% 2014: 8.5 – 10.4%	Increase in discount rate in isolation would result to lower value of Investment property.
			Rental growth p.a.	2015: 0 – 3.0%; 2014: 0 – 5.0%;	Increase in rental growth in isolation would result to higher value of Investment property.
			Long term vacancy rate	2015: 0 – 14.0% 2014: 0 – 10.0%	Increase in Long-term vacancy rate in isolation would result to lower value of Investment property.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Sensitivity analysis of fair values of each property at 31 December 2015 based on possible changes in Exit yield and discount rate (WACC) are provided in the tables below:

#### Europa Shopping centre

		Discount rate (WACC)				
Exit yield		7.03%	7.28%	7.53%	7.78%	8.03%
	6.75%	40,090	39,370	38,660	37,970	37,290
	7.00%	39,310	38,600	37,910	37,230	36,580
	7.25%	38,570	37,880	<b>37,210</b>	36,550	35,910
	7.50%	37,890	37,210	36,560	35,910	35,280
	7.75%	37,250	36,590	35,940	35,310	34,700

#### Domus Pro Stage I and Stage II

		Discount rate (WACC)				
Exit yield		7.90%	8.15%	8.40%	8.65%	8.90%
	7.50%	17,490	17,190	16,880	16,590	16,300
	7.75%	17,200	16,890	16,610	16,310	16,030
	8.00%	16,920	16,620	<b>16,340</b>	16,050	15,780
	8.25%	16,660	16,370	16,090	15,820	15,550
	8.50%	16,410	16,130	15,860	15,590	15,320

#### Lincona Office Complex

		Discount rate (WACC)				
Exit yield		8.40%	8.50%	8.60%	8.70%	8.80%
	7.80%	15,860	15,800	15,740	15,680	15,620
	7.90%	15,720	15,660	15,600	15,540	15,480
	8.00%	15,580	15,520	<b>15,460</b>	15,400	15,340
	8.10%	15,450	15,390	15,330	15,270	15,220
	8.20%	15,320	15,260	15,210	15,150	15,090

#### Coca-Cola Plaza

		Discount rate (WACC)				
Exit yield		8.00%	8.10%	8.20%	8.30%	8.40%
	7.80%	12,970	12,920	12,870	12,810	12,770
	7.90%	12,860	12,810	12,760	12,710	12,660
	8.00%	12,750	12,700	<b>12,650</b>	12,600	12,550
	8.10%	12,640	12,590	12,540	12,490	12,450
	8.20%	12,540	12,490	12,440	12,390	12,340

#### SKY Supermarket

		Discount rate (WACC)				
Exit yield		7.45%	7.95%	8.20%	8.45%	8.95%
	7.25%	5,570	5,460	5,400	5,350	5,240
	7.50%	5,440	5,330	5,270	5,220	5,120
	7.75%	5,310	5,210	<b>5,150</b>	5,100	5,000
	8.00%	5,200	5,090	5,040	4,990	4,890
	8.25%	5,090	4,990	4,940	4,890	4,790

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### Descriptions and definitions

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

#### **Discounted Cash Flows (DCF)**

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

#### **Rental growth**

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

#### **Long term vacancy rate**

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

#### **Discount rate**

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

#### **Exit yield**

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

### Highest and best use

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

## **17. Other non-current assets**

'000 Euro	2015	2014
	Consolidated	
Other non-current assets	263	-
<b>Total</b>	<b>263</b>	<b>-</b>

## **18. Trade and other receivables**

'000 Euro	2015	2014
	Consolidated	
Trade receivable, gross	570	-
Less impairment allowance for doubtful receivables	(22)	-
Accrued income	174	-
Other accounts receivable	118	-
<b>Total</b>	<b>840</b>	<b>-</b>

## Baltic Opportunity Fund

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#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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

As at 31 December 2015, trade receivables at nominal value of EUR 22 thousand were impaired and fully provisioned.

Movements in the impairment of receivables were as follows:

'000 Euro	2015 Consolidated	2014
Balance at 1 January	-	-
Charge for the year	(22)	-
<b>Balance at 31 December</b>	<b>(22)</b>	<b>-</b>

The ageing analysis of trade receivables that were past due but not impaired is as follows (at the end of the year):

'000 Euro	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2015	<b>548</b>	241	93	29	24	6	155

#### 19. Cash and cash equivalents

'000 Euro	2015 Consolidated	2014
Cash at banks and on hand	1,677	1,293
<b>Total cash</b>	<b>1,677</b>	<b>1,293</b>

As at 31 December 2015, the Group had to keep at least EUR 500 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### 20. Equity

#### 20a. Paid in capital

As at 31 December 2015, the paid in capital of Baltic Opportunity Fund is represented by 250,167 units (2014: 217,197). Units issued and fully paid are presented in the table below:

'000 Euro	Number of units	Amount
<b>As at 1 January 2014</b>	<b>181,473</b>	<b>18,156</b>
Issued in March 2014	2,474	265
Issued in April 2014	12,817	1,400
Issued in May 2014	6,438	700
Issued in October 2014	5,973	655
Issued in December 2014	8,022	875
<b>Total issued during the year</b>	<b>35,724</b>	<b>3,895</b>
<b>As at 1 January 2015</b>	<b>217,197</b>	<b>22,051</b>
Issued in February 2015	24,393	2,660
Issued in September 2015	4,585	500
Issued in December 2015	3,992	463
<b>Total issued during the year</b>	<b>32,970</b>	<b>3,623</b>
<b>As at 31 December 2015</b>	<b>250,167</b>	<b>25,674</b>

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 receive, when payments are made a share of 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 2015 and 2014. The Fund did not hold its own units as at 31 December 2015 and 2014.

#### 20b. Cash flow hedge valuation reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the year ended on 31 December 2015.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

'000 Euro	2015	2014
	Consolidated	
<b>Balance at the beginning of the year</b>	-	-
Fair value of hedge acquired*	(194)	-
Movement in fair value of existing hedges	(23)	-
Movement in deferred income tax (Note 15)	18	-
<b>Net variation during the year</b>	<b>(5)</b>	-
<b>Balance at the end of the year</b>	<b>(199)</b>	-

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

### 20c. Dividends paid

'000 Euro	2015	2014
Declared during the year*	(1,764)	(1,060)
<b>Total dividends paid</b>	<b>(1,764)</b>	<b>(1,060)</b>

\*Dividends in the amount EUR 463 thousand (2014: EUR 875 thousand) were reinvested back into the Fund by the unitholders in exchange for additional units of the Fund.

In November 2014, the Fund declared a distribution of EUR 5.06 per unit.

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

### 21. Interest bearing loans and borrowings

'000 Euro	Maturity	Effective interest rate	2015	2014
			Consolidated	
<b>Non-current borrowings</b>				
Bank 1	Dec 2017	1M EURIBOR plus 1.45%	7,169	-
Bank 1	Dec 2017	3M EURIBOR plus 3.00%	1,533	-
Bank 3	May 2018	3M EURIBOR plus 2.50%	8,141	-
Bank 1	Mar 2018	3M EURIBOR plus 1.50%	24,331	-
Less current portion			(1,588)	-
<b>Total non-current debt</b>			<b>39,586</b>	-
<b>Current portion of non-current borrowings</b>				
Bank 1	Aug 2016	3M EURIBOR plus 2.10%	2,708	-
Bank 2	Mar 2016	3M EURIBOR plus 2.60%	7,312	-
Current portion of non-current borrowings			1,588	-
<b>Total current debt</b>			<b>11,608</b>	-
<b>Total</b>			<b>51,194</b>	-

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### Loan securities

As of 31 December 2015 the Group was not breaching any of the bank loan agreements and were in compliance with the covenants specified in the loan agreements. Based on the agreements, the Group has to ensure compliance with the following main financial performance ratios: Debt Service Coverage Ratio (DSCR) and Loan to value ratio (or Equity ratio).

For the borrowings received, the following pledges and securities were present as of 31 December 2015:

	Mortgages of the property	Second rank mortgages for derivatives	Pledges of receivables	Pledges of bank accounts	Share pledge
<b>Bank 1</b>	Lincona, SKY and Europa	Lincona, SKY and Europa	Lincona, SKY and Europa	BOF Europa UAB, SKY	
<b>Bank 2</b>	Coca-Cola Plaza	Coca-Cola Plaza	Coca-Cola Plaza	Coca-Cola Plaza	
<b>Bank 3</b>	Domus Pro	Domus Pro	Domus Pro		BOF Domus Pro UAB

### 22. Trade and other payables

'000 Euro	2015	2014
	Consolidated	
Trade payables	686	-
Accrued expenses	235	160
Accrued expenses related to Domus Pro stage II acquisition	745	-
Accrued financial expenses	17	-
Tax payables	120	-
Other payables	232	11
<b>Total trade and other payables</b>	<b>2,035</b>	<b>171</b>

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.

### 23. Other current liabilities

'000 Euro	2015	2014
	Consolidated	
Advances received	274	-
Deferred income	6	-
<b>Total other current liabilities</b>	<b>280</b>	<b>-</b>

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

### 24. Commitments and contingencies

#### 24a. 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 Group's investment properties portfolio which include a clause authorising tenants to terminate the leasing arrangements up to six-month notice are not considered as non-cancellable leases.

Lease payments receivable from non-cancellable lease are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

'000 Euro Year of expiry or first break option	2015	
	Amount receivable	%
Within 1 year	5,179	19 %
Between 2 and 5 years	15,154	56 %
5 years and more	6,955	25 %
<b>Total</b>	<b>27,288</b>	<b>100 %</b>

#### 24b. Litigation

As at 31 December 2015, there was no on-going litigation, which could materially affect the consolidated financial position of the Group.

#### 24c Contingent liabilities

On 1 December 2015, the Group entered into agreement with TK Development to increase the value of Domus Pro retail Park by constructing and developing office and commercial building (stage III) on the land plot nearby the Domus Pro stage II. Construction of stage III may be commenced if at least 50% of gross letting area of office and retail building of stage III is preleased and at least 20% of gross letting area of office and retail building of stage III are under the head of terms and the building permitting of the stage III is obtained. In case the commencement conditions precedent were not met until 30 November 2016, the Group:

- is released from any obligations of this agreement, however, if the commencement conditions precedent of stage III were not met due to the fault of the Group, it must cover the costs related to preparation for the development of stage III;
- if the commencement conditions precedent of stage III were not met due to the fault of TK Development by 30 November 2016, the Group should initiate separation of the part of the land plot related to stage III. Once the land plot is legally formed and registered, the Group shall sell the land plot in land SPA to TK Development for the price equal to the market price. The Group shall also pay to TK Development remuneration for development services delivered until the date of concluding land separation;
- In case the land is not separated until 31 May 2017 and/or the land SPA is not signed until 31 July 2017 due to the fault of the Group, the Group shall pay to TK Development the amount of EUR 1,000 thousand.

The Group does not have any other contingent liabilities at the end of 31 December 2015.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

#### 25. Related parties

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

##### Northern Horizon Capital A/S

As set in Baltic Opportunity Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund is paying management fees respectively (Note 9).

##### TK Development Lietuva UAB

In agreement entered on 30 July 2013, TK Development Lietuva UAB acts as the development project manager of Domus Pro retail park.

The following table provides the total amount of the transactions and balances at year end, which have been entered into with related parties for the relevant financial year:

	2015	2014
<b>Northern Horizon Capital A/S group</b>		
<i>Transactions:</i>		
Management fees	(602)	(462)
Performance fees	(79)	-
Property management fee*	(407)	(181)
<i>Balances:</i>		
Payables	294	159
<b>UAB TK Development Lietuva</b>		
<i>Balances:</i>		
Short term loan receivable related to BOF Domus Pro UAB (former <i>Profista UAB</i> ) acquisition	-	-
Loan payable related to Domus Pro acquisition**	-	113
Accrued expenses related to Domus Pro stage II acquisition***	745	

\*In a transaction signed on 13 August 2015, Northern Horizon Capital A/S sold its property management subsidiary BPT Real Estate AS

\*\*Final purchase price of Domus Pro stage I settlement in cash novated to intercompany loan between TK Development and BPT Baltic Fund 2 UAB. (company merged to Domus Pro UAB in December 2015). Loan terms are provided in Note 21.

\*\*\*Accrual for services to develop Domus Pro stage II by TK Development.

The Management Company is entitled to receive an Annual Management Fee which is calculated 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as gross NAV at the certain dates (the last Banking Day of each calendar month). The NAV of the Fund is determined based on the market value of the securities (including shares of SPV's), other balances and rights belonging to the assets of the Fund from which liabilities against the Fund are deducted.

The Property Management Fee is calculated from the net rental income of the real estates in respect of which the Management Company provides property management services. The rate of the Property Management Fee is 3-6% of the net rental income of the real estates managed by the Management Company. Property management service means arranging of provision of services related to a real estate such as (i) SPV accounting, (ii) communication with lessees, conclusion of lease agreements and collection of lease payments, (iii) finding, planning and realisation of small expansion possibilities and other

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

possibilities to increase the cash flow of a real estate (excluding large scale construction and development projects), (iv) utility services and (v) property maintenance.

Northern Horizon Capital A/S owns 1,500 units of the Fund.  
UAB TK Development Lietuva owns 12,817 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 2015 and 2014 are provided in the tables below:

#### As at 31 December 2015

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

#### As at 31 December 2014

	Number of units	Percentage
Svenska Kyrkans Pensionskassa	115,165	53.0 %
Skandinaviska Enskilda Banken SA	39,276	18.1 %
TK Development Lietuva UAB	12,817	5.9 %

Except for dividends paid, there were no transactions with Svenska Kyrkans Pensionskassa and Skandinaviska Enskilda Banken SA. Transactions with UAB TK Development Lietuva are disclosed in the table above.

## 26. Financial instruments

### Fair values

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

	Carrying amount		Fair value	
	2015	2014	2015	2014
	Consolidation		Consolidation	
<b>Financial assets</b>				
Trade and other receivables	840	-	840	-
Cash and cash equivalents	1,677	-	1,677	-
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	(51,194)	-	(51,670)	-
Trade and other payables	2,036	171	2,036	171
Derivative financial instruments	(232)	-	(232)	-

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

#### Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2015 and 2014:

Year ended 31 December 2015	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Trade and other receivables	-	-	840	<b>840</b>
Cash and cash equivalents	-	1,677	-	<b>1,677</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(51,670)	<b>(51,670)</b>
Trade and other payables	-	-	171	<b>171</b>
Derivative financial instruments	-	(232)	-	<b>(232)</b>
<hr/>				
Year ended 31 December 2014	Level 1	Level 2	Level 3	Total fair value
<b>Financial liabilities</b>				
Trade and other payables	-	-	171	<b>171</b>

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

The fair value of the financial assets and liabilities is included at 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 were 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 of these receivables. As at 31 December 2015 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.
- Fair values of the Group's interest-bearing loans and borrowings are determined by using the DCF method at prevailing interest rates.
- Cash and cash equivalents, from tenants are attributed to level 2 fair value hierarchy.

#### 27. Derivative financial instruments

The Group entered into a number of interest rate swaps ('IRS') with Pohjola, DnB Nord and SEB banks. The purpose of interest rate swaps is to hedge the interest rate risk arising from interest rate fluctuations as 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 pays fixed interest payments to a bank and receives variable interest rate payments from a bank.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 goes to equity reserves rather than income statement. Specific documentation on each financial instrument is required to be maintained to ensure hedge accounting principles (Note 20b).

Derivative type	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value	
						2015 Consolidated	2014
IRS	Sep 2013	Aug 2016	1,100	3M Euribor	0.60 %	(4)	-
IRS	Sep 2013	Mar 2016	5,975	3M Euribor	0.74 %	(13)	-
IRS	Dec 2014	May 2018	7,542	3M Euribor	0.50 %	(99)	-
IRS	Sep 2015	Mar 2018	19 474	3M Euribor	0.15 %	(116)	-
<b>Derivative financial instruments liabilities</b>						<b>(232)</b>	<b>-</b>

Derivative financial instruments are accounted for at fair value as at 31 December 2015 and 2014. Maturity of derivative financial instruments in the Group is specified as follows:

Classification according to Maturity	Liabilities		Assets	
	2015	2014	2015	2014
Non-current	(215)	-	-	-
Current	(17)	-	-	-
<b>Total</b>	<b>(232)</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### 28. Subsequent events

On 21 March 2016, BOF CC Plaza OÜ extended the bank loan maturite term. The loan period was extended until March 2019.

There were no other significant events after year end.

#### 29. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Share in capital
BOF Lincona OÜ	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BOF Domus Pro UAB	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BOF CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%
BOF Europa Holding UAB	Gynėjų 16, Vilnius	111811998	2 March 2015	Holding company*	100%
BOF Europa UAB	Gynėjų 16, Vilnius	300059140	2 March 2015	Asset holding company	100%

BOF Europa Holding UAB holds 100% of Europa UAB. BOF Europa UAB is owned by the Fund indirectly.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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The Financial Statements of Baltic Opportunity Fund have been approved by the management board of the Management Company on 15 April 2016.

Name and position	Signature	Date
Tarmo Karotam Chairman of the management board		<u>15 April 2016</u>
Aušra Stankevičienė Member of the management board		<u>15 April 2016</u>
Algirdas Jonas Vaitiekūnas Member of the management board		<u>2016.04.15</u>

## **APPENDIX D**

**Audited Special Purpose Consolidated Financial Statements of BOF for the Years 2014 and 2013**

# ***Baltic Opportunity Fund***

**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2014 and 2013**

## Baltic Opportunity Fund

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Beginning of financial year	1 January
End of financial period	31 December
Management company	Northern Horizon Capital AS
Business name	Baltic Opportunity Fund
Type of fund	Non-public closed-ended contractual real estate fund
Style of fund	Core plus
Market segment	Retail / Offices
Life time/ Investment stage	Finite / closed for investments
Key milestone dates	21 December 2010 (first closing) 21 December 2014 (end of commitment period) 21 December 2017 (fund term)
Address of the fund	Hobujaama 5 Tallinn 10151 Estonia
Phone	+372 6309 420
Fax	+372 6309 421
Fund manager	Tarmo Karotam
Investment committee	Andris Kraujins (Chairman) Janis Abasins Lars Ohnemus
Investment committee remuneration	15 000 euros p.a.
Management board of the Management Company	Tarmo Karotam (Chairman) Aušra Stankevičienė
Supervisory board of the Management Company	Michael Schönach (Chairman) Dalia Garbuziene Jussi Erkki Pelkonen
Depositary, Fund administrator and Registrar	Swedbank AS



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Internet www.kpmg.ee

## Independent Auditors' Report

To the Shareholders of Baltic Opportunity Fund

We have audited the accompanying special purpose consolidated financial statements of Baltic Opportunity Fund ("the Fund"), which comprise the consolidated statements of financial position as at 31 December 2014 and 31 December 2013, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. Audited special purpose consolidated financial statements are presented on pages from 16 to 61.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose consolidated financial statements in accordance with the basis of preparation set out in Note 1, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the special purpose consolidated financial statements for the years ended 31 December 2014 and 31 December 2013 are prepared, in all material respects, in accordance with the basis of preparation set out in Note 1.



#### Emphasis of Matter

We draw attention to Note 1 to the special purpose consolidated financial statements, which describes the basis of preparation. In its audited general purpose EU IFRS financial statements for the years ended 31 December 2014 and 2013, Baltic Opportunity Fund applied the investment entity exemption under IFRS 10, in accounting for its investments in its subsidiaries at fair value. Our opinion is not qualified in respect of this matter.

These special purpose consolidated financial statements were prepared in order to provide management with information about the historic consolidated financial position, consolidated results of operations and consolidated cash flows of Baltic Opportunity Fund. As a result, the financial statements may not be suitable for another purpose.

Tallinn, 15 April 2016

A handwritten signature in blue ink, appearing to read 'Eero Kaup', with a long horizontal flourish extending to the right.

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17

# Baltic Opportunity Fund

**MANAGEMENT REVIEW**  
**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013**

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Baltic Opportunity Fund is a direct real estate fund (“the Fund”) with an aim to invest in core cash-flow generating properties with prime characteristics and strong business concepts across the Baltic capitals. The focus is on retail and office properties which hold long-term tenants and opportunities for active asset management. The financial objective of the Fund is to provide its Investors with an above average risk-adjusted return by primarily acquiring commercial real estate properties or forward funding projects that provide for potential capital gains through realizing income enhancement possibilities, while not excluding a stream of high yielding current income. During year 2014 the strategy of the Fund did not change.

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

The 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 a strong commitment, transparency and fair dealings. The Investor’s best interest is always considered in the Management Company to guard that the Investor is treated fairly. The Board ensures that conflicts of interests between the related parties are avoided or are as small as possible. Business units are obliged to establish, maintain and document procedures to identify, prevent and manage conflicts of interest and to, when necessary issue supplementing instructions to the policies, instructions and guidelines issued by the Group.

Investors participate in management of the Fund through General Meetings. The General Meeting is called by the Management Company as often as the need to decide issues, which fall into the competence of the General Meeting, arises. Notice of the General Meeting is given at least three weeks in advance. The General Meeting may adopt resolutions if at least 2/3 of the votes represented by the Units are present.

The Fund has an independent Investment Committee which consists of qualified members with recognized experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education. The Investment Committee is solely competent to make all investment and divestment decisions for accomplishing the Fund’s investment objectives.

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

The real estate property valuation policies of the Fund are determined in the Fund rules based on the common market practice. Only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where any relevant real estate property is located may evaluate real estate belonging to the Fund. At the end of 2014, Fund properties were valued externally by independent valutors Colliers International and Newsec.

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 Estonia which is a member of the Estonian Board of Auditors.

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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The Fund's activities are monitored on a regular basis by the Estonian FSA, the investment committee, Fund administrator and depositary bank Swedbank. The Management Company follows the INREV guidelines and FSA requirements for corporate governance as well as ensures transparency through accurate, direct and timely communication to Investors. In addition, Management Company has assessed the level of compliance with INREV's reporting, NAV and fee and expense metrics modules. The results of such self-assessment are summarised below:

**Table 1: Statement of level of adoption of INREV Guidelines**

INREV module	Guidelines	Level of adoption or compliance
1	Corporate Governance	The compliance with the INREV corporate governance module has been considered by the manager. The intended framework partially complies with the INREV corporate best practices. The vehicle assessed at the end of the financial year that it is currently following its intended corporate governance framework.
2	Reporting	Although not detailed in the fund documentation, the INREV reporting module has been considered. The INREV requirements are complied.
3	Property valuation	The Fund's property valuations are carried out in line with INREV best practices. Though not separately documented, the valuation performed by the external valuer is subject to the manager's internal review.
4	INREV NAV	The Fund calculates INREV NAV as per guidelines set by INREV.
5	Fee and expense metrics	The Fund calculates INREV fee and expense metrics as per guidelines set by INREV. However, the forward looking ratios have not been computed and disclosed at vehicle launch.
6	Liquidity	The manager has assessed that it is currently follows the liquidity framework defined by INREV except that the Fund as a closed-end fund does not maintain a liquidity protocol document and the secondary trading policy has not been described in the Fund documentation as it is not practiced by the Fund.
7	INREV data delivery	The Fund is in compliance with the INREV data delivery module.

The Fund currently is not engaged in property development activities, joint ventures, associate investments or other non-property related investments.

All the financial information disclosed in this review coincides with the financial statements for the financial year ended 31 December 2014.

## MANAGER'S REPORT

The whole year of 2014 has been an active period for the Fund in search for additional acquisitions to the portfolio and filling in the remaining vacancy in the properties.

On 30<sup>th</sup> of April, Baltic Opportunity Fund acquired a completed retail development project in Vilnius, Lithuania, from Danish developer TK Development A/S. Structured as a typical box retail centre, the Domus

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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PRO project is fully leased out with supermarket chain RIMI as anchor tenant. It is possible to expand Domus PRO through second phase where approx. 3 700 sq. m. of net leasable area can be added. Negotiations with anchor tenants for the second phase have been completed for 100% of the premises and new lease agreements are signed. The management team will start the construction process in March 2015 so that the extension is finished by year-end 2015. Domus PRO is a good example of the fund's core-plus investment strategy where value can be added through income enhancement through expansion.

Furthermore, the management team of the fund has been fund raising additional equity throughout the year from current and new investors in order to make the fifth acquisition to the portfolio and diversify the fund geographically from Estonia. In the second half of the year, with the assistance of current fund investors that reinvested 83% of their annual cash distribution back to the fund, BOF has been able to raise equity to be capable to actively review and analyse new acquisitions. At the end of the year, after participating in various bidding processes, the management team together with the fund's investment committee made a decision to acquire Europa Shopping Center in Vilnius. Completion of the acquisition was conditional to the investors approving to increase the retail investment limit in the fund rules. It was the proposal of the management company with the investment committee to focus the fifth investment of the fund into the retail segment due to comparably higher risks deemed in the office segment which is bound to see a strong supply of new office space over the coming 12-24 months.

At the same time, the management team has been successfully able to fill in the remaining vacancy in Lincona office building and complete the let-out in Domus PRO. The existing portfolio of BOF as of 31 December 2014 is practically fully let.

## MACROECONOMIC FACTORS IN THE BALTIC STATES

Despite Russian embargo on certain EU products as well as uncertain situation in the main export markets of the Baltics, in 2014 economic growth in Baltic States is still expected to be leading in ranks when compared to other EU member states. According to Baltic commercial bank forecasts, which have seen some downgrade from the beginning of the year, in 2014 Lithuanian GDP is expected to grow by 2.8 %. In neighbouring Latvia and Estonia economic growth will be slightly lower – 2.4 and 1.7 % respectively.

Lithuanian economy in 2014 was supported by energetic spurt in domestic demand – rising consumption and investments. The fundamental environment remains promising: corporate profits have recovered, wages are increasing, inflation is low, household purchasing power is increasing, interest rates are low and the newly adopted euro will further be helping on economic sentiment and lowering sovereign borrowing rates. Meanwhile domestic demand expansion in Latvia and Estonia, after dynamic growth in the recent years, has in 2014 been comparably slightly lower.

Given the low inflation across the Baltics and increase of wages, consumer spending across the Baltics has increased notably during the past two years. In all major shopping centers the vacancy is virtually non-existent and the rents have experienced strong upward pressures even despite the uncertainty in other economic growth elements. Moreover, the rents are expected to increase further. In the office segment, rents have generally remained stable or have increased slightly in the A class locations. A wide upward pressure in rents in the office segment has been curtailed by considerable development of new office space, especially in Tallinn and Vilnius. On the other hand the take-up of new office space has been solid, which is partly also supported by existing tenants from older buildings actively moving up the quality curve.

The Baltic economies are still somewhat smaller than their pre-crisis peaks but they are much more balanced and competitive, compared with 2007-2008. Companies across the Baltics have deleveraged, and

# Baltic Opportunity Fund

## MANAGEMENT REVIEW

### SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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their balance sheets are now much healthier than prior to the crisis and although still lower than the EU28 average, productivity has also risen. Unit labour costs have been rising recently after a notable correction during the last recession, but this has not endangered competitiveness so far as structural changes are gradually taking place when economies are converting their focus towards higher value added and often niche products and services. Government finances are much sounder, and fiscal discipline rules are incorporated in national legislations. Still, discomfort concerning lacklustre EU and global demand, Russia driven geopolitical uncertainty, and Baltic specific structural imbalances remains.

From the regulatory perspective, in response to the infringement procedure started by the European Commission, the parliament of Estonia made amendments to the Estonian Income Tax Act and as a result of that the taxation of contractual investment funds in Estonia have changed as 1 January 2014 so that domestic funds will be taxed similarly to foreign funds e.g. the capital gains and lease income of an Estonian fund will be taxed when they are realised. The fund consequently will be considered as a taxpayer for the purposes of the Estonian Income Tax Act and income tax will be due at the moment the gains have realised. The changes in legislation would not affect the Fund if real estate situated in Estonia forms less than 50% of the assets of the Fund. Therefore, the Fund management team was committed on growing the fund by gathering new commitments from existing and new investors and making attractive investments with a focus on Riga and Vilnius.

## CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS

As at 31 December 2014, the Fund's paid in capital from Investors amounts to 22.1 million euros, out of which 3.9 million euros were paid in during 2014.

The Fund made an interim net profit distribution of 5.2% (1.1 million euros) in November 2014. 82.6% of the investors decided to receive the payout in new fund units.

## FINANCIAL REPORT

### *Financial position of the Fund*

As at 31 December 2014 the GAV of the Fund (incl. the Fund's subsidiaries) increased to 49.0 million euros (35.8 million as at 31 December 2013).

As of 31 December 2014, the Fund NAV was 24.3 million euros (111.9458 euros per unit), compared to 19.5 million euros (107.2117 euros per unit) as at 31 December 2013. The increase in NAV is mainly related to the new issue of units (3.9 million euros) and the performance of the Fund (net result 2 million euros in 2014).

The Fund also calculates INREV NAV, which was 24.4 million euros (112.4523 euros per unit) as at 31 December 2014, compared to 19.5 million euros (107.6155 euros per unit) as at 31 December 2013.

The INREV NAV is calculated according to Internal Rules for Determination of the Net Asset Value of the Fund of Northern Horizon Capital AS, prepared in conformity of INREV guidelines that were amended on 1 April 2014. The INREV NAV is calculated adjusting NAV for the items summarised in the table below:

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**Table 2: Adjustments for recalculating NAV to INREV NAV**

No.	Item	Amounts in euros	Notes
1.	<b>IFRS NAV as of 31 December 2014</b>	<b>24 314 255</b>	
2.	Estimation of realisable transfer costs in case of sales of assets (0.5% of property value)*	-	
3.	Capitalization and amortization of Fund's set-up costs**	14 795	1
4.	Capitalization and amortization of property acquisition costs**	105 046	2
5.	Estimation of tax effect of (4.) above	(9 836)	
6.	<b>INREV NAV</b>	<b>24 424 261</b>	
7.	Amount of units	217 197	
8.	<b>INREV NAV per unit</b>	<b>112.4523</b>	

\* Not applicable as per new formulation of the INREV guidelines from 1 April 2014.

\*\* The costs are amortized during 5 years

## Notes to INREV NAV

- In 2010 the Fund incurred 74 thousand euros of set up costs that were expensed in the income statement. In accordance with INREV guidelines the Fund set up costs have been capitalized and amortized over the five years of the life of the Fund. During 2014 the Fund has amortized 15 thousand euros, resulting in a cumulative amortization of 59 thousand euros. The residual capitalized set up costs as at 31 December 2014 amount to 15 thousand euros.
- From 2011 to 2013 acquisition expenses amounting to 210 thousand euros were incurred in relation to acquisition of properties in Fund subsidiaries BOF Lincona OÜ, BOF SKY SIA, BOF CC Plaza OÜ. In accordance with INREV guidelines, these acquisition expenses are capitalized and amortised over the five years after the acquisition of properties. In 2014, the Fund amortized 39 thousand euros, resulting in a cumulative amortization of 105 thousand euros. The residual capitalized acquisition expenses as at 31 December 2014 amount to 105 thousand euros.

## Financial results of the Fund

In 2014, the Fund recorded net profit of 2.0 million euros (2.5 million euros in 2013) which had a positive effect on the Fund NAV.

The Fund administrative expenses constituted 519 thousand euros (476 thousand in 2013). More details are provided in the statement of comprehensive income.

In 2014, the consolidated gross rental income earned by the Fund amounted to 2 700 thousand euros (2 280 thousand euros in 2013). Compared to 2013, the increase in gross rental income is related to full income earned in Coca-Cola Plaza after the acquisition in March 2013, as well as the rental income earned in the newly acquired Domus Pro property.

In 2014, there have been no significant one-off events that would have an impact on the results of the Fund.

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### *Fees and expenses*

The Fund calculates the fee and expense metrics based on INREV guidelines as a percentage of GAV and INREV NAV. There have been no material changes in the Fund fee structure as determined in the Fund rules that were approved by the FSA. The detail calculations are provided in table 4.

**Table 3: Expense ratios of the Fund and Fund's subsidiaries based on INREV fee metrics guidelines**

Classification	Fee/Expense Item		Amount
<b>Management fees</b>	Management fees		461 970
<b>Vehicle costs</b>	Custodian fees		12 000
	Valuation fees		36 078
	Audit fees		31 076
	Legal fees		66 525
	Other Consultancy Services		23 033
	Bank charges		1 026
	Administration and secretarial fees		32 543
<b>Total vehicle costs before performance fees</b>		<b>A</b>	<b>664 252</b>
<b>Performance fees</b>		<b>B</b>	<b>-</b>
<b>Total vehicle costs after performance fees</b>		<b>C=A+B</b>	<b>664 252</b>
<b>Property expenses</b>	Property management fees		180 817
	Property insurance		18 179
	Sales and Marketing Expenses		4 897
	Service charge shortfall		115 120
<b>Total property expenses</b>		<b>D</b>	<b>319 013</b>
<b>Total expenses before financing costs and taxes</b>		<b>E=C+D</b>	<b>983 265</b>
<b>Average INREV NAV</b>			
	Weighted average INREV NAV	<b>F</b>	21 481 632
<b>Average INREV GAV</b>			
	Weighted average INREV GAV	<b>G</b>	41 415 039
<b>TER before performance fees</b>			
	Fund expenses before performance / Average NAV	<b>=A/F</b>	<b>3.09%</b>
	Fund expenses before performance / Average GAV	<b>=A/G</b>	<b>1.60%</b>
<b>TER after performance fees</b>			
	Fund expenses after performance / Average NAV	<b>=C/F</b>	<b>3.09%</b>
	Fund expenses after performance / Average GAV	<b>=C/G</b>	<b>1.60%</b>
<b>REER</b>			
	Property expenses / Average GAV	<b>= D/G</b>	<b>0.77%</b>

# Baltic Opportunity Fund

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The main expense categories are described below:

### Annual Management Fee

The Management Company provides all economic and financial information which is necessary for the operation of the Fund as well as investment management of the Fund's portfolio on a day to day basis. Therefore, the Management Company is entitled to receive an Annual Management Fee which is calculated 1.9% of the NAV per annum of the Fund's portfolio. In 2014, the annual management fee amounted to 462 thousand euros (377 thousand euros in 2013).

### Performance Fee

From the first year of operations of the Fund, the Management Company is entitled to calculate the Performance Fee of 20% if the average annual Return on Paid in Capital of the Fund exceeds 11% per annum. The Performance Fee, if any, is paid out to the Management Company after the exit of the Fund has been completed (i.e. all assets of the Fund have been transferred) and the audited annual report of the Fund for the final year of the Fund has been approved by the Management Board. As of 31 December 2014, the Management Company is not entitled to receive a performance fee.

### Property Management Fee

The Property Management Fee is calculated from the net rental income of the real estates in respect of which the Management Company provides property management services. The rate of the Property Management Fee is 3-6% of the net rental income of the real estates managed by the Management Company. Property management service means arranging of provision of services related to a real estate such as (i) SPV accounting, (ii) communication with lessees, conclusion of lease agreements and collection of lease payments, (iii) finding, planning and realisation of small expansion possibilities and other possibilities to increase the cash flow of a real estate (excluding large scale construction and development projects), (iv) utility services and (v) property maintenance.

## PROPERTY REPORT

In 2013, the Fund became an equity investor in a forward commitment development of a Rimi supermarket in Vilnius partnering up with a Danish developer TK Development A/S. On 20 March 2014 the property was opened for business and the Fund gained full ownership of the property on the 30 April 2014. As the purchase price was calculated based on a capitalization rate of 8.5%, this acquisition is expected to produce similar to other properties commendably positive net cash flows.

The project known as Domus Pro Retail Park which at year-end is let 100% is located in the expanding residential district in Vilnius with over 70 000 inhabitants, on the arterial Ukmerges road leading to Riga, the Domus Pro Retail Park includes more than 11 000 sq. m. of modern retail space. Structured as a typical box retail centre, the project houses a supermarket chain RIMI as anchor tenant and around 20 satellite tenants. At the end of 2014, the Fund entered into agreement with TK Development A/S to start the second-phase of Domus Pro. The construction works shall start in March 2015.

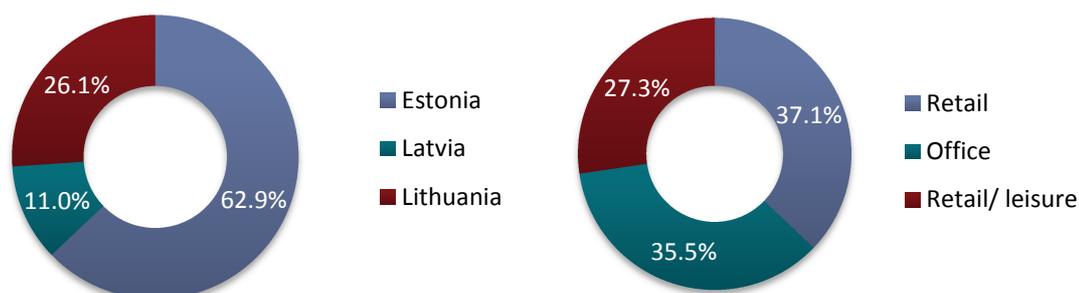
According to the BOF Fund Rules, the Fund directly and indirectly invests into real estate assets located in Estonia, Latvia and Lithuania. The Fund segment and country distribution are shown in picture 1. The Fund assets segmentation are in line with the Fund rules, according to which up to 50% of the assets can be invested in retail sector, up to 50% in office sector and up to 50% in other sectors. In January 2015, the Fund initiated the Fund rules' amendment by increasing retail segment from 50% to 69%. The changes

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were initiated due to management high expectations on retails sector and the following acquisition. As compared to other sectors, the management expects that the retail sector can potentially provide better yields.

**Picture 1: Fund segment and country distribution**



### **Property valuations**

The breakdown of each property market value is shown in the table below.

**Table 4: Property portfolio, in million euros**

Property	Subsidiary	Market value 31 December 2014	Market value 31 December 2013
Lincona office	BOF Lincona OÜ	16.4	16.1
SKY supermarket	BOF SKY SIA	5.1	4.9
Coca-Cola Plaza	BOF CC Plaza OÜ	12.6	12.2
Domus Pro	BOF Domus PRO UAB	12.0	n/a

As of 31 December 2014, 100% of Fund properties were valued externally by independent valuers Colliers International and Newsec. Colliers International prepared a detailed valuation reports for Lincona, SKY, and Coca-Cola Plaza and Newsec valued Domus Pro. 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 in accordance with IAS 40. The valuations are performed on an annual basis.

The fair value of investment property in the subsidiaries is determined using recognized valuation techniques. The ranges of discount rates used by the appraisers to value the investment properties as of 31 December 2014 were as follows per country: Latvia 8.5%, Estonia 8.5-9.3%, and Lithuania 8.25% (Discounted Cash Flow method). Residual method was used to assess of land plot area that is un-build and potentially can be additionally developed for Domus Pro stage 2.

### **Property performance**

In 2014, the average occupancy of the portfolio was 90.2% and average Net Initial Yield 6.8%. The level of the property operating costs was stable throughout the whole year. The net yield of the portfolio has been affected by the vacancy in Lincona as well as due to not fully received initial rental income from newly acquired Domus PRO and due to related lower utilities cost coverage by tenants.

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The vacancy rate was mainly affected by Lincona office complex which had an average of 18.2% vacancy rate during the year. At the end of the year, the vacancy rate was successfully decreased to 7.8%. The property is expected to be fully occupant in the first part of 2015.

The other properties remain to be 100% leased out based on long term lease agreements, except for Domus Pro with the vacancy of 14.0% as at 31 December 2014 and the current net yield of 6.1% due to first months' rent discounts for Rimi. The vacancy will be filled in the first part of 2015, which is expected to boost the net yield above 8.8%. In addition, the second phase of the retail park has also been started and the plan is to initiate construction during the second half of the year. The expansion works of the shopping centre with an estimated construction cost of 2 million euros is a good example of the Fund's core-plus strategy which is expected to create considerable value for investors once completed and leased out.

SKY supermarket is performing very well and has achieved a net yield of 8.9% as at 31 December 2014. In addition to 99.6% occupancy, the store is renting out foyer space to seasonal tenants. In the first part of 2015, the landlord is planning to make investments in the range of 0.2 million euros on the façade facelift in cooperation with the anchor tenant whose rental area will increase slightly as a result.

Coca-Cola Plaza has performed as expected with a running yield of 8% as at 31 December 2014 and no major events have taken or are expected to take place during 2015. The management team is discussing potential value added options with the neighbouring Postimaja shopping centre, however realization of plans including investments, if any, shall not commence before 2016.

In the Baltic retail the demand for well positioned shopping centres remains strong, which in turn pushes up rents and lays ground for established centres to expand. In all the major cities, improved turnover-rent ratios in the more successful shopping centres have enabled landlords to increase rents, with the steepest increase of up to 25% shown in Latvia. Vacancy in established shopping centres remains at very low levels. The increased demand in the retail market has motivated the majority of retailers to plan for extensions where possible. All of the largest shopping centres are now also focused on improving their tenant mixes.

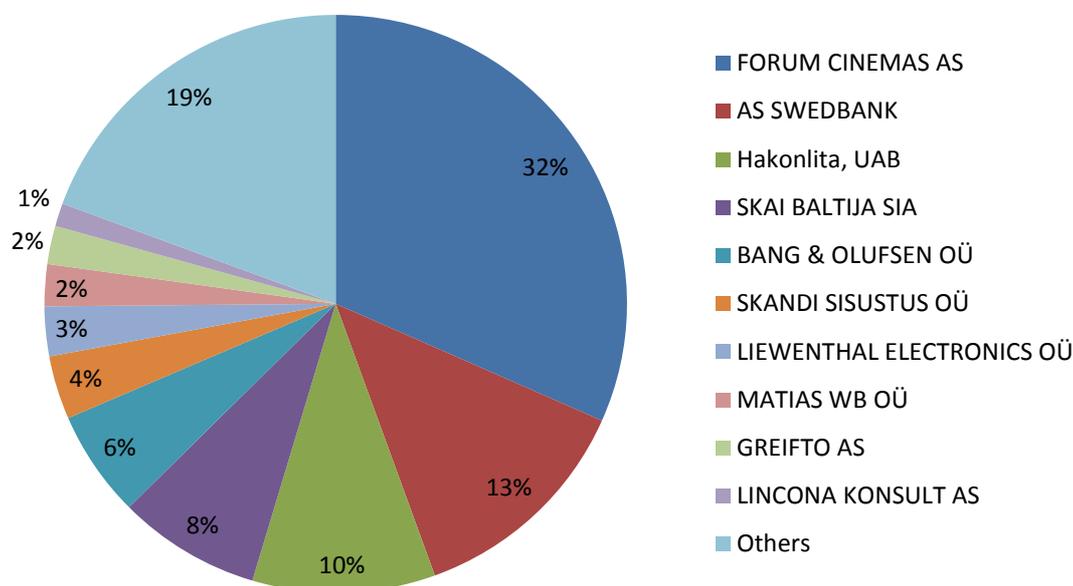
In 2014, 80.6% of the total gross rental income was generated by the ten largest tenants of the real estate portfolio, with Forum Cinemas AS making 31.6% of the revenue as a single tenant of the Coca-Cola Plaza property in Tallinn, Estonia.

# Baltic Opportunity Fund

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



## RISK MANAGEMENT

The risk management function of the Fund is 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, monitor these compared to internationally recommended best practice, and initiate changes and improvements when needed. The manager assessed at the end of the financial year that it is currently in compliance with intended risk management framework.

### *Principal risks faced by the Fund*

#### Market risk

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

Average yields in Baltic region for prime retail and office assets in 2014 decreased slightly down to around 7.00% to 7.25% on average, with the most attractive properties lower by up to 50 basis points and secondary properties standing between 8.00% and 9.25%. Capital cities are the main investment targets in Baltic countries with most expensive yet the most liquid assets.

After bottoming out in 2009-2010 retail rent prices started to recover in 2011 and have been increasing since. The tendency of growing rent rates was noticeable as well in both shopping centres and retail streets as the demand of quality retail premises is high. Rent rates in shopping centres are set according to

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## MANAGEMENT REVIEW

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the size of the tenant and vary from 7 to 48 EUR/sq. m. per month in major cities. Rent rates for anchor tenants are around 7-12 EUR/sq. m. per month.

High demand for A-class office buildings remained constant in 2014 with pressure on rent increases due to lack of well-located modern office premises. The achievable prime rent exceeded 15 EUR/sq. m. per month in 2014, while the rent rates for lower class premises remain under pressure as potential tenants try to negotiate lower price at 8-10 EUR/sq. m. per month instead of 9-11 EUR/sq. m. per month asked by landlords.

#### Credit risk

The credit risk of the tenants in the Baltic portfolio of properties remains relatively low. During 2014 provisions for bad debts in all properties of the Fund amounted to 29 thousand euros (3 thousand in 2013).

After the acquisition of Europa Shopping Center and the completion of Domus PRO second phase, there are more tenants in the portfolio thus the tenant risk will be more diversified.

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

#### Interest rate risk

The Fund's policy is that long term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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 Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

#### Liquidity risk

Liquidity risk means the risk of failure to liquidate open position, to realise the assets by the due time at the prescribed fair price or to refinance loan obligations.

Many of the investments will be highly illiquid and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicalities, downturns in demand, market disruptions and the lack of available capital for potential purchasers and are therefore often difficult or time consuming to liquidate. The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

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## MANAGEMENT REVIEW

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In order to minimise liquidity risk, a part of the real estate fund assets may be invested in deposits of credit institutions, in short-term debt securities and in other securities with high level of liquidity. Also, derivative instruments may be used to reduce liquidity risk.

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

#### Currency risk

Currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

#### Operational risk

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

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
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'000 Euro	Notes	2014	2013	2012
Rental income		3,048	2,454	1,403
Expenses reimbursement revenue		829	632	312
Cost of rental activities	7	(1,177)	(806)	(408)
<b>Net rental income</b>	6	<b>2,700</b>	<b>2,280</b>	<b>1,307</b>
Administrative expenses	8	(665)	(592)	(402)
Other operating income		-	4	-
Valuation gains / (loss) on investment properties	6, 13	611	1,326	(427)
<b>Operating profit</b>		<b>2,646</b>	<b>3,018</b>	<b>478</b>
Financial income	9	72	40	17
Financial expenses	10	(656)	(440)	(251)
<b>Net financing costs</b>		<b>(584)</b>	<b>(400)</b>	<b>(234)</b>
<b>Profit before tax</b>		<b>2,062</b>	<b>2,618</b>	<b>244</b>
Income tax charge	6, 12	(55)	(102)	-
<b>Profit for the year</b>		<b>2,007</b>	<b>2,516</b>	<b>244</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>				
Net gains (losses) on cash flow hedges	17b	1	77	(104)
Income tax relating to net gains (losses) on cash flow hedges	12,17b	15	-	-
Foreign currency translation differences		-	(30)	27
<b>Other comprehensive income/ (loss), net of tax, to be reclassified to profit or loss in subsequent periods</b>		<b>16</b>	<b>47</b>	<b>(77)</b>
<b>Total comprehensive income/ (loss) for the year, net of tax</b>		<b>2,023</b>	<b>2,563</b>	<b>167</b>
<b>Basic and diluted earnings per unit (Euro)</b>	11	<b>10.15</b>	<b>14.45</b>	<b>1.79</b>

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

# Baltic Opportunity Fund

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
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'000 Euro	Notes	2014	2013	2012
<b>Non-current assets</b>				
Investment properties	6, 13	46,170	33,135	15,330
Other non-current assets	14	-	23	4,535
<b>Total non-current assets</b>		<b>46,170</b>	<b>33,158</b>	<b>19,865</b>
<b>Current assets</b>				
Trade and other receivables	15	214	2,139	280
Prepayments		11	13	14
Cash and cash equivalents	16	2,626	456	5,231
<b>Total current assets</b>		<b>2,851</b>	<b>2,608</b>	<b>5,525</b>
<b>Total assets</b>		<b>49,021</b>	<b>35,766</b>	<b>25,390</b>
<b>Equity</b>				
Paid in capital	17	22,051	18,156	16,959
Cash flow hedge reserve	17b	(194)	(210)	(287)
Cumulative foreign currency translation		-	-	30
Retained earnings		2,458	1,510	228
<b>Total equity</b>		<b>24,315</b>	<b>19,456</b>	<b>16,930</b>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	18	22,395	15,415	7,488
Deferred tax liabilities	12	670	57	-
Derivative financial instruments	24	149	211	288
Other non-current liabilities		160	41	8
<b>Total non-current liabilities</b>		<b>23,374</b>	<b>15,724</b>	<b>7,784</b>
<b>Current liabilities</b>				
Interest bearing loans and borrowings	18	644	229	156
Trade and other payables	19	534	313	520
Income tax payable		-	44	-
Derivative financial instruments	24	60	-	-
Other current liabilities	20	94	-	-
<b>Total current liabilities</b>		<b>1,332</b>	<b>586</b>	<b>676</b>
<b>Total liabilities</b>		<b>24,706</b>	<b>16,310</b>	<b>8,460</b>
<b>Total equity and liabilities</b>		<b>49,021</b>	<b>35,766</b>	<b>25,390</b>

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

## Baltic Opportunity Fund

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
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'000 Euro	Notes	Paid in capital	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total equity
<b>As at 1 January 2012</b>		<b>10,970</b>	<b>(183)</b>	<b>3</b>	<b>359</b>	<b>11,149</b>
Net profit for year		-	-	-	244	244
Other comprehensive income / (loss)		-	(104)	27	-	(77)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>(104)</b>	<b>27</b>	<b>244</b>	<b>167</b>
Paid in capital – units issued	17a	5,989	-	-	-	5,989
Dividends paid	17c	-	-	-	(375)	(375)
<b>As at 31 December 2012</b>		<b>16,959</b>	<b>(287)</b>	<b>30</b>	<b>228</b>	<b>16,930</b>
Net profit for year		-	-	-	2,516	2,516
Other comprehensive income / (loss)		-	77	(30)	-	47
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>77</b>	<b>(30)</b>	<b>2,516</b>	<b>2,563</b>
Paid in capital – units issued	17a	1,197	-	-	-	1,197
Dividends paid	17c	-	-	-	(1,234)	(1,234)
<b>As at 31 December 2013</b>		<b>18,156</b>	<b>(210)</b>	<b>-</b>	<b>1,510</b>	<b>19,456</b>
Net profit for the year		-	-	-	2,007	2,007
Other comprehensive income / (loss)		-	16	-	-	16
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>16</b>	<b>-</b>	<b>2,007</b>	<b>2,023</b>
Paid in capital – units issued	17a	3,895	-	-	-	3,895
Dividends paid	17c	-	-	-	(1,059)	(1,059)
<b>As at 31 December 2014</b>		<b>22,051</b>	<b>(194)</b>	<b>-</b>	<b>2,458</b>	<b>24,315</b>

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

# Baltic Opportunity Fund

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
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'000 Euro	Notes	2014	2013	2012
<b>Operating activities</b>				
<b>Profit (loss) before tax</b>		<b>2,062</b>	<b>2,618</b>	<b>244</b>
Adjustments for non-cash items:				
Value adjustment of investment properties	13	(611)	(1,326)	427
Value adjustment of derivative finance instruments		14	1	27
Allowance for bad debts	15	29	3	-
Financial income	9	(72)	(40)	(17)
Financial expenses	10	656	440	251
Non-realised exchange differences			(30)	
Working capital adjustments:				
Decrease/(Increase) in trade and other accounts receivables		(81)	176	(150)
(Increase)/(decrease) in other current assets		271	(31)	-
(Decrease)/Increase in other non-current liabilities		83	32	-
Increase/(Decrease) in trade and other accounts payable		77	(271)	(78)
(Decrease) in other current liabilities		(559)	29	(6)
Refunded/(paid) income tax		(102)	(1)	-
<b>Net cash flow from operating activities</b>		<b>1,767</b>	<b>1,600</b>	<b>698</b>
<b>Investing activities</b>				
Interest received		-	40	17
Acquisition of subsidiaries, net of cash acquired	13	(1,357)	-	-
Acquisition of investment property	13	-	(11,919)	(4,535)
Capital expenditure on investment properties	13	(468)	(25)	(167)
<b>Net cash flow from investing activities</b>		<b>(1,825)</b>	<b>(11,904)</b>	<b>(4,685)</b>
<b>Financing activities</b>				
Proceeds from bank loans		499	8,150	(155)
Granted loans	14	-	(2,000)	-
Capital paid in by investors	17a	3,019	1,197	5,989
Dividends distribution		(184)	(1,235)	(375)
Reimbursement of bank loans		(463)	(156)	-
Interest paid		(643)	(427)	(130)
<b>Net cash flow from financing activities</b>		<b>2,228</b>	<b>5,529</b>	<b>5,329</b>
<b>Net change in cash and cash equivalents</b>		<b>2,170</b>	<b>(4,775)</b>	<b>1,342</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>456</b>	<b>5,231</b>	<b>3,889</b>
<b>Cash and cash equivalents at the end of the year</b>	16	<b>2,626</b>	<b>456</b>	<b>5,231</b>

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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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### ACCOUNTING POLICIES

#### 1. Corporate information

Baltic Opportunity Fund (the Fund) is a real estate fund investing in commercial properties in the Baltic States (Estonia, Latvia and Lithuania). The Fund is a non-public closed-ended contractual investment fund (i.e. the Fund units cannot be redeemed at the request of an investor) founded on 1 September 2010. The Fund is a fixed-term fund with the duration of 7 years from the first closing (a date of launching of the Fund specified by the Management Company, being the date of completion of the initial subscription of Units). The Fund term may be extended for up to two years in one year increments by a resolution of the General Meeting.

The Fund's registered office is at Hobujaama 5, Tallinn, Estonia.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing in primarily commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring and managing a portfolio of high quality cash flow-generating commercial properties, thereby creating a stable income 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 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 managed by Northern Horizon Capital AS. The Depositary of the Fund is Swedbank AS.

These special purpose financial Statements of Baltic Opportunity Fund have been approved by the management board of the Management Company on 15 April 2016.

Baltic Opportunity Fund has historically prepared and published its general purpose financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by EU (EU IFRS). As disclosed in the latest annual financial statements of the Fund for the year ended 31 December 2015, Baltic Opportunity Fund qualified as an investment entity as defined in IFRS 10 as it:

- obtained funds from Investors to provide them with investment management or other investment-related services;
- committed to Investors that its business purpose is to invest for returns solely from capital appreciation and investment income;
- accounted for the investments under fair value model and uses fair value information as the primary attribute in evaluating the performance of investments and in making investment decisions;
- held more than one investment;
- had more than one Investor;
- had Investors that are not related parties;
- its unit of ownership typically represents a specifically identifiable proportionate share in its net assets;
- the Fund has no development activities;
- the investment plans of the Fund provide evidence of its business purpose, demonstrating that the Fund does not plan to hold its investments indefinitely.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

Following IFRS 10 requirements for investment entities the Fund measured investments in subsidiaries at fair value through profit or loss in its annual general purpose IFRS financial statements.

The Fund held the following 100% interest in subsidiaries:

Name	2014	2013	2012
BOF Lincona OÜ	100%	100%	100%
BOF SKY SIA	100%	100%	100%
BOF CC Plaza OÜ	100%	100%	100%
BOF Domus Pro UAB	100%	n/a	n/a

In 2015, the Fund's objectives expanded beyond simply holding and managing a portfolio of real estate properties, to include active property management and the possibility to develop real estate projects. Consequently, the Fund will no longer meet the investment entity exemption under IFRS 10. These special purpose consolidated financial statements were prepared in order to assist management to understand the impact that a change in investment entity status will have on the Fund's financial reporting by providing management with historical information on the consolidated financial position, consolidated results of operations and consolidated cash flows of the Fund and its subsidiaries (collectively the "Group" or individually the "Group companies") for the years ended 31 December 2014 and 31 December 2013. These financial statements may not be suitable for any other purposes.

### Basis of preparation

These special purpose consolidated financial statements are prepared based on concept that the all subsidiaries are consolidated in accordance with IFRS 10 from the date that control over the Group companies commenced.

Due to the fact that the investment entity parent (the Fund) is precluded from preparing consolidated financial statements under IFRS 10, these consolidated financial statements do not represent general purpose EU IFRS financial statements since they do not fully comply with all the requirements of EU IFRS. However, with the exception of the consolidation of investees that should be accounted for at fair value through profit and loss (as the Fund qualifies to be treated as an investment entity), these special purpose statements are otherwise prepared based on all other standards and interpretations published by the International Accounting Standards Board as endorsed by the European Union. This includes the application of IFRS 1 by analogy, treating this special purpose consolidated financial statements as if these were the consolidated Group's first set of consolidated EU IFRS statements with a date of transition of 1 January 2012. These special purpose financial statements are prepared solely for the purposes to provide information about the historic results of the consolidated Group.

For these consolidated financial statements IFRSs were applied retrospectively based on IFRSs effective for the year ended 31 December 2014 for all years presented. The accounting policies adopted are consistent in every reporting years.

The Group has not previously been required to prepare consolidated financial statements under any other general purpose reporting framework and hence no such financial information has previously been presented.

It is expected that the Fund will cease to qualify as an investment entity under IFRS 10 and consequently will be required to consolidate all of its subsidiaries under IFRS prospectively from 1 January 2015. In order to do so, IFRS 10 requires the Fund to apply IFRS 3 to any subsidiary that was previously measured at fair value through profit or loss, with the change in the status of the Fund being deemed to be the

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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acquisition date. No differences will arise between the carrying amounts of certain assets and liabilities reported in these special purpose consolidated financial statements and the amounts that will be reported in the Group's first set of consolidated financial statements prepared in full compliance with EU IFRS.

### **New and amended standards and interpretations**

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

#### *IFRS 10 Consolidated Financial Statements*

As a result of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee, and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Group reassessed its control conclusion for its investees at 1 January 2014. According to the Group's assessment, the new rules established by IFRS 10 did not change the Group's determination of the existence of control.

As noted in the Basis of Preparation paragraph, these consolidated financial statements do not represent general purpose IFRS EU financial statements. In the general purpose IFRS EU financial statements, the Fund has adopted the consolidation relief for investment entities according to IFRS 10 and IFRS 12.

*IFRS 11 Joint Arrangements* was also adopted from 1 January 2014 but the standard is not relevant to the Group because the group is not party to any joint arrangements.

#### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 integrates in one standard all disclosure requirements for interests a reporting entity has in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result of IFRS 12, the Group has reviewed the disclosures about its interests in subsidiaries.

#### *Other revised standards and amendments to standards*

The following revised standards and amendments to standards that became effective for annual periods beginning on 1 January 2014 had no effect on the Group's consolidated financial statements:

- IAS 27 (2011) *Separate Financial Statements*
- IAS 28 (2011) *Investments in Associates and Joint Ventures*
- *Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities*
- *Amendments to IAS 27 – Investment Entities*
- *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets*
- *Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting*

### **New standards, amendments and interpretations not yet effective**

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Group does not plan to adopt these amendments, standards and interpretations early.

*IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)*

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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

It is expected that the Amendments, when initially applied, will not have a material impact on the Group's financial statements because the Group has an existing accounting policy to account for acquisitions of joint operations in a manner consistent with that set out in the Amendments.

### *IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

### *IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)*

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

It is expected that the Amendments, when initially applied, will not have material impact on the Group's financial statements, as the Group does not apply revenue-based methods of amortisation/depreciation.

### *IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)*

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

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

### *IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)*

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

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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### *IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)*

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

The Entity does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries in accordance with IAS 39.

### *Annual Improvements to IFRSs*

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group.

### *IFRS 9 Financial Instruments (2014)*

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

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

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and 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 amortized 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

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

### *IFRIC 21 Levies (Effective for annual periods beginning on or after 17 June 2014)*

The interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by a government.

In accordance with the interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the interpretation, when initially applied, will not have a material impact on the financial statements, since it does not result in a change in the Group's accounting policy regarding levies imposed by governments.

### *IFRS 15 Revenue from contracts with customers*

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Not yet adopted by the EU)

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

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

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

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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### IFRS 16 "Leases"

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

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

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

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

### Going concern assessment

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

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these special purpose 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 Euro (EUR), which is the Fund's functional and presentation currency. Exchange rates used as of 31 December 2014, 2013 and 2012 are as follows:

Currency	2014		2013		2012	
	Average FX	Spot FX	Average FX	Spot FX	Average FX	Spot FX
LTL/EUR	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528
LVL/EUR	n/a	n/a	0.7028	0.7028	0.6969	0.6982

Unless stated otherwise, all values are rounded to the nearest thousand of Euro.

### 2b. Consolidated financial statements

The consolidated financial statements of the Group include the Fund and its subsidiaries (Note 26). 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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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 they are probable and 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 exchange rates prevailing at the date of the transactions. 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 classified as realised gains and losses in the consolidated income statement 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 statements of 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 the consolidated statement of 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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

Proposed dividends 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 fair value of derivative financial instruments, which are not classified as hedging instruments, are recognised in the income statement as they arise.

### 2h. Hedge accounting

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 the income statement. 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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### 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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.

Expense reimbursement income are recognised on gross basis in the income statement when the Group is not acting as agent on behalf of third parties and charging the commissions for the collections. Otherwise, recharge revenue is recognised based on the commissions earned.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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

- 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.

### 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's 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 immovables 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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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income tax pursuant to the provisions of this Chapter or at the level of a company that has repurchased the holding or paid the liquidation proceeds.

### 2t. Deferred taxation

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 other comprehensive income or directly in equity.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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, 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.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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### 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

##### *Classification of entity as Investment entity*

The Fund historically was classified as an Investment entity. Therefore, the consolidation relief has been early adopted by the Fund subject to IFRS 12 requirements for investment entities. The Fund qualifies as an investment entity according to IFRS 12 as it:

- obtains funds from Investors to provide them with investment management or other investment-related services;
- commits to Investors that its business purpose is to invest for returns solely from capital appreciation and investment income;
- accounts for the investments under fair value model and uses fair value information as the primary attribute in evaluating the performance of investments and in making investment decisions;
- holds more than one investment;
- has more than one Investor;
- has Investors that are not related parties;
- is not a legal entity and its unit of ownership typically represents a specifically identifiable proportionate share in its net assets.

##### *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 another party, the lessor, are classified as operating leases. The Group had 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 Sale-lease back transaction. Based

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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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;
- 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.

### 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 issues 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 income 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 13.

## 4. Financial risk management

The risk management function of the Fund is 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, monitor these compared to internationally recommended best practice, and initiate changes and improvements when needed. The manager assessed at the end of the financial year that it is currently in compliance with intended risk management framework.

### 4a Credit risk

The Group's procedures are in force to ensure that rental agreements are entered with customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. 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 high credit rating domestic and international banks and financial institutions.

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 2014, the total credit risk exposure was EUR 221 thousand (2013: EUR 2,152 thousand 2012: EUR 294 thousand)

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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During 2014 provisions for bad debts in all properties of the Group amounted to 29 thousand euros (2013: EUR 3 thousand; 2012: none).

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

### 4b Interest rate risk

The Group's interest rate risk is interest cash flow related. Fluctuations in interest rates affect the interest expense. (Note 17b), the Group exposure to interest rate cash flow risk is very limited because it use of use of interest rate swaps.

At 31 December 2014, after taking into account the effect of interest rate swaps, 95% of the Group's borrowings are at fixed rate of interest (2013: 93%; 2012: 100%).

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

	2014		2013		2012	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Increase in basis points, +50	(5)	183	(6)	81	-	98
Decrease in basis points, -50	5	(183)	6	(81)	-	(98)

The Group's uses interest rate swaps to fix interest rate of long term loans with floating interest rate. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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 Group's financial liabilities at 31 December 2014, 2013 and 2012. The amounts are gross and undiscounted, and include contractual interest payments.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

'000 Euro	Less than 3 months	3 months - 1 year	1-2 years	2-5 years	More than 5 years	Total	Carrying amount
<b>Year ended 31 December 2014</b>							
Interest bearing loans and borrowings	335	997	15,828	6,997	-	24,157	23,039
Derivative financial instruments	-	60	60	89	-	209	209
Trade and other payables	534	-	-	-	-	534	534
<b>Total current and non-current</b>	<b>869</b>	<b>1,057</b>	<b>15,888</b>	<b>7,086</b>	<b>-</b>	<b>24,900</b>	<b>23,782</b>
<b>Year ended 31 December 2013</b>							
Interest bearing loans and borrowings	176	556	1,332	15,231	-	17,295	15,644
Derivative financial instruments	-	-	168	43	-	211	211
Trade and other payables	313	-	-	-	-	313	313
<b>Total current and non-current</b>	<b>489</b>	<b>556</b>	<b>1,500</b>	<b>15,274</b>	<b>-</b>	<b>17,819</b>	<b>16,168</b>
<b>Year ended 31 December 2012</b>							
Interest bearing loans and borrowings	99	299	394	7,573	-	8,365	7,644
Derivative financial instruments	-	-	-	288	-	288	288
Trade and other payables	520	-	-	-	-	520	520
<b>Total current and non-current</b>	<b>619</b>	<b>299</b>	<b>394</b>	<b>7,861</b>	<b>-</b>	<b>9,173</b>	<b>8,452</b>

#### 4d Foreign exchange risk

The main Fund's currency is euro. The currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. In 2012, 2013, 2014 the Group held no significant assets or liabilities and was not committed to undertake significant transactions in any currency other than Euro from this date. Lithuanian national currency Litas was pegged to euro at a fixed rate, i.e. LTL 3.4528 for EUR 1. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

#### 5. Capital management

The Group monitors capital using 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 2014 and 2013, the Group complied with all externally imposed capital requirements.

'000 Euro	2014	2013	2012
<b>Interest bearing loans and borrowings</b>	<b>23,039</b>	<b>15,644</b>	<b>7,644</b>
<b>Total Interest bearing loans and borrowings</b>	<b>23,039</b>	<b>15,644</b>	<b>7,644</b>
Investment properties	46,170	33,135	15,330
<b>Total properties value</b>	<b>46,170</b>	<b>33,135</b>	<b>15,330</b>
<b>Gearing ratio (loan-to-value)</b>	<b>50%</b>	<b>47%</b>	<b>50%</b>

# Baltic Opportunity Fund

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013**

## 6. Operating segments

The Group's reportable segments are as follows:

- Retail segment – includes Domus Pro Retails Park (Lithuania), and SKY Supermarket (Latvia) investment properties.
- Office segment – includes Lincona Office Complex (Estonia) investment property.
- Leisure segment – includes Coca-Cola Plaza (Estonia) investment.

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 of assessing performance. Segment performance is evaluated based on net rental income.

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

Operating segments – 31 December 2014

'000 Euro	Retail	Office	Leisure	Total
External revenue <sup>1</sup>	1,559	1,355	964	3,878
<b>Segment net rental income</b>	<b>849</b>	<b>898</b>	<b>953</b>	<b>2,700</b>
Net gains or losses from fair value adjustment	222	(47)	435	611
Interest expenses	(476)	(870)	(485)	(1831)
Income tax expenses	(55)	-	-	(55)
<b>Segment net profit</b>	<b>778</b>	<b>573</b>	<b>1,175</b>	<b>2,526</b>
<b>Segment assets</b>	<b>17,884</b>	<b>16,806</b>	<b>13,051</b>	<b>47,741</b>
Investment properties	17,140	16,410	12,620	46,170
Additions to non-current assets	12,087	407	-	12,494
<b>Segment liabilities</b>	<b>10,995</b>	<b>7,496</b>	<b>6,045</b>	<b>24,536</b>

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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

Operating segments – 31 December 2013

'000 Euro	Retail	Office	Leisure	Total
External revenue <sup>1</sup>	769	1,567	751	3,087
<b>Segment net rental income</b>	<b>370</b>	<b>1,170</b>	<b>741</b>	<b>2,280</b>
Net gains or losses from fair value adjustment	386	699	241	1,326
Interest expenses	(178)	(877)	(393)	(1,448)
Income tax expenses	(102)	-	-	(102)
<b>Segment net profit</b>	<b>585</b>	<b>1,617</b>	<b>720</b>	<b>2,922</b>
<b>Segment assets</b>	<b>5,082</b>	<b>16,215</b>	<b>12,346</b>	<b>33,643</b>
Investment properties	4,900	16,050	12,185	33,135
Additions to non-current assets	4,514	21	11,944	16,479
<b>Segment liabilities</b>	<b>2,395</b>	<b>7,732</b>	<b>6,032</b>	<b>16,159</b>

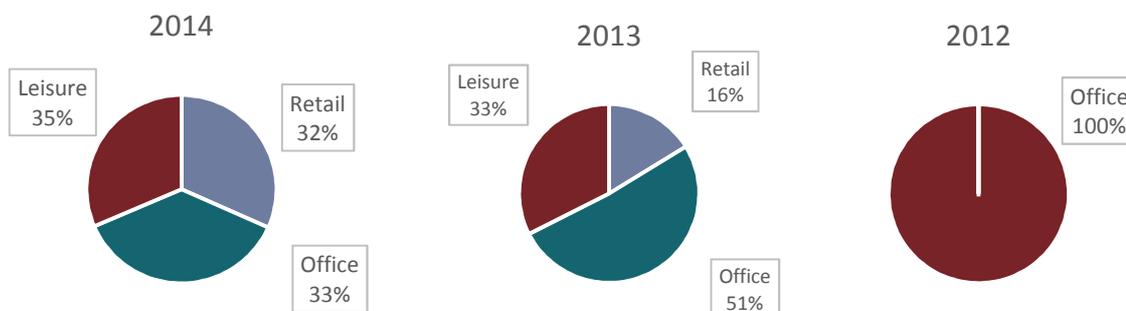
1. External revenue includes rental income and expense reimbursement revenue. Also, segments do not have inter-segment revenue.

Operating segments – 31 December 2012

'000 Euro	Retail	Office	Leisure	Total
External revenue <sup>1</sup>	-	1,715	-	1,715
<b>Segment net rental income</b>	-	<b>1,307</b>	-	<b>1,307</b>
Net gains or losses from fair value adjustment	-	(427)	-	(427)
Interest expenses	-	(887)	-	(887)
Income tax expenses	-	-	-	-
<b>Segment net profit</b>	-	<b>620</b>	-	<b>620</b>
<b>Segment assets</b>	-	<b>15,775</b>	-	<b>15,775</b>
Investment properties	-	15,330	-	15,330
Additions to non-current assets	-	-	-	-
<b>Segment liabilities</b>	-	<b>8,302</b>	-	<b>8,302</b>

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

### Segment net rental income\*



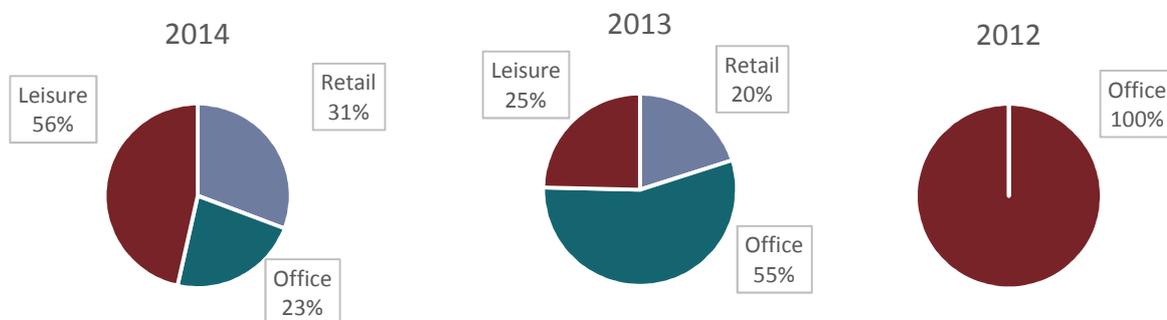
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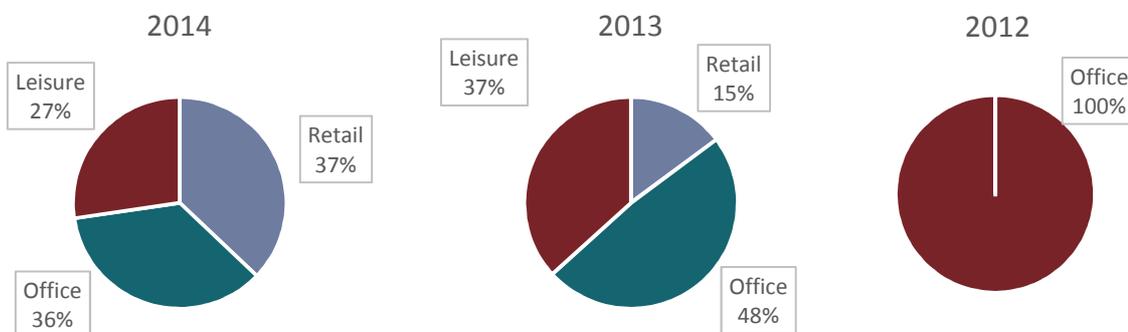
# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### Segment net profit (loss)\*



### Investment properties\*



\*As a percentage of the total for all reportable segments

### Reconciliation of information on reportable segments to IFRS measures

Operating segments – 31 December 2014

'000 Euro	Total reportable segments	Adjustments	Consolidated
Interest expenses	(1,831)	1,188 <sup>1</sup>	(643)
Net profit (loss)	2,526	(519) <sup>2</sup>	2,007
<b>Segment assets</b>	47,741	<b>1,293<sup>3</sup></b>	<b>49,034</b>
<b>Segment liabilities</b>	24,536	<b>170<sup>4</sup></b>	<b>24,706</b>

1. Eliminated intercompany transactions between companies.
2. Segment net profit does not include Fund management fee expense (EUR 462 thousand), fund custodian fee (EUR 12 thousand) and other administrative related expenses (EUR 45 thousand).
3. Segment assets do not include cash, which is held at the Fund level (EUR 1,293 thousand).
4. Segment liabilities do not include management fee payable (EUR 159 thousand) and other short term payables (EUR 11 thousand) at Fund level.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

Operating segments – 31 December 2013

'000 Euro	Total reportable segments	Adjustments	Consolidated
Interest expenses	(1,448)	1,018 <sup>1</sup>	(430)
Net profit (loss)	2,922	(406) <sup>2</sup>	2,516
<b>Segment assets</b>	<b>33,643</b>	<b>2,123<sup>3</sup></b>	<b>35,766</b>
<b>Segment liabilities</b>	<b>16,160</b>	<b>150<sup>4</sup></b>	<b>16,310</b>

1. Eliminated intercompany transactions between companies.
2. Segment net profit does not include Fund management fee expense (EUR 377 thousand), fund custodian fee (EUR 12 thousand) and other Fund administrative related expenses (EUR 17 thousand)
3. Segment assets do not include cash, which is held at the Fund and Holding level (EUR 85 thousand) and loan granted to external party at Holding level (EUR 2,038 thousand).
4. Segment liabilities do not include management fee payable (EUR 127 thousand) and other short term payables (EUR 23 thousand) at Fund level.

Operating segments – 31 December 2012

'000 Euro	Total reportable segments	Adjustments	Consolidated
Interest expenses	(887)	639 <sup>1</sup>	(248)
Net profit (loss)	620	(376) <sup>2</sup>	244
<b>Segment assets</b>	<b>15,775</b>	<b>9,615<sup>3</sup></b>	<b>25,390</b>
Investment properties	15,330	4,535 <sup>4</sup>	19,865
<b>Segment liabilities</b>	<b>8,302</b>	<b>158<sup>5</sup></b>	<b>8,460</b>

1. Eliminated intercompany transactions between companies.
2. Segment net profit does not include Fund management fee expense (EUR 325 thousand), fund custodian fee (EUR 12 thousand), other Fund administrative related expenses (EUR 39 thousand).
3. Segment assets do not include cash, which was held at the Fund and Holding level (EUR 5,058 thousand) and SKY property related assets (EUR 4,557 thousand).
4. Segment investment properties does not include SKY acquisition costs (EUR 4,535 thousand) because it did not generate income in 2013.
5. Segment liabilities do not include management fee payable (EUR 141 thousand) and other short term payables (EUR 17 thousand) at Fund and holding level.

### Geographic information

#### Segment external revenues

'000 Euro	External revenue			Investment property value		
	2014	2013	2012	2014	2013	2012
Lithuania	754	-	-	12,040	-	-
Latvia	804	768	-	5,100	4,900	-
Estonia	2,319	2,318	1,715	29,030	28,235	15,330
<b>Total net rental income</b>	<b>3,877</b>	<b>3,086</b>	<b>1,715</b>	<b>46,170</b>	<b>33,135</b>	<b>15,330</b>

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### Major tenant

Rental income from one tenant in leisure segment represented EUR 964 thousand in 2014 (2013: EUR 750 thousand) of the Group's total rental income.

### 7. Cost of rental activities

'000 Euro	2014	2013	2012
Utilities	677	525	280
Repair and maintenance	203	133	46
Real estate taxes	56	34	11
Property management expenses	181	90	59
Sales and marketing expenses	5	8	1
Property insurance	18	11	10
Allowance / (reversal of allowance) for bad debts	29	3	-
Other	8	2	1
<b>Total cost of rental activities</b>	<b>1,177</b>	<b>806</b>	<b>408</b>

In 2014, EUR 829 thousand of total cost of rental activities (mainly utilities and repair and maintenance expenses) was recharged to tenants (2013: EUR 632 thousand, 2012: EUR 312 thousand).

### 8. Administrative expenses

'000 Euro	2014	2013	2012
Management fee	462	377	325
Legal fees	67	120	8
Audit fee	31	23	9
Property valuation fee	36	20	1
Custodian fees	12	12	12
Other consultancy fees	23	30	12
Other administrative expenses	34	10	35
<b>Total administrative expenses</b>	<b>665</b>	<b>592</b>	<b>402</b>

The Management Company (Note 22) is entitled to receive an Annual Management Fee which is calculated 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as gross NAV at the certain dates (the last Banking Day of each calendar month). The NAV of the Fund is determined based on the market value of the securities (including shares of SPV's), other balances and rights belonging to the assets of the Fund from which liabilities against the Fund are deducted.

From the first year of operations of the Fund, the Management Company is entitled to calculate the Performance Fee of 20% of the average annual return on Paid in Capital if the average annual Return on Paid in Capital of the Fund exceeds 11% per annum. The Performance Fee, if any, is paid out to the Management Company after the exit of the Fund has been completed (i.e. all assets of the Fund have been transferred) and the audited annual report of the Fund for the final year of the Fund has been approved by the Management Board. As of 31 December 2014, 2013 and 2012, the Management Company was not entitled to receive a performance fee.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### 9. Financial income

'000 Euro	2014	2013	2012
Interest income	72	40	17
<b>Total financial income</b>	<b>72</b>	<b>40</b>	<b>17</b>

### 10. Financial expenses

'000 Euro	2014	2013	2012
Interest on bank loans	643	430	248
Foreign currency exchange loss	1	2	1
Loan arrangement fee amortisation	12	8	2
<b>Total financial expenses</b>	<b>656</b>	<b>440</b>	<b>251</b>

### 11. Earnings per unit

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

Profit attributable to unit holders of the Fund:

'000 Euro	2014	2013	2012
Profit for the year, attributed to the Unit holders of the Fund	2,007	2,516	244
<b>Profit for the year, attributed to the Unit holders of the Fund</b>	<b>2,007</b>	<b>2,516</b>	<b>244</b>

Weighted-average number of units:

'000 Euro	Note	2014	2013	2012
Issued Units at 1 January	17a	181,473	169,549	109,919
Effect of Units issued in February	17a	-	-	-
Effect of Units issued in March	17a	2,031	-	11,596
Effect of Units issued in April	17a	8,627	-	-
Effect of Units issued in May	17a	4,075	-	-
Effect of Units issued in August	17a	-	4,520	13,331
Effect of Units issued in September	17a	-	-	1,226
Effect of Units issued in October	17a	1,046	-	7
Effect of Units issued in December	17a	419	-	-
<b>Weighted-average number of Units issued</b>		<b>197,672</b>	<b>174,069</b>	<b>136,080</b>

### Basic and diluted earnings per unit

'000 Euro	2014	2013	2012
Basic and diluted earnings per unit*	10.15	14.45	1.79

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

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

#### 12. Income tax

Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where 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 2014, 2013 and 2012 are:

'000 Euro	2014	2013	2012
<b>Consolidated statement of comprehensive income</b>			
Current income tax for the year	(40)	(44)	-
Deferred tax for the year	(15)	(58)	-
<b>Income tax expense reported profit or loss</b>	<b>(55)</b>	<b>(102)</b>	-
<b>Consolidated statement of other comprehensive income</b>			
Deferred income tax related to items charged or credited to equity:			
Revaluation of derivative instruments to fair value	15	-	-
<b>Income tax expense reported in other comprehensive income</b>	<b>15</b>	-	-

Deferred income tax as at 31 December 2014, 2013 and 2012 relates to the following:

'000 Euro	Consolidated statement of financial position			Consolidated statement of comprehensive income		
	2014	2013	2012	2014	2013	2012
Tax losses brought forward	108	-	-	108	-	-
Revaluation of derivative instruments to fair value	15	-	-	-	-	-
<b>Deferred income tax assets</b>	<b>123</b>	-	-			
Investment property fair and tax value differences	(785)	(58)	-	(116)	(58)	-
Other tax liability	(8)	1	-	(7)	-	-
<b>Deferred income tax liabilities</b>	<b>(793)</b>	<b>(57)</b>	-			
<b>Deferred income tax income / (expense)</b>				<b>(15)</b>	<b>(58)</b>	-
<b>Deferred tax liabilities net</b>	<b>(670)</b>	<b>(57)</b>	-			

Reflected in the statement of financial position as follows:

Deferred tax assets	-	-	-
Deferred tax liabilities	(670)	(57)	-
<b>Deferred tax liabilities net</b>	<b>(670)</b>	<b>(57)</b>	-

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The reconciliation of effective tax rate for the years ended 31 December 2014, 2013 and 2012 is as follows:

'000 Euro	2014	2013	2012
(Loss) / profit before income tax	2,062	2,618	244
At statutory tax rate	(0.0)%	(0.0)%	(0.0)%
Effect of tax rates in foreign jurisdictions	(0.9)%	(2.7)%	2.0 %
Tax effect of non-deductable expenses	(0.4)%	(0.7)%	(1.2)%
Change in unrecognised deferred tax assets	(1.4)%	(0.5)%	(0.8)%
<b>Total income tax expenses</b>	<b>(2.7)%</b>	<b>(3.9)%</b>	<b>0%</b>

As at 31 December 2014, the Group had tax losses of EUR 44 thousand (2013: EUR 14 thousand, 2012: EUR 2 thousand) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may only be used to offset the taxable profits of certain companies in the Group, and there is uncertainty whether these companies will generate taxable profit in the future.

Summary of taxation rates by country is presented below:

'000 Euro	2014	2013	2012
Lithuania	15%	15%	15%
Latvia	15%	15%	15%
Estonia*	0%	0%	0%

\*20 % income tax rate applies on income distributions (in 2012-2014 the tax rate in Estonia was 21%).

### 13. Investment property

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

The fair value of the investment properties is approved by the Board of Directors 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 and approved by both the International Valuation Standards Committee (IVSC) and by the European Group of Valuers' Association (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 of 31 December 2014, 2013 and 2012 all of Fund properties were valued externally by independent valuers Colliers International and Newsec.

Valuations are prepared using the direct capitalization approach. Under the direct capitalization approach, the income and expenses of one year are stabilised and the net resulting operating income is capitalised at a capitalisation or return rate in proportion to the title to the subject property. Such income capitalisation considers the competitive return resulting from alternative instruments of investment into real estate or other property. This calculation excludes the effects of taxes and disposal costs borne by the seller, and is

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

net of transaction costs normally borne by the purchaser. Depreciation is not provided on investment properties.

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

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

Investment properties were valued on an annual basis, as required by the Fund's Rules.

'000 Euro	2014	2013	2012
Opening balance at 1 January	33,135	15,330	15,590
Investment property acquisitions	-	16,454	-
Investment property acquired in business combination	12,087		
Additions (subsequent expenditure)	337	25	167
Disposals	-	-	-
Net revaluation gain / (loss)	611	1,326	(427)
<b>Closing balance at 31 December</b>	<b>46,170</b>	<b>33,135</b>	<b>15,330</b>

Investment property balance as at 31 December 2014 includes land plot which is under development and is not earning rental income. Value as at 31 December 2014 of this land was 850 thousand Euros.

### Acquisition of SKY

On 7 December 2013, the Fund acquired an investment property located in Riga, Latvia, in an asset deal for a purchase price of LVL 3.2 million (EUR 4.5 million). Transaction costs related to the acquisition amounted to EUR 44 thousand.

### Acquisition of Coca-Cola Plaza

On 8 March 2013, the Fund acquired an investment property located in Tallinn, Estonia, in an asset deal for a purchase price of EUR 11.9 million. Transaction costs related to the acquisition amounted to EUR 60 thousand.

### Acquisition of Domus Pro

On 1 May 2014, the Group acquired 100% of the voting shares of BOF Domus Pro UAB (former Profista UAB), an unlisted company based in Lithuania. Domus Pro UAB owns Domus PRO property. The management of the Group was of opinion that this acquisition qualifies to be a business combination because of the following reasons:

- The acquisition was project based with multiple extension possibilities (stage I, stage II and stage III) with a leading partner TK Development which brought the experience to developing this project. TK Development brought its strategic management of the project developing all three stages. By itself, the Fund would not be able to develop this project;
- The seller had commitment to lease out the property, therefore, acquired property was with tenants and related processes;
- No employees exist to manage the processes, however, these processes are outsourced to the external property management company.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

The fair value of the identifiable assets and liabilities of BOF Domus Pro UAB as at the date of acquisition were:

'000 Euro	Fair value recognized on acquisition
Investment property	12,087
Trade and other receivables	302
Cash and cash equivalents	51
<b>Total assets</b>	<b>12,440</b>
Interest bearing loans and borrowings	7,233
Trade and other payable	1,210
Deferred tax liability	741
<b>Total liabilities</b>	<b>9,184</b>
<b>Net assets</b>	<b>3,256</b>
<b>Total consideration</b>	<b>3,256</b>

The total cost of the acquisition (including transaction costs) was EUR 3,256 thousand. Out of this amount EUR 1,408 thousand was paid in cash; EUR 1,735 was set-off with a previous existing loan receivable from the Seller and EUR 113 thousand represents a loan payable to the seller which was repaid on 24 August 2015.

Cash outflow on acquisition:

'000 Euro	Total
Net cash acquired with the subsidiary	51
Cash paid for the acquisition	(1,408)
<b>Net cash outflow</b>	<b>(1,357)</b>

From the date of acquisition on 1 May 2014 until 31 December 2014, BOF Domus Pro UAB contributed EUR 755 thousand to the revenue of the Group and EUR 356 thousand to the net profit of the Group. If the combination had taken place at the beginning of 2014, the revenue would be 897 and net loss for the Group would have been EUR 126 thousand for the full year ended 31 December 2014.

#### Acquisition of Europa

On 2 March 2015, the Group acquired 100% of the voting shares of BOF Europa Holding (former BPT Secura UAB) an unlisted company based in Lithuania. BOF Europa Holding owns shares in BOF Europa UAB which owns Europa Shopping centre. The management of the Group was of opinion that this acquisition qualifies to be a business combination because of the following reasons:

- Complex property management process.
- The acquired property had existing lease agreements with all related processes needed for property operation;
- No employees exist to manage the processes, however, these processes are outsourced to the external property management company.

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The fair value of the consolidated identifiable assets and liabilities of BOF Europa Holding UAB and BOF Europa UAB as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

'000 Euro	Fair value recognized on acquisition
Investment property	35,787
Other non-current assets	341
Trade and other receivables	524
Cash and cash equivalents	416
<b>Total assets</b>	<b>37,068</b>
Interest bearing loans and borrowings	26,012
Trade and other payable	808
Deferred tax liability	2,175
<b>Total liabilities</b>	<b>28,995</b>
<b>Net assets</b>	<b>8,073</b>
<b>Total consideration</b>	<b>8,073</b>

The total cost of the acquisition (including transaction costs) was EUR 8,073 thousand which was paid in cash.

Cash outflow on acquisition:

'000 Euro	Total
Net cash acquired with the subsidiary	416
Cash paid for the acquisition	(8,073)
<b>Net cash outflow</b>	<b>(7,657)</b>

From the date of acquisition on 2 March 2015 until 31 December 2015, BOF Europa UAB and BOF Europa Holding have contributed EUR 3,433 thousand to the revenue of the Group and EUR 2,646 thousand to the net profit of the Group. If the combination had taken place at the beginning of 2015, the revenue contribution would be 4,043 and net profit for the Group would have been 2,963 thousand for the full year.

### Fair value hierarchy

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

31 December 2014	Level 1	Level 2	Level 3	Total	Total gain or (loss) in year 2014 in the income statement
Lithuania – Domus Pro (retail)	-	-	12,040	12,040	45
Latvia – SKY (retail)	-	-	5,100	5,100	178
Estonia – Lincona (office)	-	-	16,410	16,410	(47)
Estonia – Coca-Cola Plaza (leisure)	-	-	12,620	12,620	435
<b>Total</b>	-	-	<b>46,170</b>	<b>46,170</b>	<b>611</b>

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<b>31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Total gain or (loss) in year 2013 in the income statement</b>
Latvia – SKY (retail)	-	-	4,900	4,900	386
Estonia – Lincona (office)	-	-	16,050	16,050	699
Estonia – Coca-Cola Plaza (leisure)	-	-	12,185	12,185	241
<b>Total</b>	-	-	<b>33,135</b>	<b>33,135</b>	<b>1,326</b>

<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Total gain or (loss) in year 2012 in the income statement</b>
Estonia – Lincona (office)	-	-	15,330	15,330	(427)
<b>Total</b>	-	-	<b>15,330</b>	<b>15,330</b>	<b>(427)</b>

There were no transfers between Levels during the years. Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to gain of EUR 611 thousand as at 31 December 2014 (2013: gain of EUR 1,326 thousand; 2012: loss of EUR 427 thousand) and are presented in the consolidated income statement in line 'Gross valuation gains / (loss) on investment properties'.

#### Valuation techniques used to derive Level 3 fair values

As of 31 December 2014 valuation of investment property located in Lithuania was performed by Independent valuer Newsec and valuations of investment properties located in Estonia and Latvia were performed by Colliers. As of 31 December 2013 and 2012 valuations of investment properties located in Estonia and Latvia were performed by Colliers.

The table below presents the following for each class of the 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.

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As of 31 December 2014:

Property	Valuation technique	Key unobservable inputs	Range
<b>Domus Pro Retail Park</b>	DCF*	- Discount rate	10.4%
Total rentable space – 7,505 m <sup>2</sup>		- Rental growth p.a.	0.0% - 2.5%
Segment – Retail		- Long term vacancy rate	2.0% - 5.0%
Year of construction/renovation – 2013		- Exit yield	8.0%
<b>Lincona Office Complex, Tallin (Estonia)**</b>	DCF	- Discount rate	8.60-9.20%
Total rentable space – 11,336 m <sup>2</sup>		- Rental growth p.a.	0.0% - 5.0%
Segment – Office		- Long term vacancy rate	5.0%-10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%
<b>Coca-Cola Plaza , Tallin (Estonia)</b>	DCF	- Discount rate	8.50%
Total rentable space – 9,929 m <sup>2</sup>		- Rental growth p.a.	2.0%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 2001		- Exit yield	8.0%
<b>SKY Supermarket, Riga (Latvia)</b>	DCF	- Discount rate	8.50%
Total rentable space – 3,240 m <sup>2</sup>		- Rental growth p.a.	0.0%-3.0%
Segment – Retail		- Long term vacancy rate	3.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	8.0%

\* Residual method was used to assess of land plot area that is un-build and potentially can be additionally developed for Domus Pro stage 2.

\*\*Lincona property complex consists of 3 connected office buildings and 1 standalone retail unit; as at end of 2014 the separate valuations were performed for the retail unit and office complex.

As of 31 December 2013:

Property	Valuation technique	Key unobservable inputs	Range
<b>Lincona Office Complex, Tallin (Estonia)</b>	DCF	- Discount rate	9.20%
Total rentable space – 11,336 m <sup>2</sup>		- Rental growth p.a.	0.0% - 5.0%
Segment – Office		- Long term vacancy rate	5.0%-10.0%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%
<b>Coca-Cola Plaza , Tallin (Estonia)</b>	DCF	- Discount rate	8.80%
Total rentable space – 9,929 m <sup>2</sup>		- Rental growth p.a.	2.0%
Segment – Leisure		- Long term vacancy rate	0.0%
Year of construction/renovation – 2001		- Exit yield	8.25%
<b>SKY Supermarket, Riga (Latvia)</b>	DCF	- Discount rate	8.50%
Total rentable space – 3,240 m <sup>2</sup>		- Rental growth p.a.	0.0%-3.0%
Segment – Retail		- Long term vacancy rate	3.0%
Year of construction/renovation – 2000 / 2010		- Exit yield	8.0%

As of 31 December 2012:

Property	Valuation technique	Key unobservable inputs	Range
<b>Lincona Office Complex, Tallin (Estonia)</b>	DCF	- Discount rate	9.50%
Total rentable space – 11,336 m <sup>2</sup>		- Rental growth p.a.	0.0% - 5.0%
Segment – Office		- Long term vacancy rate	5.0%-7.5%
Year of construction/renovation – 2002 / 2008		- Exit yield	8.0%

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The table below sets out information about significant unobservable inputs used at 31 December 2014, 2013 and 2012 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of asset class	Fair value at 31 December	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	2014: 46,170; 2013: 33,135; 2012: 15,330;	Discounted cash flow	Exit yield	2014: 8.0%; 2013: 8.0–8.25%; 2012: 8.0%	Increase in exit yield in isolation would result to lower value of Investment property.
			Discount rate	2014: 8.5 – 10.4%; 2013: 8.5 – 9.2%; 2012: 9.5%	Increase in discount rate in isolation would result to lower value of Investment property.
			Rental growth p.a.	2014: 0 – 5.0% 2013: 0 – 5.0% 2012: 0 – 5.0%	Increase in rental growth in isolation would result to higher value of Investment property.
			Long term vacancy rate	2014: 0 – 10.0%; 2013: 0 – 10.0%; 2012: 0 – 10.0%	Increase in Long-term vacancy rate in isolation would result to lower value of Investment property.

#### Sensitivity analysis

Sensitivity analysis of fair values for the portfolio at 31 December 2014 based on possible changes in Exit yield and discount rate (WACC)

	increase	decrease
Exit yield (0.25% movement)	(927)	1,004
Discount rate (0.25% movement)	(449)	493

#### Descriptions and definitions

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

#### **Discounted Cash Flows (DCF)**

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

#### **Rental growth**

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

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### 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.

## 14. Other non-current assets

'000 Euro	2014	2013	2012
Prepayment for Investment property	-	-	4,535
Other non-current assets	-	23	-
<b>Total</b>	<b>-</b>	<b>23</b>	<b>4,535</b>

## 15. Trade and other receivables

'000 Euro	2014	2013	2012
Trade receivable, gross	124	103	92
Less impairment allowance for doubtful receivables	(29)	(3)	-
Accrued income	28	-	187
Other accounts receivable	91	2,039	1
<b>Total</b>	<b>214</b>	<b>2,139</b>	<b>280</b>

Other amounts receivable as at 31 December 2013 mainly consist of short term loan to TK Development Lietuva UAB (2,000 thousand EUR) related with acquisition of BOF Domus Pro UAB. Loan was set-off during acquisition of Profista in May 2014.

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

As at 31 December 2014, trade receivables at nominal value of EUR 29 thousand (2013: EUR 3 thousand, 2012: none) were impaired and fully provisioned.

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Movements in the impairment of receivables were as follows:

'000 Euro	2014	2013	2012
Balance at 1 January	(3)	-	-
Charge for the year	(29)	(3)	-
Written-off	3	-	-
<b>Balance at 31 December</b>	<b>(29)</b>	<b>(3)</b>	-

The ageing analysis of trade receivables that were past due but not impaired is as follows (at the end of the year):

'000 Euro	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2014	95	76	3	4	2	2	8
2013	100	75	8	5	3	3	6
2012	92	44	23	10	9	6	-
2011	48	34	12	2	-	-	-

### 16. Cash and cash equivalents

'000 Euro	2014	2013	2012
Cash at banks and on hand	2,626	456	5,231
<b>Total cash</b>	<b>2,626</b>	<b>456</b>	<b>5,231</b>

As at 31 December 2014 and 2013, the Group had to keep at least EUR 100 thousand of cash in its bank accounts due to certain restrictions in bank loan agreements.

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### 17. Equity

#### 17a. Paid in capital

As at 31 December 2014, the paid in capital of Baltic Opportunity Fund is represented by 217,197 units (2013: 181,473; 2012: 169,549). Units issued and fully paid are presented in the table below:

'000 Euro	Number of units	Amount
<b>Balance at 1 January 2012</b>	<b>109,919</b>	<b>10,970</b>
Issued in March 2012	14,956	1,500
Issued in August 2012	39,883	4,000
Issued in September 2012	4,761	486
Issued in October 2012	30	3
<b>Total issued during the year</b>	<b>59,630</b>	<b>5,989</b>
<b>As at 1 January 2013</b>	<b>169,549</b>	<b>16,959</b>
Issued in August 2013	11,924	1,197
<b>Total issued during the year</b>	<b>11,924</b>	<b>1,197</b>
<b>As at 1 January 2014</b>	<b>181,473</b>	<b>18,156</b>
Issued in March 2014	2,474	265
Issued in April 2014	12,817	1,400
Issued in May 2014	6,438	700
Issued in October 2014	5,973	655
Issued in December 2014	8,022	875
<b>Total issued during the year</b>	<b>35,724</b>	<b>3,895</b>
<b>As at 31 December 2014</b>	<b>217,197</b>	<b>22,051</b>

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 receive, when payments are made a share of 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 2014, 2013 and 2012. The Fund did not hold its own units as at 31 December 2014, 2013 and 2012.

#### 17b. Cash flow hedge valuation reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Fund to hedge the cash flows from interest rate risk in the year ended on 31 December 2014, 2013 and 2012.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

'000 Euro	2014	2013	2012
<b>Balance at the beginning of the year</b>	<b>(210)</b>	<b>(287)</b>	<b>(183)</b>
Movement in fair value of existing hedges	1	77	(104)
Movement in deferred income tax	15	-	-
<b>Net variation during the year</b>	<b>16</b>	<b>77</b>	<b>(104)</b>
<b>Balance at the end of the year</b>	<b>(194)</b>	<b>(210)</b>	<b>(287)</b>

### 17c. Dividends paid

'000 Euro	2014	2013	2012
Declared during the year*	(1,059)	(1,235)	(375)
<b>Total dividends declared</b>	<b>(1,059)</b>	<b>(1,235)</b>	<b>(375)</b>

\*Dividends in the amount EUR 875 thousand (2013: none; 2012: none) were reinvested back into the Fund by the unitholders in exchange for additional units of the Fund.

In July 2012, the Fund declared a distribution of EUR 3.00 per unit.  
In July 2013, the Fund declared a distribution of EUR 3.54 per unit.  
In December 2013, the Fund declared a distribution of EUR 3.5 per unit.  
In November 2014, the Fund declared a distribution of EUR 5.06 per unit.

### 18. Interest bearing loans and borrowings

'000 Euro	Maturity	Effective interest rate	2014	2013	2012
<b>Non-current borrowings</b>					
Bank 1	Dec 2017	1M EURIBOR plus 1.45%	7,332	7,488	7,644
Bank 1	Aug 2016	3M EURIBOR plus 2.10%	2,127	2,200	-
Bank 2	Mar 2016	3M EURIBOR plus 2.60%	5,975	5,975	-
Bank 3	May 2018	3M EURIBOR plus 2.50%	7,509	-	-
TK Development	Jun 2018	8.5%	113	-	-
Less capitalised loan arrangement fees			(17)	(19)	-
Less current portion			(644)	(229)	(156)
<b>Total non-current debt</b>			<b>22,395</b>	<b>15,415</b>	<b>7,488</b>
<b>Current portion of non-current borrowings</b>					
Current portion of non-current borrowings			644	229	156
<b>Total current debt</b>			<b>644</b>	<b>229</b>	<b>156</b>
<b>Total</b>			<b>23,039</b>	<b>15,644</b>	<b>7,644</b>

Accrued financial expenses include accrued interest costs on bank loans.

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### Loan securities

As of 31 December 2014, 2013 and 2012 the Group was not breaching any of the bank loan agreements and were in compliance with the covenants specified in the loan agreements. Based on the agreements, the Group has to ensure compliance with the following main financial performance ratios: Debt Service Coverage Ratio (DSCR) and Loan to value ratio (or Equity ratio).

For the borrowings received, the following pledges and securities were present as of 31 December 2014:

	Mortgages of the property*	Second mortgages derivatives*	rank for	Pledges of receivables	Pledges of bank accounts	Share pledge
<b>Bank 1</b>	Lincona, SKY	Lincona, SKY		Lincona, SKY	SKY	
<b>Bank 2</b>	Coca-Cola Plaza	Coca-Cola Plaza		Coca-Cola Plaza	Coca-Cola Plaza	
<b>Bank 3</b>	Domus Pro	Domus Pro		Domus Pro		BOF Domus Pro UAB

### 19. Trade and other payables

'000 Euro	2014	2013	2012
Trade payables	238	74	344
Accrued expenses	64	37	5
Accrued expenses related to Domus Pro stage II acquisition	-	-	-
Accrued financial expenses	12	12	6
Tax payables	47	41	15
Other payables	173	149	150
<b>Total trade and other payables</b>	<b>534</b>	<b>313</b>	<b>520</b>

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.

### 20. Other current liabilities

'000 Euro	2014	2013	2012
Advances received	58	-	-
Deferred income	36	-	-
<b>Total other current liabilities</b>	<b>94</b>	<b>-</b>	<b>-</b>

### 21. Commitments and contingencies

#### 21a. 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.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

The leasing arrangements entered into or in relation with Group's investment properties portfolio which include a clause authorising tenants to terminate the leasing arrangements up to six-month notice are not considered as non-cancellable leases.

Lease payments receivable from non-cancellable lease 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.

Year of expiry or first break option	2014		2013		2012	
	Amount receivable	%	Amount receivable	%	Amount receivable	%
Within 1 year	3,439	15%	2,230	15%	1,256	30%
Between 2 and 5 years	11,246	51%	7,141	49%	2,857	67%
5 years and more	7,561	34%	5,251	36%	126	3%
<b>Total</b>	<b>22,246</b>	<b>100%</b>	<b>14,622</b>	<b>100%</b>	<b>4,239</b>	<b>100%</b>

#### 21b. Litigation

As at 31 December 2014, there was no on-going litigation, which could materially affect the consolidated financial position of the Group.

#### 21c Contingent liabilities

On 1 December 2015, the Group entered into agreement with TK Development to increase the value of Domus Pro retail Park by constructing and developing office and commercial building on the land plot nearby the Domus Pro stage II. Construction of stage III may be commenced if at least 50% of gross letting area of office and retail building of stage III is preleased and at least 20% of gross letting area of office and retail building of stage III are under the head of terms and the building permitting of the stage III is obtained. In case the commencement conditions precedent were not met until 30 November 2016, the Group:

1. is released from any obligations of this agreement, however, if the commencement conditions precedent of stage III were not met due to the fault of the Group, it must cover the costs related to preparation for the development of stage III;
2. if the commencement conditions precedent of stage III were not met due to the fault of TK Development by 30 November 2016, the Group should initiate separation of the part of the land plot related to stage III. Once the land plot is legally formed and registered, the Group shall sell the land plot in land SPA to TK Development for the price equal to the market price. The Group shall also pay to TK Development remuneration for development services delivered until the date of concluding land separation;
3. In case the land is not separated until 31 May 2017 and/or the land SPA is not signed until 31 July 2017 due to the fault of the Group, the Group shall pay to TK Development the amount of EUR 1,000 thousand.

The Group does not have any other contingent liabilities at the end of 31 December 2014.

#### 22. Related parties

During the year, 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

# Baltic Opportunity Fund

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

### Northern Horizon Capital A/S

As set in Baltic Opportunity Fund Rules, Northern Horizon Capital AS (the Management Company) carries out asset manager functions on behalf of the Fund and the Fund is paying management fees respectively (Note 8).

### UAB TK Development Lietuva

In agreement entered on 30 July 2013, TK Development Lietuva acts as the development project manager of Domus Pro retail park.

The following table provides the total amount of the transactions and balances at year end, which have been entered into with related parties for the relevant financial year:

	2014	2013	2012
<b>Northern Horizon Capital A/S group</b>			
<i>Transactions:</i>			
Management fees	(462)	(377)	(325)
Property management fee	(181)	(90)	(59)
<i>Balances:</i>			
Payables	159	128	141
<b>UAB TK Development Lietuva</b>			
<i>Balances:</i>			
Short term loan receivable related to BOF Domus Pro UAB (former Profista UAB) acquisition	-	2,000	-
Loan payable related to Domus Pro acquisition*	113	-	-

\*Final purchase price of Domus Pro stage I settlement in cash novated to intercompany loan between TK Development and BPT Baltic Fund 2 UAB. Loan terms are provided in Note 18.

The Management Company is entitled to receive an Annual Management Fee which is calculated 1.9% of the Net Asset Value (NAV) per annum of the Fund's portfolio, determined as gross NAV at the certain dates (the last Banking Day of each calendar month). The NAV of the Fund is determined based on the market value of the securities (including shares of SPV's), other balances and rights belonging to the assets of the Fund from which liabilities against the Fund are deducted.

The Property Management Fee is calculated from the net rental income of the real estates in respect of which the Management Company provides property management services. The rate of the Property Management Fee is 3-6% of the net rental income of the real estates managed by the Management Company. Property management service means arranging of provision of services related to a real estate such as (i) SPV accounting, (ii) communication with lessees, conclusion of lease agreements and collection of lease payments, (iii) finding, planning and realisation of small expansion possibilities and other possibilities to increase the cash flow of a real estate (excluding large scale construction and development projects), (iv) utility services and (v) property maintenance.

Northern Horizon Capital A/S owns 1,500 units of the Fund.  
UAB TK Development Lietuva owns 12,817 units of the Fund.

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

#### 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 2014 are provided in the table below:

#### As at 31 December 2014

	Number of units	Percentage
Svenska Kyrkans Pensionskassa	115,165	53.02%
Skandinaviska Enskilda Banken SA	39,276	18.08%
UAB TK Development Lietuva	12,817	5.90%

#### As at 31 December 2013

	Number of units	Percentage
Svenska Kyrkans Pensionskassa	110,058	60.65%
Skandinaviska Enskilda Banken SA	36,348	20.03%

#### As at 31 December 2012

	Number of units	Percentage
Svenska Kyrkans Pensionskassa	110,058	64.12%
Skandinaviska Enskilda Banken SA	29,981	17.68%

Except for dividends paid, there were no transactions with Svenska Kyrkans Pensionskassa and Skandinaviska Enskilda Banken SA. Transactions with UAB TK Development Lietuva are disclosed in the table above.

### 23. Financial instruments

#### Fair values

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

	Carrying amount			Fair value		
	2014	2013	2012	2014	2013	2012
<b>Financial assets</b>						
Trade and other receivables	214	2,139	280	214	2,139	280
Cash and cash equivalents	2,626	456	5,231	2,626	456	5,231
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings	(23,039)	(15,644)	(7,644)	(22,810)	(15,112)	(7,228)
Trade and other payables	(534)	(313)	(520)	(534)	(313)	(520)
Derivative financial instruments	(209)	(211)	(288)	(209)	(211)	(288)

## Baltic Opportunity Fund

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013**

Fair value hierarchy

Quantitative disclosures of the Group's financial instruments in the fair value measurement hierarchy as at 31 December 2014, 2013 and 2012:

<b>Year ended 31 December 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
<b>Financial assets</b>				
Trade and other receivables	-	-	214	<b>214</b>
Cash and cash equivalents	-	2,626	-	<b>2,626</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(22,810)	<b>(22,810)</b>
Trade and other payables	-	-	(534)	<b>(534)</b>
Derivative financial instruments	-	(209)	-	<b>(209)</b>
<b>Year ended 31 December 2013</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
<b>Financial assets</b>				
Trade and other receivables	-	-	2,139	<b>2,139</b>
Cash and cash equivalents	-	456	-	<b>456</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(15,112)	<b>(15,112)</b>
Trade and other payables	-	-	(313)	<b>(313)</b>
Derivative financial instruments	-	(211)	-	<b>(211)</b>
<b>Year ended 31 December 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
<b>Financial assets</b>				
Trade and other receivables	-	-	280	<b>280</b>
Cash and cash equivalents	-	5,231	-	<b>5,231</b>
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	-	-	(7,228)	<b>(7,228)</b>
Trade and other payables	-	-	(520)	<b>(520)</b>
Derivative financial instruments	-	(288)	-	<b>(288)</b>

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

The fair value of the financial assets and liabilities is included at 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 were 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

## Baltic Opportunity Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

expected losses of these receivables. As at 31 December 2014, 2013 and 2012 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.
- Fair values of the Group's interest-bearing loans and borrowings are determined by using the DCF method at prevailing interest rates.
- Cash and cash equivalents tenants are attributed to level 2 fair value hierarchy.

#### 24. Derivative financial instruments

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

The purpose of interest rate swaps is to hedge the interest rate risk arising from interest rate fluctuations as 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 pays fixed interest payments to a bank and receives variable interest rate payments from a bank.

IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument goes to equity reserves rather than income statement. Specific documentation on each financial instrument is required to be maintained to ensure hedge accounting principles (Note 17b).

Derivative type	Starting date	Maturity date	Notional amount	Variable rate (received)	Fixed rate (paid)	Fair value		
						2014	2013	2012
IRS	Sep 2011	Jun 2015	7,800	1M Euribor	1.71 %	(60)	(165)	(288)
IRS	Sep 2013	Aug 2016	1,100	3M Euribor	0.60 %	(9)	(3)	-
IRS	Sep 2013	Mar 2016	5,975	3M Euribor	0.74 %	(51)	(43)	-
IRS	Dec 2014	May 2018	7,542	3M Euribor	0.50 %	(89)	-	-
<b>Derivative financial instruments liabilities</b>						<b>(209)</b>	<b>(211)</b>	<b>(288)</b>

Derivative financial instruments are accounted for at fair value as at 31 December 2014, 2013 and 2012. Maturity of derivative financial instruments in the Group is specified as follows:

Classification according to Maturity	Liabilities			Assets		
	2014	2013	2012	2014	2013	2012
Non-current	(149)	(211)	(288)	-	-	-
Current	(60)	-	-	-	-	-
<b>Total</b>	<b>(209)</b>	<b>(211)</b>	<b>(288)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Baltic Opportunity Fund

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013**

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### 25. Subsequent events

On 2 March 2015, the Group acquired 100% of the voting shares of BOF Europa Holding (former BPT Secura UAB) an unlisted company based in Lithuania. BOF Europa Holding owns shares in BOF Europa UAB which owns Europa Shopping centre.

On 3 March 2015, the Group disposed Babycenter in Tallinn, Estonia. The property was a neighbouring stand-alone building acquired in 2011 together with Lincona office complex. The disposal price was EUR 990 thousand resulting in a loss of EUR 10 thousand.

On 29 December 2015, BPT Baltic Fund 2 UAB was merged to BOF Domus Pro UAB.

### 26. List of consolidated companies

Name	Registered office	Registration Number	Date of incorporation / acquisition	Activity	Share in capital
BOF Lincona OÜ	Rävala 5, Tallinn, Estonia	12127485	20 June 2011	Asset holding company	100%
BOF Domus Pro UAB	Bieliūnų g. 1-1, Vilnius, Lithuania	225439110	1 May 2014	Asset holding company	100%
BPT Baltic Fund 2 UAB*	Gynėjų str. 16, Vilnius	302644648	4 August 2011	Asset holding company	100%
BOF SKY SIA	Valdemara 21-20, Riga, Latvia	40103538571	27 March 2012	Asset holding company	100%
BOF CC Plaza OÜ	Rävala 5, Tallinn, Estonia	12399823	11 December 2012	Asset holding company	100%

\* On 29 December 2015, BPT Baltic Fund 2 UAB was merged to BOF Domus Pro UAB.

## BPT Baltic Opportunity Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2013

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The Financial Statements of Baltic Opportunity Fund have been approved by the management board of the Management Company on 15 April 2016.

Name and position

Signature

Date

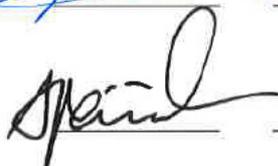
Tarmo Karotam  
Chairman of the management board

 15 April 2016

Aušra Stankevičienė  
Member of the management board

 15 April 2016

Algirdas Jonas Vaitiekūnas  
Member of the management board

 2016-04-15

## **APPENDIX E**

**Audited Non-Consolidated Financial Statements of BOF for the Year 2014**

## ***BPT Baltic Opportunity Fund***

*ANNUAL REPORT FOR THE FINANCIAL  
YEAR ENDED 31 DECEMBER 2014*

# BPT Baltic Opportunity Fund

Annual report for the financial year ended 31 December 2014

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Beginning of financial year	1 January 2014
End of financial period	31 December 2014
Management company	Northern Horizon Capital AS
Business name	BPT Baltic Opportunity Fund
Type of fund	Non-public closed-ended contractual real estate fund
Style of fund	Core plus
Market segment	Retail / Offices
Life time/ Investment stage	Finite / closed for investments
Key milestone dates	21 December 2010 (first closing) 21 December 2014 (end of commitment period) 21 December 2017 (fund term)
Address of the fund	Rävala pst 5 Tallinn 10143 Estonia
Phone	+372 6309 420
Fax	+372 6309 421
Fund manager	Tarmo Karotam
Investment committee	Andris Kraujins (Chairman) Janis Abasins Lars Ohnemus
Investment committee remuneration	15 000 euros p.a.
Management board of the Management Company	Tarmo Karotam (Chairman) Aušra Stankevičienė
Supervisory board of the Management Company	Michael Schönach (Chairman) Dalia Garbuziene Jussi Erkki Pelkonen
Depositary, Fund administrator and Registrar	Swedbank AS
Auditor	AS Ernst & Young Baltic
Valuer	Colliers International
100% interest in subsidiaries (unconsolidated)	BPT Baltic Fund 1 OÜ, Rävala 5, Tallinn, Estonia BPT Baltic Fund 2 UAB, Gynėjų 16, Vilnius, Lithuania Profista UAB, Gynėjų 16, Vilnius, Lithuania BPT Baltic Fund 3 SIA, Valdemara 21-20, Riga, Latvia BPT Baltic Fund 4 OÜ, Rävala 5, Tallinn, Estonia

# BPT Baltic Opportunity Fund

## INDEPENDENT AUDITOR'S REPORT

Annual report for the financial year ended 31 December 2014

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www.ey.com

Code of legal entity: 10877299  
VAT payer code: EE 100770654

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholder of BPT Baltic Opportunity Fund

We have audited the accompanying financial statements of BPT Baltic Opportunity Fund (further "fund"), managed by Northern Horizon Capital AS (further "fund management company"), which comprise the statement of financial position as at 31 December 2014, statement of comprehensive income, statement of changes in net asset value of the fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *The Fund Management Company's Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of BPT Baltic Opportunity Fund as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 23 February 2015

Ivar Kiigemägi  
Authorised Auditor's number 527  
Ernst & Young Baltic AS  
Audit Company's Registration number 58

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

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### DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

<b>FSA</b>	the Estonian Financial Supervision Authority (in Estonian: Finantsinspektsioon)
<b>Fund</b>	BPT Baltic Opportunity Fund (REIF)
<b>IFRS</b>	International Financial Reporting Standards as adopted by European Union
<b>IFRS NAV</b>	NAV
<b>INREV</b>	European Association for Investors in Non-listed Real Estate Vehicles
<b>INREV NAV</b>	IFRS NAV, adjusted to comply with INREV guidelines
<b>Investor(s)</b>	An institutional investor who qualifies as professional investor within the meaning of Article 6(2) of the Estonian Securities Market Act, another institutional investor and an individual each acquiring or at any time possessing units for the amount of at least 50 000 euro
<b>Management Company</b>	Northern Horizon Capital AS (formerly known as <i>BPT Asset Management A/S</i> ), register code 11025345, registered address at Rävåla pst 5, Tallinn 10143, Estonia
<b>NAV</b>	Net asset value for the Fund
<b>NAV per unit</b>	NAV divided by the amount of units in the Fund at the moment of determination
<b>NOI</b>	Net operating income
<b>Direct Property Yield</b>	NOI divided by acquisition value of a property
<b>Net Initial Yield</b>	NOI divided by market value of a property
<b>GAV</b>	Gross asset value of the Fund
<b>TER</b>	Total expense ratio - annual operating costs of the Fund and its subsidiaries as a proportion of average assets.
<b>REER</b>	Real estate expense ratio - annual Fund and its subsidiaries property-specific costs as a proportion of average assets (average GAV and average NAV).

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

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### MANAGEMENT REVIEW

BPT Baltic Opportunity Fund is a direct real estate fund (“the Fund”) with an aim to invest in core cash-flow generating properties with prime characteristics and strong business concepts across the Baltic capitals. The focus is on retail and office properties which hold long-term tenants and opportunities for active asset management. The financial objective of the Fund is to provide its Investors with an above average risk-adjusted return by primarily acquiring commercial real estate properties or forward funding projects that provide for potential capital gains through realizing income enhancement possibilities, while not excluding a stream of high yielding current income. During year 2014 the strategy of the Fund did not change.

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

The 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 a strong commitment, transparency and fair dealings. The Investor’s best interest is always considered in the Management Company to guard that the Investor is treated fairly. The Board ensures that conflicts of interests between the related parties are avoided or are as small as possible. Business units are obliged to establish, maintain and document procedures to identify, prevent and manage conflicts of interest and to, when necessary issue supplementing instructions to the policies, instructions and guidelines issued by the Group.

Investors participate in management of the Fund through General Meetings. The General Meeting is called by the Management Company as often as the need to decide issues, which fall into the competence of the General Meeting, arises. Notice of the General Meeting is given at least three weeks in advance. The General Meeting may adopt resolutions if at least 2/3 of the votes represented by the Units are present.

The Fund has an independent Investment Committee which consists of qualified members with recognized experience in the real estate markets in Estonia, Latvia, and Lithuania, impeccable reputation and appropriate education. The Investment Committee is solely competent to make all investment and divestment decisions for accomplishing the Fund’s investment objectives.

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

The real estate property valuation policies of the Fund are determined in the Fund rules based on the common market practice. Only a licensed independent real estate appraiser of high repute and sufficient experience in appraising similar property and operating in the country where any relevant real estate property is located may evaluate real estate belonging to the Fund. At the end of 2014, Fund properties were valued externally by independent valuers Colliers International and Newsec.

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

# BPT Baltic Opportunity Fund

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international advisers. The auditor of the Fund is Ernst & Young Baltic AS which is a member of the Estonian Board of Auditors (Certification no. 58).

The Fund's activities are monitored on a regular basis by the Estonian FSA, the investment committee, Fund administrator and custodian bank Swedbank. The Management Company follows the INREV guidelines and FSA requirements for corporate governance as well as ensures transparency through accurate, direct and timely communication to Investors. In addition, Management Company has assessed the level of compliance with INREV's reporting, NAV and fee and expense metrics modules. The results of such self-assessment are summarised below:

**Table 1: Statement of level of adoption of INREV Guidelines**

INREV module	Guidelines	Level of adoption or compliance
1	Corporate Governance	The compliance with the INREV corporate governance module has been considered by the manager. The intended framework partially complies with the INREV corporate best practices. The vehicle assessed at the end of the financial year that it is currently following its intended corporate governance framework.
2	Reporting	Although not detailed in the fund documentation, the INREV reporting module has been considered. The INREV requirements are complied.
3	Property valuation	The Fund's property valuations are carried out in line with INREV best practices. Though not separately documented, the valuation performed by the external valuer is subject to the manager's internal review.
4	INREV NAV	The Fund calculates INREV NAV as per guidelines set by INREV.
5	Fee and expense metrics	The Fund calculates INREV fee and expense metrics as per guidelines set by INREV. However, the forward looking ratios have not been computed and disclosed at vehicle launch.
6	Liquidity	The manager has assessed that it is currently follows the liquidity framework defined by INREV except that the Fund as a closed-end fund does not maintain a liquidity protocol document and the secondary trading policy has not been described in the Fund documentation as it is not practiced by the Fund.
7	INREV data delivery	The Fund is in compliance with the INREV data delivery module.

The Fund currently is not engaged in property development activities, joint ventures, associate investments or other non-property related investments.

All the financial information disclosed in this review coincides with the financial statements for the financial year ended 31 December 2014.

## MANAGER'S REPORT

The whole year of 2014 has been an active period for the Fund in search for additional acquisitions to the portfolio and filling in the remaining vacancy in the properties.

# BPT Baltic Opportunity Fund

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On 30<sup>th</sup> of April, BPT Baltic Opportunity Fund acquired a completed retail development project in Vilnius, Lithuania, from Danish developer TK Development A/S. Structured as a typical box retail centre, the Domus PRO project is fully leased out with supermarket chain RIMI as anchor tenant. The agreement with TK Development A/S includes possibility to expand Domus PRO through second phase where approx. 3 700 sq. m. of net leasable area can be added providing at least 80% of net area is preleased. Negotiations with anchor tenants for the second phase have been completed for 100% of the premises and new lease agreements are signed. The TK Development team will start the construction process in March 2015 so that the extension is finished by year-end 2015. Domus PRO is a good example of the fund's core-plus investment strategy where value can be added through income enhancement through expansion.

Furthermore, the management team of the fund has been fund raising additional equity throughout the year from current and new investors in order to make the fifth acquisition to the portfolio and diversify the fund geographically from Estonia. In the second half of the year, with the assistance of current fund investors that reinvested 83% of their annual cash distribution back to the fund, BOF has been able to raise equity to be capable to actively review and analyse new acquisitions. At the end of the year, after participating in various bidding processes, the management team together with the fund's investment committee made a decision to acquire Europa Shopping Center in Vilnius. Completion of the acquisition was conditional to the investors approval to increase the retail investment limit in the fund rules and the FSA approval of changed Fund's Rules. It was the proposal of the Management Company with the investment committee to focus the fifth investment of the fund into the retail segment due to comparably higher risks deemed in the office segment which is bound to see a strong supply of new office space over the coming 12-24 months.

At the same time, the management team has been successfully able to fill in the remaining vacancy in Lincona office building and complete the let-out in Domus PRO. The existing portfolio of BOF as of 31 December 2014 is practically fully let.

## MACROECONOMIC FACTORS IN THE BALTIC STATES

Despite Russian embargo on certain EU products as well and uncertain situation in the main export markets of the Baltics, in 2014 economic growth in Baltic States is still expected to be leading in ranks when compared to other EU member states. According to Baltic commercial bank forecasts, which have seen some downgrade from the beginning of the year, in 2014 Lithuanian GDP is expected to grow by 2.8 %. In neighbouring Latvia and Estonia economic growth will be slightly lower – 2.4 and 1.7 % respectively.

Lithuanian economy in 2014 was supported by energetic spurt in domestic demand – rising consumption and investments. The fundamental environment remains promising: corporate profits have recovered, wages are increasing, inflation is low, household purchasing power is increasing, interest rates are low and the newly adopted euro will further be helping on economic sentiment and lowering sovereign borrowing rates. Meanwhile domestic demand expansion in Latvia and Estonia, after dynamic growth in the recent years, has in 2014 been comparably slightly lower.

Given the low inflation across the Baltics and increase of wages, consumer spending across the Baltics has increased notably during the past two years. In all major shopping centers the vacancy is virtually non-existent and the rents have experienced strong upward pressures even despite the uncertainty in other economic growth elements. Moreover, the rents are expected to increase further. In the office segment, rents have generally remained stable or have increased slightly in the A class locations. A wide upward pressure in rents in the office segment has been curtailed by considerable development of new office

# BPT Baltic Opportunity Fund

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space, especially in Tallinn and Vilnius. On the other hand the take-up of new office space has been solid, which is partly also supported by existing tenants from older buildings actively moving up the quality curve.

The Baltic economies are still somewhat smaller than their pre-crisis peaks but they are much more balanced and competitive, compared with 2007-2008. Companies across the Baltics have deleveraged, and their balance sheets are now much healthier than prior to the crisis and although still lower than the EU28 average, productivity has also risen. Unit labour costs have been rising recently after a notable correction during the last recession, but this has not endangered competitiveness so far as structural changes are gradually taking place when economies are converting their focus towards higher value added and often niche products and services. Government finances are much sounder, and fiscal discipline rules are incorporated in national legislations. Still, discomfort concerning lacklustre EU and global demand, Russia driven geopolitical uncertainty, and Baltic specific structural imbalances remains.

From the regulatory perspective, in response to the infringement procedure started by the European Commission, the parliament of Estonia made amendments to the Estonian Income Tax Act and as a result of that the taxation of contractual investment funds in Estonia have changed as 1 January 2014 so that domestic funds will be taxed similarly to foreign funds e.g. the capital gains and lease income of an Estonian fund will be taxed when they are realised. The fund consequently will be considered as a taxpayer for the purposes of the Estonian Income Tax Act and income tax will be due at the moment the gains have realised. The changes in legislation would not affect the Fund if real estate situated in Estonia forms less than 50% of the assets of the Fund. Therefore, the Fund management team was committed on growing the fund by gathering new commitments from existing and new investors and making attractive investments with a focus on Riga and Vilnius.

## CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS

As at 31 December 2014, the Fund's paid in capital from Investors amounts to 22.1 million euros, out of which 3.9 million euros were paid in during 2014. The Key capital indicators of the Fund are provided in the table below:

**Table 2: Key capital indicators of the Fund**

Item	31 December 2014 in million euros
<b>Capital called into Fund's account</b>	<b>22.2</b>
Less capital invested in Lincona SPV (via intercompany loan)	8.2
Less capital invested in SKY SPV (via intercompany loan)	2.3
Less capital invested in Coca Cola Plaza SPV (via intercompany loan)	6.0
Less capital invested in Domus Pro SPV (via intercompany loan)	3.5
Less security deposit	0.1
<b>TOTAL AVAILABLE FOR INVESTMENTS</b>	<b>2.1</b>

The maximum amount of capital allowed in the Fund rules is 100.0 million euros. The status of the capital invested in the vehicle as at 31 December 2014 is presented in the table above. The Fund has also

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

confirmed an additional capital from investors for amount of 3.1 million that will be accepted in case the acquisition process which was started in 2014 can successfully be closed in Q1 2015.

The Fund made an interim net profit distribution of 5.2% (1.1 million euros) in November 2014. 82.6% of the investors decided to receive the payout in new fund units.

## FINANCIAL REPORT

### *Financial position of the Fund*

As at 31 December 2014 the GAV of the Fund (incl. the Fund's subsidiaries) increased to 49.0 million euros (35.8 million as at 31 December 2013).

As of 31 December 2014, the Fund NAV was 24.3 million euros (111.9458 euros per unit), compared to 19.5 million euros (107.2117 euros per unit) as at 31 December 2013. The increase in NAV is mainly related to the new issue of units (3.9 million euros) and the performance of the Fund (net result 2 million euros in 2014).

The Fund also calculates INREV NAV, which was 24.4 million euros (112.4523 euros per unit) as at 31 December 2014, compared to 19.5 million euros (107.6155 euros per unit) as at 31 December 2013.

The INREV NAV is calculated according to Internal Rules for Determination of the Net Asset Value of the Fund of Northern Horizon Capital AS, prepared in conformity of INREV guidelines that were amended on 1 April 2014. The INREV NAV is calculated adjusting NAV for the items summarised in the table below:

**Table 3: Adjustments for recalculating NAV to INREV NAV**

No.	Item	Amounts in euros	Notes
<b>1.</b>	<b>IFRS NAV as of 31 December 2014</b>	<b>24 314 255</b>	
2.	Estimation of realisable transfer costs in case of sales of assets (0.5% of property value)*	-	
3.	Capitalization and amortization of Fund's set-up costs**	14 795	1
4.	Capitalization and amortization of property acquisition costs**	105 046	2
5.	Estimation of tax effect of (4.) above	(9 836)	
<b>6.</b>	<b>INREV NAV</b>	<b>24 424 261</b>	
7.	Amount of units	217 197	
<b>8.</b>	<b>INREV NAV per unit</b>	<b>112.4523</b>	

\* Not applicable as per new formulation of the INREV guidelines from 1 April 2014.

\*\* The costs are amortized during 5 years

### *Notes to INREV NAV*

1. In 2010 the Fund incurred 74 thousand euros of set up costs that were expensed in the income statement. In accordance with INREV guidelines the Fund set up costs have been capitalized and amortized over the five years of the life of the Fund. During 2014 the Fund has amortized 15 thousand euros, resulting in a cumulative amortization of 59 thousand euros. The residual capitalized set up costs as at 31 December 2014 amount to 15 thousand euros.

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Annual report for the financial year ended 31 December 2014

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2. From 2011 to 2013 acquisition expenses amounting to 210 thousand euros were incurred in relation to acquisition of properties in Fund subsidiaries BPT Baltic Fund 1 OÜ, BPT Baltic Fund 3 SIA, BPT Baltic Fund 4 OÜ. In accordance with INREV guidelines, these acquisition expenses are capitalized and amortised over the five years after the acquisition of properties. In 2014, the Fund amortized 39 thousand euros, resulting in a cumulative amortization of 105 thousand euros. The residual capitalized acquisition expenses as at 31 December 2014 amount to 105 thousand euros.

### ***Financial results of the Fund***

In 2014, the Fund recorded net profit of 2.0 million euros (2.6 million euros in 2013) which had a positive effect on the Fund NAV.

The change in net assets of Fund's subsidiaries was positive and amounted to 1 354 thousand euros (1 969 thousand euros in 2013), whereas interest income accrued from IC loans to the subsidiaries amounted to 1 188 thousand euros (1 057 thousand euros in 2013). The Fund level expenses constituted 519 thousand euros (476 thousand in 2013). More details are provided in the statement of comprehensive income.

In 2014, the gross rental income earned by the unconsolidated Fund subsidiaries amounted to 2 700 thousand euros (2 280 thousand euros in 2013). Compared to 2013, the increase in gross rental income is related to full income earned in Coca Cola Plaza after the acquisition in March 2013, as well as the rental income earned in the newly acquired Domus Pro property.

In 2014, there have been no significant one-off events that would have an impact on the results of the Fund.

### ***Fees and expenses***

The Fund calculates the fee and expense metrics based on INREV guidelines as a percentage of GAV and INREV NAV. There have been no material changes in the Fund fee structure as determined in the Fund rules that were approved by the FSA. The detail calculations are provided in table 4.

## BPT Baltic Opportunity Fund

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**Table 4: Expense ratios of the Fund and Fund's subsidiaries based on INREV fee metrics guidelines**

Classification	Fee/Expense Item		Amount (€ 000)
<b>Management fees</b>	Management fees		461 970
<b>Vehicle costs</b>	Custodian fees		12 000
	Valuation fees		36 078
	Audit fees		31 076
	Legal fees		66 525
	Other consultancy services		23 033
	Bank charges		1 026
	Administration and secretarial fees		32 543
<b>Total vehicle costs before performance fees</b>		<b>A</b>	<b>664 252</b>
<b>Performance fees</b>		<b>B</b>	-
<b>Total vehicle costs after performance fees</b>		<b>C=A+B</b>	<b>664 252</b>
<b>Property expenses</b>	Property management fees		180 817
	Property insurance		18 179
	Sales and Marketing Expenses		4 897
	Service charge shortfall		115 120
<b>Total property expenses</b>		<b>D</b>	<b>319 013</b>
<b>Total expenses before financing costs and taxes</b>		<b>E=C+D</b>	<b>983 265</b>
<b>Average INREV NAV</b>			
	Weighted average INREV NAV	<b>F</b>	21 481 632
<b>Average INREV GAV</b>			
	Weighted average INREV GAV	<b>G</b>	41 415 039
<b>TER before performance fees</b>			
	Fund expenses before performance / Average NAV	<b>=A/F</b>	<b>3.09%</b>
	Fund expenses before performance / Average GAV	<b>=A/G</b>	<b>1.60%</b>
<b>TER after performance fees</b>			
	Fund expenses after performance / Average NAV	<b>=C/F</b>	<b>3.09%</b>
	Fund expenses after performance / Average GAV	<b>=C/G</b>	<b>1.60%</b>
<b>REER</b>			
	Property expenses / Average GAV	<b>= D/G</b>	<b>0.77%</b>

The main expense categories are described below:

#### Annual Management Fee

The Management Company provides all economic and financial information which is necessary for the operation of the Fund as well as investment management of the Fund's portfolio on a day to day basis. Therefore, the Management Company is entitled to receive an Annual Management Fee which is calculated 1.9% of the NAV per annum of the Fund's portfolio. In 2014, the annual management fee amounted to 462 thousand euros (377 thousand euros in 2013).

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### Performance Fee

From the first year of operations of the Fund, the Management Company is entitled to calculate the Performance Fee of 20% if the average annual Return on Paid in Capital of the Fund exceeds 11% per annum. The Performance Fee, if any, is paid out to the Management Company after the exit of the Fund has been completed (i.e. all assets of the Fund have been transferred) and the audited annual report of the Fund for the final year of the Fund has been approved by the Management Board. As of 31 December 2014, the Management Company is not entitled to receive a performance fee.

### Property Management Fee

The Property Management Fee is calculated from the net rental income of the real estates in respect of which the Management Company provides property management services. The rate of the Property Management Fee is 3-6% of the net rental income of the real estates managed by the Management Company. Property management service means arranging of provision of services related to a real estate such as (i) SPV accounting, (ii) communication with lessees, conclusion of lease agreements and collection of lease payments, (iii) finding, planning and realisation of small expansion possibilities and other possibilities to increase the cash flow of a real estate (excluding large scale construction and development projects), (iv) utility services and (v) property maintenance.

## PROPERTY REPORT

In 2013, the Fund became an equity investor in a forward commitment development of a Rimi supermarket in Vilnius partnering up with a Danish developer TK Development A/S. On 20 March 2014 the property was opened for business and the Fund gained full ownership of the property on the 30 April 2014. As the purchase price was calculated based on a capitalization rate of 8.5%, this acquisition is expected to produce similar to other properties commendably positive net cash flows.

The project known as Domus Pro Retail Park which at year-end is fully pre-let (to be fully occupied from March) is located in the expanding residential district in Vilnius with over 70 000 inhabitants, on the arterial Ukmerges road leading to Riga, the Domus Pro Retail Park includes more than 11 000 sq. m. of modern retail space. Structured as a typical box retail centre, the project houses a supermarket chain RIMI as anchor tenant and around 20 satellite tenants. At the end of 2014, the Fund entered into agreement with TK Development A/S to start the second-phase of Domus Pro. The construction works shall start in March 2015.

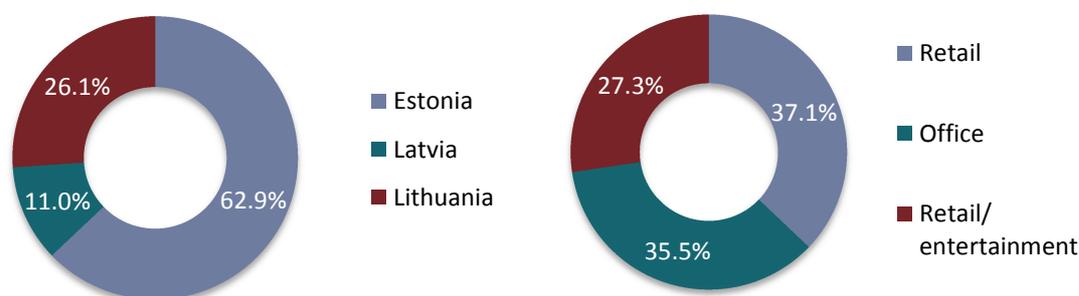
According to the BPT BOF Fund Rules, the Fund directly and indirectly invests into real estate assets located in Estonia, Latvia and Lithuania. The Fund segment and country distribution are shown in picture 1. The Fund assets segmentation are in line with the Fund rules, according to which up to 50% of the assets can be invested in retail sector, up to 50% in office sector and up to 50% in other sectors. In January 2015, the Fund initiated the Fund rules' amendment by increasing retail segment from 50% to 69%. The changes were initiated due to management high expectations on retail sector and the following acquisition. As compared to other sectors, the management expects that the retail sector can potentially provide better yields.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

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**Picture 1: Fund segment and country distribution**



### Property valuations

The breakdown of each property market value is shown in the table below.

**Table 5: Property portfolio, in million euros**

Property	Subsidiary	Market value 31 December 2014	Market value 31 December 2013
Lincona office	BPT Baltic Fund 1 OÜ	16.4	16.1
SKY supermarket	BPT Baltic Fund 3 SIA	5.1	4.9
Coca Cola Plaza	BPT Baltic Fund 4 OÜ	12.6	12.2
Domus Pro	Profista	12.0	n/a

As of 31 December 2014, 100% of Fund properties were valued externally by independent valuers Colliers International and Newsec. Colliers International prepared a detailed valuation reports for Lincona, SKY, and Coca Cola Plaza and Newsec valued Domus Pro. 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 in accordance with IAS 40. The valuations are performed on an annual basis.

The fair value of investment property in the subsidiaries is determined using recognized valuation techniques. The ranges of discount rates used by the appraisers to value the investment properties as of 31 December 2014 were as follows per country: Latvia 8.5%, Estonia 8.5-9.3%, and Lithuania 8.25% (Discounted Cash Flow method). Residual method was used to assess of land plot area that is un-build and potentially can be additionally developed for Domus Pro stage 2.

### Property performance

In 2014, the average occupancy of the portfolio was 90.2% and average Net Initial Yield 6.8%. The level of the property operating costs was stable throughout the whole year. The net yield of the portfolio has been affected by the vacancy in Lincona as well as due to not fully received initial rental income from newly acquired Domus PRO and due to related lower utilities cost coverage by tenants.

The vacancy rate was mainly affected by Lincona office complex which had an average of 18.2% vacancy rate during the year. At the end of the year, the vacancy rate was successfully decreased to 7.8%. The property is expected to be fully occupant in the first part of 2015.

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The other properties remain to be 100% leased out based on long term lease agreements, except for Domus Pro with the vacancy of 14.0% as at 31 December 2014 and the current net yield of 6.1% due to first months' rent discounts for Rimi. The vacancy will be filled in the first part of 2015, which is expected to boost the net yield above 8.8%. In addition, the second phase of the retail park has also been started and the plan is to initiate construction during the second half of the year. The expansion works of the shopping centre with an estimated construction cost of 2 million euros is a good example of the Fund's core-plus strategy which is expected to create considerable value for investors once completed and leased out.

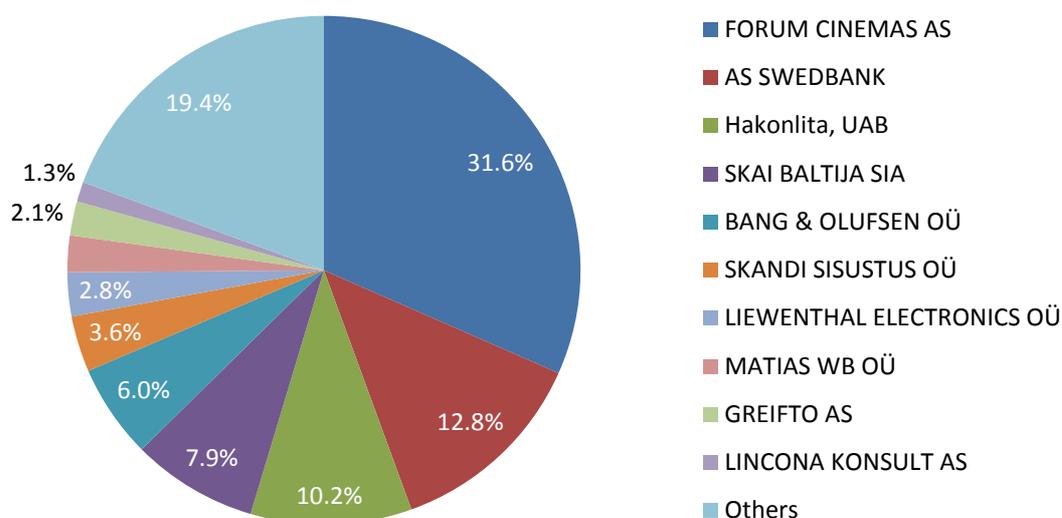
SKY supermarket is performing very well and has achieved a net yield of 8.9% as at 31 December 2014. In addition to 99.6% occupancy, the store is renting out foyer space to seasonal tenants. In the first part of 2015, the landlord is planning to make investments in the range of 0.2 million euros on the façade facelift in cooperation with the anchor tenant whose rental area will increase slightly as a result.

Coca-Cola Plaza has performed as expected with a running yield of 8% as at 31 December 2014 and no major events have taken or are expected to take place during 2015. The management team is discussing potential value added options with the neighbouring Postimaja shopping centre, however realization of plans including investments, if any, shall not commence before 2016.

In the Baltic retail the demand for well positioned shopping centres remains strong, which in turn pushes up rents and lays ground for established centres to expand. In all the major cities, improved turnover-rent ratios in the more successful shopping centres have enabled landlords to increase rents, with the steepest increase of up to 25% shown in Latvia. Vacancy in established shopping centres remains at very low levels. The increased demand in the retail market has motivated the majority of retailers to plan for extensions where possible. All of the largest shopping centres are now also focused on improving their tenant mixes.

In 2014, 80.6% of the total gross rental income was generated by the ten largest tenants of the real estate portfolio, with Forum Cinemas AS making 31.6% of the revenue as a single tenant of the Coca Cola Plaza property in Tallinn, Estonia.

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



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### RISK MANAGEMENT

The risk management function of the Fund is responsibility of the Management Company Northern Horizon Capital AS. The manager of the Fund is responsible for identifying market risk of the Fund's 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, monitor these compared to internationally recommended best practice, and initiate changes and improvements when needed. The manager assessed at the end of the financial year that it is currently in compliance with intended risk management framework.

#### *Principal risks faced by the Fund*

##### Market risk

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

Average yields in Baltic region for prime retail and office assets in 2014 decreased slightly down to around 7.00% to 7.25% on average, with the most attractive properties lower by up to 50 basis points and secondary properties standing between 8.00% and 9.25%. Capital cities are the main investment targets in Baltic countries with most expensive yet the most liquid assets.

After bottoming out in 2009-2010 retail rent prices started to recover in 2011 and have been increasing since. The tendency of growing rent rates was noticeable as well in both shopping centres and retail streets as the demand of quality retail premises is high. Rent rates in shopping centres are set according to the size of the tenant and vary from 7 to 48 EUR/sq. m. per month in major cities. Rent rates for anchor tenants are around 7-12 EUR/sq. m. per month.

High demand for A-class office buildings remained constant in 2014 with pressure on rent increases due to lack of well-located modern office premises. The achievable prime rent exceeded 15 EUR/sq. m. per month in 2014, while the rent rates for lower class premises remain under pressure as potential tenants try to negotiate lower price at 8-10 EUR/sq. m. per month instead of 9-11 EUR/sq. m. per month asked by landlords.

##### Credit risk

The credit risk of the tenants in the Baltic portfolio of properties remains relatively low. During 2014 provisions for bad debts in all properties of the Fund amounted to 29 thousand euros (3 thousand in 2013).

After the acquisition of Europa Shopping Center and the completion of Domus PRO second phase, there are more tenants in the portfolio thus the tenant risk will be more diversified.

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. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with the most reputable domestic and international banks and financial institutions.

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### Interest rate risk

The Fund's policy is that long term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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 Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

### Liquidity risk

Liquidity risk means the risk of failure to liquidate open position, to realise the assets by the due time at the prescribed fair price or to refinance loan obligations.

Many of the investments will be highly illiquid and there can be no assurance that the Fund will be able to exit the investments in a timely manner. By their nature, real estate investments or interests in other non-public entities are subject to industry cyclicality, downturns in demand, market disruptions and the lack of available capital for potential purchasers and are therefore often difficult or time consuming to liquidate. The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

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

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

### Currency risk

Currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

### 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 using insurance where possible as well as maintaining a system of internal control procedures and processes that are designed to control risk within appropriate levels. Also, training and development of personnel competences, and active dialogue with investors help the company to identify and reduce risks related to its operation.

### **Financing structure**

As of 31 December 2014, the Fund had no loans, and the bank loans received in Fund's subsidiaries were as follows:

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### MANAGEMENT REVIEW

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- Lincona bank loan with SEB bank amounting to 7 329 thousand euros with a maturity 20 January 2016. The loan is secured with the first rank mortgage of proportionate share of buildings located at Pärnu rd. 139/ Kohila str. 2a and Pärnu rd. 139c, Tallinn, Estonia;
- SKY bank loan with SEB bank amounting to 2 125 thousand euros with a maturity 1 August 2016. The loan is secured with the first rank mortgage of owned land in Bikernieku str. and property located at Bikernieku str. 120B, Riga, Latvia, pledge of funds in the bank accounts;
- Coca-Cola Plaza bank loan with Pohjola Bank amounting to 5 969 thousand euros with a maturity 20 January 2016. The loan is secured with mortgage of property located at Hobujaama 5, Tallinn, Estonia; pledge of lease payments from anchor tenant and pledge of debt service reserve account;
- Domus Pro bank loan with DnB Nord Bank amounting to 7 502 thousand euros with a maturity 29 May 2018. The loan is secured with mortgage of land and property located at Bieliūnu 1, Vilnius, Lithuania; pledge of 100% shares of Profista UAB and pledge of lease payments from anchor tenant.

**Table 6: Structure of bank loans received in Fund's subsidiaries**

<b>31 December 2014</b>	<b>in million euros</b>	<b>Weighted average effective interest rate</b>
Current debt (less than 1 year)	0.6	
Non-current debt (1-5 years)	22.3	
<b>Total debt</b>	<b>22.9</b>	<b>3.10%</b>

As of 31 December 2014 the Fund's subsidiaries were not breaching any of the bank loan agreements and were in compliance with the ratios monitored as specified in the contracts.

As of 31 December 2013 the short term forward funding loan issued by Fund's subsidiary to finance Domus Pro project development amounted to 2 000 thousand euros. As a result of the acquisition of the subsidiary Profista UAB, the loan was converted into an intercompany loan. Profista UAB shall continue the development of Domus Pro property in 2015 (Stage 2 developments), it shall require additional debt financing (estimated 1.2 million euros).

Due to expected new property acquisition in 2015, the Fund shall require additional leveraging of current properties as well as getting financing for the property to be acquired. As result, financial leverage of the Fund might increase up to 65%. The increased leverage will be amortizing towards the fund's general goal of 50% over the remaining lifetime of the fund.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

The key financing ratios of the loan portfolio are provided to the table below:

**Table 7: The key financing ratios on the loan portfolio of Fund's subsidiaries**

	31 December 2014*	31 December 2013
Interest service coverage ratio	4.4x	5.2x
Debt Service coverage ratio	1.9x	4.5x
Weighted Average Cost of Debt excluding Shareholders Loans	3.10%	3.14%
Weighted Average Maturity of Debt excluding Shareholders Loans (years)	1.92	2.19
Property level Loan-to-Value	49.9%	47.2%

\* Including planned acquisition in 2015.

The key financing ratios are calculated as follows:

- Interest coverage ratio is based on projected NOI over the following four quarters as a ratio of projected interest payments on bank loans over the same period. The purpose of this ratio is to give an indication of the vehicle's general ability to service its debt.
- Debt Service coverage ratio is based on projected NOI over the following four quarters as a ratio of projected interest and scheduled amortisation payments on bank loans over the same period. The purpose of this ratio is to give an indication of the vehicle's general ability to service its debt (both scheduled payments and interests).
- Weighted Average Cost of Debt is calculated taking the interest rate (base rate and margin) on each external debt instrument in the vehicle weighted by the size of such instruments.
- Weighted Average Maturity is calculated by taking the maturity on each external debt instrument in the vehicle weighted by the size of such instruments.
- Property level Loan-to-Value is calculated by taking nominal value of external debt and dividing by the total fair value of investment portfolio.

As at 31 December 2014 the following bank loans in the subsidiaries were hedged for interest rate risks (all mature after 1 to 5 years):

- Lincona bank loan fully hedged with interest rate swap of a notional amount 7 800 thousand euros, whereby variable rate equal to EURIBOR 1M is received and a fixed rate interest of 1.71% is paid. The swap matures on 22 June 2015. As at 31 December 2014, the fair value of the swap is negative 60 thousand euros;
- SKY bank loan is 50% hedged with interest rate swap of a notional amount 1 100 thousand euros, whereby variable rate equal to EURIBOR 3M is received and a fixed rate interest of 0.6% is paid. The swap matures on 1 August 2016. As at 31 December 2014, the fair value of the swap is negative 9 thousand euros;
- Coca Cola Plaza bank loan is hedged with interest rate swap of a notional amount 5 975 thousand euros, whereby variable rate equal to EURIBOR 3M is received and a fixed rate interest of 0.74% is paid. The swap matures on 21 March 2016. As at 31 December 2014, the fair value of the swap is negative 51 thousand euros.
- Domus Pro bank loan is hedged with interest swap of a notional amount 7 542 thousand euros, whereby variable rate equal to EURIBOR 3M is received and a fixed rate interest of 0.50% is paid.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

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The swap matures on 29 May 2018. As at 31 December 2014, the fair value of the swap is negative 89 thousand euros.

In the Fund subsidiaries' financial statements the interest rate swaps are carried at fair value which is determined on the basis of the monthly bank valuations. All interest rate swaps meet the conditions of hedge accounting and are treated as hedging instruments. The effectiveness of the hedge is tested on a semi-annual basis. All the hedge instruments of the Fund subsidiaries are considered to be effective as at 31 December 2014. The gain or loss on change in fair value of the effective hedging instruments is recognised in other comprehensive income.

## OUTLOOK FOR 2015

The following activities have been carried out by the Fund after December 31, 2014 that are expected to positively affect Fund performance in 2015:

- The investment committee of the Fund made a decision to acquire Europa Shopping Center in Vilnius on 19 December 2014. Sales-purchase agreement was signed on 9 February. Closing is dependent on finalizing acquisition financing and obtaining registration confirmation from the Estonian FSA on the changed fund rules. Full closing and take-over is expected on 2 March 2015.
- Domus PRO second stage construction is planned to be started beginning of March. The development will consist of approx. 3700 m<sup>2</sup> of new lease space occupied by two tenants – a gym and a ceramic tiles retailer. Completion of construction and opening of the second phase is expected by year-end. Furthermore the potential to construct a third phase is currently under discussion with the development partner TK Development.

Both projects are expected to increase the size of the fund, its operating income as well as profitability.

In 2015 economic advancement in the Baltics will be moderate due to geopolitical uncertainty and higher base effect. Still, economic growth is expected to accelerate gradually in 2015-2016 on the back of improving external demand, which will support the growth of exports and investments. This would decrease the economy's dependence on the growth of consumption. But the economic growth rate will remain below potential as export demand remains weak. The euro area's growth forecasts have been revised down. The conflict between Russia and Ukraine will reduce trade and investment flows in the region, bringing down Estonia's growth rate by up to 0.5% a year. Economic sanctions between Russia and the EU will have an impact on some economic sectors (mostly agriculture, the food industry, and transportation), but the overall effect of the sanctions is expected to remain limited. In 2015, Lithuania's economy should grow by 2.6%, Latvia and Estonia are projected to grow by 2.5 and 2% accordingly. Furthermore in 2016, Lithuania and Latvia are expected to retain their positions among the fastest-growing EU economies, yet their growth will likely be moderated to 3-3.5%. Estonia will lag slightly behind with an estimate being close to 3%.

Advances in R&D field and technological developments, often with the help of Nordic partners has injected great long-term potential for growth for the Baltic economies. New locally developed technologies, sometimes very niche not only provide opportunities to improve efficiency in traditional production but often internationalize digital products and services that traditionally have been local. This is hoped to reduce the size disadvantages of the small Baltic economies down the road. Baltic States in general score very well in terms having technologically savvy human capital but strong recent growth in these fields has resulted in labour shortages especially in high level engineering and ICT sectors. This can be overcome only

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

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with time and by focused training and education. Most prominent young companies offering more and more jobs in this field are Adcash, Airdog, ERPLY, Grabcad, Transferwise and Infogram, just to name a few.

Considering all of the above, the portfolio of Baltic Opportunity Fund is expected to perform strong, perhaps even better in 2015 compared to 2014 as improved vacancy has been established and with the closing of Europa Shopping Center and Domus PRO second phase, the NOI and profitability of the fund is expected to increase. Furthermore with the geographical diversification towards Lithuania, the risk of some investors being influenced by changes in Estonian taxation vis-à-vis Estonian REIFs is practically eliminated.

In the Baltic investment market, on 3 February 2015, a new investment vehicle established by globally known Partners Group and its operating partner Northern Horizon Capital has agreed to buy a portfolio comprising the majority of the assets of a local institutional real estate investment vehicle. The acquired portfolio includes seven well-known office and retail properties in Tallinn, Riga, Vilnius, Kaunas and Klaipeda, totalling approx. 112,000 sqm of lettable space. The transaction with the size of EUR 163 million marks the largest real estate investment into the Baltics in the post-crisis period.

The aforementioned acquisition is one of the largest in the history of the Baltic real estate investments and may signal a new wave of global institutional investors hungry for better yields to include Baltic State into their radar screens. This would further improve the liquidity of institutional grade real estate assets especially in the Baltic capitals and potentially work towards faster yield conversion in selected prime assets over the coming years.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2014

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### DECLARATION OF THE MANAGEMENT BOARD OF THE MANAGEMENT COMPANY

The Financial Statements of BPT Baltic Opportunity Fund for the financial year ended 31 December 2014 have been prepared in compliance with the requirements set out in the Republic of Estonia Accounting Act, the Investment Funds Act and the International Financial Reporting Standards as adopted by EU (IFRS) and they give a true and fair view of the assets, liabilities, net value and performance results of the BPT Baltic Opportunity Fund. In the opinion of the management board of the Management Company, BPT Baltic Opportunity Fund is a going concern.

The Financial Statements of BPT Baltic Opportunity Fund have been approved by the management board of the Management Company on 23 February 2015.

Name and position

Signature

Date

Tarmo Karotam  
Chairman of the management board



23.02.2015

Aušra Stankevičienė  
Member of the management board



23 Feb 2015

# BPT Baltic Opportunity Fund

## STATEMENT OF FINANCIAL POSITION

Annual report for the financial year ended 31 December 2014

<i>Euros</i>	<b>Note</b>	<b>31.12.2014</b>	<b>31.12.2013</b>
<b>Assets</b>			
Loans to subsidiaries	7	18 745 000	17 268 462
Securities	2	3 403 809	2 141 406
Accrued income	7	1 042 828	135 055
Cash and cash equivalents	2	1 293 054	59 573
<b>Total assets</b>		<b>24 484 691</b>	<b>19 604 496</b>
<b>Liabilities and Fund net asset value</b>			
Management fee payable		159 285	127 190
Payable to depository		3 942	3 648
Other liabilities		7 209	17 678
<b>Total liabilities</b>		<b>170 436</b>	<b>148 516</b>
<b>Fund net asset value</b>	4	<b>24 314 255</b>	<b>19 455 980</b>
<b>Total liabilities and Fund net asset value</b>		<b>24 484 691</b>	<b>19 604 496</b>

# BPT Baltic Opportunity Fund

## STATEMENT OF COMPREHENSIVE INCOME

Annual report for the financial year ended 31 December 2014

<i>Euros</i>	Note	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
<b>Income</b>			
<b>Net result on investments</b>			
<b>From investments into equity and units</b>			
Unrealised profit	2	1 353 926	1 968 574
<b>Total result on investments</b>		<b>1 353 926</b>	<b>1 968 574</b>
<b>Net result on financial activities</b>			
Interest income on loans	7	1 187 773	1 056 580
Interest income on deposits		136	878
Other financial income		11	-
<b>Total result on financial activities</b>		<b>1 187 921</b>	<b>1 057 458</b>
<b>Total income</b>		<b>2 541 847</b>	<b>3 026 032</b>
<b>Expenses</b>			
<b>Operating expenses</b>			
Management fee		-461 970	-376 774
Depository fee		-15 271	-14 499
Transaction costs		-316	-764
Other operating expenses	5	-41 662	-83 752
<b>Total operating expenses</b>		<b>-519 218</b>	<b>-475 789</b>
<b>Other expenses</b>			
Foreign currency loss		-	-26
<b>Total other expenses</b>		<b>-</b>	<b>-26</b>
<b>Total expenses</b>		<b>-519 218</b>	<b>-475 815</b>
<b>Net result of the Fund</b>		<b>2 022 628</b>	<b>2 550 217</b>

# BPT Baltic Opportunity Fund

## STATEMENT OF CASH FLOWS

Annual report for the financial year ended 31 December 2014

<i>Euros</i>	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
<b>Cash flows from core activities</b>		
Interest received	280 137	936 491
Net from spot trades	-4	-7
Operating expenses paid	-497 299	-477 150
<b>Total cash flows from core activities</b>	<b>-217 166</b>	<b>459 334</b>
<b>Cash flows from investing activities</b>		
Loans granted to subsidiaries	-1 750 000	-8 230 000
Loan repayments received from subsidiaries	365 000	2 815 000
<b>Total cash flows from investing activities</b>	<b>1 385 000</b>	<b>-5 415 000</b>
<b>Cash flows from financial activities</b>		
Proceeds from issue of units	3 019 497	1 196 730
Profit distribution to unit holders	-183 850	-1 235 000
<b>Total cash flows from financing activities</b>	<b>2 835 647</b>	<b>-38 270</b>
<b>Total cash flows</b>	<b>1 233 481</b>	<b>-4 993 936</b>
<b>Cash and cash equivalents at the beginning of accounting period</b>	<b>59 573</b>	<b>5 053 510</b>
<b>Cash and cash equivalents at the end of accounting period</b>	<b>1 293 054</b>	<b>59 573</b>

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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### ACCOUNTING POLICIES

#### 1.1. Corporate information

BPT Baltic Opportunity Fund (REIF) is a direct real estate fund investing in commercial properties in the Baltic States (Estonia, Latvia and Lithuania). The Fund is a non-public closed-ended contractual investment fund (i.e. the Fund units will not be redeemed at the request of an investor) founded on 1 September 2010. The Fund is a fixed-term fund with the duration of 7 years from the first closing. The Fund term may be extended for up to two years.

The Fund's registered office is at Rävala pst 5, Tallinn, Estonia.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing in primarily commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring high quality cash flow-generating commercial properties with the potential for adding value through active management, thereby creating a stable income 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 Fund is managed by Northern Horizon Capital AS (formerly known as *BPT Asset Management A/S*). The Depositary of the Fund is Swedbank AS.

#### 1.2. Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by EU (IFRS).

As further specified in note 1.4, the consolidation relief has been early adopted by the Fund subject to IFRS 12 requirements for investment entities. The Fund qualifies as an investment entity according to IFRS 12 as it:

- obtains funds from Investors to provide them with investment management or other investment-related services;
- commits to Investors that its business purpose is to invest for returns solely from capital appreciation and investment income;
- accounts for the investments under fair value model and uses fair value information as the primary attribute in evaluating the performance of investments and in making investment decisions;
- holds more than one investment;
- has more than one Investor;
- has Investors that are not related parties;
- is not a legal entity and its unit of ownership typically represents a specifically identifiable proportionate share in its net assets.

#### Details of 100% interest in subsidiaries:

BPT Baltic Fund 1 OÜ, established and acting in accordance with the laws of Republic of Estonia.

BPT Baltic Fund 2 UAB, established and acting in accordance with the laws of Republic of Lithuania.

Profista UAB, established and acting in accordance with the laws of Republic of Lithuania.

BPT Baltic Fund 3 SIA, established and acting in accordance with the laws of Republic of Latvia.

BPT Baltic Fund 4 OÜ, established and acting in accordance with the laws of Republic of Estonia.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in euros and all values are rounded to the nearest euros.

### 1.3. Summary of significant accounting policies

#### Financial instruments

##### (i) Classification

The Fund classifies its financial assets and financial liabilities into the following categories in accordance with IAS39.

#### Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is sub-divided into:

*Financial assets and liabilities held for trading:* financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. This category includes equity securities, investments in managed funds and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading. The Fund's policy is not to apply hedge accounting.

*Financial instruments designated as at fair value through profit or loss upon initial recognition:* these include investment in subsidiaries. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Fund, as set out in the Fund's offering document.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category amounts relating to reverse repurchase agreements, cash collateral on securities borrowed and other short-term receivables.

#### Other financial liabilities

This category includes all financial liabilities, other than those classified as held for trading. The Fund includes in this category amounts relating to repurchase agreements, cash collateral on securities lent and other short-term payables.

##### (ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

##### (iii) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

### (iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in Net result of investment from investment into equity and units. Interest earned instruments are recorded separately in Net result on financial activities.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. The effective interest 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 Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. 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.

### (v) Derecognition

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 or the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

### Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Where the Fund has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or ask price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

### Impairment of financial assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Functional and presentation currency

The Fund's functional and presentation currency is the euro, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in euros. Therefore, the euro is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Fund's presentation currency is also the euro.

### Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the statement of comprehensive income as part of the 'Net gain/loss from foreign exchange'.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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### Distributions to unit holders

Profit distributions are the discretion of the Fund. A profit distribution to the Fund unit holders is accounted from the Fund's net income. A proposed distribution is recognised as a liability in the period in which it is approved by the annual general meeting of unit holders.

### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

The statement of cash flows is prepared by using direct method.

### Interest revenue and expense

Interest revenue and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

### Dividend revenue and expense

Dividend revenue is recognised when the Fund's right to receive the payment is established.

### Net gain or loss on financial assets and liabilities at fair value through profit or loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as 'at fair value through profit or loss' and excludes interest and dividend income and expense.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as 'at fair value through profit or loss' are calculated using the First-In, First-Out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

### Fees and commissions

Fees and commissions are recognised on an accrual basis. Legal and audit fees are included within 'other operating expenses'.

### Income taxes

According to Estonian laws, the investment fund is not a taxable person and therefore income from the investment of the Fund assets is not subject to taxation. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income.

### 1.4. Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following new and/or amended IFRSs have been adopted by the Fund as of 1 January 2014:

- Amendment to IAS 27 *Separate Financial Statements* - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the Fund.

- Amendment to IAS 28 *Investments in Associates and Joint Ventures* - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment had no impact on the financial statements of the Fund.
- Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities - This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment had no impact on the financial statements of the Fund.
- Amendment to IAS 36 *Impairment of Assets* - This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Fund and also does not need any additional disclosures.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* -The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Fund, since it does not apply hedge accounting
- IFRS 10 *Consolidated Financial Statements* - IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. Management has assessed the
- IFRS 11 *Joint Arrangements* - IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today’s accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment had no impact on the financial statements of the Fund since it has no joint ventures.
- IFRS 12 *Disclosures of Interests in Other Entities* - IFRS 12 combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group, however it resulted in additional disclosures (see Note 8).

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

- **Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities** - The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The Fund adopted earlier the amendments to IFRS 10, IFRS 12 and IAS 27 during preparation of financial statements 2013.

### **Standards issued but not yet effective**

The Fund has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

**Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Fund has not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Fund, as the Fund does not use revenue-based depreciation and amortisation methods.

**Amendments to IAS 19 Employee Benefits** (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. The implementation of the amendments will not have any impact on the financial statements of the Fund as the Fund does not have employee relationships.

**Amendments to IAS 27 Equity method in separate financial statements** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The implementation of the amendments will not have any impact on the financial statements of the Fund as the Fund does not prepare separate financial statements.

**IFRS 9 Financial Instruments** (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Fund has not yet evaluated the impact of the implementation of this standard.

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

**Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of this amendment will have no impact on the financial statements of the Fund.

**Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business and partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will have no impact on the financial statements of the Fund as the Fund does not have associates and joint ventures.

**Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendments will have no impact on the financial statements of the Fund as the Fund does not plan to acquire joint operations.

**IFRS 14 *Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the Fund.

**IFRS 15 *Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The implementation of this standard will not have any impact on the Fund's financial statements.

### Improvements to IFRSs effective

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 3 *Business Combinations*;

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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- IFRS 13 *Fair value Measurement*;
- IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Fund.

**IFRIC Interpretation 21 *Levies*** (effective for financial years beginning on or after 17 June 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this interpretation will have no impact on the financial statements of the Fund as the Fund does not have such relationships with the governments.

The Fund plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

### 1.5. Significant accounting judgements, estimates and assumptions

The preparation of the Fund's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. 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 future period.

#### **Going Concern**

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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### ***Functional currency***

The Fund's performance is evaluated in euros. Therefore, the management considers the euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and condition.

### ***Estimates and assumptions***

The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

### 2. INVESTMENTS REPORT

Fund's investments report as of 31.12.2014, Euros

Name	ISIN	Country	Nominal				Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Carrying amount per item	Carrying amount total	Proportion of fund asset carrying amount
<b>Equities and units</b>													
OÜ BPT Baltic Fund 1		EE					EUR	1	2 500	2 500	1 223 762	1 223 762	5.00%
UAB BPT Baltic Fund 2		LT					LTL	1	2 895	2 895	2 414	2 414	0.01%
SIA BPT Baltic Fund 3		LV					EUR	1	2 860	2 860	756 255	756 255	3.09%
OÜ BPT Baltic Fund 4		EE					EUR	1	2 500	2 500	1 421 378	1 421 378	5.81%
<b>Total equities and units</b>										<b>10 755</b>	<b>3 403 809</b>	<b>13.90%</b>	

Name	ISIN	Country	Nominal	Maturity	Interest rate	Rating	Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Carrying amount per item	Carrying amount total	Proportion of fund asset carrying amount
<b>Long Term Loans*</b>													
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		12/31/2015	5.00		EUR	5 000		5 000	111.00	5,550	0.02%
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		12/31/2015	5.00		EUR	10 000		10 000	110.07	11 007	0.04%
BPT Baltic Fund 3 SIA 5% EUR 31.12.2015		LV		12/31/2015	5.00		EUR	2 200 000		2 200 000	102.42	2 253 302	9.20%
BPT Baltic Fund 1 OÜ 8.5% EUR 30.12.2015		EE		12/30/2015	8.50		EUR	7 480 000		7 480 000	108.12	8 087 076	33.03%
BPT Baltic Fund 4 OÜ 5% EUR 31.12.2015		EE		12/31/2015	5.00		EUR	5 400 000		5 400 000	103.40	5 583 816	22.81%
BPT Baltic Fund 2 UAB 5% EUR 07.08.2016		LT		8/7/2016	5.00		EUR	3 650 000		3 650 000	105.40	3 847 076	15.71%
<b>Total Long Term Loans</b>										<b>18 745 000</b>	<b>19 787 827</b>	<b>80,82%</b>	

\*Accrued interest in the amount of 1 042 828 euros has been added to the value of long term loans; the accrued interest is recorded in the balance sheet under "Accrued income"

<b>TOTAL SECURITIES</b>										<b>18 755 755</b>	<b>23 191 637</b>	<b>94.72%</b>
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#### Cash

Current account		EE					EUR				1 293 054	1 293 054	5.28%
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<b>TOTAL</b>										<b>20 048 809</b>	<b>24 484 691</b>	<b>100.00%</b>
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# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

### Fund's investments report as of 31.12.2013, Euros

Name	ISIN	Country	Nominal				Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Carrying amount per item	Carrying amount total	Proportion of fund asset carrying amount
<b>Equities and units</b>													
OÜ BPT Baltic Fund 1		EE					EUR	1	2 500	2 500	1 178 262	1 178 262	6.01%
UAB BPT Baltic Fund 2		LT					LTL	1	2 895	2 895	0	0	0.00%
SIA BPT Baltic Fund 3		LV					LVL	1	2 860	2 860	425 323	425 323	2.17%
OÜ BPT Baltic Fund 4		EE					EUR	1	2 500	2 500	537 821	537 821	2.74%
<b>Total equities and units</b>										<b>10 755</b>	<b>2 141 406</b>	<b>10.92%</b>	

Name	ISIN	Country	Nominal	Maturity	Interest rate	Rating	Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Carrying amount per item	Carrying amount total	Proportion of fund asset carrying amount
<b>Long Term Loans*</b>													
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	5 000		5 000	105.93	5 297	0.03%
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	10 000		10 000	105.00	10 500	0.05%
BPT Baltic Fund 3 SIA 5% EUR 31.12.2015		LV		2015.12.31	5.00		EUR	2 200 000		2 200 000	102.81	2 261 775	11.54%
BPT Baltic Fund 1 OÜ 8.5% EUR 30.12.2015		EE		2015.12.30	8.50		EUR	7 280 000		7 280 000	100.33	7 304 086	37.26%
BPT Baltic Fund 4 OÜ 5% EUR 31.12.2015		EE		2015.12.31	5.00		EUR	5 765 000		5 765 000	100.19	5 775 801	29.46%
BPT Baltic Fund 2 UAB 5% EUR 07.08.2016		LT		2016.08.07	5.00		EUR	2 100 000		2 008 462	101.79	2 046 059	10.44%
<b>Total Long Term Loans</b>										<b>17 360 000</b>	<b>17 403 518</b>	<b>88.78%</b>	

\*Accrued interest in the amount of 135 055.13 euros has been added to the value of long term loans; the accrued interest is recorded in the balance sheet under "Accrued income"

<b>TOTAL SECURITIES</b>	<b>17 370 755</b>	<b>19 544 923</b>	<b>99.70%</b>
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#### Cash

Current account	EE						EUR			59 573		59 573	0.30%
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<b>TOTAL</b>										<b>17 430 328</b>		<b>19 604 496</b>	<b>100.00%</b>
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## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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#### Distribution of investments as of 31.12.2014

<i>Euros</i>	<b>Amount</b>	<b>Proportion</b>
Other securities	23 191 637	94.88%
Cash	1 293 054	5.12%
<i>Total</i>	<i>24 484 691</i>	<i>100.00%</i>

#### Distribution of investments as of 31.12.2013

<i>Euros</i>	<b>Amount</b>	<b>Proportion</b>
Other securities	19 544 923	99.70%
Cash	59 573	0.30%
<i>Total</i>	<i>19 604 496</i>	<i>100.00%</i>

The Company has recorded unrealized profit from change in the market value of equities and units in 2014 in the value of 1 353 926 euros (2013: unrealized profit 1 968 574 euros).

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

### 3. STATEMENT OF CHANGE IN NET ASSETS

<i>Euros</i>	<b>01.01.2014-31.12.2014</b>	<b>01.01.2013-31.12.2013</b>
<b>Total Fund net asset value</b>		
- at the beginning of the period	<b>19 455 980</b>	<b>16 944 034</b>
- at the end of the period	<b>24 314 255</b>	<b>19 455 980</b>
Fund units issued	3 894 428	1 196 729
Profit distribution to unit holders	-1 058 781	-1 235 000
Net result for the financial period	2 022 628	2 550 217
Number of units outstanding	217 197	181 473
NAV per unit	111.9458	107.2117

### 4. COMPARATIVE ANALYSIS OF THE NET ASSET VALUE

<i>Euros</i>	<b>31.12.2014</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Net asset value of the Fund</b>	24 314 255	19 455 980	16 944 034	11 146 064
<b>Net asset value of Fund unit</b>	111.9458	107.2117	99.9359	101.4021

### 5. OTHER OPERATING EXPENSES

<i>Euros</i>	<b>01.01.2014-31.12.2014</b>	<b>01.01.2013-31.12.2013</b>
Legal consultations	16 170	50 104
Salaries	7 380	20 000
Audit fees	14 069	9 900
Other operating expenses	4 043	3 748
<b>Total</b>	<b>41 662</b>	<b>83 752</b>

### 6. PRINCIPAL RISKS AND UNCERTAINTIES FACING THE FUND

#### Market Risk

The investments are subject to the risks in relation to the ownership and operation of real estate, including risks associated with the general economic climate, local real-estate conditions, geographic or market concentration, the ability of the Management Company or third-party borrowers to manage the real properties, government regulations and fluctuations in interest rates. Since real estate, like many other types of long term investments, historically has experienced significant fluctuations and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of real property interests. The marketability and value of real estate will depend on many factors, including but without limitation: (i) changes in general or local economic conditions; (ii) changes in the supply of or the demand for competing properties in an area (e.g. as a result of new construction); (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage funds or loans which may make the sale of a property difficult; (vi) the financial condition of tenants, buyers and sellers of

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

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properties; (vii) changes in real estate tax rates and other operating expenses; (viii) various uninsured or uninsurable risks; and (ix) acts of God, natural disasters and uninsurable losses.

### Credit Risk

Credit risk means primarily the risk that an issuer of the security or counterparty to a transaction made on account of the Fund does not fulfil its obligations in part or in full.

In order to reduce credit risk, the Fund is aiming to diversify its investments and counterparties with low credit risk are preferred. Credit risk also comprises pre settlement and settlement risk.

Major acquisition and project finance credit risks are minimized by sharing these risks with banks and insurance companies. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with the most reputable domestic and international banks and financial institutions.

### Liquidity Risk

Liquidity risk means the risk of failure to liquidate open position, to realise the assets by the due time at the prescribed fair price or to refinance loan obligations.

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

The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

In order to minimise liquidity risk, a part of the real estate fund assets may be invested in deposits of credit institutions, in short-term debt securities and in other securities with high level of liquidity. Also, derivative instruments may be used to reduce liquidity risk.

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

### Interest Rate Risk

The Fund's policy is that long term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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 Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

The following table analyses the Fund's exposure to interest rate risk. The Fund assets and liabilities are included at fair value and categorized by maturity dates.

As at 31 December 2014, Euros	Up to 3 months	1-5 year	Non-interest bearing	Total
<b>Assets</b>				
Cash	1 293 054	-	-	1 293 054
Loans	-	19 954 834	-	19 954 834
Securities	-	-	3 403 809	3 403 809
<b>Total assets</b>				<b>24 651 697</b>
<b>Liabilities</b>				
Other liabilities and accruals	-	-	170 436	170 436
<b>Total liabilities</b>	-	-	<b>170 436</b>	<b>170 436</b>
<b>Total interest sensitivity gap</b>	<b>1 293 054</b>	<b>19 954 834</b>	<b>3 233 373</b>	<b>24 481 261</b>

As at 31 December 2013	Up to 3 months	1-5 year	Non-interest bearing	Total
Euros				
<b>Assets</b>				
Cash	59 573	-	-	59 573
Loans	-	17 741 076	-	17 741 076
Securities	-	-	2 141 406	2 141 406
<b>Total assets</b>	<b>59 573</b>	<b>17 741 076</b>	<b>2 141 406</b>	<b>19 942 055</b>
<b>Liabilities</b>				
Other liabilities and accruals	-	-	148 516	148 516
<b>Total liabilities</b>	-	-	<b>148 516</b>	<b>148 516</b>
<b>Total interest sensitivity gap</b>	<b>59 573</b>	<b>17 741 076</b>	<b>1 992 890</b>	<b>19 793 539</b>

### Foreign exchange risk

The main Fund's currency is euro. The currency risk has been removed in all Baltic States as Lithuania joined euro zone on 1<sup>st</sup> January 2015. Estonia and Latvia had already adopted euro in 2011 and 2014 respectively.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

### 7. ISSUED LOANS

<i>Euros</i>	<b>Balance 31.12.2014</b>	<b>Interest rate</b>	<b>Accrued interest</b>	<b>Maturity</b>
BPT Baltic Fund 1 OÜ	7 480 000	8.5%	607 076	30.12.2015
BPT Baltic Fund 1 OÜ	5 400 000	5.0%	183 816	31.12.2015
BPT Baltic Fund 2 UAB	5 000	5.0%	550	31.12.2015
BPT Baltic Fund 2 UAB	10 000	5.0%	1 007	31.12.2015
BPT Baltic Fund 2 UAB	3 650 000	5.0%	197 076	7.08.2016
BPT Baltic Fund 3 SIA	2 200 000	5.0%	53 302	31.12.2015
<b>Total loans issued</b>	<b>18 745 000</b>		<b>1 042 828</b>	

Accrued interest in the amount of 1 042 828 euros is recorded in the statement of financial position under "Accrued income". The Fund has earned in financial year interest income from issued loans 1 187 773 euros.

<i>Euros</i>	<b>Balance 31.12.2013</b>	<b>Interest rate</b>	<b>Accrued interest</b>	<b>Maturity</b>
BPT Baltic Fund 1 OÜ	7 280 000	8.5%	24 086	30.12.2015
BPT Baltic Fund 1 OÜ	5 765 000	5.0%	10 801	31.12.2015
BPT Baltic Fund 2 UAB	5 000	5.0%	297	31.12.2015
BPT Baltic Fund 2 UAB	10 000	5.0%	500	31.12.2015
BPT Baltic Fund 2 UAB	2 008 462	5.0%	37 597	7.08.2016
BPT Baltic Fund 3 SIA	2 200 000	5.0%	61 775	31.12.2015
<b>Total</b>	<b>17 268 462</b>		<b>135 055</b>	

Accrued interest in the amount of 135 055 euros is recorded in the statement of financial position under "Accrued income". The Fund has earned in financial year interest income from issued loans 1 056 580 euros.

### 8. FAIR VALUES OF FINANCIAL ASSETS

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

<i>Euros</i>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Financial assets				
Securities	3 403 809	2 141 406	3 403 809	2 141 406
Loans to subsidiaries	18 745 000	17 268 462	19 954 834	17 741 076
Cash and cash equivalents	1 293 054	59 573	1 293 054	59 573

The Fund invests in private equity companies that are not quoted on active market. The value of investments in subsidiaries is dependent on the fair value of the investment property, the interest bearing bank loans and derivative instruments held within the company:

- The fair value of investment property in the subsidiaries is determined by Colliers International using recognized valuation techniques. These techniques comprise the Discounted Cash Flow (DCF)

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

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method. Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

- The bank loans in subsidiary companies bear variable interest rates, thus the fair values of these borrowings approximate their carrying values.
- The fair value of the derivative instruments is calculated by discounting the expected future cash flows at prevailing interest rates, as no market quotations are available.

The fair values of securities held are approximate to their carrying value. The Fund classifies the fair value of these securities as Level 3.

The fair value of loans to subsidiaries has been calculated by discounting the expected future cash flows at prevailing interest rates, as no market quotations are available. The Fund classifies the fair value of these securities as Level 3.

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- 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

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

### Year ended 31 December 2014

<i>Euros</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Financial assets				
Securities	-	-	3 403 809	<b>3 403 809</b>
Loans to subsidiaries	-	-	19 954 834	<b>19 954 834</b>
Cash and cash equivalents	-	1 293 054	-	<b>1 293 054</b>

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

### Year ended 31 December 2013

<i>Euros</i>	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Securities	-	-	2 141 406	<b>2 141 406</b>
Loans to subsidiaries	-	-	17 741 076	<b>17 741 076</b>
Cash and cash equivalents	-	59 573	-	<b>59 573</b>

### Quantitative information of significant unobservable inputs – Level 3

Description	2014 Euros	Valuation technique	Unobservable input	Range
Loans to subsidiaries	19 954 834	Discounted cash flow	Discount rate	4.43%-6.22%

### Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2014 are as shown below:

Description	Input	Sensitivity used*	Effect on fair value, Euros
Loans to subsidiaries	Discount rate	+0.1%	-21 157
Loans to subsidiaries	Discount rate	-0.1%	21 242

\*The sensitivity analysis refers to a reasonable possible percentage amount added or deducted from the input and the effect this has on the fair value.

Increase (decrease) in the discount rate in isolation would result in a (lower) higher fair value of loans to subsidiaries measurement.

### Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2014

Description	Loans to subsidiaries
<b>Fair value as at 1 January 2014</b>	<b>17 741 076</b>
Disbursements	1 700 000
Repayments	- 65 000
Change in fair value	578 758
<b>Fair value as at 31 December 2014</b>	<b>19 954 834</b>
<b>Fair value as at 1 January 2013</b>	<b>12 338 308</b>
Disbursements	8 170 000
Repayments	-2 755 000
Change in fair value	-12 232
<b>Fair value as at 31 December 2013</b>	<b>17 741 076</b>

### 9. ADDITIONAL NOTES

As of 31 December 2014, there were no other commitments and/or contingencies issued by the Fund.

On 1 February 2015, the Fund signed amendments to the loan agreements with its subsidiaries to change the repayment date of full loan amounts to 31 December 2017.

The investment committee of the Fund made a decision to acquire Europa Shopping Center in Vilnius on 19 December 2014. Sales-purchase agreement was signed on 9 February 2015. Closing is dependent on finalizing acquisition financing and obtaining registration confirmation from the Estonian FSA on the changed fund rules. Full closing and take-over is expected on 2 March 2015. If the Closing does not take place by 2 March 2015 due to fault of the Fund, Fund could face penalty of EUR 200k.

## **APPENDIX F**

**Audited Non-Consolidated Financial Statements of BOF for the Year 2013**

## ***BPT Baltic Opportunity Fund***

*ANNUAL REPORT FOR THE FINANCIAL  
YEAR ENDED 31 DECEMBER 2013*

# BPT Baltic Opportunity Fund

Annual report for the financial year ended 31 December 2013

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Beginning of financial year	1 January 2013
End of financial year	31 December 2013
Management company	BPTAM Estonia AS
Depositary and Fund administrator	Swedbank AS
Business name	BPT Baltic Opportunity Fund
Type of fund	Non-public closed-ended contractual real estate fund
Style of fund	Core plus/ Value added
Market segment	Retail/ Offices
Life time/ Investment stage	Finite/ Open for investments
Key milestone date	21 December 2014 (end of investment period)
Address of the fund	Rävala pst 5 Tallinn 10143 Estonia
Fund manager	Tarmo Karotam
Investment committee	Kristel Meos (Chairman) Andris Kraujins Lars Ohnemus
Investment committee remuneration	15 000 euros p.a.
Management board of the Management Company	Indrek Hääl (Chairman) Algirdas Vaitiekunas
Supervisory board of the Management Company	Michael Schönach (Chairman) Dalia Garbuziene Jussi Erkki Pelkonen
Phone	+372 630 9420
Fax	+372 630 9421
Auditor	AS Ernst & Young Baltic
Valuer	Colliers International
100% interest in subsidiaries (unconsolidated)	BPT Baltic Fund 1 OÜ, Rävala 5, Tallinn, Estonia BPT Baltic Fund 2 UAB, Gynėjų 16, Vilnius, Lithuania BPT Baltic Fund 3 SIA, Valdemara 21-20, Riga, Latvia BPT Baltic Fund 4 OÜ, Rävala 5, Tallinn, Estonia

# BPT Baltic Opportunity Fund

## INDEPENDENT AUDITOR'S REPORT

Annual report for the financial year ended 31 December 2013

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Code of legal entity: 10877299  
VAT payer code: EE 100770654

### INDEPENDENT AUDITOR'S REPORT

#### To the Shareholder of BPT Baltic Opportunity Fund

We have audited the accompanying financial statements of BPT Baltic Opportunity Fund (further "fund"), managed by BPTAM Asset Management AS (further "fund management company), which comprise the balance sheet as at 31 December 2013, statement of income and expenses, statement of changes in net asset value of the fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Fund Management Company's Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of BPT Baltic Opportunity Fund as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 17 February 2014

Ivar Kligemägi  
Authorised Auditor's number 527  
Ernst & Young Baltic AS  
Audit Company's Registration number 58

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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### DEFINITIONS OF KEY TERMS AND ABBREVIATIONS

<b>FSA</b>	the Estonian Financial Supervision Authority (in Estonian: <i>Finantsinspeksioon</i> )
<b>Fund</b>	BPT Baltic Opportunity Fund (REIF)
<b>IFRS</b>	International Financial Reporting Standards
<b>IFRS NAV</b>	NAV
<b>INREV</b>	European Association for Investors in Non-listed Real Estate Vehicles
<b>INREV NAV</b>	IFRS NAV, adjusted to comply with INREV guidelines
<b>Investor(s)</b>	An institutional investor who qualifies as professional investor within the meaning of Article 6(2) of the Estonian Securities Market Act, another institutional investor and an individual each acquiring or at any time possessing units for the amount of at least 50 000 euro
<b>Management Company</b>	BPTAM Estonia AS, register code 11025345, registered address at Rävåla pst 5, Tallinn 10143, Estonia
<b>NAV</b>	Net asset value for the Fund
<b>NAV per unit</b>	NAV divided by the amount of units in the Fund at the moment of determination
<b>NOI</b>	Net operating income
<b>Direct Property Yield</b>	NOI divided by acquisition value of a property
<b>Net Initial Yield</b>	NOI divided by market value of a property

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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### MANAGEMENT REVIEW

BPT Baltic Opportunity Fund is a direct real estate fund (“the Fund”) with an aim to invest in core cash-flow generating properties with prime characteristics and strong business concepts across the Baltic capitals. The focus is on retail and office properties which hold long-term tenants and opportunities for active asset management.

The Fund’s investment principles are in conformity with internationally accepted ethical and socially responsible investment principles. The Fund’s activities are monitored on a regular basis by the FSA, the investment committee, Fund administrator and depositary bank Swedbank. The Management Company follows the INREV guidelines and FSA requirements for corporate governance as well as ensures transparency through accurate, direct and timely communication to Investors. The Fund’s reporting is compliant with the INREV Guidelines and all relevant best practice requirements are fulfilled.

During year 2013 the strategy of the Fund did not change and there have been no significant changes in the management of the Fund and the Management Company. As at 31 December 2013 the Fund did not have additional hard commitments from investors. Interested investors are expected to subscribe for the Fund during the first quarter of 2014.

All the financial information disclosed in this review coincides with the financial statements for the financial year ended 31 December 2013.

Year 2013 has been an active investment period for the Fund. Acquisitions of SKY supermarket in Riga and Coca Cola Plaza property in Tallinn were closed. As both of these were sale-leaseback type acquisitions, the negotiations with the sellers also involved establishing long term anchor tenant rental contracts. It is expected that these additional efforts to secure long term cash flows for the Fund would work positively to the Fund’s return, especially at the exit time.

Following a very active investment period in the beginning of the year and good rental cash flows, the management of the Fund decided to pay out an interim profit distribution of 3.5% per unit in June, which was followed by a similar distribution of 3.5% in December 2013. The Fund is structured similarly to an international REIT with the majority of cash earned destined to be paid out to its investors annually.

Furthermore, on 25 June a general meeting of investors was convened in Tallinn to make changes to the Fund rules. In the meeting, quorum was met and proposed changes were adopted unanimously. Main changes included prolonging the Fund term until end of 2017, amending wording about geographical and sectorial allocation requirements, introducing investment limitations into assets used to a significant degree for gambling, pornographic or tobacco producing activities and having an option to make follow-on investments of up to 10% of the aggregate commitments in current portfolio. The new Fund rules are to be registered with the FSA beginning of 2014 so that they become fully effective.

The largest one-off cost during the year for the fund was the cost associated with preparing, calling and convening a general meeting of investors in Tallinn on the 25 June. The aim of the general meeting was to accept the new version of Fund rules which stipulates the overall principles of the Fund going forward. The legal fees associated with preparing and organizing the general meeting were 26 thousand euros.

BPT Baltic Opportunity Fund is as well in the process of acquiring a retail development project in Vilnius, Lithuania, known as Domus Pro Retail Park and scheduled to be completed by spring 2014. Structured as a

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

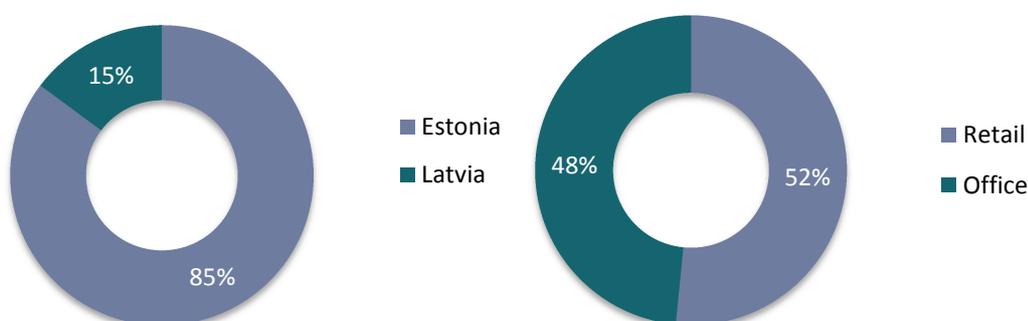
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typical box retail centre, the project includes approx. 85% pre-leased space with supermarket chain RIMI as anchor tenant.

During the second half of 2013, the Fund has issued 2 million euros forward funding loan through its subsidiary to finance Domus Pro development. The loan shall be deducted from the purchase price in the final stage of the acquisition early in 2014.

At the end of the first half of 2013, 85% of the real estate assets of the Fund were located in Estonia with investments to Lincona office complex and Coca-Cola Plaza cinema and retail complex. The rest of 15% real estate assets are invested into SKY shopping centre in Latvia. From sectorial point of view, 48% of the assets have been invested into offices and the remaining into retail/entertainment type of assets.

**Picture 1: Fund segment and country distribution**



During the remaining investment period, the Fund is looking to further diversify its investment portfolio foremost to Lithuania and to Latvia continuing to focus on capital cities and office/retail segments.

## MACROECONOMIC FACTORS IN THE BALTIC STATES

The projections of Baltic economic growth figures have been and are forecasted to remain considerably above the OECD averages in the coming years and much stronger than the Eurozone average.

Over the past years the Baltic States have been taking turns to be the fastest growing economy in the EU. Following Estonia's accelerated growth period in the previous years, Latvia's GDP grew 4.4% and Lithuania's GDP 3.3% in 2013. Growth between 3-5% is expected for all Baltic States also for the period of 2014-2016.

After the rather sluggish recovery of Baltic main trading partners in 2013, external demand will gradually improve in 2014 - 2015, accelerating economic growth with stronger exports and investments. Wage increases have supported overall consumption, thus the GDP growth in 2013, and shall continue to remain an important driver in growing the economies in the coming years. Inflation has decelerated steadily and will stay below 3% in 2014 and 2015 with the lowest levels expected in Lithuania. External price developments are expected to remain favourable and the domestic price pressures should also stay under control.

The fall in investments has bottomed out in mid-2013 and they are expected to pick up in 2014 mainly for two reasons. First, the need to develop infrastructure and raise productivity to reduce labour dependency

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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and wage pressures is high. Second, companies have the means to invest while interest rates will remain low.

The 2013 budget deficit for each of the Baltic countries is expected to be as planned between 1-3% of GDP. Tax revenues are increasing however the budgets remain fiscally prudent also for 2014. In Lithuania, as the government plans to cut the budget deficit to 1.9%, the European Commission will most likely assess positively Lithuania's convergence, and Lithuania will become the 19<sup>th</sup> euro area country in 2015, following Latvia's accession this year.

**Table 1: Main macro-economic indicators for the Baltic States**

Indicator	Actual 2010	Actual 2011	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
<i>Economic growth (annual change of real GDP), %</i>						
- Estonia	2.3	8.4	3.9	1.0	2.6	2.9
- Latvia	-0.3	5.5	5.0	4.2	4.8	4.8
- Lithuania	1.4	5.9	3.7	3.4	3.5	4.5
<i>Average consumer price growth, %</i>						
- Estonia	2.7	5.1	3.9	3.2	1.8	2.2
- Latvia	-1.2	4.2	2.3	0.0	1.8	3.3
- Lithuania	1.2	4.1	3.2	1.2	2.0	3.0

*Source: SEB Nordic Outlook, Feb 2014*

### Real estate industry development

The vacancy rate for A class spaces has been decreasing in 2013 across A and B segments to below 10% on average. Many tenants are expanding and moving up the quality curve with strongest focus on good B1 class offices as tenants are careful in assuming more overheads if moving to more expensive premises. Often the strategy has been "same for more" and therefore B1 class locations with ample parking facilities have been the biggest winners. In terms of new supply, many new office buildings are being completed after several years of no action in the development scene. Majority of the new supply will be A class and it is forecasted that the new supply will be absorbed by the market within a year.

Most of the potential tenants interested in A class space come from the representative offices of foreign companies whereas B1 class assets have been preferred by expanding or relocating local companies and governmental organizations. This is especially so in Estonia. One of the most notable news of the first half of the year was that international logistics giant Kuehne and Nagel shall establish its IT Support Center in Tallinn making its contribution to the solid demand for good quality office space.

In Baltic shopping centres the vacancy remains low, while the growing number of new tenants and increasing demand results in a steady growth of rental rates across the Baltic capitals. The situation may change in 2015, when several shopping centres in Riga and Tallinn are due to be opened and few large expansions completed, but the increased supply will probably be absorbed within the following year.

New brand stores are continuing to open their doors in the Baltics including H&M, IKEA, Massimo Dutti, Tommy Hilfiger, MAX&Co, iBlues, Clarks, Next, Guess By Marciano, List, CCC, Centro, Inglot, Ristorante Italiano, Springfield, Cortefiel and Burberry. Due to growing demand most shopping centres are nearly fully leased, with minimal vacancy rates.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

Investment market has also seen quite a number of deals across the Baltic States within the first half and several large deals are in the preparation phase to be closed in the second half of 2013. Main commercial properties being traded are located in the capitals and the increased market activity is also highly influenced by matured real estate funds which are in the need to exit. All in all, the investment volume for 2013 is expected to notably top that of the previous four years and reach 2007 level of 1 billion euros in 2014.

### PRINCIPAL RISKS AND UNCERTAINTIES FACING THE FUND

The present forecast for the EU in general projects a return of moderate growth in the course of the coming years, as confidence gradually recovers and the global economy becomes more supportive again. This general improvement is marked by different developments across member states, with economic growth in some already re-accelerating. Main concerns for the recovery in the EU remain to be the labour market which is in need of larger adjustments and the domestic demand.

The Baltic countries are expected to experience quite robust growth during the coming couple of years. The growth will be broad-based with the main contributions coming from exports and private consumption which is fuelled besides other factors by quite rapidly rising wages. Balancing wage and productivity growth is crucial to reduce risks of growth driven by excessive consumption and deterioration in external price competitiveness that would result in economic slowdown.

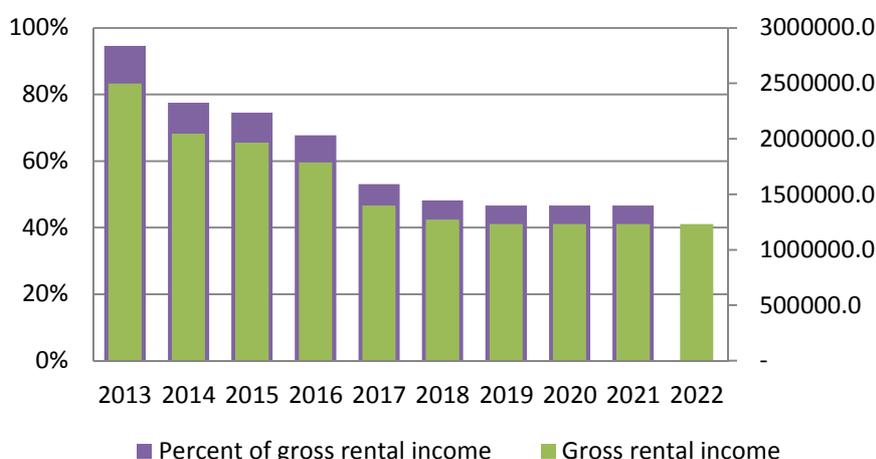
#### Market risk

The Fund is exposed to office market in Tallinn and retail market in Riga and Tallinn through its indirect investments into investment property through subsidiaries.

#### Tenant risk

The credit risk of the tenants in the Baltic portfolio of properties remains relatively low. During 2013 provisions for bad debts in all properties of the Fund amounted barely to 3 thousand euros (no provisions in 2012). The expiration profile of leases based on gross rental income is reflected in the picture below.

Picture 2: Nominal lease expiration as at 31 December 2013, in euros



# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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### Credit risk

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

As of 31 December 2013, the Fund had no loans, and the bank loans received in Fund's subsidiaries were as follows:

- Lincona bank loan with SEB bank amounting to 7 483 thousand euros with a maturity 20 January 2016. The loan is secured with the first rank mortgage of proportionate share of buildings located at Pärnu rd. 139/ Kohila str. 2a and Pärnu rd. 139c, Tallinn, Estonia;
- SKY bank loan with SEB bank amounting to 2 198 thousand euros with a maturity 1 August 2016. The loan is secured with the first rank mortgage of owned land in Bikernieku str. and property located at Bikernieku str. 120B, Riga, Latvia, pledge of funds in the bank accounts;
- Coca-Cola Plaza bank loan with Pohjola Bank amounting to 5 964 thousand euros with a maturity 20 January 2016. The loan is secured with mortgage of property located at Hobujaama 5, Tallinn, Estonia; pledge of lease payments from anchor tenant and pledge of debt service reserve account;

**Table 2: Structure of bank loans received in Fund's subsidiaries**

<b>31 December 2013</b>	<b>in million euros</b>	<b>Weighted average effective interest rates</b>
Current debt (less than 1 year)	0.2	3.0%
Non-current debt (1-5 years)	15.4	3.2%
<b>Total debt</b>	<b>15.6</b>	

As of 31 December 2013 the Fund's subsidiaries were not breaching any of the bank loan agreements and were in compliance with the ratios monitored as specified in the contracts.

As of 31 December 2013 the short term forward funding loan issued by Fund's subsidiary to finance Domus Pro project development amounted to 2 000 thousand euros. The loan is secured by the first rank guarantee issued to the Fund's subsidiary by the listed parent company of the developer as well as the first rank and secondary rank pledge of developer's shares.

### Interest rate risk

The Fund has a policy to hedge long term loans to fixed rate for the whole contract life. As at 31 December 2013, 93% of the bank loan contracts in the Fund's subsidiaries are fixed by employing hedging techniques designed to protect the Fund against adverse movements in interest rates. The Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

As at 31 December 2013 the following bank loans in the subsidiaries were hedged for interest rate risks (all mature after 1 to 5 years):

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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- Lincona bank loan fully hedged with interest rate swap of a notional amount 7 800 thousand euros, whereby variable rate equal to EURIBOR 1M is received and a fixed rate of interest of 1.71% is paid. The swap matures on 22 June 2015;
- SKY bank loan is 50% hedged with interest rate swap of a notional amount 1 100 thousand euros, whereby variable rate equal to EURIBOR 3M is received and a fixed rate of interest of 0.6% is paid. The swap matures on 1 August 2016;
- Coca Cola Plaza bank loan is hedged with interest rate swap of a notional amount 5 975 thousand euros, whereby variable rate equal to EURIBOR 3M is received and a fixed rate of interest of 0.74% is paid. The swap matures on 21 March 2016.

The forward funding issued through Fund's subsidiary for Domus Pro development project carries fixed rate interest.

### Liquidity risk

The cash flow generated in the Fund's subsidiaries was positive during 2013. The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, mainly by maintaining a "liquidity buffer" in Fund's subsidiaries and the Fund itself.

The liquidity risk of Domus Pro forward funding is considered low. The contract is secured by the first rank guarantee issued to the Fund's subsidiary by the listed parent company of the developer as well as the first rank and secondary rank pledge of developer's shares.

### Currency risk

The Fund is operating in the Baltic States, of which Estonia has already adopted euro as its main currency. Latvia has adopted euro as a main currency from 1 January 2014. Lithuania has its local currency pegged to euro and is expected to join the Eurozone from 2015. Thus the devaluation of LTL or LVL shall consequently be fully off the table.

## FUND PERFORMANCE

### Financial position of the Fund

At 31 December 2013, the Fund's paid in capital from investors amounts to 18.2 million euros. The maximum amount allowed in the Fund rules is 100.0 million euros. The capital which has been called in and not yet invested is placed into term deposit (usually for 2 months period) earning market level interest.

**Table 3: Key capital indicators of the Fund**

Item	31 December 2013 in million euros
<b>Capital called into Fund's account</b>	<b>18.2</b>
Less capital invested in Lincona SPV (via intercompany loan)	7.7
Less capital invested in SKY SPV (via intercompany loan)	2.3
Less capital invested in Coca Cola Plaza SPV (via intercompany loan)	6.0
Less forward funding of Domus Pro development	2.0

## BPT Baltic Opportunity Fund

### MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

Less security deposit	0.1
<b>TOTAL AVAILABLE FOR INVESTMENTS</b>	<b>0.1</b>

The Fund monitors capital by using gearing ratio, which is calculated as debt divided by total of capital called plus debt. The target gearing ratio of the Fund is 50% when fully invested.

**Table 4: Gearing ratio of the Fund**

Item	31 December 2013
Debts to banks in Fund's subsidiaries, in million euros	15.6
Capital called into Fund's account, in million euros	18.2
<b>Total debt and capital called, in million euros</b>	<b>33.8</b>
<b>Gearing ratio</b>	<b>46.2%</b>

As at 31 December 2013, the Fund NAV was 19.5 million euros (107.2117 euros per unit).

The Fund also calculates INREV NAV, which as of 31 December 2013 was 19.5 million euros (107.6155 euros per unit). The INREV NAV is calculated adjusting NAV for the items summarised in the table below:

**Table 5: Adjustments for recalculating NAV to INREV NAV and INREV NAV for ppm\***

No.	Item	Amounts in euros
<b>1.</b>	<b>NAV as of 31 December 2013</b>	<b>19 455 980</b>
2.	Estimation of realisable transfer costs in case of sales of assets (0.5% of property value)	(165 675)
3.	Capitalization and amortization of Fund's set-up costs**	29 591
4.	Capitalization and amortization of property acquisition costs**	222 472
5.	Estimation of tax effect of (4.) above	(13 114)
<b>6.</b>	<b>INREV NAV</b>	<b>19 529 254</b>
7.	Elimination of effect of derivative revaluation reserves for the Fund and the net assets of subsidiaries	209 990
8.	Estimation of tax effect of (6.) above	(364)
<b>9.</b>	<b>INREV NAV for ppm*</b>	<b>19 738 880</b>
10.	Amount of units	181 473
<b>11.</b>	<b>INREV NAV per unit</b>	<b>107.6155</b>
<b>12.</b>	<b>INREV NAV for ppm* per unit</b>	<b>108.7706</b>

\* INREV NAV for ppm – INREV NAV for property performance measurement

\*\* The costs are amortized during 5 years

The INREV NAV is calculated according to Internal Rules for Determination of the Net Asset Value of the Fund of BPTAM Estonia AS, prepared in conformity of INREV guidelines.

In June 2013 a decision was made to distribute the interim profit of 3.5% to the unit holders, which was followed by a similar distribution of 3.5% interim profit in December 2013. The profit distributions were

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

based on strong cash flows from the owned properties Lincona, Coca Cola Plaza and SKY and represent the Fund's intentions to maximize the benefit for the unit holders.

Based on the changes in NAV and profit distribution, the Fund's return for 2013 was 15% and, based on INREV NAV, it was 15.4%. The Net Initial Yield and Direct Property Yield for 2013 reached 7.8%.

The Fund monitors its leverage using a LTV ratio, which is total debts to banks divided by total value of the properties. The Fund's target LTV ratio is 50%.

**Table 6: Key borrowing indicators of the Fund and Fund's subsidiaries**

Item	31 December 2013
Total bank loans (in million euros)	15.6
Total property value (in million euros)	33.2
<b>Total LTV ratio</b>	<b>47%</b>

The fair value of forward funding and derivative instruments held by the Fund and Fund's subsidiaries has been calculated by discounting the expected future cash flow at prevailing interest rates.

The fair value of investment property in the subsidiaries is determined by Colliers International using recognized valuation techniques. These techniques comprise the Discounted Cash Flow (DCF) method. Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

The debts to banks in subsidiary companies bear variable interest rates, thus the fair values of these borrowings approximate their carrying values.

**Table 7: Fair values of financial instruments of the Fund and Fund's subsidiaries at 31 December 2013**

Item (in million euros)	Carrying amount	Fair value
<b>Financial assets</b>		
Cash and cash equivalents	0.4	0.4
Forward funding	2.0	2.1
Investment properties	33.2	33.2
<b>Financial liabilities</b>		
Debts to banks	15.6	15.6
Derivative instruments	0.2	0.2

## Financial results of the Fund

In 2013, the Fund recorded net profit of 2 550 thousand euros. In June 2013 the management has decided to distribute profit to unit holders in amount of 600 thousand euros (3.5% per capital invested), which was followed by a subsequent distribution of 635 thousand euros (3.5% per capital invested) in December 2013.

The change in net assets of Fund's subsidiaries was positive and amounted to 1 969 thousand euros, whereas interest income accrued from IC loans to the subsidiaries amounted to 1 057 thousand euros. The expenses of the Fund constituted 476 thousand euros (more details provided in the income statement as well as note 5 to the financial statements).

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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The Fund monitors the expense ratios calculated based on INREV fee metrics guidelines as a percentage of gross asset value and INREV NAV.

**Table 8: Expense ratios of the Fund and Fund's subsidiaries based on INREV fee metrics guidelines, for the year ended 31 December 2013**

Annual indicator as a % of:	GAV	INREV NAV
Fund management fees	1.1%	2.1%
Total expense ratio (TER)	1.8%	3.3%
Real estate expense ratio (REER)	2.3%	4.3%

### Acquisitions

Acquisition of SKY Bikernieku shopping center in Riga was closed on 10 January 2013. Final sales agreement was signed in December 2012 and closing took place after the Latvian land registry registered the Fund as owner. Located in the heart of the local suburb of Mežciems, the SKY shopping centre provides necessity goods and services for the inhabitants of this well-populated part of the Latvian capital, east of the city centre. The asset was bought in a sale and lease-back transaction from anchor tenant SKY, a well-known Riga supermarket retailer.

Acquisition of Coca-Cola Plaza cinema and retail complex in Tallinn was closed on 19 March 2013. Coca-Cola Plaza is the largest combined cinema and retail complex in Estonia. Constructed in 2001 the complex has 9 930 sq. m. of usable space. Its anchor tenant, Finnkino, is the market leading cinema operator in Finland and the Baltic States. The property is located in the central part of Tallinn, on Hobujaama Street between the medieval Old Town, the City Harbour and Viru Shopping Center. The neighbouring building, a former Tallinn Central Post Office, is scheduled to be completely reconstructed within 6 months into a 10 600 sq. m. shopping centre Galleria (anchor H&M) presenting a great deal of synergy potential with the Coca-Cola Plaza.

The fair value of all investment properties is approved by the Board of Directors of the Management Company, based on independent appraisals performed by Colliers International as at 31 December 2013 in accordance with the Practice Statements and Relevant Guidance Notes of the RICS Appraisal and Valuation and approved by both the International Valuation Standards Committee (IVSC). 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 where in 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 in accordance with IAS 40. The valuations are performed on an annual basis. The ranges of discount rates used by the appraisers to value the investment properties as of 31 December 2013 were as follows per country: Latvia 8.5%; Estonia 9.2%.

In its fourth acquisition, BPT Baltic Opportunity Fund is in the process of acquiring a retail development project in Vilnius, Lithuania, from Danish developer TK Development A/S. The project known as Domus Pro Retail Park has substantial pre-letting in place and is scheduled to be completed by spring 2014. Located in the expanding residential district in Vilnius with over 70 000 inhabitants, on the arterial Ukmerges road leading to Riga, the Domus Pro Retail Park includes more than 11 000 sq. m. of soon-to-be-developed modern retail space. Structured as a typical box retail centre, the project includes approx. 85% pre-leased space with supermarket chain RIMI as anchor tenant.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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### PROPERTY PERFORMANCE

The operational figures in 2013 were at par with expectations. The portfolio consists of 3 assets and has a total rentable area of 23 269 sq. m.

**Table 9: Property portfolio, in million euros**

Property	Subsidiary	Market value 31 December 2013	Market value 31 December 2012
Lincona office	BPT Baltic Fund 1 OÜ	16.1	15.3
SKY supermarket	BPT Baltic Fund 3 SIA	4.9	n/a
Coca Cola Plaza	BPT Baltic Fund 4 OÜ	12.2	n/a

As at the end of the year, the occupancy of the portfolio was 96.3% and Net Initial Yield 7.8%. Well negotiated financing agreements and good financing terms keep the cash-flow generation of the portfolio on track with the Fund's objectives. The profit distribution target for the Fund remains to be 7-8% p.a.

The vacancy in Lincona office complex after the change of the year is 21% of net leasable area as one of the anchor lease agreements came to an end in December. The management team has been in committed negotiations with new tenants and is planning to sign new lease agreements in the first quarter of 2014. The vacancy is expected to be filled during the year after the fit-out works are completed and new premises are ready for moving in. The tenant interest in B1 class office premises in Tallinn has improved significantly in the second half of 2013 since the rents in the CBD are increasing and companies are continuously looking at their cost levels even though many of them are expanding. Therefore "more for same" strategy has been adopted when analysing new premises and B1 class office buildings near the CBD has gained a lot of attention. The trend in office premises is for slight increase in rents and higher cost coverage as *triple net* lease agreements have become the market standard.

The other properties remain to be 100% leased out based on long term lease agreements. The vacancy is calculated as follows: vacant m2 divided by total net leasable area established per month. Annual vacancy is calculated by dividing the averages of both figures for the 12 month period. The average monthly rental rate in the portfolio remained stable at 9.6 euros per sq. m. /month which is considered to be at par with market averages. Therefore theoretical or potential rental values for all properties are on average matching the actual rent levels.

SKY supermarket has performed very well after the take-over. Many lease agreements with satellite tenants were renewed during Q1 2013 and were brought up to BPT standards. Furthermore, the effectiveness of the heating system was analyzed and optimization works are to be performed before the next heating season.

Forum Cinemas AS, the master tenant in Coca-Cola Plaza, has released news that their parent company Finnkinno is merging with SF Bio to create the largest player in the field of the Nordic region, with combined annual sales of 350 million euros. This move further strengthens the tenant with its parent company guarantee issued to the Fund.

Retail vacancies across the Baltics have decreased and successful shopping centres enjoy the ability to cherry pick suitable tenants for the tenant mixes with the preference being on world known brands such as H&M, Debenhams etc. Average rents are increasing and contract renewals often mean that the tenants would have to accept a notable increase in rental costs. Any special incentives from landlords which were widely used to attract tenants during the crisis years of 2009-2011 are now fully off the table.

# BPT Baltic Opportunity Fund

## MANAGEMENT REVIEW

Annual report for the financial year ended 31 December 2013

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### OUTLOOK FOR 2014

Fund's initial mission to build a portfolio with exposure to all three Baltic markets and a good mix of assets in their capital cities is aimed to be completed by year end of 2014. The Fund is planning to complete the acquisition of a retail development project in Vilnius, Lithuania, known as Domus Pro Retail Park by spring 2014 which works well in providing commendable geographical diversification to the portfolio.

Furthermore the Fund is aiming to materialize its remaining soft commitments and raise new equity from investors in Q1 of 2014 in order to make its final investments during the year. Partly due to the expected euro adoption in Lithuania, it is believed that 2014 shall be the last year of recovery for the Baltic States and thus be the last opportunity to time the market and add final investments to the portfolio after which a 3-year holding period kicks in until the exit in 2017.

Economic wise, the Baltic States have responded well to the generally sluggish economic environment in the rest of EU in 2013 and continue to be the fastest growing economies in the union increasingly due to upsurge in domestic demand. In addition, further growth for 2014-2016 is expected to be backed by rebounding exports to the main export partners within the EU - Nordics, Russia and Germany.

## BPT Baltic Opportunity Fund

### DECLARATION OF THE MANAGEMENT BOARD OF THE MANAGEMENT COMPANY

Annual report for the financial year ended 31 December 2013

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The Financial Statements of BPT Baltic Opportunity Fund for the financial year ended 31 December 2013 have been prepared in compliance with the requirements set out in the Republic of Estonia Accounting Act, the Investment Funds Act and the International Financial Reporting Standards as adopted by EU (IFRS) and they give a true and fair view of the assets, liabilities, net value and performance results of the BPT Baltic Opportunity Fund. In the opinion of the management board of the Management Company, BPT Baltic Opportunity Fund is a going concern.

The Financial Statements of BPT Baltic Opportunity Fund have been approved by the management board of the Management Company on 17 February 2014.

Name and position	Signature	Date
Indrek Hääl Chairman of the management board		<u>02.17.2014</u>
Algirdas Jonas Vaitiekūnas Member of the management board		<u>2014.02.17</u>

# BPT Baltic Opportunity Fund

## STATEMENT OF FINANCIAL POSITION

Annual report for the financial year ended 31 December 2013

<i>Euros</i>	<b>Note</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>Assets</b>			
Loans to subsidiaries	7	17 268 462	11 945 000
Securities	2	2 141 406	81 312
Cash and cash equivalents	2	59 573	5 053 510
Accrued income	7	135 055	14 089
<b>Total assets</b>		<b>19 604 496</b>	<b>17 093 911</b>
<b>Liabilities and Fund net asset value</b>			
Management fee payable		127 190	141 274
Payable to depository		3 648	3 603
Other liabilities		17 678	5 000
<b>Total liabilities</b>		<b>148 516</b>	<b>149 877</b>
<b>Fund net asset value</b>	4	<b>19 455 980</b>	<b>16 944 034</b>
<b>Total liabilities and Fund net asset value</b>		<b>19 604 496</b>	<b>17 093 911</b>

# BPT Baltic Opportunity Fund

## STATEMENT OF COMPREHENSIVE INCOME

Annual report for the financial year ended 31 December 2013

<i>Euros</i>	Note	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
<b>Income</b>			
<b>Net result on investments</b>			
<b>From investments into equity and units</b>			
Unrealised profit	2	1 968 574	-123 763
<b>Total result on investments</b>		<b>1 968 574</b>	<b>-123 763</b>
<b>Net result on financial activities</b>			
Interest income on loans	7	1 056 580	653 564
Interest income on deposits		878	16 413
Other financial income		-	24
<b>Total result on financial activities</b>		<b>1 057 458</b>	<b>670 001</b>
<b>Total income</b>		<b>3 026 032</b>	<b>546 238</b>
<b>Expenses</b>			
<b>Operating expenses</b>			
Management fee		-376 774	-324 559
Depository fee		-14 499	-14 090
Transaction costs		-764	-594
Other operating expenses	5	-83 752	-24 040
<b>Total operating expenses</b>		<b>-475 789</b>	<b>-363 283</b>
<b>Other expenses</b>			
Foreign currency loss		-26	-54
<b>Total other expenses</b>		<b>-26</b>	<b>-54</b>
<b>Total expenses</b>		<b>-475 815</b>	<b>-363 338</b>
<b>Net result of the Fund</b>		<b>2 550 217</b>	<b>182 900</b>

# BPT Baltic Opportunity Fund

## STATEMENT OF CASH FLOWS

Annual report for the financial year ended 31 December 2013

<i>Euros</i>	<b>01.01.2013- 31.12.2013</b>	<b>01.01.2012- 31.12.2012</b>
<b>Cash flows from core activities</b>		
Interest received	936 491	944 272
Net from spot trades	-7	-59
Purchase of investments	-	-5 360
Operating expenses paid	-477 150	-354 361
<b>Total cash flows from core activities</b>	<b>459 334</b>	<b>-584 493</b>
<b>Cash flows from investing activities</b>		
Loans granted to subsidiaries	-8 230 000	-4 545 000
Loan repayments received from subsidiaries	2 815 000	-
<b>Total cash flows from investing activities</b>	<b>-5 415 000</b>	<b>-4 545 000</b>
<b>Cash flows from financial activities</b>		
Proceeds from issue of units	1 196 730	5 989 392
Profit distribution to unit holders	- 1 235 000	-374 323
<b>Total cash flows from financing activities</b>	<b>-38 270</b>	<b>5 615 069</b>
<b>Total cash flows</b>	<b>-4 993 936</b>	<b>1 654 562</b>
<b>Cash and cash equivalents at the beginning of accounting period</b>	<b>5 053 510</b>	<b>3 398 948</b>
<b>Cash and cash equivalents at the end of accounting period</b>	<b>59 573</b>	<b>5 053 510</b>

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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### INDEX OF NOTES

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- 2 Investments report
- 3 Statement of change in net assets
- 4 Comparative analysis of the net asset value
- 5 Other operating expenses
- 6 Principal risks and uncertainties facing the Fund
- 7 Issued loans
- 8 Additional notes

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

### ACCOUNTING POLICIES

#### 1.1. Corporate information

BPT Baltic Opportunity Fund (REIF) is a direct real estate fund investing in commercial properties in the Baltic States (Estonia, Latvia and Lithuania). The Fund is a non-public closed-ended contractual investment fund (i.e. the Fund units will not be redeemed at the request of an investor) founded on 1 September 2010. The Fund is a fixed-term fund with the duration of 5 years from the first closing.

The Fund's registered office is at Rävåla pst 5, Tallinn, Estonia.

The objective of the Fund is to combine attractive income yields with medium to long-term value appreciation by identifying and investing in primarily commercial real estate, portfolios of real estate, and/or real estate companies and making exits from these investments. The objective of the Fund is to provide its investors with consistent and above average risk-adjusted returns by acquiring high quality cash flow-generating commercial properties with the potential for adding value through active management, thereby creating a stable income 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 Fund is managed by BPTAM Estonia AS. The Depository of the Fund is Swedbank AS.

#### 1.2. Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by EU (IFRS)..

As further specified in note 1.4, the consolidation relief has been early adopted by the Fund subject to IFRS 12 requirements for investment entities. The Fund qualifies as an investment entity according to IFRS 12 as it:

- obtains funds from Investors to provide them with investment management or other investment-related services;
- commits to Investors that its business purpose is to invest for returns solely from capital appreciation and investment income;
- accounts for the investments under fair value model and uses fair value information as the primary attribute in evaluating the performance of investments and in making investment decisions;
- holds more than one investment;
- has more than one Investor;
- has Investors that are not related parties;
- is not a legal entity and its unit of ownership typically represents a specifically identifiable proportionate share in its net assets.

#### Details of 100% interest in subsidiaries:

BPT Baltic Fund 1 OÜ, established and acting in accordance with the laws of Republic of Estonia.

BPT Baltic Fund 2 UAB, established and acting in accordance with the laws of Republic of Lithuania.

BPT Baltic Fund 3 SIA, established and acting in accordance with the laws of Republic of Latvia.

BPT Baltic Fund 4 OÜ, established and acting in accordance with the laws of Republic of Estonia.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in euros and all values are rounded to the nearest euros.

### 1.3. Summary of significant accounting policies

#### Financial instruments

##### (i) Classification

The Fund classifies its financial assets and financial liabilities into the following categories in accordance with IAS39.

#### Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is sub-divided into:

*Financial assets and liabilities held for trading:* financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. This category includes equity securities, investments in managed funds and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading. The Fund's policy is not to apply hedge accounting.

*Financial instruments designated as at fair value through profit or loss upon initial recognition:* these include investment in subsidiaries. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Fund, as set out in the Fund's offering document.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category amounts relating to reverse repurchase agreements, cash collateral on securities borrowed and other short-term receivables.

#### Other financial liabilities

This category includes all financial liabilities, other than those classified as held for trading. The Fund includes in this category amounts relating to repurchase agreements, cash collateral on securities lent and other short-term payables.

##### (ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

##### (iii) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

### (iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in Net result of investment from investment into equity and units. Interest earned instruments are recorded separately in Net result on financial activities.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. The effective interest 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 Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. 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.

### (v) Derecognition

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 or the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

### Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Where the Fund has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or ask price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

### Impairment of financial assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Functional and presentation currency

The Fund's functional and presentation currency is the euro, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in euros. Therefore, the euro is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Fund's presentation currency is also the euro.

### Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the statement of comprehensive income as part of the 'Net gain/loss from foreign exchange'.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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### Distributions to unit holders

Profit distributions are the discretion of the Fund. A profit distribution to the Fund unit holders is accounted from the Fund's net income. A proposed distribution is recognised as a liability in the period in which it is approved by the annual general meeting of unit holders.

### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

The statement of cash flows is prepared by using direct method.

### Interest revenue and expense

Interest revenue and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

### Dividend revenue and expense

Dividend revenue is recognised when the Fund's right to receive the payment is established.

### Net gain or loss on financial assets and liabilities at fair value through profit or loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as 'at fair value through profit or loss' and excludes interest and dividend income and expense.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as 'at fair value through profit or loss' are calculated using the First-In, First-Out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

### Fees and commissions

Fees and commissions are recognised on an accrual basis. Legal and audit fees are included within 'other operating expenses'.

### Income taxes

According to Estonian laws, the investment fund is not a taxable person and therefore income from the investment of the Fund assets is not subject to taxation. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income.

## 1.4. Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Fund has adopted the following IFRS amendments:

- Amendment to IAS 1 *Financial Statement Presentation* - Presentation of Items of Other Comprehensive Income (OCI). This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Fund's

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

financial position or performance. Since the Fund does not have any OCI items, no change to its presentation is needed.

- Amendment to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment did not impact the financial statements of the Fund, because the Fund does not have netting arrangements.
- IFRS 13 *Fair Value Measurement*. The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 8).
- The Fund has elected to early adopt the amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities* that are effective for financial years beginning on or after 1 January 2014. The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them.

### **Standards issued but not yet effective**

The Fund has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

**Amendments to IAS 19 *Employee Benefits*** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Fund's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Fund.

**Amendment to IAS 27 *Separate Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 *Separate Financial Statements* requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. The implementation of this amendment will not have any impact on the financial statements of the Fund.

**Amendment to IAS 28 *Investments in Associates and Joint Ventures*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Fund.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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### **Amendment to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*** (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Fund has not yet evaluated the impact of the implementation of this amendment.

### **Amendment to IAS 36 *Impairment of Assets*** (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Fund, however may result in additional disclosures.

### **Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Fund, since it does not apply hedge accounting.

### **IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Fund has not yet evaluated the impact of the implementation of this standard.

### **IFRS 10 *Consolidated Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Fund has not yet evaluated the impact of the implementation of this standard.

### **IFRS 11 *Joint Arrangements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today’s accounting. That is, the

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Fund has not yet evaluated the impact of the implementation of this standard.

**IFRS 12 *Disclosures of Interests in Other Entities*** (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Fund has not yet evaluated the impact of the implementation of this standard.

#### Improvements to IFRSs

Effective for financial years beginning on or after 1 January 2013:

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 32 *Financial instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*.

Effective for financial years beginning on or after 1 July 2014, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*;
- IAS 40 *Investment property*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Fund.

**IFRIC Interpretation 21 *Levies*** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Fund has not yet evaluated the impact of the implementation of this interpretation.

The Fund plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

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### 1.5. Significant accounting judgements, estimates and assumptions

The preparation of the Fund's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. 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 future period.

#### ***Going Concern***

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### ***Functional currency***

The Fund's performance is evaluated in euros. Therefore, the management considers the euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and condition.

#### ***Estimates and assumptions***

The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

### 2. INVESTMENTS REPORT

Fund's investments report as of 31.12.2013, Euros

Name	ISIN	Country	Nominal				Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Market value per item	Market value total	Proportion of fund asset market value
<b>Equities and units</b>													
OÜ BPT Baltic Fund 1		EE					EUR	1	2 500	2 500	1 178 262	1 178 262	6.01%
UAB BPT Baltic Fund 2		LT					LTL	1	2 895	2 895	0	0	0.00%
SIA BPT Baltic Fund 3		LV					LVL	1	2 860	2 860	425 323	425 323	2.17%
OÜ BPT Baltic Fund 4		EE					EUR	1	2 500	2 500	537 821	537 821	2.74%
<b>Total equities and units</b>										<b>10 755</b>	<b>2 141 406</b>	<b>10.92%</b>	

Name	ISIN	Country	Nominal	Maturity	Interest rate	Rating	Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Market value per item	Market value total	Proportion of fund asset market value
<b>Long Term Loans*</b>													
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	5 000		5 000	105.93	5 297	0.03%
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	10 000		10 000	105.00	10 500	0.05%
BPT Baltic Fund 3 SIA 5% EUR 31.12.2015		LV		2015.12.31	5.00		EUR	2 200 000		2 200 000	102.81	2 261 775	11.54%
BPT Baltic Fund 1 OÜ 8.5% EUR 30.12.2015		EE		2015.12.30	8.50		EUR	7 280 000		7 280 000	100.33	7 304 086	37.26%
BPT Baltic Fund 4 OÜ 5% EUR 31.12.2015		EE		2015.12.31	5.00		EUR	5 765 000		5 765 000	100.19	5 775 801	29.46%
BPT Baltic Fund 2 UAB 5% EUR 07.08.2016		LT		2016.08.07	5.00		EUR	2 100 000		2 008 462	101.79	2 046 059	10.44%
<b>Total Long Term Loans</b>										<b>17 360 000</b>	<b>17 403 518</b>	<b>88.78%</b>	

\*Accrued interest in the amount of 135 055.13 euros has been added to the value of long term loans; the accrued interest is recorded in the balance sheet under "Accrued income"

<b>TOTAL SECURITIES</b>										<b>17 370 755</b>	<b>19 544 923</b>	<b>99.70%</b>
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#### Cash

Current account		EE					EUR			59 573		59 573	0.30%
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<b>TOTAL</b>										<b>17 430 328</b>	<b>19 604 496</b>	<b>100.00%</b>
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# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

### Fund's investments report as of 31.12.2012, Euros

Name	ISIN	Country	Nominal				Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Market value per item	Market value total	Proportion of fund asset market value
<b>Equities and units</b>													
OÜ BPT Baltic Fund 1		EE					EUR	1	2 500	2 500	73 053	73 053	0.43%
UAB BPT Baltic Fund 2		LT					LTL	1	2 895	2 895	2 895	2 895	0.02%
SIA BPT Baltic Fund 3		LV					LVL	1	2 860	2 860	2 865	2 865	0.02%
OÜ BPT Baltic Fund 4		EE					EUR	1	2 500	2 500	2 500	2 500	0.01%
<b>Total equities and units</b>										<b>10 755</b>	<b>81 312</b>	<b>0.48%</b>	

Name	ISIN	Country	Nominal	Maturity	Interest rate	Rating	Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Market value per item	Market value total	Proportion of fund asset market value
<b>Long Term Loans*</b>													
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	5 000		5 000	100.86	5 043	0.03%
BPT Baltic Fund 2 UAB 5% EUR 31.12.2015		LT		2015.12.31	5.00		EUR	5 000		5 000	100.46	5 023	0.03%
BPT Baltic Fund 3 SIA 4.5% EUR 31.12.2015		LV		2015.12.31	4.50		EUR	120 000		120 000	100.19	120 225	0.70%
BPT Baltic Fund 3 SIA 5% EUR 31.12.2015		LV		2015.12.31	5.00		EUR	4 400 000		4 400 000	100.31	4 413 444	25.82%
BPT Baltic Fund 1 OÜ 8.5% EUR 30.12.2015		EE		2015.12.30	8.50		EUR	7 400 000		7 400 000	100.00	7 400 000	43.29%
BPT Baltic Fund 3 SIA 4% EUR 07.07.2013		LV		2013.07.07	4.00		EUR	15 000		15 000	102.30	15 345	0.09%
<b>Total Long Term Loans</b>										<b>11 945 000</b>	<b>11 959 080</b>	<b>69.96%</b>	

\*Accrued interest in the amount of 14 080.42 euros has been added to the value of long term loans; the accrued interest is recorded in the balance sheet under "Accrued income"

**TOTAL SECURITIES** **11 955 755** **12 040 392** **70.44%**

Name	Issuer	Country	Issue date	Maturity	Interest rate	Rating	Currency	Amount	Average acquisition cost per item	Average acquisition cost total	Market value per item	Market value total	Proportion of fund asset market value	
<b>Deposits*</b>														
OVERNIGHT DEPOSITS- SWEDBANK(EUR)	SWEDBANK AS	EE	2012.12.30	2012.12.31	0.06%	A2	EUR					5 053 510	5 053 518	29.56%
<b>Total deposits</b>										<b>5 053 510</b>	<b>5 053 518</b>	<b>29.56%</b>		
*Accrued interest in the amount of 8.42 euros has been added to the value of deposits; the accrued interest is recorded in the balance sheet under "Accrued income"														
<b>TOTAL</b>										<b>17 009 264</b>	<b>17 093 911</b>	<b>100.00%</b>		

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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#### Distribution of investments as of 31.12.2013

<i>Euros</i>	<b>Amount</b>	<b>Proportion</b>
Other securities	19 544 923	99.70%
Cash	59 573	0.30%
<i>Total</i>	<i>19 604 496</i>	<i>100.00%</i>

#### Distribution of investments as of 31.12.2012

<i>Euros</i>	<b>Amount</b>	<b>Proportion</b>
Other securities	12 040 392	70.44%
Deposits	5 053 519	29.56%
<i>Total</i>	<i>17 093 911</i>	<i>100.00%</i>

The Company has recorded unrealized profit from change in the market value of equities and units in 2013 in the value of 1 968 574 euros (2012: unrealized loss 123 763 euros)

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

### 3. STATEMENT OF CHANGE IN NET ASSETS

<i>Euros</i>	<b>01.01.2013-31.12.2013</b>	<b>01.01.2012-31.12.2012</b>
<b>Total Fund net asset value</b>		
- at the beginning of the period	<b>16 944 034</b>	<b>11 146 064</b>
- at the end of the period	<b>19 455 980</b>	<b>16 944 034</b>
Cash received for Fund units issued	1 196 729	5 989 392
Profit distribution to unit holders	-1 235 000	-374 323
Net result for the financial period	2 550 217	182 900
Number of units outstanding	181 473	169 549
NAV per unit	107.2117	99.9359

### 4. COMPARATIVE ANALYSIS OF THE NET ASSET VALUE

<i>Euros</i>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Net asset value of the Fund</b>	19 455 980	16 944 034	11 146 064
<b>Net asset value of Fund unit</b>	107.2117	99.9359	101.4021

### 5. OTHER OPERATING EXPENSES

<i>Euros</i>	<b>01.01.2013-31.12.2013</b>	<b>01.01.2012-31.12.2012</b>
Legal consultations	50 104	3 968
Salaries	20 000	10 000
Audit fees	9 900	5 419
Other operating expenses	3 748	4 638
Notary fees	-	15
<b>Total</b>	<b>83 752</b>	<b>24 040</b>

### 6. PRINCIPAL RISKS AND UNCERTAINTIES FACING THE FUND

#### Market Risk

The investments are subject to the risks in relation to the ownership and operation of real estate, including risks associated with the general economic climate, local real-estate conditions, geographic or market concentration, the ability of the Management Company or third-party borrowers to manage the real properties, government regulations and fluctuations in interest rates. Since real estate, like many other types of long term investments, historically has experienced significant fluctuations and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of real property interests. The marketability and value of real estate will depend on many factors, including but without limitation: (i) changes in general or local economic conditions; (ii) changes in the supply of or the demand for competing properties in an area (e.g. as a result of new construction); (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage funds or loans which may make the sale of a property difficult; (vi) the financial condition of tenants, buyers and sellers of

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

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properties; (vii) changes in real estate tax rates and other operating expenses; (viii) various uninsured or uninsurable risks; and (ix) acts of God, natural disasters and uninsurable losses.

### Credit Risk

Credit risk means primarily the risk that an issuer of the security or counterparty to a transaction made on account of the Fund does not fulfil its obligations in part or in full.

In order to reduce credit risk, the Fund is aiming to diversify its investments and counterparties with low credit risk are preferred. Credit risk also comprises pre settlement and settlement risk.

Major acquisition and project finance credit risks are minimized by sharing these risks with banks and insurance companies. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with the most reputable domestic and international banks and financial institutions.

### Liquidity Risk

Liquidity risk means the risk of failure to liquidate open position, to realise the assets by the due time at the prescribed fair price or to refinance loan obligations.

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

The Management Company makes its best efforts to ensure sufficient liquidity by efficient cash management, by maintaining a "liquidity buffer" and by organizing committed and uncommitted credit lines.

In order to minimise liquidity risk, a part of the real estate fund assets may be invested in deposits of credit institutions, in short-term debt securities and in other securities with high level of liquidity. Also, derivative instruments may be used to reduce liquidity risk.

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

### Interest Rate Risk

The Fund's policy is that long term loans should be hedged to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Fund either takes fixed rate loans or swap fixed interest rates to 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 Fund and its subsidiaries acquire swaps purely for cash flow hedge purposes and not for trading.

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

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The following table analyses the Fund's exposure to interest rate risk. The Fund assets and liabilities are included at fair value and categorized by maturity dates.

As at 31 December 2013, Euros	Up to 3 months	1-5 year	Non-interest bearing	Total
<b>Assets</b>				
Cash	59 573	-	-	59 573
Loans	-	17 741 076	-	17 741 076
Securities	-	-	2 141 406	2 141 406
<b>Total assets</b>	<b>59 573</b>	<b>17 741 076</b>	<b>2 141 406</b>	<b>19 942 055</b>
<b>Liabilities</b>				
Other liabilities and accruals	-	-	148 516	148 516
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>148 516</b>	<b>148 516</b>
<b>Total interest sensitivity gap</b>	<b>59 573</b>	<b>17 741 076</b>	<b>1 992 890</b>	<b>19 793 539</b>

As at 31 December 2012	Up to 3 months	1-5 year	Non-interest bearing	Total
Euros				
<b>Assets</b>				
Deposits	5 053 510	-	-	5 053 510
Loans	-	12 338 308	-	12 338 308
Securities	-	-	81 312	81 312
<b>Total assets</b>	<b>5 053 510</b>	<b>12 338 308</b>	<b>81 312</b>	<b>17 473 130</b>
<b>Liabilities</b>				
Other liabilities and accruals	-	-	149 877	149 877
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>149 877</b>	<b>149 877</b>
<b>Total interest sensitivity gap</b>	<b>5 053 510</b>	<b>12 338 308</b>	<b>-68 565</b>	<b>17 323 253</b>

### Foreign exchange risk

The Fund's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Fund does not use any financial instruments to manage their exposure to foreign exchange risk other than aiming to borrow in Euros, to which LTL and LVL are pegged.

All Fund's and its subsidiaries' assets are in local currencies or in Euros, to which local currencies are pegged. Therefore, the Fund's exposure to foreign exchange rate risks from its monetary assets and liabilities is low. In case of possible changes in LTL or LVL exchange rates, impact on the Fund's equity and profit/ (loss) before tax would be immaterial.

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

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### 7. ISSUED LOANS

<i>Euros</i>	<b>Balance 31.12.2013</b>	<b>Interest rate</b>	<b>Accrued interest</b>	<b>Maturity</b>
BPT Baltic Fund 1 OÜ	7 280 000	8.5%	24 086	30.12.2015
BPT Baltic Fund 1 OÜ	5 765 000	5.0%	10 801	31.12.2015
BPT Baltic Fund 2 UAB	5 000	5.0%	297	31.12.2015
BPT Baltic Fund 2 UAB	10 000	5.0%	500	31.12.2015
BPT Baltic Fund 2 UAB	2 008 462	5.0%	37 597	7.08.2016
BPT Baltic Fund 3 SIA	2 200 000	5.0%	61 775	31.12.2015
<b>Total loans issued</b>	<b>17 268 462</b>		<b>135 055</b>	

Accrued interest in the amount of 135 055 euros is recorded in the statement of financial position under "Accrued income". The Fund has earned in financial year interest income from issued loans 1 056 580 euros.

<i>Euros</i>	<b>Balance 31.12.2012</b>	<b>Interest rate</b>	<b>Accrued interest</b>	<b>Maturity</b>
BPT Baltic Fund 1 OÜ	7 400 000	8.5%	-	30.12.2015
BPT Baltic Fund 3 SIA	15 000	4.0%	345	7.07.2013
BPT Baltic Fund 2 UAB	5 000	5.0%	43	31.12.2015
BPT Baltic Fund 2 UAB	5 000	5.0%	23	31.12.2015
BPT Baltic Fund 3 SIA	4 400 000	5.0%	13 444	31.12.2015
BPT Baltic Fund 3 SIA	120 000	4.5%	225	31.12.2015
<b>Total</b>	<b>11 945 000</b>		<b>14 080</b>	

Accrued interest in the amount of 14 080 euros is recorded in the statement of financial position under "Accrued income"<sup>5</sup>. The Fund has earned in financial year interest income from issued loans 653 564 euros.

### 8. FAIR VALUES OF FINANCIAL ASSETS

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

<i>Euros</i>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Financial assets				
Securities	2 141 406	81 312	2 141 406	81 312
Loans to subsidiaries	17 268 462	11 945 000	17 741 076	12 338 308
Cash and cash equivalents	59 573	5 053 510	59 573	5 053 510

<sup>5</sup> As at 31 December 2012 the Accrued income also included 9 euros of interest accrued on the bank overnight deposit.

## BPT Baltic Opportunity Fund

### NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

The Fund invests in private equity companies that are not quoted on active market. The value of investments in subsidiaries is dependent on the fair value of the investment property, the interest bearing bank loans and derivative instruments held within the company:

- The fair value of investment property in the subsidiaries is determined by Colliers International using recognized valuation techniques. These techniques comprise the Discounted Cash Flow (DCF) method. Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.
- The bank loans in subsidiary companies bear variable interest rates, thus the fair values of these borrowings approximate their carrying values.
- The fair value of the derivative instruments is calculated by discounting the expected future cash flows at prevailing interest rates, as no market quotations are available.

The fair values of securities held are approximate to their carrying value. The Fund classifies the fair value of these securities as Level 3.

The fair value of loans to subsidiaries has been calculated by discounting the expected future cash flows at prevailing interest rates, as no market quotations are available. The Fund classifies the fair value of these securities as Level 3.

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- 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

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

#### Year ended 31 December 2013

<i>Euros</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Financial assets				
Securities	-	-	2 141 406	<b>2 141 406</b>
Loans to subsidiaries	-	-	17 741 076	<b>17 741 076</b>
Cash and cash equivalents	-	59 573	-	<b>59 573</b>

#### Year ended 31 December 2012

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

Annual report for the financial year ended 31 December 2013

Euros	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Securities	-	-	81 312	<b>81 312</b>
Loans to subsidiaries	-	-	12 338 308	<b>12 338 308</b>
Cash and cash equivalents	-	5 053 510	-	<b>5 053 510</b>

### Quantitative information of significant unobservable inputs – Level 3

Description	2013 Euros	Valuation technique	Unobservable input	Range
Loans to subsidiaries	17 741 076	Discounted cash flow	Discount rate	4.89%-6.58%

### Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2013 are as shown below:

Description	Input	Sensitivity used*	Effect on fair value, Euros
Loans to subsidiaries	Discount rate	+0.1%	-32 971
Loans to subsidiaries	Discount rate	-0.1%	33 538

\*The sensitivity analysis refers to a reasonable possible percentage amount added or deducted from the input and the effect this has on the fair value.

Increase (decrease) in the discount rate in isolation would result in a (lower) higher fair value of loans to subsidiaries measurement.

### Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

Description	Loans to subsidiaries
<b>Fair value as at 1 January 2013</b>	<b>12 338 308</b>
Disbursements	8 170 000
Repayments	-2 755 000
Change in fair value	-12 232
<b>Fair value as at 31 December 2013</b>	<b>17 741 076</b>
<b>Fair value as at 1 January 2012</b>	<b>7 828 083</b>
Disbursements	4 545 000
Change in fair value	-34 775
<b>Fair value as at 31 December 2012</b>	<b>12 338 308</b>

# BPT Baltic Opportunity Fund

## NOTES TO THE FINANCIAL STATEMENTS

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### 9. ADDITIONAL NOTES

As of 31 December 2013, there were no other commitments and/or contingencies issued by the Fund.

## **APPENDIX G**

**Reviewed Interim Condensed Financial Statements of Europa SPV for the 6-Month Period Ended 30 June  
2016**

# UAB BOF EUROPA

INTERIM FINANCIAL STATEMENTS FOR THE 6-MONTH PERIOD ENDED 30  
JUNE 2016 PREPARED IN ACCORDANCE WITH BUSINESS ACCOUNTING  
STANDARDS OF THE REPUBLIC OF LITHUANIA

**Company details**

**UAB BOF Europa**

Telephone: +370 5 231 3638  
Company code: 300059140  
Address: Gynėjų g. 16, Vilnius

**Board**

Aušra Stankevičienė  
Tarmo Karotam  
Nerijus Žebrauskas

**Management**

Darius Urbonas – Managing Director

**Auditor**

UAB KPMG Baltics

**Banks**

AB SEB Bank



KPMG Baltics, UAB  
Konstitucijos Ave 29  
LT-08105, Vilnius  
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# Independent Auditor's Report on Review of Interim Financial Information

To the Shareholder of UAB BOF Europa

## *Introduction*

We have reviewed the accompanying balance sheet of UAB BOF Europa (hereinafter "the Company") as at 30 June 2016, the profit (loss) statement, statements of changes in equity and cash flows for the 6-month period then ended, and notes to the interim financial information ("the interim financial information"), as set out on pages 4–19. Management is responsible for the preparation and presentation of this interim financial information in accordance with Business Accounting Standards of the Republic of Lithuania. Our responsibility is to express a conclusion on this interim financial information based on our review.

## *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at 30 June 2016 is not prepared, in all material respects, in accordance with Business Accounting Standards of the Republic of Lithuania.

## *Other Matter*

The corresponding information in the statements of profit (loss) and cash flows as well as related notes to the interim financial statements is prepared based on not reviewed financial statements for the 6 months period ended 30 June 2015.

On behalf of KPMG Baltics, UAB

Toma Marčinauskytė  
Certified Auditor

Vilnius, the Republic of Lithuania  
3 November 2016

## Balance sheet

		Notes	30.06.2016	30.12.2015
	<b>ASSETS</b>			
<b>A.</b>	<b>NON-CURRENT ASSETS</b>		<b>37,489</b>	<b>37,421</b>
1.	INTANGIBLE ASSETS		-	-
1.1.	Developments		-	-
1.2.	Goodwill		-	-
1.3.	Software		-	-
1.4.	Concessions, patents, licenses, trademarks and similar rights		-	-
1.5.	Other intangible assets		-	-
1.6.	Advance payments		-	-
2.	TANGIBLE ASSETS		37,329	37,210
2.1.	Land		-	-
2.2.	Buildings and constructions		-	-
2.3.	Machinery and equipment		-	-
2.4.	Vehicles		-	-
2.5.	Other equipment and tools		-	-
2.6.	Investment property	3	37,329	37,210
2.7.	Construction in progress and payments in advance		-	-
3.	FINANCIAL ASSETS		160	211
3.1.	Shares in group companies		-	-
3.2.	Loans issued to group companies		-	-
3.3.	Receivables from group companies		-	-
3.4.	Shares in associated companies		-	-
3.5.	Loans issued to associated companies		-	-
3.6.	Receivables from associated companies		-	-
3.7.	Long-term investments		-	-
3.8.	Receivables after one year	5	160	211
3.9.	Other financial assets		-	-
4.	OTHER NON-CURRENT ASSETS		-	-
4.1.	Deferred tax assets		-	-
4.2.	Biological assets		-	-
4.3.	Other assets		-	-
<b>B.</b>	<b>CURRENT ASSETS</b>		<b>1,387</b>	<b>1,600</b>
1.	INVENTORY		11	22
1.1.	Raw materials and spare parts		-	-
1.2.	Work in progress		-	-
1.3.	Finished goods		-	-
1.4.	Goods for resale		-	-
1.5.	Biological assets		-	-
1.6.	Tangible assets held for sale		-	-
1.7.	Advance payments		11	22
2.	RECEIVABLES WITHIN ONE YEAR		562	620
2.1.	Trade receivables	4	392	470
2.2.	Receivables from group companies		-	-
2.3.	Receivables from associated companies		-	-
2.4.	Other receivables	5	170	150
3.	SHORT-TERM INVESTMENTS		-	-
3.1.	Shares in group companies		-	-
3.2.	Other investments		-	-
4.	CASH AND CASH EQUIVALENTS	6	814	958
<b>C.</b>	<b>DEFERRED EXPENSES AND ACCRUED INCOME</b>		<b>88</b>	<b>148</b>
	<b>TOTAL ASSETS</b>		<b>38,964</b>	<b>39,169</b>

(continued on the next page)

**Balance sheet (continued)**

		Notes	30.06.2016	30.12.2015
	<b>EQUITY AND LIABILITIES</b>			
<b>D.</b>	<b>EQUITY</b>		<b>7,176</b>	<b>6,417</b>
1.	CAPITAL		869	869
1.1.	Authorised capital	7	869	869
1.2.	Unpaid subscribed capital		-	-
1.3.	Own shares		-	-
2.	SHARE PREMIUMS		-	-
3.	REVALUATION RESERVE	8	(130)	(98)
4.	RESERVES		1,303	1,303
4.1.	Legal reserve	8	1,303	1,303
4.2.	For acquisitions of own shares		-	-
4.3.	Other reserves		-	-
5.	RETAINED EARNINGS		5,134	4,343
5.1.	Net profit (loss) for the period		791	2,325
5.2.	Accumulated profit (loss) from previous periods		4,343	2,018
<b>E.</b>	<b>GRANTS AND SUBSIDIES</b>		-	-
<b>F.</b>	<b>PROVISIONS</b>		<b>2,773</b>	<b>2,639</b>
1.	Pensions and similar provisions		-	-
2.	Deferred tax liabilities	14	2,773	2,639
3.	Other provisions		-	-
<b>G.</b>	<b>AMOUNTS PAYABLE AND OTHER LIABILITIES</b>		<b>28,917</b>	<b>29,989</b>
1.	AMOUNTS PAYABLE AFTER ONE YEAR AND NON-CURRENT LIABILITIES		26,892	27,566
1.1.	Debt obligations		-	-
1.2.	Long-term loans from credit institutions	9	22,995	23,440
1.3.	Advances received		135	135
1.4.	Trade payables		-	-
1.5.	Bills and checks payables		-	-
1.6.	Payables to group companies	16	3,610	3,875
1.7.	Payables to associated companies		-	-
1.8.	Other payables and long-term liabilities	10	152	116
2.	PAYABLES WITHIN ONE YEAR AND OTHER SHORT-TERM LIABILITIES		2,025	2,423
2.1.	Debt obligations		-	-
2.2.	Current portion of long-term loans from credit institutions	9	893	893
2.3.	Advances received		201	208
2.4.	Trade payables		278	251
2.5.	Bills and checks payables		-	-
2.6.	Payables to group companies	16	599	982
2.7.	Payables to associated companies		-	-
2.8.	Income tax payable		-	-
2.9.	Employment related liabilities		-	-
2.10.	Other short-term payables and liabilities		54	89
<b>H.</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>		<b>98</b>	<b>124</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>38,964</b>	<b>39,169</b>

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

Managing Director \_\_\_\_\_ Darius Urbonas \_\_\_\_\_

3 November 2016

Head of the company in  
charge of accounting \_\_\_\_\_

Mariana Portianko \_\_\_\_\_

3 November 2016

### Profit (loss) statement

		Notes	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015 not reviewed
1.	Sales revenue	11	2,008	1,860
2.	Cost of sales	12	(854)	(813)
3.	Change in fair value for biological assets		-	-
<b>4.</b>	<b>GROSS PROFIT (LOSS)</b>		<b>1,154</b>	<b>1,047</b>
5.	Selling expenses		-	-
6.	General and administrative expenses		(38)	(92)
7.	Income (expenses) from other activities – net result		74	14
8.	Income from investments in shares of parent, subsidiaries and associated companies		-	-
9.	Income from other long term investments and loans		-	-
10.	Other interest and similar income		8	6
11.	Decrease in value for financial assets and other short term investments		-	-
12.	Interest and similar expenses	13	(267)	(310)
<b>13.</b>	<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>931</b>	<b>665</b>
14.	Corporate income tax	14	(140)	(100)
<b>15.</b>	<b>NET PROFIT (LOSS)</b>		<b>791</b>	<b>565</b>

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

<u>Managing Director</u>	<u>Darius Urbonas</u>		<u>3 November 2016</u>
<u>Head of the company in charge of accounting</u>	<u>Mariana Portianko</u>		<u>3 November 2016</u>

### Statement of changes in equity

	Authorised capital	Share premiums	Own shares	Revaluation reserves		Legal reserves		Other reserves	Retained earnings	Total
				Tangible assets	Financial assets	Legal reserves	For acquisitions of own shares			
<b>1. Balance as at 31 December 2014</b>	869	-	-	-	-	1,303	-	-	2,018	4,190
2. Result of changes in accounting policies	-	-	-	-	-	-	-	-	-	-
3. Result of correcting material errors	-	-	-	-	-	-	-	-	-	-
<b>4. Restated balance as at 31 December 2014</b>	869	-	-	-	-	1,303	-	-	2,018	4,190
5. Revaluation of tangible assets (result)	-	-	-	-	-	-	-	-	-	-
6. Revaluation reserve for derivative financial instruments (result)	-	-	-	-	(98)	-	-	-	-	(98)
7. Acquisition (disposal) of own shares	-	-	-	-	-	-	-	-	-	-
8. Profit (loss) not recognized in the profit (loss) statement	-	-	-	-	-	-	-	-	-	-
9. Net profit (loss) for the reporting period	-	-	-	-	-	-	-	-	2,325	2,325
10. Dividends	-	-	-	-	-	-	-	-	-	-
11. Other pay-outs	-	-	-	-	-	-	-	-	-	-
12. Reserves formed	-	-	-	-	-	-	-	-	-	-
13. Used reserves	-	-	-	-	-	-	-	-	-	-
14. Increase (decrease) in share capital or shareholders' contributions ( repayment)	-	-	-	-	-	-	-	-	-	-
15. Other increase (decrease) in authorized capital	-	-	-	-	-	-	-	-	-	-
16. Contributions to cover losses	-	-	-	-	-	-	-	-	-	-
<b>17. Balance at 31 December 2015</b>	869	-	-	-	(98)	1,303	-	-	4,343	6,417

(continued on the next page)

**Statement of changes in equity (continued)**

	Authorised capital	Share premiums	Own shares	Revaluation reserves		Legal reserves		Other reserves	Retained earnings	Total
				Tangible assets	Financial assets	Legal reserves	For acquisitions of own shares			
<b>17. Balance at 31 December 2015</b>	<b>869</b>	-	-	-	(98)	1,303	-	-	4,343	6,417
18. Revaluation of tangible assets (result)	-	-	-	-	-	-	-	-	-	-
19. Revaluation reserve for derivative financial instruments (result)	-	-	-	-	(32)	-	-	-	-	(32)
20. Acquisition (disposal) of own shares	-	-	-	-	-	-	-	-	-	-
21. Profit (loss) not recognized in the profit (loss) statement	-	-	-	-	-	-	-	-	-	-
22. Net profit (loss) for the reporting period	-	-	-	-	-	-	-	-	791	791
23. Dividends	-	-	-	-	-	-	-	-	-	-
24. Other pay-outs	-	-	-	-	-	-	-	-	-	-
25. Reserves formed	-	-	-	-	-	-	-	-	-	-
26. Used reserves	-	-	-	-	-	-	-	-	-	-
27. Increase (decrease) in share capital or shareholders' contributions (repayment)	-	-	-	-	-	-	-	-	-	-
28. Other increase (decrease) in authorized capital	-	-	-	-	-	-	-	-	-	-
29. Contributions to cover losses	-	-	-	-	-	-	-	-	-	-
<b>30. Balance as at 30 June 2016</b>	<b>869</b>	-	-	-	(130)	1,303	-	-	5,134	7,176

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

Managing Director

Darius Urbonas

3 November 2016

Head of the company in charge of  
accounting

Mariana Portianko

3 November 2016

## Cash flow statement

		Notes	01.01.2016 – 30.06.2016	01.01.2015 – 30.06.2015 not reviewed
<b>1.</b>	<b>Cash flows from operating activities</b>			
1.1.	Net profit (loss)		791	565
1.2.	Depreciation and amortization expenses		-	-
1.3.	Elimination of disposal results of tangible and intangible assets		-	-
1.4.	Elimination of financing and investing activities		259	304
1.5.	Elimination of other non-cash transactions		-	-
1.6.	Decrease (increase) in receivables from group companies and associated companies		-	-
1.7.	Decrease (increase) in other receivables after one year		(20)	
1.8.	Decrease (increase) in deferred tax assets		-	-
1.9.	Decrease (increase) in inventories, except for the payment of advances		-	-
1.10.	Decrease (increase) in advance payments		-	-
1.11.	Decrease (increase) in trade receivables		78	9
1.12.	Decrease (increase) in loans issued to group and associated companies		-	-
1.13.	Decrease (increase) in other receivables		51	65
1.14.	Decrease (increase) in short-term investments		-	-
1.15.	Decrease (increase) in deferred expenses and accrued income		60	67
1.16.	Increase (decrease) in provisions		140	100
1.17.	Increase (decrease) in long-term trade payables and advances received		-	-
1.18.	Increase (decrease) in bills and checks payables after one year		-	-
1.19.	Increase (decrease) in long-term payables to group and associated companies		-	-
1.20.	Increase (decrease) in current trade payables and advances received		38	(99)
1.21.	Increase (decrease) in bills and checks payable within one year		-	-
1.22.	Increase (decrease) in short-term payables to group and associated companies		-	-
1.23.	Increase (decrease) in corporate income tax liability			
1.24.	Increase (decrease) in employment related liabilities		-	-
1.25.	Increase (decrease) in amounts payable and other liabilities		(42)	(25)
1.26.	Increase (decrease) in accrued expenses and deferred income		(24)	47
	<b>Net cash flow from operating activities</b>		<b>1,331</b>	<b>1,033</b>
<b>2.</b>	<b>Cash flow from investing activities</b>			
2.1.	Acquisition of non-current assets, except for investments		-	-
2.2.	Disposals of non-current assets, except investments		-	-
2.3.	Acquisitions of long term investments	3	(119)	(366)
2.4.	Disposals of long term investments		-	-
2.5.	Loans granted		-	-
2.6.	Loans received		-	-
2.7.	Dividends and interest received		6	8
2.8.	Cash inflows from other investing activities		-	-
2.9.	Cash outflows from other investing activities		-	-
	<b>Net cash flow from investing activities</b>		<b>(113)</b>	<b>(358)</b>

(continued on the next page)

### Cash flow statement (continued)

		Notes	01.01.2016 – 30.06.2016	01.01.2015 – 30.06.2015 not reviewed
<b>3.</b>	<b>Cash flow from financing activities</b>			
3.1.	Cash flows related to company's shareholders		-	-
3.1.1.	Issue of shares		-	-
3.1.2.	Shareholders contributions to cover losses		-	-
3.1.3.	Acquisition of own shares		-	-
3.1.4.	Dividends paid		-	-
3.2.	Cash flows related to other sources of funding		(1,362)	(1,715)
3.2.1.	Increase in financial liabilities		-	9,613
3.2.1.1.	Loans received		-	9,613
3.2.1.2.	Bonds issued		-	-
3.2.2.	Decrease in financial liabilities		(1,362)	(11,328)
3.2.2.1.	Loans repaid		(712)	(10,963)
3.2.2.2.	Repurchase issued bonds		-	-
3.2.2.3.	Interest paid		(650)	(365)
3.2.2.4.	Leasing (financial lease) payments		-	-
3.2.3.	Increase in other financing liabilities		-	-
3.2.4.	Decrease in other financing liabilities		-	-
3.2.5.	Increase in other financing cash flows		-	-
3.2.6.	Decrease in other financing cash flows		-	-
	<b>Net cash flow from financing activities</b>		<b>(1,362)</b>	<b>(1,715)</b>
<b>4.</b>	<b>Foreign exchange impact on cash and cash equivalent balance</b>		<b>-</b>	<b>-</b>
<b>5.</b>	<b>Net increase (decrease) in cash flow</b>		<b>(144)</b>	<b>(1,040)</b>
<b>6.</b>	<b>Cash and cash equivalents at the beginning of the period</b>		<b>958</b>	<b>1,543</b>
<b>7.</b>	<b>Cash and cash equivalents at the end of the period</b>		<b>814</b>	<b>503</b>

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

Managing Director	Darius Urbonas		3 November 2016
Head of the company in charge of accounting	Mariana Portianko		3 November 2016

## **Notes to the Interim Financial Statements**

### **1 General information**

UAB BOF Europa (hereinafter “the Company”) is a limited liability company registered in the Republic of Lithuania. Its registered address is:

Gynėjų g. 16,  
Vilnius,  
Lithuania.

The Company’s activities comprise real estate transactions, including purchasing, sales and lease of premises. The Company was registered on 6 October 2004.

As at 30 June 2016 and 31 December 2015 the sole shareholder of the Company was UAB BOF Europa Holding with address at Gynėjų st. 16, Vilnius, Lithuania.

Ultimate parent of the Company is Baltic Horizon Fund. Baltic Horizon Fund 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 Estonian Financial Supervision Authority. The Fund is currently listed on the Fund List of the Nasdaq Tallinn Stock Exchange.

All the Company’s shares with the nominal value of EUR 28.96 each are ordinary and were fully paid as at 30 June 2016 and 31 December 2015.

As at 30 June 2016 and 31 December 2015, the Company had 1 employee.

The Company’s management prepared these financial statements on 3 November 2016.

### **Basis of preparation**

The interim financial statements have been prepared in accordance with the Law on Accounting of the Republic of Lithuania, which is in effect as at 30 June 2016, the Law on Financial Statements of Entities of the Republic of Lithuania and Lithuanian Business Accounting Standards of the Republic of Lithuania (further “BAS”) in effect which includes the standards and methodological recommendations drawn up and approved by the relevant authority. These interim financial statements have been prepared in accordance to 29 BAS. Statements of balance sheet, profit (loss), changes in equity and cash flows were updated to be in compliance with BAS effective starting 1 January 2016.

These interim financial statements should be read in conjunction with the Company’s last annual financial statements as at and for the year ended 31 December 2015. TheseAs allowed by BAS 29, these interim financial statements do not include all the information required for complete set of BAS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

### **Currency of the financial statements**

Figures in these financial statements are presented in euro.

### **2 Summary of significant accounting judgments, estimates and assumptions**

To prepare the financial statements in accordance with BAS, the management needs to make measurements and estimates based on the assumptions which had an impact on the application of accounting policies and on the reported amounts of assets, liabilities, income and expenses, and disclosure of uncertainties. Future events may cause changes in assumptions used to make estimates. The result of changes in the said estimates is reported in the financial statements when it is determined.

The accounting policies applied in these interim financial statements are the same as those applied in the Company’s financial statements for the year ended 31 December 2015 except for new BAS 32 which came into effect starting 1 January 2016.

### Fair value measurements

As from 1 January 2016 the Company 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 in accordance to 32 BAS.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary 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 Company 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 Company 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 Company 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.

### 3 Investment property

Investment property consists of two land plots (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius), all leased under operating lease contracts for periods from 1 to 10 years. The investment property value is not separated on the Balance Sheet into separate groups (land and buildings value) due to the fact that the value of the property is determined based on the future cash flows which makes it difficult to determine the investment property value into separate groups.

Changes in the Company's investment property for the period ended 30 June 2016 are as follows:

<b>Balance at 31 December 2014</b>	<b>35,600</b>
Acquisitions, including capitalised expenses	366
Change in fair value	1,244
<b>Balance at 31 December 2015</b>	<b>37,210</b>
Acquisitions, including capitalised expenses	119
Change in fair value	-
<b>Balance at 30 June 2016</b>	<b>37,329</b>

#### Fair value as at 30 June 2016 and fair value change for the period 30.06.2016 – 01.01.2016

No external property valuation was performed as at 30 June 2016. As at 31 December 2015, investment property was stated at fair value determined according to valuation report of independent valuator UAB Colliers International Advisors. The investment property value as at June 30, 2016 is attributed to the third valuation level based on 32 BAS due to the fact that no external valuation has been reflected at period end.

As at 30 September 2016, the fair value of the investment property was EUR 38,000 thousand determined by independent valuator UAB Colliers International Advisors. Valuation was carried out according to International Valuation Standards, RICS valuation standards and corresponding methods applied by local market (Lithuania). International Valuation Standards define market value as "the 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 Company did not reflect the fair value increase of the property already at the end of 30 June 2016 due to the estimate that most of the change in value of the property shall be attributed to Q3 due to the following reasons:

1. The change in income growth should be mostly attributed to Q3 due to the facts stated below :
  - a. total potential return from Baltic retail investments for full year 2016 and 2017 has become notably higher only in Q3 2016. More long-term potential for rental growth.
  - b. GDP growth prospects have become better, especially for Lithuania, only in Q3 2016.
2. Europa parking peace agreement was signed only in Q3 (this was not certain back then at June 30, 2016).

Based on the above analysis, management concludes that the change in fair value of investment property in the first half of 2016 is insignificant, accordingly no changes in fair value are recognised in Profit (loss) of the reporting period.

As at 30 June 2016, the fair value of investment property is based on fair value of the property as at December 31, 2015 which was measured according to income method using discounted cash flow approach including capital improvements which amounted to 119 thousand EUR during 6 months period ended 2016. The discount rate set by valuers was set to 7.525% and exit yield was 7.25%). The average rental growth assumption used was 2.0% and the average expense growth was 2.04%.

		Discount rate (weighted average capital price)						
		6.78%	7.03%	7.28%	7.53%	7.78%	8.03%	8.28%
Exit yield	6.50%	41,700	40,940	40,200	39,470	38,760	38,070	37,390
	6.75%	40,840	40,090	39,370	38,660	37,970	37,290	36,630
	7.00%	40,030	39,310	38,600	37,910	37,230	36,580	35,930
	7.25%	39,280	38,570	37,880	<b>37,210</b>	36,550	35,910	35,280
	7.50%	38,580	37,890	37,210	36,560	35,910	35,280	34,670
	7.75%	37,920	37,250	36,590	35,940	35,310	34,700	34,100
	8.00%	37,310	36,650	36,000	35,370	34,750	34,150	33,560

#### Fair value change for the period 30.06.2015 – 01.01.2015

On March 2, 2015 Baltic Horizon Fund (former Baltic Opportunity Fund) acquired Europa property at a value of EUR 35,787 thousand. Based on independent valuator, the fair value of Europa increased from EUR 35,600 thousand as at December 31, 2014 to EUR 37,210 thousand as at December 31, 2015.

The Management did not reflect the fair value increase of the property already at the end of 30 June 2015 due to the estimate that most of the change in fair value of the investment property shall be attributed to the second half of the year 2015 due to the following reasons:

1. Lease agreements with tenants were signed/renewed/replaced throughout the year relatively evenly during quarters
2. GDP growth in Lithuania became more positive only in the second half of 2015.

Change in fair value of investment property is mainly impacted by the change in discount rate from 7.85% to 7.525% which would be more attributable to the second half of 2015.

Based on the above analysis, management concludes that the change in fair value of investment property in the first half of 2015 is insignificant, accordingly no changes in fair value are recognised in profit (loss) statement of the period ending 30 June 2015.

As at 30 June 2015, the fair value of investment property is based on fair value of the property as at December 31, 2014 which was measured according to income method using discounted cash flow approach. The discount rate set by valuers was set to 7.85% and exit yield was 7.25%). The average rental growth assumption used was 2.0% and the average expense growth was 2.04%.

The Company pledged the above-mentioned investment property to AB SEB Bankas for a long-term loan (Note 9).

According to the loan agreement with the bank, the Company has the right to dismantle, lease (except for lease under market conditions which are favourable to the Company under ordinary business conditions), write-off and sell the property only with the prior written consent of the bank.

#### 4 Trade receivables

	<u>30.06.2016</u>	<u>31.12.2015</u>
Trade receivables, gross	693	771
Less: impairment allowance for doubtful receivables	(301)	(301)
	<u><b>392</b></u>	<u><b>470</b></u>

#### 5 Other receivables

On 16 April 2010, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 31 October 2010 and ends on 30 September 2018. Interest rate is 5%. On 13 May 2011, the Company signed an amendment to this contract; according to this amendment, the additional leasing payments start on 31 May 2011 and end on 30 September 2018. Interest rate is the same as for the main contract, i.e. 5%.

On 30 May 2014, the Company signed a leasing contract amendment on the equipment transfer for use in the lessee's activities. The leasing starts on 15 June 2014 and ends on 30 May 2018. Interest rate is 5%.

Maturities of non-current and current portions of leasing:

	<u>30.06.2016</u>	<u>31.12.2015</u>
2016	170	150
2017–2019	160	211
	<u><b>330</b></u>	<u><b>361</b></u>

#### 6 Cash and cash equivalents

The Company had no cash in hand and all its cash was held at AB SEB Bankas as at 30 June 2016 and 31 December 2015. As described in Note 9, to secure the repayment of the loan, the Company pledged its funds and future inflows to bank accounts.

#### 7 Authorized capital

As at 30 June 2016, the Company's authorised capital amounted to EUR 869 thousand. The authorised capital comprises 30,000 ordinary registered shares with a nominal value of EUR 28.96 each. As at 30 June 2016, all shares were fully paid.

Under the Law on Companies of the Republic of Lithuania, a company's equity shall not be lower than ½ of its share capital as indicated in the company's articles of association. As at 30 June 2016 and 31 December 2015, the Company complied with this requirement.

#### 8 Revaluation and other reserves

##### Legal reserve

Legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital.

Revaluation reserve (Reserve for derivative financial instruments)

This reserve comprises value of effective part of derivative instruments as at balance sheet date (interest rate swaps) which are used by the Group to hedge the cash flows from interest rate risk. The reserve is accounted for in accordance with hedge accounting policy prepared by management as well as BAS 26 Derivative Financial Instruments, which sets out hedge accounting.

	<b>30.06.2016</b>	<b>31.12.2015</b>
Fair value of derivative financial instruments	(152)	(116)
Amount of deferred tax on fair value of derivative financial instruments	22	18
	<b>(130)</b>	<b>(98)</b>

**9 Loans from credit institutions**

	<b>Maturity</b>	<b>Effective interest rate</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
<b>Non-current liabilities</b>				
AB SEB Bank	Mar 2018	3M EURIBOR + 1.50%	23,888	24,333
Less current portion			(893)	(893)
<b>Total loans from credit institutions</b>			<b>22,995</b>	<b>23,440</b>
<b>Current liabilities</b>				
Current portion of non-current loan			893	893
<b>Total current loans from credit institutions</b>			<b>893</b>	<b>893</b>
<b>Total</b>			<b>23,888</b>	<b>24,333</b>

On 20 December 2004, the Company signed a long-term agreement with AB SEB Bank. The loan was taken to refinance loans received from related parties. On 2 March 2015, an amendment was signed to the credit agreement amending and revising the agreement signed in 2004: variable interest rate of 3-month EURIBOR + 1.50% margin, the loan maturity extended until 2 March 2018.

To secure the fulfilment of obligations under the loan agreement, the Company pledged investment property with the value of EUR 37,329 thousand as at 30 June 2016. The Company also pledged all current and future funds (future inflows) in all currencies in bank accounts, a demand right to amounts receivable from lessees, where the annual turnover should be EUR 1,500 thousand or higher.

Maximum pledge was set by the agreement by specifying a maximum amount of EUR 7,815 which can be recovered by the bank in case of improper fulfilment of the obligations.

The bank's loan agreement includes certain financial and other covenants which the Company is required to comply with in order to secure financing. Based on the financial information as at 30 June 2016, the Company complied with these covenants.

**10 Derivative financial instruments**

The Company has entered into an interest rate swap agreement with SEB bank. The purpose of interest rate swap is to hedge against the interest rate risk arising from interest rate fluctuations of the Company's non-current loans. According to the interest rate swap agreement, the Company makes fixed payments to the bank and receives variable interest rate payments from the bank.

Change in fair value of interest rate swaps is recognized as effective hedging instrument and in this case any profit or loss relating fair value of a hedging instrument is accounted for in the revaluation reserve of derivative financial instruments under equity, and not in the profit (loss) statement. In order to ensure application of accounting principles for recognition of hedging instruments, based on risk management policy of the Company each derivative financial instruments is subject to efficiency test and all related documentation is prepared.

Interest rate swap signed by the Company is presented in the table below:

Type of derivative financial instrument	Start date	Maturity date	Notional amount	Fair value	
				30.06.2016	31.12.2015
Interest rate swap	Sep 2015	Mar 2018	19,652	152	116
<b>Derivative financial instrument liabilities</b>			<b>19,652</b>	<b>152</b>	<b>116</b>

## 11 Sales revenue

	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015 not reviewed
Operating lease income	1,367	1,306
Revenue from resale of utilities and other services	641	554
	<b>2,008</b>	<b>1,860</b>

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts. The value of the investment property as at 30 June 2016 is EUR 37,329 thousand.

The longest lease agreements are effective until 2026. Based on the currently effective agreements, the lessee, having agreed with the lessor, is entitled to the extension of lease agreements.

## 12 Cost of sales

	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015 not reviewed
Utilities	(316)	(286)
Repairs and asset maintenance	(265)	(186)
Sales and marketing expenses to clients	(114)	(104)
Property management expenses*	(79)	(145)
Real estate tax	(75)	(85)
Insurance	(5)	(7)
	<b>(854)</b>	<b>(813)</b>

\*Based on the agreement, until 30 June 2015 the Company paid property management fee to Northern Horizon Capital A/S. Based on the agreement, from 1 July 2015 the Company pays property management fee to UAB BPT Real Estate.

## 13 Interest and similar expenses

	01.01.2016- 30.06.2016	01.01.2015- 30.06.2015 not reviewed
Interest expenses	(267)	(310)
	<b>(267)</b>	<b>(310)</b>

#### 14 Corporate income tax

	<b>01.01.2016- 30.06.2016</b>	<b>01.01.2015- 30.06.2015 not reviewed</b>
Net result before corporate income tax	931	665
Temporary differences	-	-
Permanent differences	-	-
Change in fair value (Note 3)	-	-
Depreciation of investment property for profit tax purposes	(1,249)	(1,241)
<b>Taxable result for the period</b>	<b>(318)</b>	<b>(576)</b>
<b>Components of income tax income (expenses)</b>		
Income tax (expenses) for the reporting period	-	-
Deferred tax income (expenses)	(140)	(100)
<b>Income tax income (expenses), recognised in the profit (loss) statement</b>	<b>(140)</b>	<b>(100)</b>

	<b>30.06.2016</b>	<b>31.12.2015</b>
<b>Deferred tax asset</b>		
Tax losses	1,342	1,294
Impairment allowance for receivables	45	45
Deferred tax asset on derivative financial instruments	24	18
Deferred tax asset	1,411	1,357
Not recognised part of deferred tax asset due to bad debts	(45)	(45)
Net deferred tax asset	1,366	1,312
<b>Deferred tax liability</b>		
Investment property (depreciation and fair value adjustment)	(4,139)	(3,951)
Deferred tax liability	(4,139)	(3,951)
<b>Net deferred tax (liability)</b>	<b>(2,773)</b>	<b>(2,639)</b>

Deferred income tax was calculated applying the rates, which will be in effect when deferred income tax is intended to be realised; i.e. 15% in 2015, and 15% in 2016 and subsequent years.

#### 15 Financial assets and liabilities, and risk management

##### Credit risk

Credit risks, or the risk of counter-parties default, are controlled by application of appropriate control procedures. The Company applies procedures ensuring that lease services are provided only to reliable customers and by entering into agreements providing additional guarantees.

The Company does not guarantee the obligations of other parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, if any, in the balance sheet. Accordingly, the Company's management believes that the maximum risk is equal to the amount of trade and other receivables, net of the impairment losses recognised as at the balance sheet date.

##### Interest rate risk

As at 30 June 2016 the Company had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk. In 2015 Interest Rate Swap transaction has been signed with maturity date – 2 March 2018. Under this contract the Company agrees to exchange, at specified intervals, the difference between fixed and variable (3M EURIBOR) rate interest amounts calculated by reference to an agreed-upon notional principal amount. SWAP notional amount is EUR 19,652 thousand.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have funding available under credit lines in an adequate amount, in order to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity ratio (total current assets / total amounts payable within one year and current liabilities) and quick ratio ((total current assets – inventories) / total amounts payable within one year and current liabilities) were 0.69 as at 30 June 2016 (31 December 2015: 0.26).

Short-term liabilities of the Company exceeded current assets as at 30 June 2016. However, the budget for operating cash flows for year 2016 and 2017 indicates that the Company will be able to cover current liabilities from existing current assets and operating cash flows.

Foreign exchange risk

The Company is not exposed to significant foreign exchange risk, as it carries out transactions in euro.

**16 Related party transactions**

During the reporting period, the Company 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. The related parties of the Company with transactions in 2016 and 2015 are the following:

- UAB BOF Europa Holding (the sole shareholder of the Company).
- Baltic Property Trust Secura A/S (previous controlling shareholder). The Company received a loan in 2014 and paid interest to this company.
- Northern Horizon Capital A/S (management service provider). The Company purchased management services from this company from 1 January 2011 until 2 March 2015.
- UAB BPT Real Estate (service provider of asset management and accounting). The Company hires asset management services from this company from 2 March 2015.

The Company's transactions with related parties during the 6 months period ended 30 June 2016 and 2015 were the following:

	<b>01.01.2016- 30.06.2016</b>	<b>01.01.2015- 30.06.2015 not reviewed</b>
<b>UAB BOF Europa Holding</b>		
Interest expenses	67	131
<b>Northern Horizon Capital A/S</b>		
Management fees	-	37
<b>Baltic Property Trust Secura A/S</b>		
Interest expense	-	5
<b>BPT Real Estate UAB</b>		
Property management fees	114	104

The Company's balances with related parties as at 30 June 2016 and 31 December 2015 were the following:

	<b>30.06.2016</b>	<b>31.12.2015</b>
<b>UAB BOF Europa Holding</b>		
Intercompany loan outstanding	3,610	3,875
Accrued interest payable	20	403
Dividends payable	579	579
<b>BPT Real Estate UAB</b>		
Property management fees payable	-	18

On 28 July 2014, the Company signed a long-term loan agreement for the maximum amount of EUR 12,164 thousand with a direct shareholder of the Company, UAB BOF Europa Holding. On 24 March 2016, an amendment was signed to the loan agreement amending and revising the agreement signed in 2014. The loan was extended until 31 January 2018 and the annual interest rate is 4% (fixed).

As at 30 June 2016 and 31 December 2015, amounts payable to related parties comprised dividends of EUR 579 thousand payable to the Company's sole shareholder UAB BOF Europa Holding. The Company may pay dividends when, based on the conditions set out in the loan agreement with AB SEB Bank, it has complied with the covenants set out in the agreement and if after payment the funds remaining at bank accounts comprise at least EUR 200 thousand.

During 6 months period ended 30 June 2016, the remuneration to the Company's management amounted to EUR 0.2 thousand (2015: EUR 0.2 thousand). During 6 months period ended 30 June 2016 and 2015, the management of the Company did not receive any loans or guarantees.

### 17 Contingencies

As at 30 June 2016, there was no on-going litigation, which could materially affect the financial position of the Company.

No full tax investigation of the Company for the period from 1 January 2011 until 30 June 2016 has been performed by the tax authorities. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of five years preceding the accounting tax period, as well as calculate additional taxes and penalties.

In 2012, Vilnius County State Tax Inspectorate performed an analysis of income tax for the period from 1 December 2008 until 31 December 2010. During the tax investigation, no violations were detected.

The management of the Company is not aware of any circumstances, which would cause calculation of additional tax liabilities.

### 18 Post-balance sheet events

On 24 August 2016, the sole shareholder of BOF Europa UAB initiated the reorganization of BOF Europa Holding UAB and BOF Europa UAB by way of a merger: BOF Europa Holding UAB, which will end its activity as a legal entity after the reorganization, will be merged to BOF Europa UAB, which will be continuing its and UAB Europa Holding activity after the reorganization and will take over assets, rights and obligations of BOF Europa Holding UAB. The reorganization shall take place in Q4 2016.

On October 14, 2016 independent valuator UAB Colliers International Advisors determined a fair value of Europa investment property as at September 30, 2016. Based on independent valuator, the fair value increased from EUR 37,210 thousand as at December 31, 2016 to EUR 38,000 thousand as at September 30, 2016. More information on the valuation can be found on the note 3.

After the end of the financial year until the approval of these financial statements, there were no other post-balance sheet events, which would have material effect on these financial statements or require disclosure.

<u>Managing Director</u>	<u>Darius Urbonas</u>		<u>3 November 2016</u>
<u>Head of the company in charge of accounting</u>	<u>Mariana Portianko</u>		<u>3 November 2016</u>

## **APPENDIX H**

**Audited Financial Statements of Europa SPV for the Year 2015**

# UAB BOF EUROPA

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2015 PREPARED IN  
ACCORDANCE WITH BUSINESS ACCOUNTING STANDARDS, PRESENTED  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

### **Company details**

#### **UAB BOF Europa**

Telephone: +370 5 231 3638  
Registration No.: 000980  
Address: Gynėjų g. 16, Vilnius

#### **Board**

Aušra Stankevičienė  
Tarmo Karotam  
Nerijus Žebrauskas

#### **Management**

Darius Urbonas – Managing Director

#### **Auditor**

KPMG Baltics, UAB

#### **Banks**

AB SEB Bankas



KPMG Baltics, UAB  
Konstitucijos Ave 29  
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E-mail: vilnius@kpmg.lt  
Website: kpmg.com/lt

# Independent Auditor's Report

To the Shareholder of UAB BOF Europa

## Report on the Financial Statements

We have audited the accompanying financial statements of UAB BOF Europa ("the Company"), which comprise the balance sheet as at 31 December 2015, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 7–26.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Business Accounting Standards of the Republic of Lithuania, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of UAB BOF Europa as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.

**Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the annual report of UAB BOF Europa for the year ended 31 December 2015, set out on pages 5–6 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of UAB BOF Europa for the year ended 31 December 2015.

On behalf of KPMG Baltics, UAB

A handwritten signature in black ink, appearing to read 'Toma Marčiinauskytė'.

Toma Marčiinauskytė  
Certified Auditor

Vilnius, the Republic of Lithuania  
31 March 2016

**ANNUAL REPORT OF UAB BOF EUROPA**

**YEAR 2015**

**REPORTING PERIOD COVERED BY THE ANNUAL REPORT**

The annual report is prepared for the year 2015, all figures are presented as at 31 December 2015 unless otherwise stated. In this report, UAB BOF Europa can also be referred to as "the Company".

**GENERAL INDORMATION ABOUT THE COMPANY**

Name: UAB BOF Europa (until 19 June 2015 the name of the Company was BPTS Europa)  
Company's authorised capital: EUR 868,860  
Registration date: 6 October 2004  
Operational period: not limited  
Company code: 300059140  
The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises  
Address: Gynėjų g. 16, Vilnius, the Republic of Lithuania  
Legal-organizational form: limited liability company  
Governing law: law of the Republic of Lithuania  
Country of establishment: the Republic of Lithuania

**1. OBJECTIVE REVIEW OF THE COMPANY'S POSITION, ACTIVITY AND DEVELOPMENT, CHARACTERISATION OF THE MAIN TYPES OF RISKS AND UNCERTAINTIES FACED BY THE COMPANY**

All shares with the nominal value of EUR 28.96 each are ordinary and were fully paid as at 31 December 2015 and 2014. At the time of establishment, the Company's authorised capital amounted to EUR 2,896 thousand. On 24 December 2004 the authorised capital was increased to EUR 14,960 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by EUR 1,927 thousand eliminating the shares and it amounted to EUR 13,033 thousand as at 31 December 2012. Based on the decision of the sole shareholder, on 30 April 2014 the Company's authorised capital was reduced to EUR 868,860 eliminating 420 thousand shares.

As at 31 December 2015 and 2014, the Company's shareholders were:

	2015		2014	
	Number of shares held	Ownership share	Number of shares held	Ownership share
UAB BOF Europa Holding (until 19 June 2015 the name of the company was Baltic Property Trust Secura)	30,000	100%	30,000	100%
Total	30,000	100%	30,000	100%

As at 31 December 2015, the Company's assets comprised EUR 39,169 thousand, including the investment property of EUR 37,210 thousand, amounts receivable after one year of EUR 211 thousand and current assets of EUR 1,748 thousand.

The investment property owned by the Company comprised the shopping centre Europa located at Konstitucijos pr. 7A, Vilnius, two land plots and ½ parking, located at Konstitucijos pr. 7B and Europos a. 1, Vilnius.

When preparing the financial statements for the year 2015, for its non-current assets the Company used the accounting principles requiring the fair value method to be used for the accounting of investment property (leased property) in the financial statements, excluding depreciation as required by the provisions of Business Accounting Standard 12.

The Company's sales in 2015 amounted to EUR 4,043 thousand from operating activities; i.e. from the lease of the investment property owned by the Company. The Company's result for 2015 is net loss of EUR 2,325 thousand.

**2. NUMBER OF EMPLOYEES AT THE END OF THE PERIOD**

As at 31 December 2015, the Company had 1 employee.

### **3. INFORMATION ABOUT OWN SHARES ACQUIRED AND TRANSFERRED**

During the reporting period, the Company did not acquire or transfer own shares.

### **4. COMPANY'S SUBSIDIARIES**

As at 31 December 2015, the Company had no subsidiaries.

### **5. INFORMATION ABOUT THE BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY**

The Company has no branches or representative offices.

### **6. IMPORTANT EVENTS, WHICH HAVE OCCURRED AFTER FINANCIAL YEAR-END**

After the end of the financial year until the approval of these financial statements, there were no other post-balance sheet events, which would have an effect on these financial statements or require disclosure.

### **7. INFORMATION ABOUT THE COMPANY'S ACTIVITY PLANS, DEVELOPMENT AND FORECASTS**

The Company's vision and strategy: shops and restaurants of well-known brands with unique, luxurious and modern design and activity conceptions. The main goal for 2016 is to further strengthen and maintain its position and niche in the city's market by increasing the attractiveness of the shopping centre to customers and potential and current lessees. In 2016, 25% of overall restaurant zone of Europa will be renovated. The focus will be kept on sales promotion by the lessees' shops, an average 10% growth in turnover is expected. The Company plans to sign and extend several strategically important lease agreements on plans to renovate around 10% of overall leasable area and opening of several exclusive shops in 2016. The centre's occupancy rate is expected to be 95% or higher, and annual number of customers not below 4 million.

### **8. WHEN THE COMPANY EMPLOYS FINANCIAL INSTRUMENTS AND WHEN IT IS IMPORTANT FOR THE VALUATION OF THE COMPANY'S ASSETS, EQUITY, LIABILITIES, FINANCIAL POSITION AND ACTIVITY RESULTS, THE COMPANY DISCLOSES THE OBJECTIVES OF THE FINANCIAL RISK MANAGEMENT, ITS POLICY FOR HEDGING MAJOR TYPES OF FORECASTED TRANSACTIONS FOR WHICH HEDGE ACCOUNTING IS USED, AND COMPANY'S EXPOSURE TO PRICE RISK, CREDIT RISK, LIQUIDITY RISK AND CASH FLOW RISK**

In 2008, the Company signed interest rate swap agreements with AB SEB Bankas. The purpose of these derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2015, the Company increased the amount of swap to EUR 19,652 thousand based on the swap agreement signed in 2008. The swap is effective until 2 March 2018.

Managing Director



Darius Urbonas

## Balance sheet

	Notes	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>A. Non-current assets</b>			
I. Intangible non-current assets			
II. Investment property	3	37,210	35,600
III. Portion of leasing receivable after one year	5	211	342
IV. Deferred income tax assets	19	-	-
<b>Total non-current assets</b>		<b>37,421</b>	<b>35,942</b>
<b>B. Current assets</b>			
I. Inventories, prepayments and contracts in progress			
II. Amounts receivable within one year			
II.1. Trade receivables	4	470	416
II.2. Receivables from related parties			
II.3. Portion of leasing receivable within one year		150	113
II.4. Accrued income		137	73
II.5. Other amounts receivable	5	33	20
Total amounts receivable within one year		790	622
III. Other current assets			
IV. Cash and cash equivalents	6	958	1,543
<b>Total current assets</b>		<b>1,748</b>	<b>2,165</b>
<b>Total assets</b>		<b>39,169</b>	<b>38,107</b>

(continued on the next page)

## Balance sheet (continued)

	Notes	31 December 2015	31 December 2014
<b>EQUITY AND LIABILITIES</b>			
<b>C. Shareholders' equity</b>			
I. Authorised capital	7	869	869
II. Revaluation reserve of derivative financial instruments (results)	8, 14	(98)	-
III. Legal reserve	8	1,303	1,303
IV. Retained earnings (losses)		4,343	2,018
<b>Total equity</b>		<b>6,417</b>	<b>4,190</b>
<b>D. Grants and subsidies</b>			
<b>E. Amounts payable and liabilities</b>			
<b>I. Amounts payable after one year and non-current liabilities</b>			
I.1. Long-term loans from credit institutions	9	23,440	17,415
I.2. Long-term loans from related parties	9	-	12,650
I.3. Advances received	10	135	169
I.4. Deferred income tax liability	19	2,639	2,084
I.5. Derivative financial instruments	14	59	-
<b>Total amounts payable after one year and non-current liabilities</b>		<b>26,273</b>	<b>32,318</b>
<b>II. Amounts payable within one year and current liabilities</b>			
II.1. Current portion of long-term loans from credit institutions	9	893	-
II.2. Short-term loans from related parties	9, 11	4,278	379
II.3. Prepayments received	10	208	43
II.4. Trade creditors		251	268
II.5. Amounts payable to related parties	11	579	579
II.6. Accrued expenses	12	116	181
II.7. Other current amounts payable	13	93	144
II.8. Deferred income		4	5
II.9. Derivative financial instruments	14	57	-
<b>Total amounts payable within one year and current liabilities</b>		<b>6,479</b>	<b>1,599</b>
<b>Total equity and liabilities</b>		<b>39,169</b>	<b>38,107</b>

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

Managing Director	Darius Urbonas		31 March 2016
Head of the company in charge of accounting	Mariana Portianko		31 March 2016

## Income statement

	Notes	2015	2014
I. Sales	15	4,043	4,032
II. (Cost of) sales	16	(1,713)	(1,474)
III. Gross profit		<b>2,330</b>	<b>2,558</b>
IV. Operating (expenses)	17	(116)	(400)
<b>V. Operating profit</b>		<b>2,214</b>	<b>2,158</b>
VI. Income (expenses) from other activities – net result		14	-
VII. Income (expenses) from financing and investing activities – net result	18	670	(4,126)
<b>VIII. Profit before taxes</b>		<b>2,898</b>	<b>(1,968)</b>
IX. Corporate income tax	19	(573)	289
<b>X. Net profit</b>		<b>2,325</b>	<b>(1,679)</b>

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

Managing Director	Darius Urbonas		31 March 2016
Head of the company in charge of accounting	Mariana Portianko		31 March 2016

## Statement of changes in equity

	Notes	Authorised capital	Revaluation reserve of derivative financial instruments (results)	Reserves	Retained earnings (losses)	Total
<b>Balance at 31 December 2013</b>		<b>13,033</b>	<b>(14)</b>	<b>1,303</b>	<b>4,275</b>	<b>18,597</b>
Increase/reduction of authorized capital		(12,164)	-	-	-	(12,164)
Approved dividends		-	-	-	(579)	(579)
Transfers to reserves	8	-	-	-	-	-
Fair value reserve of derivative financial instruments	8	-	14	-	-	14
Correction of errors of the previous periods	8	-	-	-	1	1
Net profit (loss) for the year		-	-	-	(1,679)	(1,679)
<b>Balance at 31 December 2014</b>		<b>869</b>	<b>-</b>	<b>1,303</b>	<b>2,018</b>	<b>4,190</b>
Approved dividends		-	-	-	-	-
Transfers to/from reserves	8	-	-	-	-	-
Change in fair value of derivative financial instruments	8	-	(116)	-	-	(116)
Amount of deferred tax on fair value of derivative financial instruments	8	-	18	-	-	18
Correction of errors of the previous periods	8	-	-	-	-	-
Net profit (loss) for the year		-	-	-	2,325	2,325
<b>Balance at 31 December 2015</b>		<b>869</b>	<b>(98)</b>	<b>1,303</b>	<b>4,343</b>	<b>6,417</b>

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

Managing Director	Darius Urbonas		31 March 2016
Head of the company in charge of accounting	Mariana Portianko		31 March 2016

## Cash flow statement

	Notes	2015	2014
<b>I. Cash flows from operating activities</b>			
I.1. Net profit (loss)		2,325	(1,679)
<b>Reversal of non-cash expenses (income):</b>			
I.2. Change in fair value of investment property	3	(1,244)	3,586
I.3. Change in impairment allowance of doubtful receivables	4	(1)	35
I.4. Change in deferred income tax	18	573	(286)
I.5. Decrease (increase) in accrued income		-	(74)
I.6. Interest expenses	18	590	550
I.7. Interest (income)	18	(21)	(23)
		<u>2,222</u>	<u>2,109</u>
<b>Changes in operating capital:</b>			
I.8. Decrease (increase) of trade receivables		(54)	43
I.9. Decrease (increase) of prepayments and other receivables		(212)	(138)
I.10. Decrease (increase) of long-term trade receivables		123	3
I.11. Increase (decrease) of trade debts, other payables, long-term and short-term advances received and other current liabilities		(21)	39
<b>Net cash flow from operating activities</b>		<u><b>2,058</b></u>	<u><b>2,056</b></u>
<b>II. Cash flow from investing activities</b>			
II.1. (Acquisition) of investment property	3	(366)	(686)
II.2. Leasing payments		106	172
II.2. Interest received	18	20	23
<b>Net cash flow from investing activities</b>		<u><b>(240)</b></u>	<u><b>(491)</b></u>
<b>III. Cash flow from financing activities</b>			
III.1. Long-term loans (repaid)		(11,475)	(772)
III.2. Short-term loans (repaid)		-	(55)
III.3. Dividends (paid)		-	(277)
III.4. Loans received		9,618	-
III.5. Interest (paid)		(546)	(292)
<b>Net cash flow from financing activities</b>		<u><b>(2,403)</b></u>	<u><b>(1,396)</b></u>
<b>IV. Net increase (decrease) in cash flow</b>		<u><b>(585)</b></u>	<u><b>169</b></u>
<b>V. Cash and cash equivalents at the beginning of the period</b>		<u><b>1,543</b></u>	<u><b>1,375</b></u>
<b>VI. Cash and cash equivalents at the end of the period</b>		<u><b>958</b></u>	<u><b>1,543</b></u>

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

Managing Director	Darius Urbonas		31 March 2016
Head of the company in charge of accounting	Mariana Portianko		31 March 2016

## **Explanatory notes**

### **1 General information**

UAB BOF Europa (hereinafter "the Company") is a limited liability company registered in the Republic of Lithuania. Its registered address is:

Gynėjų g. 16,  
Vilnius,  
Lithuania.

The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises. The Company was registered on 6 October 2004.

As at 31 December 2015 and 2014 the sole shareholder of the Company was UAB BOF Europa Holding with address at Gynėjų st. 16, Vilnius, Lithuania.

Parent company is BPT Baltic Opportunity Fund (REIF), a close end fund real estate investment fund, which is not a legal person, established and acting in accordance with Estonian legislation with registration address at Ravala 5, 10143 Tallinn, the Republic of Estonia.

All the Company's shares with the nominal value of EUR 28,96 each are ordinary and were fully paid as at 31 December 2015 and 2014. At the time of establishment, the Company's authorised capital amounted to EUR 2,896. On 24 December 2004 the authorised capital was increased to EUR 14,959 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by EUR 1,927 thousand eliminating the shares and it amounted to EUR 13,033 thousand as at 31 December 2013 and 2012. Based on the decision of the sole shareholder, on 30 April 2014 the Company's authorised capital was reduced to EUR 869 thousand eliminating 420 thousand shares. The Company had no own shares acquired.

As at 31 December 2015 and 2014, the Company had 1 employee.

The Company's management approved these financial statements on 31 March 2016. The Company's shareholders have a statutory right to either approve these financial statements or not to approve them and require that the new set of financial statements be prepared.

### **2 Summary of significant accounting policies**

The main accounting policies followed by the Company when preparing the financial statements for 2015 are as follows:

#### **2.1. Basis of preparation**

These financial statements have been prepared in accordance with the Law on Accounting of the Republic of Lithuania, which is in effect as at 31 December 2015, the Law on Financial Statements of Entities of the Republic of Lithuania and Business Accounting Standards (BAS) in effect which include the standards and methodological recommendations drawn up and approved by the Authority of Audit and Accounting.

The accounting policies were consistently applied by the Company in 2015 and are consistent with those used in the previous year.

The Company's financial statements were prepared on a historical cost basis, except for investment property and derivative financial instruments, which are carried at fair value.

#### **2.2. Currency of the financial statements**

Figures in these financial statements are presented in euro. On 1 January 2015 the Republic of Lithuania joined the euro zone and the Lithuanian national currency litas was replaced by the euro. As a result, the Company converted its financial accounting into euro as from 1 January 2015. Comparative information of previous financial periods was translated into euro using the official exchange rate of LTL 3.4528 to EUR 1.

## **2 Summary of significant accounting policies (continued)**

### **2.3. Foreign currency**

Transactions in foreign currencies are carried at the official currency exchange rate prevailing on the day of the transaction. Profit or loss resulting from these transactions and revaluation result of the balance of assets and liabilities in foreign currency on the balance sheet date are reported in the income statement. These balances are revaluated at the currency exchange rate prevailing on the closing day of the reporting period.

### **2.4. Use of estimates when preparing the financial statements**

To prepare the financial statements in accordance with BAS, the management needs to make measurements and estimates based on the assumptions which had an impact on the application of accounting policies and on the reported amounts of assets, liabilities, income and expenses, and disclosure of uncertainties. Future events may cause changes in assumptions used to make estimates. The result of changes in the said estimates is reported in the financial statements when it is determined.

Significant areas in these financial statements which involve estimates are measurement of the fair value of investment property, depreciation for corporate income tax purposes, measurement of the fair value of derivative financial instruments and impairment of receivables and other assets.

### **2.5. Investment property**

The Company's investment property comprises investment into buildings, which are held to earn lease income or for capital appreciation, 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. Based on BAS 12 "Non-current tangible assets", investment property is initially measured at fair value, including expenses of transactions. Subsequently all investment property is measured at fair value, which is adjusted each time financial reports are prepared, and is recognized in the income statement as income or loss.

Transfers from/to investment property are made only when the purpose of the property has changed.

Repair expenses of financial assets presented at fair value are recognised as expenses in the period when incurred.

### **2.6. Amounts receivable**

Amounts receivable are initially measured at cost. Subsequently, amounts receivable are accounted for at amortised cost less impairment losses.

### **2.7. Cash and cash equivalents**

Cash comprises cash in hand and at bank. Cash equivalents comprise short-term and highly liquid investments which can be easily converted into a known amount of cash. The term of these investments does not exceed three months and the risk of value changes is insignificant.

Cash and cash equivalents reported in the cash flow statement comprise cash in current accounts and other short-term highly liquid investments.

### **2.8. Borrowings**

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at cost of proceeds received. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in profit or loss over the period of the borrowings. Borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

## **2 Summary of significant accounting policies (continued)**

### **2.9. Operating lease**

#### *Company as a lessor*

Leases in terms of which the lessor assumes a significant part of risks and rewards of ownership are classified as operating leases. When the Company acts as a lessor, such assets are recorded in its balance sheet based on the similar groups of assets and at the same time stated in different accounts to accumulate information related to such activities. Income calculated in accordance with lease agreements is recognised when generated.

Initial costs related to concluding a lease agreement due to the intention to earn income from lease of assets are accrued and recognised as expenses over the lease term of the assets.

Increase/decrease in the value of leased assets is recorded applying the same principles as for other items of non-current assets.

### **2.10. Finance lease**

#### *Company as a lessor*

Leases in terms of which substantially all the risks and rewards of ownership are transferred to the lessee are leasing (finance lease). When assets are held for finance lease (leasing), the present value of lease payments is recognised as an amount receivable. The difference between the total value of amounts receivable and their present value is recognised as unearned income from financing activities.

The lessor recognises payments received according the finance lease agreement as the repayment of debt (at the amount of asset value coverage) and income from financing and investing activities (at the amount of interest) when finance leasing is not the primary activity of the lessor. Interest income is recorded on the accrual basis.

### **2.11. Legal reserve**

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve cannot be distributed.

### **2.12. Dividends**

Dividends are recognised as a liability in the period in which they are declared.

### **2.13. Derivative financial instruments**

The Company uses derivative financial instruments for interest rate risk management purposes. Such derivative financial instruments are recognised on a transaction date at fair value, which is subsequently remeasured. Derivative financial instruments are recognised as financial assets for contracts having a positive fair value; and as financial liabilities for contracts with a negative fair value.

Any gains or losses from changes in fair value of derivative financial instruments during the year are directly recognised in the income statement.

## **2 Summary of significant accounting policies (continued)**

### **2.14. Hedge accounting**

For the purposes of hedge accounting, hedges are classified in two categories: (a) fair value hedges which hedge exposure to changes in fair values of a recognised assets or liability, and (b) 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 revaluation of the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts profit or loss or in the period of initial assessment of costs of respective assets or equity.

In case of hedge transactions that do not meet the requirements for hedge accounting, any gains or losses from changes in fair value of hedged instrument are included in the income statement for that period.

Hedge accounting is terminated when hedging instrument expires, is sold, terminated, executed or if it no longer meets the criteria applicable for hedge accounting. Then any accumulated gains or losses from hedging instrument recognised in equity are transferred to the income statement.

### **2.15. Corporate income tax**

Income tax is calculated on the income for the year taking into account deferred income tax. Income tax is calculated in accordance with Lithuanian statutory requirements on taxation.

With the amendments of the Law on Corporate Income Tax of the Republic of Lithuania coming into effect, corporate income tax was set at a rate of 15% for unlimited period. Such rate is also applicable in 2015.

Taxable losses can be carried forward to other reporting periods for unlimited number of periods, except for the losses incurred through transfer of securities and (or) derivatives. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. Losses incurred through transfer of securities and (or) derivatives can be carried forward for 5 years and shall be covered by income from transactions of similar nature.

As of 1 January 2014, only 70% taxable profit of the taxable year can be covered by carried forward tax losses.

Deferred tax reflects net tax effect of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are valued at tax rate which is expected to be applied for the period when the assets will be realized or the liability covered with regard to the tax rates which were accepted or in essence accepted on the balance sheet date.

Deferred tax assets are recognised in the balance sheet to the extent the management expects these assets to be realized in the near future taking into account forecasts of taxable profit. If it is likely that a portion of deferred tax assets is not realized, this portion of the deferred tax assets is not recognised in the financial statements.

Deferred tax asset and liabilities are offset only in case there is an intention to recover deferred tax asset and to cover the deferred tax liability.

## **2 Summary of significant accounting policies (continued)**

### **2.16. Revenue recognition**

Revenue is recognised when it is probable that the Company gets economic benefits related to the transaction and the amount of income can be reliably estimated. Sales are recorded net of VAT and discounts.

#### Lease income

Investment property lease income is stated on a straight-line basis over the lease period.

Lease income reflects rent paid by clients; lease income are stated on a straight-line basis less sales fees over the lease period until first possibility to terminate the agreement.

Expense reimbursement income are accounted for separately and are include in the income statement in cases when the Company is not acting as intermediary on behalf of a third party and does not receive commission fee for collection of income. In all other cases only commission fee is recognized as income of the Group.

### **2.17. Recognition of expenses**

Expenses are recognised in the accounting on an accrual basis and comparison in the reporting period when income in relation to the expenses incurred is earned irrespective of the time when the money is spent. In cases when the expenses incurred over the reporting period cannot be attributed directly with certain income earned and over the next periods those expenses will not generate further income, the expenses are recognised as costs of the period when they were incurred.

Amount of expenses is usually valued at the amount of money paid or payable less VAT. In cases when settlement term is long and interest not specified, the amount of costs is valued at the amount of settlement discounted by the market interest rate.

### **2.18. Impairment of assets**

#### Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

#### Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have significantly decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

### **2.19. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are described in the financial statements except when the probability that resources generating economic benefit will be lost is very low.

Contingent assets are not recognised in the financial statements; however, they are described in the financial statements when it is likely that they will generate revenue or economic benefit.

## 2 Summary of significant accounting policies (continued)

### 2.20. Post-balance sheet events

Post-balance sheet events which provide additional information on the Company's standing on the balance sheet date (adjusting events) are reported in the financial statements. Non-adjusting post-balance sheet events are described in the notes, if significant.

### 2.21. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities as well as income and expenses are not set-off against each other, except when a separate business accounting standard specifically requires for such offsetting.

Comparative figures have been adjusted to correspond to the presentation of the current year, where necessary.

## 3 Investment property

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts for periods from 1 to 10 years.

Changes in the Company's investment property for the year 2015 are as follows:

<b>Balance at 31 December 2013</b>	<b>38,500</b>
Acquisitions, including capitalized expenses	686
Change in fair value	(3,586)
<b>Balance at 31 December 2014</b>	<b>35,600</b>
Acquisitions, including capitalised costs	366
Change in fair value	1,244
<b>Balance at 31 December 2015</b>	<b>37,210</b>

As at 31 December 2015 and 2014, investment property was stated at fair value determined according to valuation reports of independent valuator UAB Colliers International Advisors. The fair value as at 31 December 2015 is based on valuation report issued in January 2016. Valuation was carried out according to International Valuation Standards, RICS valuation standards and corresponding methods applied by local market (Lithuania). International Valuation Standards define market value as "the 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 fair value of investment property was measured according to income method using discounted cash flow approach. The discount rate set by valutors amounted to 7.525% (2014: 7.85%), and exit yield amounted to 7.25% (2014: 7.00%).

In 2015, growth rate applied to income amounted to 0–2.4% (2014: 1.0–2.0%). Growth rate applied to expenses in different years amounted to 1.30–2.20% (2014: 0–2.5%).

		Discount rate (weighted average capital price)						
		6.78%	7.03%	7.28%	7.53%	7.78%	8.03%	8.28%
Exit yield	6.50%	41,700	40,940	40,200	39,470	38,760	38,070	37,390
	6.75%	40,840	40,090	39,370	38,660	37,970	37,290	36,630
	7.00%	40,030	39,310	38,600	37,910	37,230	36,580	35,930
	7.25%	39,280	38,570	37,880	<b>37,210</b>	36,550	35,910	35,280
	7.50%	38,580	37,890	37,210	36,560	35,910	35,280	34,670
	7.75%	37,920	37,250	36,590	35,940	35,310	34,700	34,100
	8.00%	37,310	36,650	36,000	35,370	34,750	34,150	33,560

### 3 Investment property (continued)

The Company pledged the above-mentioned investment property to AB SEB Bankas for a long-term loan (Note 9).

According to the loan agreement with the bank, the Company has the right to dismantle, lease (except for lease under market conditions which are favourable to the Company under ordinary business conditions), write-off and sell the property only with the prior written consent of the bank.

### 4 Trade receivables

	<u>2015</u>	<u>2014</u>
Trade receivables, gross	771	717
Less: impairment allowance for doubtful receivables	(301)	(301)
	<u><b>470</b></u>	<u><b>416</b></u>

Change for the year in impairment allowance for doubtful receivables is included in operating expenses.

### 5 Other amounts receivable and accrued income

	<u>2015</u>	<u>2014</u>
Leasing receivable after one year	211	342
<b>Long-term portion</b>	<u><b>211</b></u>	<u><b>342</b></u>
Leasing receivable within one year	150	113
Accrued income	137	73
Overpayments to suppliers	22	12
Other amounts receivable	11	8
Less: impairment allowance for doubtful other receivables	-	-
<b>Short-term portion</b>	<u><b>320</b></u>	<u><b>206</b></u>

On 16 April 2010, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 31 October 2010 and ends on 30 September 2018. Interest rate is 5%. On 13 May 2011, the Company signed an agreement to this contract; according to this agreement, the additional leasing payments start on 31 May 2011 and end on 30 September 2018. Interest rate is the same as for the main contract, i.e. 5%.

On 30 May 2014, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 15 June 2014 and ends on 30 May 2018. Interest rate is 5%.

As at 31 December 2015, the total leasing amounts receivable within one year comprise EUR 150 thousand, the total leasing amounts receivable after one year comprise EUR 211 thousand. The total leasing amounts receivable as at 31 December 2015 comprise EUR 361 thousand. Leasing amounts receivable after one year are included in the balance sheet under amounts receivable after one year.

Maturities of non-current and current portions of leasing:

	<u>31 December 2015 (value coverage)</u>	<u>31 December 2014 (interest)</u>
2016	150	15
2017–2019	211	11
	<u><b>361</b></u>	<u><b>26</b></u>

## 6 Cash and cash equivalents

The Company had no cash in hand and all its cash was held at AB SEB Bankas as at 31 December 2015 and 2014.

As described in Note 9, to secure the repayment of the loan, the Company pledged its funds, investment property and future inflows to bank accounts, receivables from lessees, the annual turnover with which should be EUR 1,500 thousand or higher.

## 7 Authorized capital

As at 31 December 2015, the Company's authorised capital amounted to EUR 869 thousand. The authorised capital comprises 30,000 ordinary registered shares with a nominal value of EUR 28.96 each. As at 31 December 2015, all shares were fully paid.

Under the Law on Companies of the Republic of Lithuania, a company's equity shall not be lower than ½ of its share capital as indicated in the company's articles of association. As at 31 December 2015 and 2014, the Company complied with this requirement.

## 8 Revaluation and other reserves

### Legal reserve

Legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital.

### Revaluation reserve (fair value reserve for derivative financial instruments)

This reserve is comprises value of effective part of derivative instruments as at balance sheet date (interest rate swaps) which are used by the Group to hedge the cash flows from interest rate risk and foreign exchange risk. The reserve is accounted for in accordance with Guide on Preparation on Accounting and Accountability of the Company and BAS 26 Derivative Financial Instruments, which sets out hedge accounting.

	<b>31 December 2015</b>	<b>31 December 2014</b>
Legal reserve	1,303	1,303
Change in fair value of derivative financial instruments	(116)	14
Amount of deferred tax on fair value of derivative financial instruments	18	-

## 9 Borrowings

As at 31 December 2015, the Company's financial liabilities comprised the following:

	<b>Effective interest rate</b>	<b>Maturity</b>	<b>Amount of liability</b>
(A) AB SEB Bankas loan	1.51% *	02/03/2018	24,333
(B) UAB BOF Europa Holding loan	4% **	31/12/2016	4,278
			<b>28,611</b>

\* Interest rate is variable: 3-month EURIBOR + 1.50% margin.

\*\* Interest rate is fixed.

(B) Loan from related parties.

**UAB BOF EUROPA**  
**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2015**  
(EUR thousand unless otherwise stated)

**9 Borrowings (continued)**

As at 31 December 2014, the Company's financial liabilities comprised the following:

	<b>Effective interest rate</b>	<b>Maturity</b>	<b>Amount of liability</b>
(A) AB SEB Bankas loan	1.51% *	02/03/2018	17,415
(C) BOF Europa Holding UAB loan	4% **	31/12/2019	11,708
(B) Baltic Property Trust Secura A/S loan	5.5% **	31/12/2019	1,321
			<b>30,444</b>

\* Interest rate is variable: 1-month EURIBOR + 1.35% margin.

\*\* Interest rate is fixed.

(B) and (C) loan from related parties.

(A) On 20 December 2004, the Company signed a long-term agreement with AB SEB Bankas. The loan was taken to refinance loans received from UAB BOF Europa Holding and UAB PC Europa. On 2 March 2015, an amendment was signed to the credit agreement amending and revising the agreement signed in 2004: variable interest rate of 3-month EURIBOR + 1.50% margin, the loan maturity extended until 2 March 2018.

To secure the fulfilment of obligations under the loan agreement, the Company pledged investment property with the fair value of EUR 37,210 thousand as at 31 December 2015. The Company also pledged all current and future funds (future inflows) in all currencies in bank accounts, a demand right to amounts receivable from lessees, the annual turnover with which should be EUR 1,500 thousand or higher.

Maximum pledge was set by the agreement by specifying a maximum amount of EUR 7,815 which can be recovered by the bank in case of improper fulfilment of the obligations.

The bank's loan agreement includes certain financial and other covenants which the Company is required to comply with in order to secure financing. Based on the financial information as at 31 December 2015, the Company complied with these covenants.

(B) On 28 July 2014, the Company signed a long-term loan agreement for the maximum amount of EUR 12,164 thousand with a direct shareholder of the Company, UAB BOF Europa Holding. Annual interest rate is 4% (fixed). The loan shall be repaid until 31 December 2016. The loan balance as at 31 December 2015 is EUR 3,875 thousand (2014: EUR 11,510 thousand), accrued interest – EUR 403 thousand (2014: EUR 198 thousand).

(C) The amount was repaid during 2015.

Maturities of short-term and long-term loans:

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Long-term loans</b>		
Loans from credit institutions	23,440	17,415
Loans from the shareholder	-	12,650
	<b>23,440</b>	<b>30,065</b>
<b>Short-term loans</b>		
Current portion of long-term loans from credit institutions	893	-
Loan from the shareholder	4,278	379
	<b>5,171</b>	<b>379</b>
	<b>28,611</b>	<b>30,444</b>

**10 Prepayments received**

As at 31 December 2015 and 2014, received long-term and short-term advances comprised amounts received from lessees as a guarantee for fulfilment of their liabilities. These amounts will be offset against final payments under lease agreements, the last of which matures in 2026.

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**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2015**  
(EUR thousand unless otherwise stated)

**11 Amounts payable to related parties**

As at 31 December 2015, amounts payable to related parties comprised dividends of EUR 579 thousand payable to the Company's sole shareholder UAB BOF Europa Holding (Note 21). The Company may pay dividends when, based on the conditions set out in the loan agreement with AB SEB Bankas, it has complied with the covenants set out in the agreement and if after payment the funds remaining at bank accounts comprise at least EUR 400 thousand.

As at 31 December 2014, amounts payable to related parties comprised dividends of EUR 579 thousand and management fees of EUR 0.3 thousand payable to Northern Horizon Capital A/S (Note 21).

**12 Accrued expenses**

	<u>2015</u>	<u>2014</u>
Accrued utility expenses	109	174
Accrued audit expenses	5	5
Accruals for property valuation costs	2	2
	<u><b>116</b></u>	<u><b>181</b></u>

**13 Other short-term amounts payable**

	<u>2015</u>	<u>2014</u>
Value added tax payable	47	102
Payable real estate tax	42	42
Accrued interest	4	-
	<u><b>93</b></u>	<u><b>144</b></u>

**14 Derivative financial instruments**

The purpose of derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2015, the Company increased the amount of swap to EUR 19,652 thousand based on the swap agreement signed in 2008. The swap is effective until 2 March 2018.

Change in fair value of Interest rate swaps is recognized as effective hedging instrument and in this case any profit or loss relating fair value of a hedging instrument is accounted for in the revaluation reserve of derivative financial instruments under equity, and not in the income statement. In order to ensure application of accounting principles for recognition of hedging instruments, based on risk management policy of the Company each derivative financial instruments is subject to efficiency test and all related documentation is prepared.

Swaps signed by the Company are presented in the table below:

<u>Type of derivative financial instrument</u>	<u>Start date</u>	<u>Contractual end date</u>	<u>Nominal value</u>	<u>Fair value</u>	
				<u>31 December 2015</u>	<u>31 December 2014</u>
Interest rate swap	September 2015	March 2018	19,652	116	-
<b>Derivative financial instrument liabilities</b>			<b>19,652</b>	<b>116</b>	<b>-</b>

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(EUR thousand unless otherwise stated)

**15 Sales**

	<u>2015</u>	<u>2014</u>
Lease income	2,827	2,832
Revenue from resale of utilities and other services	1,216	1,200
	<b><u>4,043</u></b>	<b><u>4,032</u></b>

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts. The value of the investment property as at 31 December 2015 is EUR 37,210 thousand.

The longest lease agreements are effective until 2026. Based on the currently effective agreements, the lessee, having agreed with the lessor, is entitled to the extension of lease agreements.

**16 Cost of sales**

	<u>2015</u>	<u>2014</u>
Utilities	590	396
Repairs and asset maintenance	434	409
Sales and marketing expenses to clients	274	262
Asset management expenses *	230	223
Real estate tax	171	171
Insurance	14	13
	<b><u>1,713</u></b>	<b><u>1,474</u></b>

\* Based on the agreement, until 30 June 2015 the Company paid asset management fee to Northern Horizon Capital A/S (in 2014 this company was renamed, previously BPT Asset Management A/S). Based on the agreement, as of 1 July 2015 the Company paid asset management fee to UAB BPT Real Estate.

**17 Operating expenses**

	<u>2015</u>	<u>2014</u>
Advisory services	65	43
Management and performance fee *	37	291
Change in impairment allowance for doubtful trade receivables and expenses related to write-off of bad debts	-	50
Audit expenses	5	8
Licence fees	6	6
Other	3	2
	<b><u>116</u></b>	<b><u>400</u></b>

\* Until March 2015 the Company paid quarterly management fee calculated from the value of investment property to Northern Horizon Capital A/S (in 2014 this company was renamed, previously BPT Asset Management A/S).

**18 Income (expenses) from financing and investing activities – net result**

	<u>2015</u>	<u>2014</u>
Interest income	21	23
Change in fair value (Note 3)	1,244	(3,586)
Interest expenses	(590)	(550)
Currency exchange loss	(5)	(13)
	<u><b>670</b></u>	<u><b>(4,126)</b></u>

**19 Corporate income tax**

	<u>2015</u>	<u>2014</u>
Net result before corporate income tax	2,898	(1,968)
Temporary differences	(399)	(612)
Permanent differences	8	51
Change in fair value (Note 3)	(1,244)	3,586
Depreciation of investment property for profit tax purposes	(2,487)	(2,483)
<b>Taxable result for the period</b>	<u><b>(1,224)</b></u>	<u><b>(1,426)</b></u>

**Components of income tax income (expenses)**

Income tax (expenses) for the reporting period	-	-
Deferred tax income (expenses)	(573)	289
<b>Income tax income (expenses), recognised in the income statement</b>	<u><b>(573)</b></u>	<u><b>289</b></u>
Change in deferred tax on derivative financial instruments stated directly under equity	18	-
<b>Change in deferred income tax</b>	<u><b>(555)</b></u>	<u><b>289</b></u>

**Deferred tax asset**

Tax losses	1,294	1,249
Impairment allowance for receivables	45	45
Deferred tax asset on derivative financial instruments	18	-
Deferred tax asset	1,357	1,294
Not recognised part of deferred tax asset due to bad debts	(45)	(45)
Net deferred tax asset	<u>1,312</u>	<u>1,249</u>

**Deferred tax liability**

Investment property (depreciation and fair value adjustment)	(3,951)	(3,333)
Deferred tax liability	<u>(3,951)</u>	<u>(3,333)</u>

**Net deferred tax (liability)**

**(2,639)**      **(2,084)**

Deferred income tax was calculated applying the rates, which will be in effect when deferred income tax is intended to be realised; i.e. 15% in 2014, and 15% in 2015 and subsequent years.

In 2015, the Company transferred EUR 973 thousand of tax loss to the shareholder free of charge.

## 19 Corporate income tax (continued)

The accounted for income tax expenses for the year can be reconciled with the amount of income tax expenses calculated applying the effective income tax rate (15% in 2015 and 15% in 2014) for the profit before taxation (EUR thousand):

	<u>2015</u>	<u>2014</u>
Income tax, calculated applying 15% rate	(435)	295
Permanent differences	(1)	(7)
Impact of tax losses transferred to related parties	(145)	-
Deferred income tax corrections of previous reporting periods	<u>8</u>	<u>1</u>
<b>Income tax income (expenses) recognised in the income statement</b>	<b><u>(573)</u></b>	<b><u>289</u></b>

## 20 Financial assets and liabilities, and risk management

### Credit risk

Credit risks, or the risk of counter-parties default, are controlled by application of appropriate control procedures. The Company applies procedures ensuring that lease services are provided only to reliable customers and by entering into agreements providing additional guarantees.

The Company does not guarantee the obligations of other parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, if any, in the balance sheet. Accordingly, the Company's management believes that the maximum risk is equal to the amount of trade and other receivables, net of the impairment losses recognised as at the balance sheet date.

### Interest rate risk

As at 31 December 2015 the Company had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk. In 2015 Interest Rate Swap transaction has been signed with maturity date – 2 March 2018. Under this contract the Company agrees to exchange, at specified intervals, the difference between fixed and variable (3M EURIBOR) rate interest amounts calculated by reference to an agreed-upon notional principal amount. SWAP notional amount is EUR 19,652 thousand.

### Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have funding available under credit lines in an adequate amount, in order to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity ratio (total current assets / total amounts payable within one year and current liabilities) and quick ratio ((total current assets – inventories) / total amounts payable within one year and current liabilities) were 0.26 as at 31 December 2015 (31 December 2014: 1.35).

Short-term liabilities of the Company exceeded current assets. The ultimate shareholder on the Company BPT Baltic Opportunity Fund (REIF) confirmed in its letter of 23 March 2016 that it will take all the necessary measures, if needed, to ensure the Company's ability to continue as a going concern for at least 12 months from the balance sheet date.

### Foreign exchange risk

The Company is not exposed to significant foreign exchange risk, as it carries out transactions in euro.

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**21 Related party transactions**

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company with transactions in 2015 and 2014 are the following:

- UAB BOF Europa Holding (the sole shareholder of the Company). The Company has dividends payable.
- Baltic Property Trust Secura A/S (previous controlling shareholder). The Company received a loan in 2014 and paid interest to this company (Notes 9 and 11).
- Northern Horizon Capital A/S (management service provider). The Company purchased management services from this company from 1 January 2011 until 2 March 2015 (Notes 11, 15 and 16).
- UAB BPT Real Estate (service provider of asset management and accounting). The Company hires asset management services from this company from 2 March 2015 (Note 15).

The Company's transactions with related parties in 2015 and balances as at 31 December 2015 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB BOF Europa Holding	-	4,857	205	-	-
UAB BPT Real Estate	-	18	230	-	-
Northern Horizon Capital A/S	-	-	37	-	-
Baltic Property Trust Secura A/S	-	-	5	-	-
	<b>-</b>	<b>4,857</b>	<b>247</b>	<b>-</b>	<b>-</b>

Amounts payable of UAB BOF Europa Holding are comprised of loans and payable interests, and expenses are the interest expenses.

The Company's transactions with related parties in 2014 and balances as at 31 December 2014 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB BOF Europa Holding	-	12 287	198	2	-
Northern Horizon Capital A/S	-	-	518	-	-
Baltic Property Trust Secura A/S	-	1 321	63	-	-
	<b>-</b>	<b>13 608</b>	<b>779</b>	<b>2</b>	<b>-</b>

Amounts payable of BOF Europa Holding and Baltic Property Trust Secura A/S are comprised of loans and payable interest, and expenses are the interest expenses.

In 2015, the remuneration of the Company's management amounted to EUR 0.4 thousand (2014: EUR 0.4 thousand). In 2015 and 2014 the management of the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

**22 Post-balance sheet events**

After the end of the financial year until the approval of these financial statements, there were no other post-balance sheet events, which would have an effect on these financial statements or require disclosure. Draft appropriation of profit was not yet prepared as at the date of approval of these financial statements.

### 23 Contingencies

UAB BOF Europa was in on-going litigation with AB Hanner regarding the amount of receivables and payables with this company. As at 31 December 2015 UAB BOF Europa accounted for a receivable of EUR 121 thousand and payable of EUR 81 thousand to AB Hanner, which included counterclaims between the parties but excluded claimed additional interest and litigation costs.

As at 31 December 2015, there was no other on-going litigation, which could materially affect the consolidated financial position of the Group.

No full tax investigation of the Company for the period from 1 January 2011 until 31 December 2015 has been performed by the tax authorities. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of five years preceding the accounting tax period, as well as calculate additional taxes and penalties.

In 2012, Vilnius County State Tax Inspectorate performed an analysis of income tax for the period from 1 December 2008 until 31 December 2010. During the tax investigation, no violations were detected.

The management of the Company is not aware of any circumstances, which would cause calculation of additional tax liabilities.

<u>Managing Director</u>	<u>Darius Urbonas</u>		<u>31 March 2016</u>
<u>Head of the company in charge of accounting</u>	<u>Mariana Portianko</u>		<u>31 March 2016</u>

## **APPENDIX I**

### **Audited Financial Statements of Europa SPV for the Year 2014**

The audited financial statements of Europa SPV for the financial year ending 31 December 2014 were prepared only in Lithuanian language. For the purpose of this Offering Circular, they have been translated into English language. The translation that is unaudited is presented in this appendix.

# UAB BPTS EUROPA

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2014 PREPARED IN  
ACCORDANCE WITH BUSINESS ACCOUNTING STANDARDS, PRESENTED  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

## **Company details**

### **UAB BPTS Europa**

Telephone: +370 5 231 3638  
Registration No.: 000980  
Address: Gynėjų g. 16, Vilnius

### **Board**

Algirdas Jonas Vaitiekūnas  
Aušra Stankevičienė  
Michael Rudolf Schonach

### **Management**

Darius Urbonas – Managing Director

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas

## **Independent Auditor's Report**

To the Shareholder of UAB BPTS Europa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of UAB BPTS Europa ("the Company"), which comprise the balance sheet as at 31 December 2014, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 6–23.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Business Accounting Standards of the Republic of Lithuania, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of UAB BPTS Europa as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the annual report of UAB BPTS Europa for the year ended 31 December 2014, set out on pages 4–5 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of UAB BPTS Europa for the year ended 31 December 2014.

On behalf of KPMG Baltics, UAB

Eero Kaup  
Audit Partner

Rokas Kasperavičius  
Partner pp  
Certified Auditor

Vilnius, the Republic of Lithuania  
18 May 2015

## **ANNUAL REPORT OF UAB BPTS EUROPA**

### **YEAR 2014**

#### **REPORTING PERIOD COVERED BY THE ANNUAL REPORT**

The annual report is prepared for the year 2014, all figures are presented as at 31 December 2014 unless otherwise stated. In this report, UAB BPTS Europa can also be referred to as "the Company".

#### **GENERAL INFORMATION ABOUT THE COMPANY**

Name: UAB BPTS Europa  
Company's authorised capital: LTL 3,000 thousand  
Registration date: 6 October 2004  
Operational period: not limited  
Company code: 300059140  
The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises  
Address: Gynėjų g. 16, Vilnius, the Republic of Lithuania  
Legal-organizational form: limited liability company  
Governing law: law of the Republic of Lithuania  
Country of establishment: the Republic of Lithuania

#### **1. OBJECTIVE REVIEW OF THE COMPANY'S POSITION, ACTIVITY AND DEVELOPMENT, CHARACTERISATION OF THE MAIN TYPES OF RISKS AND UNCERTAINTIES FACED BY THE COMPANY**

All shares with the nominal value of LTL 100 each are ordinary and were fully paid as at 31 December 2014 and 2013. At the time of establishment, the Company's authorised capital amounted to LTL 10 thousand. On 24 December 2004 the authorised capital was increased to LTL 51,653 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by LTL 6,653 thousand eliminating the shares and it amounted to LTL 45,000 thousand as at 31 December 2012. Based on the decision of the sole shareholder, on 30 April 2014 the Company's authorised capital was reduced to LTL 3,000 thousand eliminating 420 thousand shares.

As at 31 December 2014 and 2013, the Company's shareholders were:

	<b>2014</b>		<b>2013</b>	
	<b>Number of shares held</b>	<b>Ownership share</b>	<b>Number of shares held</b>	<b>Ownership share</b>
UAB Baltic Property Trust Secura	30,000	100%	450,000	100%
Total	30,000	100%	450,000	100%

As at 31 December 2014, the Company's assets comprised LTL 131,576 thousand, including the investment property of LTL 122,920 thousand, amounts receivable after one year of LTL 1,182 thousand and current assets of LTL 7,474 thousand.

The investment property owned by the Company comprised the shopping centre Europa located at Konstitucijos pr. 7A, Vilnius, two land plots and ½ parking, located at Konstitucijos pr. 7B and Europos a. 1, Vilnius.

When preparing the financial statements for the year 2014, for its non-current assets the Company used the accounting principles requiring the fair value method to be used for the accounting of investment property (leased property) in the financial statements, excluding depreciation as required by the provisions of Business Accounting Standard 12.

The Company's sales in 2014 amounted to LTL 13,920 thousand from operating activities; i.e. from the lease of the investment property owned by the Company. The Company's result for 2014 is net loss of LTL 5,799 thousand.

#### **2. NUMBER OF EMPLOYEES AT THE END OF THE PERIOD**

As at 31 December 2014, the Company had 1 employee.

### **3. INFORMATION ABOUT OWN SHARES ACQUIRED AND TRANSFERRED**

During the reporting period, the Company did not acquire or transfer own shares.

### **4. COMPANY'S SUBSIDIARIES**

As at 31 December 2014, the Company had no subsidiaries.

### **5. INFORMATION ABOUT THE BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY**

The Company has no branches or representative offices.

### **6. IMPORTANT EVENTS, WHICH HAVE OCCURRED AFTER FINANCIAL YEAR-END**

On 9 February 2015 Baltic Property Trust Secura A/S ("the Seller") signed a Share Sales and Purchase Agreement with Northern Horizon Capital AS (on behalf of BPT Baltic Opportunity Fund, "the Buyer"). The Seller sold the shares of UAB Baltic Property Trust, which is the shareholder of UAB BPTS Europa. Accordingly, the investment property of UAB BPTS Europa was also included into the sale transaction. The transaction was completed on 2 March 2015. In the opinion of the local management, Northern Horizon Capital AS is a related party of UAB BPTS Europa.

After the end of the financial year until the approval of these financial statements, there were no other post-balance sheet events, which would have an effect on these financial statements or require disclosure.

### **7. INFORMATION ABOUT THE COMPANY'S ACTIVITY PLANS, DEVELOPMENT AND FORECASTS**

The Company's vision and strategy: shops and restaurants of well-known brands with unique, luxurious and modern design and activity conceptions. The main goal for 2015 is to further strengthen and maintain its position and niche in the city's market by increasing the attractiveness of the shopping centre to customers and potential and current lessees. Also, the goal is to focus on sales promotion by the lessees' shops, an average 10% growth in turnover is expected. The Company plans to sign and extend several strategically important lease agreements on the opening of several exclusive shops in 2015. The centre's occupancy rate is expected to be 95% or higher, and annual number of customers not below 4 million.

### **8. WHEN THE COMPANY EMPLOYS FINANCIAL INSTRUMENTS AND WHEN IT IS IMPORTANT FOR THE VALUATION OF THE COMPANY'S ASSETS, EQUITY, LIABILITIES, FINANCIAL POSITION AND ACTIVITY RESULTS, THE COMPANY DISCLOSES THE OBJECTIVES OF THE FINANCIAL RISK MANAGEMENT, ITS POLICY FOR HEDGING MAJOR TYPES OF FORECASTED TRANSACTIONS FOR WHICH HEDGE ACCOUNTING IS USED, AND COMPANY'S EXPOSURE TO PRICE RISK, CREDIT RISK, LIQUIDITY RISK AND CASH FLOW RISK**

In 2008, the Company signed interest rate swap agreements with AB SEB Bankas. The purpose of these derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2011, the Company increased the amount of swap to LTL 65,451 thousand based on the swap agreement signed in 2008. The swap is effective until 31 January 2014.

Authorised person

Mariana Portianko

## Balance sheet

	Notes	31 December 2014	31 December 2013
<b>ASSETS</b>			
<b>A. Non-current assets</b>			
I. Intangible non-current assets		-	-
II. Investment property	3	122,920	132,933
III. Amounts receivable after one year	5	1,182	1,277
<b>Total non-current assets</b>		<b>124,102</b>	<b>134,210</b>
<b>B. Current assets</b>			
I. Inventories, prepayments and contracts in progress		-	-
II. Amounts receivable within one year			
II.1. Trade receivables	4	1,435	1,705
II.2. Receivables from related parties		-	-
II.3. Other amounts receivable	5	711	482
Total amounts receivable within one year		2,146	2,187
III. Other current assets		-	-
IV. Cash and cash equivalents	6	5,328	4,746
<b>Total current assets</b>		<b>7,474</b>	<b>6,933</b>
<b>Total assets</b>		<b>131,576</b>	<b>141,143</b>

*(continued on the next page)*

## Balance sheet (continued)

	Notes	31 December 2014	31 December 2013
<b>EQUITY AND LIABILITIES</b>			
<b>C. Shareholders' equity</b>			
I. Authorised capital	7	3,000	45,000
II. Revaluation reserve (results)	8	-	(50)
III. Reserves	8	4,500	4,500
IV. Retained earnings (losses)		6,969	14,762
<b>Total equity</b>		<b>14,469</b>	<b>64,212</b>
<b>D. Grants and subsidies</b>			
		-	-
<b>E. Amounts payable and liabilities</b>			
<b>I. Amounts payable after one year and non-current liabilities</b>			
I.1. Long-term loans	9	103,809	3,936
I.2. Advances received	10	583	583
I.3. Deferred income tax liability	19	7,194	8,183
I.4. Derivative financial instruments	14	-	-
<b>Total amounts payable after one year and non-current liabilities</b>		<b>111,586</b>	<b>12,702</b>
<b>II. Amounts payable within one year and current liabilities</b>			
II.1. Current portion of long-term loans	9	-	60,727
II.2. Short-term loans	9	-	-
II.3. Advances received	10	148	157
II.4. Trade creditors		927	1,777
II.5. Amounts payable to related parties	11	3,309	988
II.6. Accruals	12	625	108
II.7. Other current amounts payable	13	496	406
II.8. Deferred income		16	7
II.9. Derivative financial instruments	14	-	59
<b>Total amounts payable within one year and current liabilities</b>		<b>5,521</b>	<b>64,229</b>
<b>Total equity and liabilities</b>		<b>131,576</b>	<b>141,143</b>

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

Authorised person	Mariana Portianko	18 May 2015
Head of the company in charge of accounting	Justina Ženovaitė	18 May 2015

## Income statement

	Notes	2014	2013
I. Sales	15	13,920	16,033
II. (Cost of) sales	16	(5,086)	(6,791)
<b>III. Gross profit</b>		<b>8,834</b>	<b>9,242</b>
IV. Operating (expenses)	17	(1,384)	(925)
<b>V. Operating profit</b>		<b>7,450</b>	<b>8,317</b>
VI. Income (expenses) from other activities – net result		(3)	(1)
VII. Income (expenses) from financing and investing activities – net result	18	(14,244)	(10,728)
<b>VIII. Profit from ordinary activities</b>		<b>(6,797)</b>	<b>(2,412)</b>
IX. Extraordinary gains		-	-
X. Extraordinary losses		-	-
<b>XI. Profit before taxes</b>		<b>(6,797)</b>	<b>(2,412)</b>
XII. Corporate income tax	19	998	358
<b>XIII. Net profit</b>		<b>(5,799)</b>	<b>(2,054)</b>

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

Authorised person	Mariana Portianko	18 May 2015
Head of the company in charge of accounting	Justina Ženovaitė	18 May 2015

## Statement of changes in equity

	Notes	Authorised capital	Revaluation reserve (results)	Reserves	Retained earnings (losses)	Total
<b>Balance at 31 December 2012</b>		<b>45,000</b>	<b>(719)</b>	<b>4,500</b>	<b>16,816</b>	<b>65,597</b>
Approved dividends		-	-	-	-	-
Transfers to reserves	8	-	-	-	-	-
Fair value reserve of derivative financial instruments, negative change	8	-	669	-	-	669
Net profit (loss) for the year		-	-	-	(2,054)	(2,054)
<b>Balance at 31 December 2013</b>		<b>45,000</b>	<b>(50)</b>	<b>4,500</b>	<b>14,762</b>	<b>64,212</b>
Increase/reduction of authorised capital		(42,000)	-	-	-	(42,000)
Approved dividends		-	-	-	(2,000)	(2,000)
Transfers to/from reserves	8	-	50	-	-	50
Fair value reserve of derivative financial instruments, negative change	8	-	-	-	-	-
Correction of errors of the previous periods	8	-	-	-	6	6
Net profit (loss) for the year		-	-	-	(5,799)	(5,799)
<b>Balance at 31 December 2014</b>		<b>3,000</b>	<b>0</b>	<b>4,500</b>	<b>6,969</b>	<b>14,469</b>

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

Authorised person	Mariana Portianko		18 May 2015
Head of the company in charge of accounting	Justina Ženovaitė		18 May 2015

## Cash flow statement

	Notes	2014	2013
<b>I. Cash flows from operating activities</b>			
I.1. Net profit (loss)		(5,799)	(2,054)
<b>Reversal of non-cash expenses (income):</b>			
I.2. Change in fair value of investment property	3	12,383	8,787
I.3. Change in impairment allowance of doubtful receivables	4	120	(10)
I.4. Change in deferred income tax	19	(989)	(241)
I.5. Decrease (increase) in accrued income		(252)	106
I.6. Interest expenses	18	1,900	2,001
I.7. Interest (income)	18	(80)	(87)
		<u>7,283</u>	<u>8,502</u>
<b>Changes in operating capital:</b>			
I.8. Decrease (increase) of trade receivables		149	(275)
I.9. Decrease (increase) of prepayments and other receivables		115	15
I.10. Decrease (increase) of long-term trade receivables		9	302
I.11. Increase (decrease) of trade debts, other payables, long-term and short-term advances received and other current liabilities		134	1,834
<b>Net cash flow from operating activities</b>		<u><b>7,690</b></u>	<u><b>10,378</b></u>
<b>II. Cash flow from investing activities</b>			
II.1. (Acquisition) of non-current assets	3	(2,370)	(17)
II.2. Interest received		81	87
<b>Net cash flow from investing activities</b>		<u><b>(2,289)</b></u>	<u><b>70</b></u>
<b>III. Cash flow from financing activities</b>			
III.1. Long-term loans (repaid)		(2,664)	(3,378)
III.2. Short-term loans (repaid)		(190)	-
III.3. Dividends (paid)		(956)	(2,673)
III.4. Loans received		-	-
III.5. Interest (paid)		(1,009)	(1,724)
<b>Net cash flow from financing activities</b>		<u><b>(4,819)</b></u>	<u><b>(7,775)</b></u>
<b>IV. Net increase (decrease) in cash flow</b>		<u><b>582</b></u>	<u><b>2,673</b></u>
<b>V. Cash and cash equivalents at the beginning of the period</b>		<u><b>4,746</b></u>	<u><b>2,073</b></u>
<b>VI. Cash and cash equivalents at the end of the period</b>		<u><b>5,328</b></u>	<u><b>4,746</b></u>

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

Authorised person	Mariana Portianko		18 May 2015
Head of the company in charge of accounting	Justina Ženovaitė		18 May 2015

## **Explanatory notes**

### **1 General information**

UAB BPTS Europa (hereinafter "the Company") is a limited liability company registered in the Republic of Lithuania. Its registered address is:

Gynėjų g. 16,  
Vilnius,  
Lithuania.

The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises. The Company was registered on 6 October 2004.

As at 31 December 2014 and 2013 the sole shareholder of the Company was UAB Baltic Property Trust Secura.

All the Company's shares with the nominal value of LTL 100 each are ordinary and were fully paid as at 31 December 2014 and 2013. At the time of establishment, the Company's authorised capital amounted to LTL 10 thousand. On 24 December 2004 the authorised capital was increased to LTL 51,653 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by LTL 6,653 thousand eliminating the shares and it amounted to LTL 45,000 thousand as at 31 December 2013 and 2012. Based on the decision of the sole shareholder, on 30 April 2014 the Company's authorised capital was reduced to LTL 3,000 thousand eliminating 420 thousand shares. The Company had no own shares acquired.

As at 31 December 2014 and 2013, the Company had 1 employee.

The Company's management approved these financial statements on 18 May 2015. The Company's shareholders have a statutory right to either approve these financial statements or not to approve them and require that the new set of financial statements be prepared.

### **2 Summary of significant accounting policies**

The main accounting policies followed by the Company when preparing the financial statements for 2014 are as follows:

#### **2.1. Basis of preparation**

These financial statements have been prepared in accordance with the Law on Accounting of the Republic of Lithuania, which is in effect as at 31 December 2014, the Law on Financial Statements of Entities of the Republic of Lithuania and Business Accounting Standards (BAS) in effect which include the standards and methodological recommendations drawn up and approved by the Authority of Audit and Accounting.

The accounting policies were consistently applied by the Company in 2014 and are consistent with those used in the previous year.

The Company's financial statements were prepared on a historical cost basis, except for investment property and derivative financial instruments, which are carried at fair value.

#### **2.2. Currency of the financial statements**

Figures in these financial statements are presented in litas.

Starting from 2 February 2002, the Lithuanian litas was pegged to euro at the rate of LTL 3.4528 for EUR 1, and the exchange rates in relation to other currencies were set daily by the Bank of Lithuania. On 1 January 2015, the Republic of Lithuania joined the Eurozone and its national currency litas was replaced by the euro (Note 22).

#### **2.3. Foreign currency**

Transactions in foreign currencies are carried at the official currency exchange rate prevailing on the day of the transaction. Profit or loss resulting from these transactions and revaluation result of the balance of assets and liabilities in foreign currency on the balance sheet date are reported in the income statement. These balances are revaluated at the currency exchange rate prevailing on the closing day of the reporting period.

## **2 Summary of significant accounting policies (continued)**

### **2.4. Use of estimates when preparing the financial statements**

To prepare the financial statements in accordance with BAS, the management needs to make measurements and estimates based on the assumptions which had an impact on the application of accounting policies and on the reported amounts of assets, liabilities, income and expenses, and disclosure of uncertainties. Future events may cause changes in assumptions used to make estimates. The result of changes in the said estimates is reported in the financial statements when it is determined.

Significant areas in these financial statements which involve estimates are measurement of the fair value of investment property, depreciation for corporate income tax purposes, measurement of the fair value of derivative financial instruments and impairment of receivables and other assets.

### **2.5. Investment property**

The Company's investment property comprises investment into buildings, which are held to earn lease income or for capital appreciation, 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. Based on BAS 12 "Non-current tangible assets", investment property is initially measured at fair value, including expenses of transactions. Subsequently all investment property is measured at fair value, which, among other things, reflects the proceeds from short-term lease and reasonable assumptions, which show the market approach on the assumptions made by knowing and willing parties on income from future lease considering current market conditions.

Transfers from/to investment property are made only when the purpose of the property has changed.

The impact of changes in fair value during the year is included in the income statement.

Repair expenses of financial assets presented at fair value are recognised as expenses in the period when incurred.

### **2.6. Amounts receivable**

Amounts receivable are initially measured at cost. Subsequently, amounts receivable are accounted for at amortised cost less impairment losses.

### **2.7. Cash and cash equivalents**

Cash comprises cash in hand and at bank. Cash equivalents comprise short-term and highly liquid investments which can be easily converted into a known amount of cash. The term of these investments does not exceed three months and the risk of value changes is insignificant.

Cash and cash equivalents reported in the cash flow statement comprise cash in current accounts and other short-term highly liquid investments.

### **2.8. Borrowings**

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at cost of proceeds received. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in profit or loss over the period of the borrowings. Borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

## **2 Summary of significant accounting policies (continued)**

### **2.9. Operating lease**

#### Company as a lessor

Leases in terms of which the lessor assumes a significant part of risks and rewards of ownership are classified as operating leases. When the Company acts as a lessor, such assets are recorded in its balance sheet based on the similar groups of assets and at the same time stated in different accounts to accumulate information related to such activities. Income calculated in accordance with lease agreements is recognised when generated. In those cases when the Company grants the lessee additional discounts or covers part of its expenses, the lease income over the period of lease or promotion is reduced by these amounts.

Initial costs related to concluding a lease agreement due to the intention to earn income from lease of assets are accrued and recognised as expenses over the lease term of the assets. Depreciation of assets leased out, except for investment property carried at fair value, is calculated using the same accounting policy that the Company applies to other assets of the same group.

Increase/decrease in the value of leased assets is recorded applying the same principles as for other items of non-current assets.

#### Lease deposits

Deposits are initially accounted for at fair value. The fair value of deposits is established based on the prevailing interest rate of a similar loan, considering the reliability of a lessor and depending on other facts and circumstances, and other additional guarantees granted to the lessee. The difference of the deposits value exceeding the fair value is accounted for as prepaid lease expenses (income) and is amortised on a straight-line basis over the lease period. Deposit interest is accounted for using the effective interest rate (EIR) method.

### **2.10. Finance lease**

#### Company as a lessor

Leases in terms of which substantially all the risks and rewards of ownership are transferred to the lessee are leasing (finance lease). When assets are held for finance lease (leasing), the present value of lease payments is recognised as an amount receivable. The difference between the total value of amounts receivable and their present value is recognised as unearned income from financing activities.

The lessor recognises payments received according the finance lease agreement as the repayment of debt (at the amount of asset value coverage) and income from financing and investing activities (at the amount of interest) when finance leasing is not the primary activity of the lessor. Interest income is recorded on the accrual basis.

### **2.11. Legal reserve**

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve cannot be distributed.

### **2.12. Dividends**

Dividends are recognised as a liability in the period in which they are declared.

### **2.13. Derivative financial instruments**

The Company uses derivative financial instruments for interest rate risk management purposes. Such derivative financial instruments are recognised on a transaction date at fair value, which is subsequently remeasured. Derivative financial instruments are recognised as financial assets for contracts having a positive fair value; and as financial liabilities for contracts with a negative fair value.

Any gains or losses from changes in fair value of derivative financial instruments during the year are directly recognised in the income statement.

## 2 Summary of significant accounting policies (continued)

### 2.14. Hedge accounting

For the purposes of hedge accounting, hedges are classified in two categories: (a) fair value hedges which hedge exposure to changes in fair values of a recognised assets or liability, and (b) 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 revaluation of the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts profit or loss or in the period of initial assessment of costs of respective assets or equity.

In case of hedge transactions that do not meet the requirements for hedge accounting, any gains or losses from changes in fair value of hedged instrument are included in the income statement for that period.

Hedge accounting is terminated when hedging instrument expires, is sold, terminated, executed or if it no longer meets the criteria applicable for hedge accounting. Then any accumulated gains or losses from hedging instrument recognised in equity are transferred to the income statement.

### 2.15. Corporate income tax

Income tax is calculated on the income for the year taking into account deferred income tax. Income tax is calculated in accordance with Lithuanian statutory requirements on taxation.

A standard income tax rate applicable to the companies of the Republic of Lithuania was 15% in 2014 and 2013. With the amendments of the Law on Corporate Income Tax of the Republic of Lithuania coming into effect, corporate income tax was set at a rate of 15% for unlimited period. Such rate is also applicable in 2015.

Taxable losses can be carried forward to other reporting periods for unlimited number of periods, except for the losses incurred through transfer of securities and (or) derivatives. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. Losses incurred through transfer of securities and (or) derivatives can be carried forward for 5 years and shall be covered by income from transactions of similar nature.

Deferred taxes are calculated based on the balance sheet liabilities method. Deferred tax reflects net tax effect of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are valued at tax rate which is expected to be applied for the period when the assets will be realized or the liability covered with regard to the tax rates which were accepted or in essence accepted on the balance sheet date.

Deferred tax assets are recognised in the balance sheet to the extent the management expects these assets to be realized in the near future taking into account forecasts of taxable profit. If it is likely that a portion of deferred tax assets is not realized, this portion of the deferred tax assets is not recognised in the financial statements.

### 2.16. Revenue recognition

Revenue is recognised when it is probable that the Company gets economic benefits related to the transaction and the amount of income can be reliably estimated. Sales are recorded net of VAT and discounts.

#### Lease income

Investment property lease income is stated on a straight-line basis over the lease period.

## **2 Summary of significant accounting policies (continued)**

### **2.17. Recognition of expenses**

Expenses are recognised in the accounting on an accrual basis and comparison in the reporting period when income in relation to the expenses incurred is earned irrespective of the time when the money is spent. In cases when the expenses incurred over the reporting period cannot be attributed directly with certain income earned and over the next periods those expenses will not generate further income, the expenses are recognised as costs of the period when they were incurred.

Amount of expenses is usually valued at the amount of money paid or payable less VAT. In cases when settlement term is long and interest not specified, the amount of costs is valued at the amount of settlement discounted by the market interest rate.

### **2.18. Impairment of assets**

#### Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

#### Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have significantly decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

### **2.19. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are described in the financial statements except when the probability that resources generating economic benefit will be lost is very low.

Contingent assets are not recognised in the financial statements; however, they are described in the financial statements when it is likely that they will generate revenue or economic benefit.

### **2.20. Post-balance sheet events**

Post-balance sheet events which provide additional information on the Company's standing on the balance sheet date (adjusting events) are reported in the financial statements. Non-adjusting post-balance sheet events are described in the notes, if significant.

### **2.21. Offsetting and comparative figures**

When preparing the financial statements, assets and liabilities as well as income and expenses are not set-off against each other, except when a separate business accounting standard specifically requires for such offsetting.

Comparative figures have been adjusted to correspond to the presentation of the current year, where necessary.

### 3 Investment property

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts for periods from 1 to 10 years.

Changes in the Company's investment property for the year 2014 are as follows:

<b>Balance at 31 December 2013</b>	<b>132,933</b>
Acquisitions, including capitalised costs	2,370
Change in fair value	(12,383)
<b>Balance at 31 December 2014</b>	<b>122,920</b>

As at 31 December 2014 and 2013, investment property was stated at fair value determined according to valuation reports of independent valuator UAB Colliers International Advisors. The fair value as at 31 December 2014 is based on valuation report issued in January 2015. Valuation was carried out according to International Valuation Standards, RICS valuation standards and corresponding methods applied by local market (Lithuania). International Valuation Standards define market value as "the 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 fair value of investment property was measured according to income method using discounted cash flow approach. The discount rate set by valuers amounted to 7.85% (2013: 7.65%), and exit yield amounted to 7% (2013: 7.25%). Growth rate applied to income and expenses in different years amounted to 2.5% (2013: 2.2–4.8%).

The Company pledged the above-mentioned investment property to AB SEB Bankas for a long-term loan (Note 9).

According to the loan agreement with the bank, the Company has the right to dismantle, lease (except for lease under market conditions which are favourable to the Company under ordinary business conditions), write-off and sell the property only with the prior written consent of the bank.

### 4 Trade receivables

	<b>2014</b>	<b>2013</b>
Trade receivables, gross	2,529	2,625
Less: impairment allowance for doubtful receivables	(1,094)	(920)
	<b>1,435</b>	<b>1,705</b>

Change for the year in impairment allowance for doubtful receivables is included in operating expenses.

### 5 Other amounts receivable

	<b>2014</b>	<b>2013</b>
Leasing receivable after one year	1,182	1,277
Leasing receivable within one year	389	302
Accrued income	252	-
Overpayments to suppliers	31	173
Other amounts receivable	39	7
Less: impairment allowance for doubtful other receivables	-	-
	<b>1,893</b>	<b>1,759</b>

## 5 Other amounts receivable (continued)

On 16 April 2010, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 31 October 2010 and ends on 30 September 2018. Interest rate is 5%. On 13 May 2011, the Company signed an agreement to this contract; according to this agreement, the additional leasing payments start on 31 May 2011 and end on 30 September 2018. Interest rate is the same as for the main contract, i.e. 5%.

On 30 May 2014, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 15 June 2014 and ends on 30 May 2018. Interest rate is 5%.

As at 31 December 2014, the total leasing amounts receivable within one year comprise LTL 389 thousand, the total leasing amounts receivable after one year comprise LTL 1,182 thousand. The total leasing amounts receivable as at 31 December 2014 comprise LTL 1,571 thousand. Leasing amounts receivable after one year are included in the balance sheet under amounts receivable after one year.

Maturities of non-current and current portions of leasing:

	<b>31 December 2014 (value coverage)</b>	<b>31 December 2013 (interest)</b>
2015	389	302
2016–2018	1,182	1,277
	<b>1,571</b>	<b>1,579</b>

## 6 Cash and cash equivalents

The Company had no cash in hand and all its cash was held at AB SEB Bankas as at 31 December 2014 and 2013.

As described in Note 9, to secure the repayment of the loan, the Company pledged its funds, investment property and future inflows to bank accounts, receivables from lessees, the annual turnover with which should be EUR 1,500 thousand or higher.

## 7 Capital

In 2014, the Company's authorised capital decreased by LTL 42,000 thousand and amounted to LTL 3,000 thousand as at 31 December 2014. The authorised capital comprises 30,000 ordinary registered shares with a nominal value of LTL 100 each. As at 31 December 2014, all shares were fully paid. After the reduction of the authorised capital, a liability to the shareholder was recognised and recorded as a loan.

Under the Law on Companies of the Republic of Lithuania, a company's equity shall not be lower than ½ of its share capital as indicated in the company's articles of association. As at 31 December 2014 and 2013, the Company complied with this requirement.

## 8 Revaluation and other reserves

### Legal reserve

Legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital.

### Revaluation reserve (fair value reserve for derivative financial instruments)

As at 31 December 2014, the Company did not have revaluation reserve, as it did not use derivative financial instruments.

	<b><u>31 December 2014</u></b>
Legal reserve	4,500

## 9 Borrowings

As at 31 December 2014, the Company's financial liabilities comprised the following:

	<b>Effective interest rate</b>	<b>Maturity</b>	<b>Amount of liability</b>
(A) AB SEB Bankas loan	1.51% *	02/03/2018	60,131
(B) Baltic Property Trust Secura A/S loan	5.5% **	31/12/2019	3,936
(C) Baltic Property Trust Secura UAB loan	4% **	31/12/2016	39,742
			<b>103,809</b>

\* Interest rate is variable: 1-month EURIBOR + 1.4% margin.

\*\* Interest rate is fixed.

- (C) On 20 December 2004, the Company signed a long-term agreement with AB SEB Bankas for the amount of LTL 77,688 thousand (EUR 22,500 thousand). The loan was taken to refinance loans received from UAB Baltic Property Trust Secura and UAB PC Europa. On 29 January 2014, an amendment was signed to the credit agreement amending and revising the agreement signed in 2004: variable interest rate of 1-month EURIBOR + 1.35% margin, the loan maturity extended until 31 January 2015 (on 2 March 2015 the loan maturity was extended until 2 March 2018).

To secure the fulfilment of obligations under the loan agreement, the Company pledged investment property with the fair value of LTL 122,920 thousand (EUR 35,600 thousand) as at 31 December 2014. The Company also pledged all current and future funds (future inflows) in all currencies in bank accounts, a demand right to amounts receivable from lessees, the annual turnover with which should be EUR 1,500 thousand or higher, and land plots located at Konstitucijos pr. 7B and Europos a. 1. The agreement was appended by a maximum pledge of LTL 18,080 thousand (EUR 5,236 thousand).

The balance of this loan as at 31 December 2014 was LTL 60,133 thousand (EUR 17,416 thousand). The total outstanding loan amount is denominated in euro.

- (D) On 26 January 2010, the Company signed a long-term loan agreement for the amount of EUR 1,900 thousand with an indirect shareholder of the Company, Baltic Property Trust Secura A/S. Annual interest rate is 5.5% (fixed). The loan shall be repaid in equal instalments (20%) within 5 years from 1 January 2015 until 31 December 2019. The loan balance as at 31 December 2014 is LTL 4,561 thousand (EUR 1,321 thousand), including accrued interest of LTL 625 thousand (EUR 181 thousand). According to the loan agreement with AB SEB Bankas, the loan received from the shareholder is subordinated to the bank's loan.
- (E) On 28 July 2014, the Company signed a long-term loan agreement for the amount of EUR 12,164 thousand with a direct shareholder of the Company, UAB Baltic Property Trust Secura. Annual interest rate is 4% (fixed). The loan shall be repaid until 31 December 2016. The loan balance as at 31 December 2014 is LTL 40,425 thousand (EUR 11,708 thousand), including accrued interest of LTL 683 thousand (EUR 198 thousand).

The bank's loan agreement includes certain financial and other covenants which the Company is required to comply with in order to secure financing. Based on the financial information as at 31 December 2014, the Company complied with these covenants.

Maturities of short-term and long-term loans:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Long-term loans</b>		
Loans from credit institutions	60,131	-
Loans from the shareholder	43,678	3,936
	<b>103,809</b>	<b>3,936</b>
<b>Short-term loans</b>		
Current portion of long-term loans from credit institutions	-	60,319
Current portion of long-term loan from shareholder	-	408
	<b>-</b>	<b>60,727</b>
	<b>103,809</b>	<b>64,663</b>

## 10 Advances received

As at 31 December 2014 and 2013, received long-term and short-term advances comprised amounts received from lessees as a guarantee for fulfilment of their liabilities. These amounts will be offset against final payments under lease agreements, the last of which matures in 2024.

## 11 Amounts payable to related parties

As at 31 December 2014, amounts payable to related parties comprised dividends of LTL 2,000 thousand and interest of LTL 683 thousand payable to the Company's sole shareholder UAB Baltic Property Trust Secura, interest of LTL 625 thousand payable to AS Baltic Property Trust Secura and management fees of LTL 1 thousand payable to Northern Horizon Capital A/S (Note 21). The Company may pay dividends when, based on the conditions set out in the loan agreement with AB SEB Bankas, it has complied with the covenants set out in the agreement for at least two consecutive quarters and if after payment the funds remaining at bank accounts comprise at least LTL 1,500 thousand. As at 31 December 2013, the Company complied with the conditions allowing the payment of part of dividends. As at 31 December 2014, the Company also complied with these conditions.

As at 31 December 2013, amounts payable to related parties comprised dividends of LTL 956 thousand payable to the Company's sole shareholder UAB Baltic Property Trust Secura and management fees of LTL 32 thousand payable to Northern Horizon Capital A/S (Note 21).

## 12 Accruals

	<u>2014</u>	<u>2013</u>
Accrued utility expenses	601	44
Accrued audit expenses	16	16
Accruals for property valuation costs	8	8
Interest accruals for derivative financial instruments	-	40
	<u>625</u>	<u>108</u>

## 13 Other short-term amounts payable

	<u>2014</u>	<u>2013</u>
Value added tax payable	350	288
Payable real estate tax	145	117
Payable remuneration	1	1
	<u>496</u>	<u>406</u>

## 14 Derivative financial instruments

In 2008, the Company signed interest rate swap agreements with AB SEB Bankas. The purpose of these derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2011, the Company increased the amount of swap to LTL 65,451 thousand based on the swap agreement signed in 2008. The swap is effective until 31 January 2014.

## 15 Sales

	<u>2014</u>	<u>2013</u>
Lease income	9,778	11,300
Revenue from resale of utilities and other services	4,142	4,733
	<u><b>13,920</b></u>	<u><b>16,033</b></u>

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts. The value of the investment property as at 31 December 2014 is LTL 122,920 thousand.

The longest lease agreements are effective until 2024. Based on the currently effective agreements, the lessee, having agreed with the lessor, is entitled to the extension of lease agreements.

## 16 Cost of sales

	<u>2014</u>	<u>2013</u>
Repairs and asset maintenance	1,405	1,513
Utilities	1,369	2,706
Sales and marketing expenses to clients	906	1,303
Asset management expenses *	771	767
Real estate tax	590	471
Insurance	45	31
	<u><b>5,086</b></u>	<u><b>6,791</b></u>

\* Based on the agreement, the Company paid asset management fee to Northern Horizon Capital A/S (in 2014 this company was renamed, previously BPT Asset Management A/S).

## 17 Operating expenses

	<u>2014</u>	<u>2013</u>
Management and performance fee*	1,006	699
Change in impairment allowance for doubtful trade receivables and expenses related to write-off of bad debts	174	(24)
Advisory services	67	197
Audit expenses	27	27
Other	110	26
	<u><b>1,384</b></u>	<u><b>925</b></u>

\* The Company pays quarterly management fee calculated from the value of investment property to Northern Horizon Capital A/S (in 2014 this company was renamed, previously BPT Asset Management A/S).

**18 Income (expenses) from financing and investing activities – net result**

	<u>2014</u>	<u>2013</u>
Interest income	80	87
Change in fair value (Note 3)	(12,383)	(8,787)
Interest expenses	(1,900)	(2,001)
Currency exchange loss	(41)	(27)
	<u><b>(14,244)</b></u>	<u><b>(10,728)</b></u>

**19 Corporate income tax**

	<u>2014</u>	<u>2013</u>
Net result before corporate income tax	(6,797)	(2,412)
Temporary differences	1,696	196
Permanent differences	175	(10)
Realisation of tax losses	-	-

**Taxable result for the period** **(4,926)** **(2,226)**

**Components of income tax income (expenses)**

Income tax (expenses) for the reporting period	-	-
Deferred tax income (expenses)	998	358
<b>Income tax income (expenses), recognised in the income statement</b>	<u><b>998</b></u>	<u><b>358</b></u>

**Deferred tax asset**

Tax losses	4,351	3,607
Impairment allowance for receivables	116	98
Adjustment to asset value	1,857	-
Deferred tax asset on derivative financial instruments	-	9
Deferred tax asset	6,324	3,714
Not recognised part of deferred tax asset	(154)	(136)
Net deferred tax asset	<u>6,170</u>	<u>3,578</u>

**Deferred tax liability**

Investment property (depreciation and fair value adjustment)	(13,364)	(11,761)
Deferred tax liability	<u>(13,364)</u>	<u>(11,761)</u>

**Net deferred tax (liability)** **(7,194)** **(8,183)**

Deferred income tax was calculated applying the rates, which will be in effect when deferred income tax is intended to be realised; i.e. 15% in 2013, 15% in 2014 and 15% in 2015 and subsequent years.

## 19 Corporate income tax (continued)

The accounted for income tax expenses for the year can be reconciled with the amount of income tax expenses calculated applying the effective income tax rate (15% in 2014 and 15% in 2013) for the profit before taxation (LTL thousand):

	<u>2014</u>	<u>2013</u>
Income tax, calculated applying the main rate	1,019	362
Permanent non-deductible differences	(26)	1
Adjustments of the previous year, specification of tax loss base	-	-
Decrease, increase in realisable value	-	-
Other changes	5	(5)
<b>Income tax income (expenses) recognised in the income statement</b>	<b><u>998</u></b>	<b><u>358</u></b>

## 20 Financial assets and liabilities, and risk management

### Credit risk

Credit risks, or the risk of counter-parties default, are controlled by application of appropriate control procedures. The Company applies procedures ensuring that lease services are provided only to reliable customers and by entering into agreements providing additional guarantees.

The Company does not guarantee the obligations of other parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, if any, in the balance sheet. Accordingly, the Company's management believes that the maximum risk is equal to the amount of trade and other receivables, net of the impairment losses recognised as at the balance sheet date.

### Interest rate risk

The Company's loan from bank bears variable interest rate. To hedge against interest rate risk, interest rate swap contract was signed with AB SEB Bankas. No changes occurred in 2014.

The loan from AB SEB Bankas matured and interest rate swap agreement on fixed interest expired on 31 January 2014. The loan was extended until 2 March 2018 applying variable interest rates. Had the interest rate changed by 1 percentage point as at 31 December 2014, the impact on the income statement would have been LTL 601 thousand.

### Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have funding available under credit lines in an adequate amount, in order to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity ratio (total current assets / total amounts payable within one year and current liabilities) and quick ratio ((total current assets – inventories) / total amounts payable within one year and current liabilities) were 1.35 as at 31 December 2014 (31 December 2013: 0.11).

### Foreign exchange risk

The Company is not exposed to significant foreign exchange risk, as it carries out transactions in LTL and EUR, and the LTL exchange rate is pegged to EUR.

## 21 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company in 2014 and 2013 are the following:

- UAB Baltic Property Trust Secura (sole shareholder of the Company). The Company owns to the shareholder. The debt arose due to the Company's declared dividends of LTL 2,000 thousand, loan and interest of LTL 39,742 thousand (Notes 9 and 11).
- Baltic Property Trust Secura A/S (controlling shareholder). The Company received a loan and pays interest to this company (Notes 9 and 11).
- Northern Horizon Capital A/S (management service provider). The Company has purchased management services from this company since 1 January 2011 (Notes 11, 16 and 17).

The Company's transactions with related parties in 2014 and balances as at 31 December 2014 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB Baltic Property Trust Secura	-	42,425	684	8	-
Northern Horizon Capital A/S	-	1	1,788	-	-
Baltic Property Trust Secura A/S	-	4,561	216	-	-
	<b>-</b>	<b>46,987</b>	<b>2,688</b>	<b>8</b>	<b>-</b>

The Company's transactions with related parties in 2013 and balances as at 31 December 2013 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB Baltic Property Trust Secura	-	956	-	-	-
Northern Horizon Capital A/S	-	32	1,445	-	-
Baltic Property Trust Secura A/S	-	4,344	237	-	-
	<b>-</b>	<b>5,332</b>	<b>1,682</b>	<b>-</b>	<b>-</b>

In 2014, the remuneration of the Company's management amounted to LTL 2 thousand (2013: LTL 2 thousand). In 2014 and 2013 the management of the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

## 22 Post-balance sheet events

On 1 January 2015, the Republic of Lithuania joined the euro area and the Lithuanian national currency litas was replaced by the euro. As a result, UAB BPTS Europa converted its financial accounting to euros as from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LTL 3.4528 to EUR 1.

On 9 February 2015 Baltic Property Trust Secura A/S ("the Seller") signed a Share Sales and Purchase Agreement with Northern Horizon Capital AS (on behalf of BPT Baltic Opportunity Fund, "the Buyer"). The Seller sold the shares of UAB Baltic Property Trust, which is the shareholder of UAB BPTS Europa. Accordingly, the investment property of UAB BPTS Europa was also included into the sale transaction. The transaction was completed on 2 March 2015. In the opinion of the local management, Northern Horizon Capital AS is a related party of UAB BPTS Europa.

After the end of the financial year until the approval of these financial statements, there were no other post-balance sheet events, which would have an effect on these financial statements or require disclosure. Draft appropriation of profit was not yet prepared as at the date of approval of these financial statements.

### **23 Contingencies**

No full tax investigation of the Company for the period from 1 January 2010 until 31 December 2014 has been performed by the tax authorities. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of five years preceding the accounting tax period, as well as calculate additional taxes and penalties.

In 2012, Vilnius County State Tax Inspectorate performed an analysis of income tax for the period from 1 December 2008 until 31 December 2010. During the tax investigation, no violations were detected.

The management of the Company is not aware of any circumstances, which would cause calculation of additional tax liabilities.

## **APPENDIX J**

### **Audited Financial Statements of Europa SPV for the Year 2013**

The audited financial statements of Europa SPV for the financial year ending 31 December 2013 were prepared only in Lithuanian language. For the purpose of this Offering Circular, they have been translated into English language. The translation that is unaudited is presented in this appendix.

# UAB BPTS EUROPA

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2013 PREPARED IN  
ACCORDANCE WITH BUSINESS ACCOUNTING STANDARDS, PRESENTED  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

**Company details**

**UAB BPTS Europa**

Telephone: +370 5 231 3638  
Registration No.: 000980  
Address: Gynėjų g. 16, Vilnius

**Board**

Algirdas Jonas Vaitiekūnas  
Aušra Stankevičienė  
Michael Rudolf Schonach

**Management**

Darius Urbonas – Managing Director

**Auditor**

KPMG Baltics, UAB

**Banks**

AB SEB Bankas

## **Independent Auditor's Report**

To the Shareholder of UAB BPTS Europa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of UAB BPTS Europa ("the Company"), which comprise the balance sheet as at 31 December 2013, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 7–24.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Business Accounting Standards of the Republic of Lithuania, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for Qualified Opinion*

The Company's investment property was carried in the balance sheet at the fair value of LTL 141.7 million as at 31 December 2012. The fair value was estimated by the independent valuator in the valuation report issued on 24 January 2013. We were unable to obtain sufficient audit evidence that certain valuation assumptions used in the report had been appropriate in the current market conditions. The fair value of investment property as at 31 December 2013 has an impact to revaluation amount recognised in the income statement for 2013. Accordingly, we were unable to determine whether any adjustments might be necessary to expenses from financing and investing activities and net result for the year ended 31 December 2013.

#### *Qualified Opinion*

In our opinion, except for the possible effect of the matter referred to in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of UAB BPTS Europa as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.

**Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the annual report of UAB BPTS Europa for the year ended 31 December 2013, set out on pages 5–6 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of UAB BPTS Europa for the year ended 31 December 2013.

On behalf of KPMG Baltics, UAB

Eero Kaup  
Audit Partner

Rokas Kasperavičius  
Partner pp  
Certified Auditor

Vilnius, the Republic of Lithuania  
18 April 2014

## **ANNUAL REPORT OF UAB BPTS EUROPA**

### **YEAR 2013**

#### **REPORTING PERIOD COVERED BY THE ANNUAL REPORT**

The annual report is prepared for the year 2013, all figures are presented as at 31 December 2013 unless otherwise stated. In this report, UAB BPTS EUROPA can also be referred to as "the Company".

#### **GENERAL INFORMATION ABOUT THE COMPANY**

Name: UAB BPTS EUROPA

Company's authorised capital: LTL 45,000 thousand

Registration date: 6 October 2004

Operational period: not limited

Company code: 300 059 140

The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises

Address: Gynėjų g. 16, Vilnius, the Republic of Lithuania

Legal-organizational form: limited liability company

Governing law: law of the Republic of Lithuania

Country of establishment: the Republic of Lithuania

#### **1. OBJECTIVE REVIEW OF THE COMPANY'S POSITION, ACTIVITY AND DEVELOPMENT, CHARACTERISATION OF THE MAIN TYPES OF RISKS AND UNCERTAINTIES FACED BY THE COMPANY**

All shares with the nominal value of LTL 100 each are ordinary and were fully paid as at 31 December 2013 and 2012. At the time of establishment, the Company's authorised capital amounted to LTL 10 thousand. On 24 December 2004 the authorised capital was increased to LTL 51,653 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by LTL 6,653 thousand eliminating the shares and it amounted to LTL 45,000 thousand as at 31 December 2012.

As at 31 December 2013 and 2012, the Company's shareholders were:

	2013		2012	
	Number of shares held	Ownership share	Number of shares held	Ownership share
UAB Baltic Property Trust Secura	450,000	100%	450,000	100%
Total	450,000	100%	450,000	100%

As at 31 December 2013, the Company's assets comprised LTL 141,143 thousand, including the investment property of LTL 132,933 thousand, amounts receivable after one year of LTL 1,277 thousand and current assets of LTL 6,933 thousand.

The investment property owned by the Company comprised the shopping centre Europa located at Konstitucijos pr. 7A, Vilnius, two land plots and ½ parking, located at Konstitucijos pr. 7B and Europos a. 1, Vilnius.

When preparing the financial statements for the year 2013, for its non-current assets the Company used the accounting principles requiring the fair value method to be used for the accounting of investment property (leased property) in the financial statements, excluding depreciation as required by the provisions of Business Accounting Standard 12.

The Company's sales in 2013 amounted to LTL 16,033 thousand from operating activities; i.e. from the lease of the investment property owned by the Company. The Company's result for 2013 is net loss of LTL 2,054 thousand.

#### **2. NUMBER OF EMPLOYEES AT THE END OF THE PERIOD**

As at 31 December 2013, the Company had 1 employee.

### 3. INFORMATION ABOUT OWN SHARES ACQUIRED AND TRANSFERRED

During the reporting period, the Company did not acquire or transfer own shares.

### 4. COMPANY'S SUBSIDIARIES

As at 31 December 2013, the Company had no subsidiaries.

### 5. INFORMATION ABOUT THE BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY

The Company has no branches or representative offices.

### 6. IMPORTANT EVENTS, WHICH HAVE OCCURRED AFTER FINANCIAL YEAR-END

No such events occurred.

### 7. INFORMATION ABOUT THE COMPANY'S ACTIVITY PLANS, DEVELOPMENT AND FORECASTS

The Company's vision is to be a reliable partner for lessees in real estate sector in Lithuania. The Company intends to broaden its marketing strategy seeking to increase the number of consumers and to raise awareness of the shopping centre Europa. In the next financial year, the Company plans to focus more on the feasibility study of lessees. In 2014, the Company will continue the investment management of this shopping centre.

### 8. WHEN THE COMPANY EMPLOYS FINANCIAL INSTRUMENTS AND WHEN IT IS IMPORTANT FOR THE VALUATION OF THE COMPANY'S ASSETS, EQUITY, LIABILITIES, FINANCIAL POSITION AND ACTIVITY RESULTS, THE COMPANY DISCLOSES THE OBJECTIVES OF THE FINANCIAL RISK MANAGEMENT, ITS POLICY FOR HEDGING MAJOR TYPES OF FORECASTED TRANSACTIONS FOR WHICH HEDGE ACCOUNTING IS USED, AND COMPANY'S EXPOSURE TO PRICE RISK, CREDIT RISK, LIQUIDITY RISK AND CASH FLOW RISK

In 2008, the Company signed interest rate swap agreements with AB SEB Bankas. The purpose of these derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2011, the Company increased the amount of swap to LTL 65,451 thousand based on the swap agreement signed in 2008.

Based on the interest rate swap agreements, the Company shall make fixed interest rate payments to the bank and shall receive variable interest rate payments from the bank. These interest rate swaps are carried at fair value as at 31 December 2013 as measured by AB SEB Bankas.

As the Company's loan payments comply with the payments of variable interest rates part under the interest rate swap agreements, the Company accounted for these swaps as an effective hedge of cash flows and disclosed the change of the fair value of this derivative under the respective equity reserve.

The details of interest rate swaps are presented below:

Derivative financial instruments	Transaction start date	Transaction end date	Currency	Fixed interest rate, %	Variable interest rate	Transaction amount (EUR thousand)	Transaction amount (LTL thousand)	Fair value (LTL thousand)
Interest rate swap – negative value - liability	12/09/2011	31/01/2014	EUR	1.36	EURIBOR 1-month	18,956	65,451	(59)

Manager of the Company

Darius Urbonas

## Balance sheet

	Notes	31 December 2013	31 December 2012
<b>ASSETS</b>			
<b>A. Non-current assets</b>			
I. Intangible non-current assets		-	-
II. Investment property	3	132,933	141,703
III. Amounts receivable after one year	5	1,277	1,579
<b>Total non-current assets</b>		<b>134,210</b>	<b>143,282</b>
<b>B. Current assets</b>			
I. Inventories, prepayments and contracts in progress		-	-
II. Amounts receivable within one year			
II.1. Trade receivables	4	1,705	1,420
II.2. Receivables from related parties		-	-
II.3. Other amounts receivable	5	482	603
Total amounts receivable within one year		2,187	2,023
III. Other current assets		-	-
IV. Cash and cash equivalents	6	4,746	2,073
<b>Total current assets</b>		<b>6,933</b>	<b>4,096</b>
<b>Total assets</b>		<b>141,143</b>	<b>147,378</b>

*(continued on the next page)*

## Balance sheet (continued)

	Notes	31 December 2013	31 December 2012
<b>EQUITY AND LIABILITIES</b>			
<b>C. Shareholders' equity</b>			
I. Authorised capital	7	45,000	45,000
II. Revaluation reserve (results)	8	(50)	(719)
III. Reserves	8	4,500	4,500
IV. Retained earnings (losses)		14,762	16,816
<b>Total equity</b>		<b>64,212</b>	<b>65,597</b>
<b>D. Grants and subsidies</b>		-	-
<b>E. Amounts payable and liabilities</b>			
<b>I. Amounts payable after one year and non-current liabilities</b>			
I.1. Long-term loans	9	3,936	65,591
I.2. Advances received	10	583	634
I.3. Deferred income tax liability	19	8,183	8,424
I.4. Derivative financial instruments	14	-	64
<b>Total amounts payable after one year and non-current liabilities</b>		<b>12,702</b>	<b>74,713</b>
<b>II. Amounts payable within one year and current liabilities</b>			
II.1. Current portion of long-term loans	9	60,727	2,450
II.2. Short-term loans	9	-	-
II.3. Advances received	10	157	96
II.4. Trade creditors		1,777	2,266
II.5. Amounts payable to related parties	11	988	1,111
II.6. Accruals	12	108	87
II.7. Other current amounts payable	13	406	269
II.8. Deferred income		7	7
II.9. Derivative financial instruments	14	59	782
<b>Total amounts payable within one year and current liabilities</b>		<b>64,229</b>	<b>7,068</b>
<b>Total equity and liabilities</b>		<b>141,143</b>	<b>147,378</b>

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

Managing Director	Darius Urbonas	18 April 2014
Head of the company in charge of accounting	Inga Saveraitė	18 April 2014

## Income statement

	Notes	2013	2012
I. Sales	15	16,033	15,888
II. (Cost of) sales	16	(6,791)	(7,087)
<b>III. Gross profit</b>		<b>9,242</b>	<b>8,801</b>
IV. Operating (expenses)	17	(925)	(857)
<b>V. Operating profit</b>		<b>8,317</b>	<b>7,944</b>
VI. Income (expenses) from other activities – net result		(1)	52
VII. Income (expenses) from financing and investing activities – net result	18	(10,728)	(41,627)
<b>VIII. Profit from ordinary activities</b>		<b>(2,412)</b>	<b>(33,631)</b>
IX. Extraordinary gains			
X. Extraordinary losses			
<b>XI. Profit before taxes</b>		<b>(2,412)</b>	<b>(33,631)</b>
XII. Corporate income tax	19	358	4,947
<b>XIII. Net profit</b>		<b>(2,054)</b>	<b>(28,684)</b>

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

Managing Director	Darius Urbonas	18 April 2014
Head of the company in charge of accounting	Inga Saveraitė	18 April 2014

## Statement of changes in equity

	Notes	Authorised capital	Revaluation reserve (results)	Reserves	Retained earnings (losses)	Total
<b>Balance at 31 December 2011</b>		<b>45,000</b>	<b>(644)</b>	<b>4,500</b>	<b>45,500</b>	<b>94,356</b>
Approved dividends		-	-	-	-	-
Transfers to reserves	8	-	-	-	-	-
Fair value reserve of derivative financial instruments, negative change	8	-	(75)	-	-	(75)
Net profit (loss) for the year		-	-	-	(28,684)	(28,684)
<b>Balance at 31 December 2012</b>		<b>45,000</b>	<b>(719)</b>	<b>4,500</b>	<b>16,816</b>	<b>65,597</b>
Approved dividends		-	-	-	-	-
Transfers to reserves	8	-	-	-	-	-
Fair value reserve of derivative financial instruments, negative change	8	-	669	-	-	669
Net profit (loss) for the year		-	-	-	(2,054)	(2,054)
<b>Balance at 31 December 2013</b>		<b>45,000</b>	<b>(50)</b>	<b>4,500</b>	<b>14,762</b>	<b>64,212</b>

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

<u>Managing Director</u>	<u>Darius Urbonas</u>	<u>18 April 2014</u>
<u>Head of the company in charge of accounting</u>	<u>Inga Saveraitė</u>	<u>18 April 2014</u>

## Cash flow statement

	Notes	2013	2012
<b>I. Cash flows from operating activities</b>			
I.1. Net profit (loss)		(2,054)	(28,684)
<b>Reversal of non-cash expenses (income):</b>			
I.2. Change in fair value of investment property	3	8,787	39,563
I.3. Change in impairment allowance of doubtful receivables	4	(10)	(32)
I.4. Change in deferred income tax	19	(241)	(4,959)
I.5. Decrease (increase) in accrued income		106	(106)
I.6. Interest expenses	18	2,001	2,139
I.7. Interest (income)	18	(87)	(108)
		<u>8,502</u>	<u>7,813</u>
<b>Changes in operating capital:</b>			
I.8. Decrease (increase) of trade receivables		(275)	(325)
I.9. Decrease (increase) of prepayments and other receivables		15	(98)
I.10. Decrease (increase) of long-term trade receivables		302	288
I.11. Increase (decrease) of trade debts, other payables, long-term and short-term advances received and other current liabilities		(1,834)	143
<b>Net cash flow from operating activities</b>		<u><b>6,710</b></u>	<u><b>7,821</b></u>
<b>II. Cash flow from investing activities</b>			
II.1. (Acquisition) of non-current assets	3	(17)	(1,030)
II.2. Interest received		87	108
<b>Net cash flow from investing activities</b>		<u><b>70</b></u>	<u><b>(922)</b></u>
<b>III. Cash flow from financing activities</b>			
III.1. Long-term loans (repaid)		(3,378)	(2,279)
III.2. Short-term loans (repaid)		-	-
III.3. Dividends (paid)		-	(2,763)
III.4. Loans received		-	-
III.5. Interest (paid)		(1,724)	(2,298)
<b>Net cash flow from financing activities</b>		<u><b>(5,102)</b></u>	<u><b>(7,340)</b></u>
<b>IV. Net increase (decrease) in cash flow</b>		<u><b>2,673</b></u>	<u><b>(441)</b></u>
<b>V. Cash and cash equivalents at the beginning of the period</b>		<u><b>2,073</b></u>	<u><b>2,514</b></u>
<b>VI. Cash and cash equivalents at the end of the period</b>		<u><u><b>4,746</b></u></u>	<u><u><b>2,073</b></u></u>

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

<u>Managing Director</u>	<u>Darius Urbonas</u>	<u>18 April 2014</u>
<u>Head of the company in charge of accounting</u>	<u>Inga Saveraitė</u>	<u>18 April 2014</u>

## **Explanatory notes**

### **1 General information**

UAB BPTS Europa (hereinafter "the Company") is a limited liability company registered in the Republic of Lithuania. Its registered address is:

Gynėjų g. 16,  
Vilnius,  
Lithuania.

The Company's activities comprise real estate transactions, including purchasing, sales and lease of premises. The Company was registered on 6 October 2004.

As at 31 December 2013 and 2012 the sole shareholder of the Company was UAB Baltic Property Trust Secura.

All the Company's shares with the nominal value of LTL 100 each are ordinary and were fully paid as at 31 December 2013 and 2012. At the time of establishment, the Company's authorised capital amounted to LTL 10 thousand. On 24 December 2004 the authorised capital was increased to LTL 51,653 thousand, with an additional emission of 516,430 shares. In 2005, the Company's authorised capital was reduced by LTL 6,653 thousand eliminating the shares and it amounted to LTL 45,000 thousand as at 31 December 2013 and 2012. The Company had no own shares acquired.

As at 31 December 2013 and 2012, the Company had 1 employee.

The Company's management approved these financial statements on 18 April 2014. The Company's shareholders have a statutory right to either approve these financial statements or not to approve them and require that the new set of financial statements be prepared.

### **2 Summary of significant accounting policies**

The main accounting policies followed by the Company when preparing the financial statements for 2013 are as follows:

#### **2.1. Basis of preparation**

These financial statements have been prepared in accordance with the Law on Accounting of the Republic of Lithuania, which is in effect as at 31 December 2013, the Law on Financial Statements of Entities of the Republic of Lithuania and Business Accounting Standards (BAS) in effect which include the standards and methodological recommendations drawn up and approved by the Authority of Audit and Accounting.

The accounting policies were consistently applied by the Company in 2013 and are consistent with those used in the previous year.

The Company's financial statements were prepared on a historical cost basis, except for investment property and derivative financial instruments, which are carried at fair value.

#### **2.2. Currency of the financial statements**

All amounts in these financial statements are presented in the national currency of the Republic of Lithuania – the litas. The Company's functional currency is the litas.

Starting from 2 February 2002, the Lithuanian litas is pegged to euro at the rate of LTL 3.4528 for EUR 1, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

#### **2.3. Foreign currency**

Transactions in foreign currencies are carried at the official currency exchange rate prevailing on the day of the transaction. Profit or loss resulting from these transactions and revaluation result of the balance of assets and liabilities in foreign currency on the balance sheet date are reported in the income statement. These balances are revaluated at the currency exchange rate prevailing on the closing day of the reporting period.

## **2 Summary of significant accounting policies (continued)**

### **2.4. Use of estimates when preparing the financial statements**

To prepare the financial statements in accordance with BAS, the management needs to make measurements and estimates based on the assumptions which had an impact on the application of accounting policies and on the reported amounts of assets, liabilities, income and expenses, and disclosure of uncertainties. Future events may cause changes in assumptions used to make estimates. The result of changes in the said estimates is reported in the financial statements when it is determined.

Significant areas in these financial statements which involve estimates are measurement of the fair value of investment property, depreciation for corporate income tax purposes, measurement of the fair value of derivative financial instruments and impairment of receivables and other assets.

### **2.5. Investment property**

The Company's investment property comprises investment into buildings, which are held to earn lease income or for capital appreciation, 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. Based on BAS 12 "Non-current tangible assets", investment property is initially measured at fair value, including expenses of transactions. Subsequently all investment property is measured at fair value, which, among other things, reflects the proceeds from short-term lease and reasonable assumptions, which show the market approach on the assumptions made by knowing and willing parties on income from future lease considering current market conditions.

Transfers from/to investment property are made only when the purpose of the property has changed.

The impact of changes in fair value during the year is included in the income statement.

Repair expenses of financial assets presented at fair value are recognised as expenses in the period when incurred.

### **2.6. Amounts receivable**

Amounts receivable are initially measured at cost. Subsequently, amounts receivable are accounted for at amortised cost less impairment losses.

### **2.7. Cash and cash equivalents**

Cash comprises cash in hand and at bank. Cash equivalents comprise short-term and highly liquid investments which can be easily converted into a known amount of cash. The term of these investments does not exceed three months and the risk of value changes is insignificant.

Cash and cash equivalents reported in the cash flow statement comprise cash in current accounts and other short-term highly liquid investments.

### **2.8. Borrowings**

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at cost of proceeds received. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in profit or loss over the period of the borrowings. Borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

## **2 Summary of significant accounting policies (continued)**

### **2.9. Operating lease**

#### Company as a lessor

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as operating leases. When the Company acts as a lessor, such assets are recorded in its balance sheet based on the similar groups of assets and at the same time stated in different accounts to accumulate information related to such activities. Income calculated in accordance with lease agreements is recognised when generated. In those cases when the Company grants the lessee additional discounts or covers part of its expenses, the lease income over the period of lease or promotion is reduced by these amounts.

Initial costs related to concluding a lease agreement due to the intention to earn income from lease of assets are accrued and recognised as expenses over the lease term of the assets. Depreciation of assets leased out, except for investment property carried at fair value, is calculated using the same accounting policy that the Company applies to other assets of the same group.

Increase/decrease in the value of leased assets is recorded applying the same principles as for other items of non-current assets.

#### Lease deposits

Deposits are initially accounted for at fair value. The fair value of deposits is established based on the prevailing interest rate of a similar loan, considering the reliability of a lessor and depending on other facts and circumstances, and other additional guarantees granted to the lessee. The difference of the deposits value exceeding the fair value is accounted for as prepaid lease expenses (income) and is amortised on a straight-line basis over the lease period. Deposit interest is accounted for using the effective interest rate (EIR) method.

### **2.10. Finance lease**

#### Company as a lessor

Leases in terms of which substantially all the risks and rewards of ownership are transferred to the lessee are leasing (finance lease). When assets are held for finance lease (leasing), the present value of lease payments is recognised as an amount receivable. The difference between the total value of amounts receivable and their present value is recognised as unearned income from financing activities.

The lessor recognises payments received according the finance lease agreement as the repayment of debt (at the amount of asset value coverage) and income from financing and investing activities (at the amount of interest) when finance leasing is not the primary activity of the lessor. Interest income shall be recorded on the accrual basis.

### **2.11. Legal reserve**

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve cannot be distributed.

### **2.12. Dividends**

Dividends are recognised as a liability in the period in which they are declared.

### **2.13. Derivative financial instruments**

The Company uses derivative financial instruments for interest rate risk management purposes. Such derivative financial instruments are recognised on a transaction date at fair value, which is subsequently remeasured. Derivative financial instruments are recognised as financial assets for contracts having a positive fair value; and as financial liabilities for contracts with a negative fair value.

Any gains or losses from changes in fair value of derivative financial instruments during the year are directly recognised in the income statement.

## **2 Summary of significant accounting policies (continued)**

### **2.14. Hedge accounting**

For the purposes of hedge accounting, hedges are classified in two categories: (a) fair value hedges which hedge exposure to changes in fair values of a recognised assets or liability, and (b) 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 revaluation of the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts profit or loss or in the period of initial assessment of costs of respective assets or equity.

In case of hedge transactions that do not meet the requirements for hedge accounting, any gains or losses from changes in fair value of hedged instrument are included in the income statement for that period.

Hedge accounting is terminated when hedging instrument expires, is sold, terminated, executed or if it no longer meets the criteria applicable for hedge accounting. Then any accumulated gains or losses from hedging instrument recognised in equity are transferred to the income statement.

### **2.15. Corporate income tax**

Income tax is calculated on the income for the year taking into account deferred income tax. Income tax is calculated in accordance with Lithuanian statutory requirements on taxation.

A standard income tax rate applicable to the companies of the Republic of Lithuania was 15% in 2013 and 2012. With the amendments of the Law on Corporate Income Tax of the Republic of Lithuania coming into effect, corporate income tax was set at a rate of 15% for unlimited period. Such rate is also applicable in 2014.

Taxable losses can be carried forward to other reporting periods for unlimited number of periods, except for the losses incurred through transfer of securities and (or) derivatives. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. Losses incurred through transfer of securities and (or) derivatives can be carried forward for 5 years and shall be covered by income from transactions of similar nature.

Deferred taxes are calculated based on the balance sheet liabilities method. Deferred tax reflects net tax effect of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are valued at tax rate which is expected to be applied for the period when the assets will be realized or the liability covered with regard to the tax rates which were accepted or in essence accepted on the balance sheet date.

Deferred tax assets are recognised in the balance sheet to the extent the management expects these assets to be realized in the near future taking into account forecasts of taxable profit. If it is likely that a portion of deferred tax assets is not realized, this portion of the deferred tax assets is not recognised in the financial statements.

### **2.16. Revenue recognition**

Revenue is recognised when it is probable that the Company gets economic benefits related to the transaction and the amount of income can be reliably estimated. Sales are recorded net of VAT and discounts.

#### Lease income

Investment property lease income is stated on a straight-line basis over the lease period.

## **2 Summary of significant accounting policies (continued)**

### **2.17. Recognition of expenses**

Expenses are recognised in the accounting on an accrual basis and comparison in the reporting period when income in relation to the expenses incurred is earned irrespective of the time when the money is spent. In cases when the expenses incurred over the reporting period cannot be attributed directly with certain income earned and over the next periods those expenses will not generate further income, the expenses are recognised as costs of the period when they were incurred.

Amount of expenses is usually valued at the amount of money paid or payable less VAT. In cases when settlement term is long and interest not specified, the amount of costs is valued at the amount of settlement discounted by the market interest rate.

### **2.18. Impairment of assets**

#### Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

#### Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have significantly decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

### **2.19. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are described in the financial statements except when the probability that resources generating economic benefit will be lost is very low.

Contingent assets are not recognised in the financial statements; however, they are described in the financial statements when it is likely that they will generate revenue or economic benefit.

### **2.20. Post-balance sheet events**

Post-balance sheet events which provide additional information on the Company's standing on the balance sheet date (adjusting events) are reported in the financial statements. Non-adjusting post-balance sheet events are described in the notes, if significant.

### **2.21. Offsetting and comparative figures**

When preparing the financial statements, assets and liabilities as well as income and expenses are not set-off against each other, except when a separate business accounting standard specifically requires for such offsetting.

Comparative figures have been adjusted to correspond to the presentation of the current year, where necessary.

### 3 Investment property

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts for periods from 1 to 10 years.

Changes in the Company's investment property for the year 2013 are as follows:

<b>Balance at 31 December 2012</b>	<b>141,703</b>
Acquisitions, including capitalised costs	17
Change in fair value	(8,787)
<b>Balance at 31 December 2013</b>	<b>132,933</b>

As at 31 December 2013 and 2012, investment property was stated at fair value determined according to valuation reports of independent valuator UAB Colliers International Advisors. The fair value as at 31 December 2013 is based on valuation report issued in January 2014. Valuation was carried out according to International Valuation Standards, RICS valuation standards and corresponding methods applied by local market (Lithuania). International Valuation Standards define market value as "the 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 fair value of investment property was measured according to income method using discounted cash flow approach. The discount rate set by valuers amounted to 7.65%, and exit yield amounted to 7.25%. Growth rate applied to income and expenses in different years amounted to 2.2–4.8%.

The Company pledged the above-mentioned investment property to AB SEB Bankas for a long-term loan (Note 9).

According to the loan agreement with the bank, the Company has the right to dismantle, lease (except for lease under market conditions which are favourable to the Company under ordinary business conditions), write-off and sell the property only with the prior written consent of the bank.

### 4 Trade receivables

	<u>2013</u>	<u>2012</u>
Trade receivables, gross	2,625	2,350
Less: impairment allowance for doubtful receivables	(920)	(930)
	<b>1,705</b>	<b>1,420</b>

Change for the year in impairment allowance for doubtful receivables is included in operating expenses.

### 5 Other amounts receivable

	<u>2013</u>	<u>2012</u>
Leasing receivable after one year	1,277	1,579
Leasing receivable within one year	302	288
Accrued income	-	106
Overpayments to suppliers	173	41
Other amounts receivable	7	168
	<b>1,759</b>	<b>2,182</b>

## 5 Other amounts receivable (continued)

On 16 April 2010, the Company signed a leasing contract on the equipment transfer for use in the lessee's activities. The leasing starts on 31 October 2010 and ends on 30 September 2018. Interest rate is 5%. On 13 May 2011, the Company signed an agreement to this contract; according to this agreement, the additional leasing payments start on 31 May 2011 and end on 30 September 2018. Interest rate is the same as for the main contract, i.e. 5%. As at 31 December 2013, the total leasing amounts receivable within one year comprise LTL 302 thousand, the total leasing amounts receivable after one year comprise LTL 1,277 thousand. The total leasing amounts receivable as at 31 December 2013 comprise LTL 1,579 thousand. Leasing amounts receivable after one year are included in the balance sheet under amounts receivable after one year.

Maturities of non-current and current portions of leasing:

	<b>31 December 2013 (value coverage)</b>	<b>31 December 2013 (interest)</b>
2014	302	87
2015–2018	1,277	153
	<b>1,579</b>	<b>240</b>

## 6 Cash and cash equivalents

The Company had no cash in hand and all its cash was held at AB SEB Bankas as at 31 December 2013 and 2012.

As described in Note 9, to secure the repayment of the loan, the Company pledged its funds and future inflows to bank accounts, receivables from lessees, the annual turnover with which should be LTL 5,179 thousand (EUR 1,500 thousand) or higher.

## 7 Capital

In 2013, the Company's share capital remained unchanged. As at 31 December 2013 and 2012 it amounted to LTL 45,000 thousand. The share capital comprises 450,000 ordinary registered shares with a nominal value of LTL 100 each. As at 31 December 2013, all shares were fully paid.

Under the Law on Companies of the Republic of Lithuania, a company's equity shall not be lower than ½ of its share capital as indicated in the company's articles of association. As at 31 December 2013 and 2012, the Company complied with this requirement.

## 8 Revaluation and other reserves

### Legal reserve

Legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital.

### Revaluation reserve (fair value reserve for derivative financial instruments)

This reserve reflects the fair value of the effective part of derivative financial instruments (interest rate swaps), the cash flows used by the Company to hedge against interest rate risk as at the reporting date. The reserve is accounted for on the basis of the Company's Accounting and Financial Reporting Preparation Manual and BAS 26 "Derivative financial instruments", which establishes hedge accounting.

	<b>31 December 2013</b>
Legal reserve	4,500
Revaluation reserve (fair value reserve for derivative financial instruments)	(50)

## 9 Borrowings

As at 31 December 2013, the Company's financial liabilities comprised the following:

	<u>Effective interest rate</u>	<u>Maturity</u>	<u>Amount of liability</u>
AB SEB Bankas loan	1.51% *	31/01/2014	60,319
Baltic Property Trust Secura A/S loan	5.5% **	31/12/2019	4,344
			<u><b>64,663</b></u>

\* Interest rate is variable: 1-month EURIBOR + 1.4% margin.

\*\* Interest rate is fixed.

On 20 December 2004, the Company signed a long-term agreement with AB SEB Bankas for the amount of LTL 77,688 thousand (EUR 22,500 thousand). The loan was taken to refinance loans received from UAB Baltic Property Trust Secura and UAB PC Europa. On 12 August 2011, an amendment was signed to the credit agreement amending and revising the agreement signed in 2004: variable interest rate of 1-month EURIBOR + 1.4% margin, the loan maturity extended until 31 January 2014. On 29 January 2014, the Company signed an amendment to the credit agreement and extended the maturity until 31 January 2015.

To secure the fulfilment of obligations under the loan agreement, the Company pledged investment property with the fair value of LTL 132,933 thousand as at 31 December 2013. The Company also pledged all current and future funds (future inflows) in all currencies in bank accounts, a demand right to amounts receivable from lessees, the annual turnover with which should be LTL 5,179 thousand (EUR 1,500 thousand) or higher, and land plots located at Konstitucijos pr. 7B and Europos a. 1.

The balance of this loan as at 31 December 2013 was LTL 60,319 thousand (EUR 17,470 thousand). The total outstanding loan amount is denominated in euro.

On 26 January 2010, the Company signed a long-term loan agreement for the amount of LTL 6,560 thousand (EUR 1,900 thousand) with an indirect shareholder of the Company, Baltic Property Trust Secura A/S. Annual interest rate is 5.5% (fixed). The loan shall be repaid in equal instalments (20%) within 5 years from 1 January 2015 until 31 December 2019. The loan balance as at 31 December 2013 is LTL 4,344 thousand (EUR 1,258 thousand), including accrued interest of LTL 408 thousand (EUR 118 thousand). According to the loan agreement with AB SEB Bankas, the loan received from the shareholder is subordinated to the bank's loan.

The bank's loan agreement includes certain financial and other covenants which the Company is required to comply with in order to secure financing. Based on the financial information as at 31 December 2013, the Company complied with these covenants.

Maturities of short-term and long-term loans:

	<u>31 December 2013</u>	<u>31 December 2012</u>
<b>Long-term loans</b>		
Loans from credit institutions	-	60,274
Loans from the shareholder	3,936	5,317
	<u><b>3,936</b></u>	<u><b>65,591</b></u>
<b>Short-term loans</b>		
Current portion of long-term loans from credit institutions	60,319	2,279
Current portion of long-term loan from shareholder	408	171
	<u><b>60,727</b></u>	<u><b>2,450</b></u>
	<u><b>64,663</b></u>	<u><b>68,041</b></u>

## 10 Advances received

As at 31 December 2013 and 2012, received long-term and short-term advances comprised amounts received from lessees as a guarantee for fulfilment of their liabilities. These amounts will be offset against final payments under lease agreements, the last of which matures in 2024.

## 11 Amounts payable to related parties

As at 31 December 2013, amounts payable to related parties comprised dividends of LTL 956 thousand payable to the Company's sole shareholder UAB Baltic Property Trust Secura and management fees of LTL 32 thousand payable to BPT Asset Management A/S (Note 21). The Company may pay dividends when, based on the conditions set out in the loan agreement with AB SEB Bankas, it has complied with the covenants set out in the agreement for at least two consecutive quarters and if after payment the funds remaining at bank accounts comprise at least LTL 1,500 thousand. As at 31 December 2012, the Company complied with the conditions allowing the payment of part of dividends; therefore, in 2012, dividends for the amount of LTL 2,763 thousand were paid. As at 31 December 2013, the Company also complied with these conditions.

As at 31 December 2012, amounts payable to related parties comprised dividends of LTL 956 thousand payable to the Company's sole shareholder UAB Baltic Property Trust Secura and management fees of LTL 155 thousand payable to BPT Asset Management A/S (Note 21).

## 12 Accruals

	<u>2013</u>	<u>2012</u>
Interest accruals for derivative financial instruments	40	46
Accrued audit expenses	16	28
Accruals for property valuation costs	8	10
Accrued utility expenses	44	3
	<u>108</u>	<u>87</u>

## 13 Other short-term amounts payable

	<u>2013</u>	<u>2012</u>
Value added tax payable	288	152
Payable real estate tax	117	117
Payable remuneration	1	-
	<u>406</u>	<u>269</u>

## 14 Derivative financial instruments

In 2008, the Company signed interest rate swap agreements with AB SEB Bankas. The purpose of these derivatives is to hedge against the interest rate risks arising from interest rate fluctuations, which occurred in 2008 when the Company received loans with variable interest rates. In 2011, the Company increased the amount of swap to LTL 65,451 thousand based on the swap agreement signed in 2008.

Based on the interest rate swap agreements, the Company shall make fixed interest rate payments to the bank and shall receive variable interest rate payments from the bank. These interest rate swaps are carried at fair value as at 31 December 2013 as measured by AB SEB Bankas.

As the Company's loan payments comply with the payments of variable interest rates part under the interest rate swap agreements, the Company accounted for these swaps as an effective hedge of cash flows and disclosed the change of the fair value of this derivative under the respective equity reserve.

The details of interest rate swaps are presented below:

Derivative financial instruments	Transaction start date	Transaction end date	Currency	Fixed interest rate, %	Variable interest rate	Transaction amount (EUR thousand)	Transaction amount (LTL thousand)	Fair value (LTL thousand)
Interest rate swap – negative value - liability	12/09/2011	31/01/2014	EUR	1.36	EURIBOR 1-month	18,956	65,451	(59)

## 15 Sales

	<u>2013</u>	<u>2012</u>
Lease income	11,300	10,736
Revenue from resale of utilities and other services	4,733	5,152
	<u>16,033</u>	<u>15,888</u>

Investment property comprises two plots of land (Konstitucijos pr. 7B, Vilnius and Europos a. 1, Vilnius), ½ of a parking lot (Konstitucijos pr. 7B, Vilnius) and a shopping centre (Konstitucijos pr. 7A, Vilnius) all leased under operating lease contracts. The value of the investment property as at 31 December 2013 is LTL 132,933 thousand.

The longest lease agreements are effective until 2020. Based on the currently effective agreements, the lessee, having agreed with the lessor, is entitled to the extension of lease agreements.

## 16 Cost of sales

	<u>2013</u>	<u>2012</u>
Utilities	2,706	2,974
Repairs and asset maintenance	1,513	1,585
Sales and marketing expenses to clients	1,303	1,273
Asset management expenses *	767	750
Real estate tax	471	472
Insurance	31	33
	<u>6,791</u>	<u>7,087</u>

\* Based on the agreement, the Company paid asset management fee to BPT Asset Management A/S.

## 17 Operating expenses

	<u>2013</u>	<u>2012</u>
Management and performance fee*	699	585
Advisory services	189	214
Audit expenses	27	27
Asset valuation costs	5	10
Bank fees	3	4
Salaries and social security	2	2
Change in impairment allowance for doubtful trade receivables	(24)	(12)
Other	24	27
	<u>925</u>	<u>857</u>

\* The Company pays quarterly management fee calculated from the value of investment property to BPT Asset Management A/S.

**18 Income (expenses) from financing and investing activities – net result**

	<u>2013</u>	<u>2012</u>
Interest income	87	108
Change in fair value (Note 3)	(8,787)	(39,563)
Interest expenses	(2,001)	(2,139)
Currency exchange loss	(27)	(33)
	<u>(10,728)</u>	<u>(41,627)</u>

**19 Corporate income tax**

	<u>2013</u>	<u>2012</u>
Net result before corporate income tax	(2,412)	(33,631)
Temporary differences	196	30,643
Permanent differences	(10)	(33)
Realisation of tax losses	-	-
<b>Taxable result for the period</b>	<u>(2,226)</u>	<u>(3,021)</u>

**Components of income tax income (expenses)**

Income tax (expenses) for the reporting period	-	-
Deferred tax income (expenses)	358	4,947
Income tax income (expenses), recognised in the income statement	<u>358</u>	<u>4,947</u>

**Deferred tax asset**

Tax losses	3,607	3,278
Impairment allowance for receivables	98	102
Deferred tax asset on derivative financial instruments	9	127
Deferred tax asset	<u>3,714</u>	<u>3,507</u>
Not recognised part of deferred tax asset	(136)	(140)
Net deferred tax asset	<u>3,578</u>	<u>3,367</u>

**Deferred tax liability**

Investment property (depreciation and fair value adjustment)	(11,761)	(11,791)
Deferred tax liability	<u>(11,761)</u>	<u>(11,791)</u>

**Net deferred tax (liability)**

**(8,183)**      **(8,424)**

Change in deferred income tax related to the revaluation of derivative financial instruments and accounted for in equity amounted to LTL 118 thousand in 2013.

Deferred income tax was calculated applying the rates, which will be in effect when deferred income tax is intended to be realised; i.e. 15% in 2012, 15% in 2013 and 15% in 2014 and subsequent years.

## 19 Corporate income tax (continued)

The accounted for income tax expenses for the year can be reconciled with the amount of income tax expenses calculated applying the effective income tax rate (15% in 2013 and 15% in 2012) for the profit before taxation (LTL thousand):

	<u>2013</u>	<u>2012</u>
Income tax income (expenses), calculated applying the main rate	362	5,045
Permanent non-deductible differences	1	5
Adjustments of the previous year, specification of tax loss base	-	(103)
Decrease, increase in realisable value	-	(4)
Other changes	(5)	4
	<u>358</u>	<u>4,947</u>
Income tax income (expenses) recognised in the income statement	<u>358</u>	<u>4,947</u>

## 20 Financial assets and liabilities, and risk management

### Credit risk

Credit risks, or the risk of counter-parties default, are controlled by application of appropriate control procedures. The Company applies procedures ensuring that lease services are provided only to reliable customers and by entering into agreements providing additional guarantees.

The Company does not guarantee the obligations of other parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset, including derivative financial instruments, if any, in the balance sheet. Accordingly, the Company's management believes that the maximum risk is equal to the amount of trade and other receivables, net of the impairment losses recognised as at the balance sheet date.

### Interest rate risk

The Company's loan from bank bears variable interest rate. To hedge against interest rate risk, interest rate swap contract was signed with AB SEB Bankas. No changes occurred in 2013.

### Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have funding available under credit lines in an adequate amount, in order to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity ratio (total current assets / total amounts payable within one year and current liabilities) and quick ratio ((total current assets – inventories) / total amounts payable within one year and current liabilities) were 0.11 as at 31 December 2013 (31 December 2012: 0.58).

### Foreign exchange risk

The Company is not exposed to significant foreign exchange risk, as it carries out transactions in LTL and EUR, and the LTL exchange rate is pegged to EUR.

## 21 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company in 2013 and 2012 are the following:

- UAB Baltic Property Trust Secura (sole shareholder of the Company). The Company owns to the shareholder. The debt arose due to the Company's declared dividends of LTL 8,800 thousand, LTL 5,081 thousand of which was paid in 2008 and LTL 2,763 thousand in 2012 (Note 11).
- Baltic Property Trust Secura A/S (controlling shareholder). The Company received a loan and pays interest to this company (Notes 9 and 11).
- BPT Asset Management A/S (management service provider). The Company has purchased management services from this company since 1 January 2011 (Notes 11, 16 and 17).

## 21 Related party transactions (continued)

The Company's transactions with related parties in 2013 and balances as at 31 December 2013 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB Baltic Property Trust Secura	-	956	-	-	-
BPT Asset Management A/S	-	32	1,445	-	-
Baltic Property Trust Secura A/S	-	4,344	237	-	-
	-	5,332	1,682	-	-

The Company's transactions with related parties in 2012 and balances as at 31 December 2012 were the following:

	<b>Amounts receivable and other assets</b>	<b>Amounts payable and other liabilities</b>	<b>Expenses</b>	<b>Income</b>	<b>Accruals</b>
UAB Baltic Property Trust Secura	-	956	-	-	-
BPT Asset Management A/S	161	155	1,331	-	-
Baltic Property Trust Secura A/S	-	5,488	293	-	-
	161	6,599	1,624	-	-

In 2013, the remuneration of the Company's management amounted to LTL 2 thousand (2012: LTL 2 thousand). In 2013 and 2012 the management of the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

## 22 Post-balance sheet events

After the end of the financial year until the approval of these financial statements, there were no post-balance sheet events, which would have an effect on these financial statements or require disclosure. Draft appropriation of profit was not yet prepared as at the date of approval of these financial statements.

## 23 Going concern

As at 31 December 2013, the Company's current liabilities exceeded its current assets by LTL 57,296 thousand (as at 31 December 2012: LTL 2,972 thousand). On 29 January 2014, the Company signed an amendment to the loan agreement extending the loan repayment maturity until 31 January 2015. As at 31 December 2013, the balance of the loan amounted to LTL 60,319 thousand.

## 24 Contingencies

No full tax investigation of the Company for the period from 1 January 2008 until 31 December 2013 has been performed by the tax authorities. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of five years preceding the accounting tax period, as well as calculate additional taxes and penalties.

In 2012, Vilnius County State Tax Inspectorate performed an analysis of income tax for the period from 1 December 2008 until 31 December 2010. During the tax investigation, no violations were detected.

The management of the Company is not aware of any circumstances, which would cause calculation of additional tax liabilities.

## **APPENDIX K**

### **Condensed Valuation Reports**

In the following pages there are provided condensed valuation reports for all 7 properties owned by the Fund for the value date of 30 September 2016. Valuations of 6 properties (Europa SC, Upmalas Biroji, Domus Pro, Lincona, Coca Cola Plaza and Sky Supermarket) were prepared by Colliers International Advisors, an independent appraiser. A valuation of G4S Headquarters was prepared by DTZ Kinnisvaraekspert, an independent appraiser. For more information regarding the appraisers see section 7.7 "Appraiser".

# 1. PROPERTY VALUE ESTIMATION CERTIFICATE (EXECUTIVE SUMMARY)

**Customer:** BOF Europa UAB (registry code 300059140), on behalf of Baltic Horizon Fund (ISIN code EE3500110244) and fund's management company Northern Horizon Capital AS (registry code 11025345).

**Subject Property:** real estate complex – Europa Shopping Centre (the full property list, related to the Subject Property, is provided in the table below), located at Konstitucijos Ave. 7A-1, 7B, Europos Sq. 1, Vilnius, Lithuania.

TABLE 1

Property List, Related to the Subject Property

Property name, address	Unique (cadastral) No.	Area, m <sup>2</sup>	Ownership
<b>Land plots</b>			
Land plot (part of land plot) * Konstitucijos Ave. 7B, Vilnius	0101-0032-0383 (0101/0032:383)	8,235 * (8235/10006 part of 1.0006 ha)	Freehold. Owner: BOF Europa UAB, e.c. 300059140 (8235/10006 part of 1.0006 ha land plot)
Land plot (part of land plot) ** Europos Sq. 1, Vilnius	0101-0032-0380 (0101/0032:380)	853 ** (853/12800 part of 1.2800 ha)	Freehold. Owner: BOF Europa UAB, e.c. 300059140 (853/12800 part of 1.2800 ha land plot)
<b>Buildings and premises</b>			
Non-residential premises - Shopping centre premises, located in the Shopping centre building 23E3/g Konstitucijos Ave. 7A-1, Vilnius	4400-0206-3136:3213	22,596.63	Freehold. Owner: BOF Europa UAB, e.c. 300059140
Building - Parking, 24G6t *** Konstitucijos Ave. 7B, Vilnius	4400-0058-0682	12,316.89 *** (½ part of 24,633.78 m <sup>2</sup> )	Freehold. Owner: BOF Europa UAB, e.c. 300059140 (½ part of 24,633.78 m <sup>2</sup> Parking building 24G6t)

\* - BOF Europa UAB owns 8235/10006 part (8,235 m<sup>2</sup>) of 1.0006 ha total area land plot (unique No. 0101-0032-0383). The rest 1771/10006 part (1,771 m<sup>2</sup>) of this 1.0006 ha total area land plot is owned by AB "Hanner".

\*\* - BOF Europa UAB owns 853/12800 part (853 m<sup>2</sup>) of 1.2800 ha total area land plot (unique No. 0101-0032-0380). The other parts: 832/12800 part (832 m<sup>2</sup>) of this 1.2800 ha total area land plot is owned by AB "Hanner", and 1115/12800 part (11,115 m<sup>2</sup>) of this 1.2800 ha total area land plot is state-owned (owner: The Republic of Lithuania).

\*\*\* - BOF Europa UAB owns 1/2 part (12,316.89 m<sup>2</sup>) of 24,633.78 m<sup>2</sup> total area parking building 24G6t (unique No. 4400-0058-0682). The other 1/2 part (12,316.89 m<sup>2</sup>) of 24,633.78 m<sup>2</sup> total area parking building 24G6t is owned by AB "Hanner".

**Case and Purpose of Valuation:** Pursuant to the Valuation Services Provision Agreement No. VD/263-1/16 from September 9, 2016, the scope of this valuation has been agreed with the Customer as following: to estimate the Market Value of the Subject Property – Europa Shopping Centre (the full property list, related to the Subject Property, is provided in the table above), as of September 30, 2016, as per Customer's request (non-compulsory valuation), for financial reporting purpose.

**Method of Valuation:** The Market Value of the Subject Property estimate is prepared using the Income Approach, which is applied through the Discounted Cash Flow (DCF) method.

**Date of Property Inspection:** October 10, 2016.

**Valuation Date:** September 30, 2016<sup>2</sup>.

**Valuation Report Preparing Period:** from September 9, 2016 till October 14, 2016.

**Valuation Report Issue Date:** October 14, 2016.

**Market Value of the Subject Property:** as of the valuation date (September 30, 2016), the total estimated Market Value of the Subject Property is:

**38,000,000 EUR (thirty eight million euro).**

The Market Value is free of VAT (21%).

The estimated Market Value is the total Market Value of the Subject Property - whole real estate complex as an indivisible entirety. The Market Value includes the value of the real estate objects or their parts, related to the Subject Property (buildings, premises, structures, networks, land plot or land plot lease rights, etc.).

The conditions, assumptions and limiting factors listed in further sections of this report are an integral part of the valuation report. The presented results, opinions and conclusions should be considered only in context of this report as a whole.

Additional information, including documents and information provided to the valuer that is not included in this report, as well as further explanations to calculations and conclusions are available upon request.

This conclusion has been prepared not in the case of contestation between the Customer and property or business valuation company or other persons over property value estimation.

UAB Colliers International Advisors  
Associate Appraisal Director  
Certified Lithuanian Real Property Valuer

**Aleksej Kalev**



(Signature)

Qualification Certificate of Real Property Valuer  
No. A 000356, dated June 2, 2006.

UAB Colliers International Advisors  
Consultancy and Valuation Department Director  
Certified Lithuanian Real Property Valuer's Assistant

**Ramunė Aškinienė**



(Signature)

Qualification Certificate of Real Property Valuer's Assistant  
No. A 001487, dated May 22, 2007.  
Company's certificate No. 000081 of the recording to the  
List of persons and entities, entitled to engage in external  
valuations of property or business, dated August 1, 2012.



<sup>2</sup> Valuers note, that the estimated Market Value is valid as of September 30, 2016 on the assumption made that no significant changes in the Subject Property's condition, legal status, lease contract terms (change in income) and overall economic situation, that might influence the market value, have occurred compared to the date of Property inspection, i.e. October 10, 2016.

## EXECUTIVE SUMMARY

Client	"Kontor" SIA	(reg. No. 40003771618)		
Valuer	Colliers International Advisors, SIA (reg. No. 40103255403)			
Agreement with client	No. 1764/VD/16 (2)	signed on September 06, 2016		
Owner of Subject Property	"Kontor" SIA	(reg. No. 40003771618)		
Subject Property	Real property			
<i>General description</i>	Subject property consists of the office building, two freehold adjacent land plots and one leasehold land plot used for parking in front of the building. Office building was built in 2007 and currently is in good technical condition. Office building has strong tenant mix consisting mostly of international companies. Contracts rents are on top level of market rental range for B1 class offices.			
<i>Property units (freehold)</i>	2			
<i>Property brand name</i>	Upmalas Biroji			
	<i>Address</i>	<i>Property cadastral number</i>		
		<i>Land Book file No.</i>		
		<i>Ideal parts</i>		
	Mukusalas Street 101, Riga	0100-052-0041	1805	1/1
	Bauskas Street w/o, Riga	0100-052-2125	100000496108	1/1
<i>Detailed property structure</i>	Land tenure. Full description see Section 4 of this Report			
	Mukusalas Street 101, Riga	freehold	0100-052-0192	
	Bauskas Street w/o, Riga	freehold	0100-052-0193	
	Mukusalas Street w/o	leasehold	0100-052-0038	
Type of use	<i>Current use</i>	<i>Alternative use</i>		
	Office	-		
Property key parameters	<i>Land area (freehold), sqm</i>	<i>Interior area (buildings), sqm</i>	<i>NLA (buildings), sqm</i>	
	7 756	15 296	10 419	
Purpose of the valuation	financial reporting			
Intended users of report	Client			
Applied valuation standard	IVS 2013			
Special assumptions, instructions or departures	- it is assumed that the rights and obligations arising from the land leasehold agreement concluded with the current owner of the building property in case of a hypothetical sale would be transferable with the building property;			
Inspection date	October 24, 2016			
Value date	September 30, 2016			
Date report issued	October 25, 2016			
Results found	<i>Market Value</i>	EUR 23 530 000 ( twenty-three million five hundred thirty thousand euro)		
VAT	Stated values do NOT include value added tax (VAT)			
Notes to results	Since Object is income generating property with strong tenant mix, the liquidity can be rated as good. Selling period of comparable objects is currently estimated around 12 months. The accuracy of the Market Value estimate can be considered below average ( $\pm 15\%$ ).			

**Purpose (task) of Valuation:** the purpose of the valuation is to estimate the Market Value of the Subject Property for financial reporting purposes. Valuation for financial reporting purposes should be done under International Financial Reporting Standards (IFRS) in accordance to IAS 40 Fair Value disclosure requirement. According to IVS Fair Value under IFRS is consistent with the concept of Market Value defined in IVS.

**Method of Valuation:** The Market Value estimate is estimated using the Income Approach, which is applied through the Discounted Cash Flow method.

The conditions, assumptions and limiting factors listed in further sections of this report are an integral part of the valuation report. The presented results, opinions and conclusions should be considered only in context of this report as a whole.

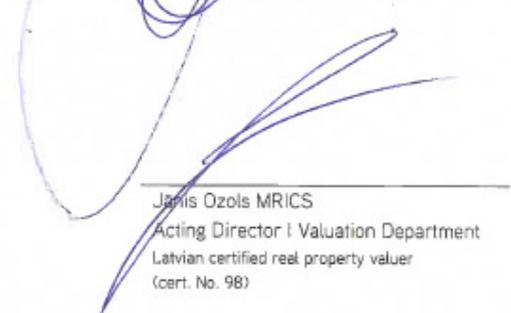
Additional information, including documents and information provided to the Valuer that is not included in this report, as well as further explanations to calculations and conclusions are available upon request.

Compiled:

  
\_\_\_\_\_  
Jānis Kalniņš  
Appraisal Consultant | Valuation  
Department  
Latvian certified real property valuer  
(cert. No.133)

Approved:

  
\_\_\_\_\_  
Deniss Kalniņš  
Chairman of the Board

  
\_\_\_\_\_  
Jānis Ozols MRICS  
Acting Director | Valuation Department  
Latvian certified real property valuer  
(cert. No. 98)

# 1. PROPERTY VALUE ESTIMATION CERTIFICATE (EXECUTIVE SUMMARY)

**Customer:** BOF Domus PRO UAB (registry code 225439110), on behalf of Baltic Horizon Fund (ISIN code EE3500110244) and fund's management company Northern Horizon Capital AS (registry code 11025345).

**Subject Property:** Real estate complex – Domus Pro Retail Park (the full property list, related to the Subject Property, is provided in the table below), located at Bieliunu St. 1, Bieliunu St. 1-1, Bieliunu St. 1-2, Vilnius, Lithuania.

TABLE 1

Property List, Related to the Subject Property

Property name, mark, address	Unique (cadastral) No.	Area, m <sup>2</sup> / Length, m	Ownership
<b>Land plot</b>			
Land plot Vilnius, Bieliunu St. 1	4400-1141-0054 (0101/0100:1967)	23,527 (2.3527 ha)	Freehold. Owner: BOF Domus PRO UAB, e.c. 225439110.
<b>Buildings, premises, structures, networks</b>			
<i>Building – Shopping centre, marked 1E1/g, Vilnius, Bieliunu St. 1, which consists of separately registered 2 non-residential premises (listed below):</i>	<b>4400-1616-7186</b>	<b>7,958.67</b>	<i>Ownership rights are not registered. Building consists of separately registered 2 non-residential premises (Vilnius, Bieliunu St. 1-1 and Vilnius, Bieliunu St. 1-2).</i>
Non-residential Premises – Shopping centre, in the building 1E1/g, Vilnius, Bieliunu St. 1-1	4400-2904-7090:7111	7,846.09	Freehold. Owner: BOF Domus PRO UAB, e.c. 225439110.
Non-residential Premises – Gambling salon, in the building 1E1/g, Vilnius, Bieliunu St. 1-2	4400-2904-7070:7110	112.58	
Building – Shopping centre, marked 3E1/g, Vilnius, Bieliunu St. 1	4400-4189-6064	1,472.37	
Building – Sport club with swimming pool, saunas and public catering premises, marked 4U2/ž, Vilnius, Bieliunu St. 1	4400-4189-6080	2,390.12	
Other engineering structures – Yard lot (marked b1-b13), Vilnius, Bieliunu St. 1	4400-2823-8428	-	
Water supply networks – Cold water supply network (marked V, V1-V3), Vilnius, Bieliunu St. 1	4400-2823-8448	703.58 m	
Wastewater networks – Rain wastewater collector (marked KL: KL, KL1, KL2, KL4, KL5), Vilnius, Bieliunu St. 1	4400-2823-6539	280.39 m	
Wastewater networks – Utility wastewater collector (marked KF, KF1-KF3), Vilnius, Bieliunu St. 1	4400-2823-6528	439.84 m	
Wastewater networks – Rain wastewater collector (marked KL3), Vilnius, Bieliunu St. 1	4400-2825-2786	414.10 m	

**Address:** Bieliunu St. 1, Bieliunu St. 1-1, Bieliunu St. 1-2, Vilnius, Lithuania.

**Case and Purpose of Valuation:** Pursuant to the Valuation Services Provision Agreement No. VD/263-2/16 from September 9, 2016, the scope of this valuation has been agreed with the Customer as following: to estimate the Market Value of the Subject Property – Domus Pro Retail Park (the full property list, related to the Subject Property, is provided in the table above), as of September 30, 2016, as per Customer's request (non-compulsory valuation), for financial reporting purpose.

**Method of Valuation:** The Market Value of the Subject Property estimate is prepared using the Income Approach, which is applied through the Discounted Cash Flow (DCF) method.

**Date of Property Inspection:** October 10, 2016.

**Valuation Date:** September 30, 2016<sup>2</sup>.

**Valuation Report Preparing Period:** from September 9, 2016 till October 14, 2016.

**Valuation Report Issue Date:** October 14, 2016.

**Market Value of the Subject Property:** as of the valuation date (September 30, 2016), the total estimated Market Value of the Subject Property is:

**16,740,000 EUR (sixteen million seven hundred forty thousand euro).**

The Market Value is free of VAT (21%).

The estimated Market Value is the total Market Value of the Subject Property - whole real estate complex as an indivisible entirety. The Market Value includes the value of the real estate objects or their parts, related to the Subject Property (buildings, premises, structures, networks, land plot or land plot lease rights, etc.).

The conditions, assumptions and limiting factors listed in further sections of this report are an integral part of the valuation report. The presented results, opinions and conclusions should be considered only in context of this report as a whole.

Additional information, including documents and information provided to the valuer that is not included in this report, as well as further explanations to calculations and conclusions are available upon request.

This conclusion has been prepared not in the case of contestation between the Customer and property or business valuation company or other persons over property value estimation.

UAB Colliers International Advisors  
Associate Appraisal Director  
Certified Lithuanian Real Property Valuer

**Aleksej Kalev**



(Signature)

Qualification Certificate of Real Property Valuer  
No. A 000356, dated June 2, 2006.

UAB Colliers International Advisors  
Consultancy and Valuation Department Director  
Certified Lithuanian Real Property Valuer's Assistant

**Ramunė Aškinienė**



(Signature)

Qualification Certificate of Real Property Valuer's Assistant  
No. A 001487, dated May 22, 2007.  
Company's certificate No. 000081 of the recording to the List of persons and entities, entitled to engage in external valuations of property or business, dated August 1, 2012.



<sup>2</sup> Valuers note, that the estimated Market Value is valid as of September 30, 2016 on the assumption made that no significant changes in the Subject Property's condition, legal status, lease contract terms (change in income) and overall economic situation, that might influence the market value, have occurred compared to the date of Property inspection, i.e. October 10, 2016.



Kinnisvaraekspert

Northern Horizon Capital AS  
Hobujaama 5  
Tallinn 10151

October 31, 2016

## Executive Summary to Valuation Report No. 1609-6991-01/HT

DTZ Kinnisvaraekspert (hereinafter referred to as Valuer) was mandated to carry out valuation services based on agreement dated at September 23, 2016.

Pursuant to the agreement mentioned above, DTZ Kinnisvaraekspert performed the valuation of Market Value of the real property at Paldiski Road 80, Tallinn.

Following to the Client request, the purpose of current paper is to add an Executive Summary to the Valuation Report No. 1609-6991-01/HT prepared at September 30, 2016.

### Executive Summary

1	<b>Client</b>	Northern Horizon Capital AS
2	<b>Valuer</b>	DTZ Kinnisvaraekspert (Kinnisvaraekspert OÜ, Reg No 10708639)
3	<b>Subject Property</b>	Office property (Reg No 2269901)
4	<b>Address</b>	Paldiski Road 80, Tallinn
5	<b>Owner</b>	OÜ BH G4S (reg. no. 14065606)
6	<b>Cadastral code of the land lot</b>	78406:601:0010
7	<b>Land tenure</b>	Freehold
8	<b>Standards applied</b>	IVS (2013), EVS 875 (National Standards)
9	<b>Valuation method</b>	Discounted Cash Flow (DCF)
10	<b>Inspection date</b>	September 28, 2016

11	<b>Value date</b>	September 30, 2016
12	<b>Date of valuation report</b>	September 30, 2016
13	<b>Agreement</b>	September 23, 2016
14	<b>Land lot</b>	8,200 m <sup>2</sup>
15	<b>Office building, closed net area</b>	8,363 m <sup>2</sup>
16	<b>Market Value</b>	<b>16,800,000 € (sixteen million eight hundred thousand)</b>

## Note to valuation result

The market value does not include VAT.

## Valuation Clauses

Valuer has acted independently and all the data in the valuation is veracious and presented without influence from third parties. The valuation is valid on the assumption that the data and information presented to us is veracious and all conditions of validity of the valuation are fulfilled. The valuation experts are not responsible for the wrong data that is presented to us and for the correctness of what we had no possibility to check or there was no grounded need for that.

All conditions, assumptions and limiting factors listed in the valuation report are an integral part of the report. Valuation result should be considered only in the context of the valuation report as a whole.

Compiled by:



### **Aivar Tomson, MRICS**

Vice-Director  
Member of the Estonian  
Real Estate Appraisers Association  
Certified Appraiser (certificate 095313)

DTZ Kinnisvaraekspert  
Ahtri 6A  
10151 Tallinn, Eesti  
tel +372 512 9188  
www.dtz.ee



OÜ BPT Baltic Fund 1  
Rävala 5  
Tallinn 10143

October 28, 2016

Executive Summary to Valuation Report No. 57/E/16

Colliers International Advisors OÜ (hereinafter referred to as Valuer), was mandated by the way of a valuation services written order that was approved at 9 September 2016 by members of the board Mr. Tarmo Karotam, acting under the Statutes of BPT Baltic Opportunity Fund OÜ, as a "Client".

Pursuant to the written order for real estate valuation services, Colliers International Advisors OÜ has performed the valuation of Market Value of the the real property interests, known as an office building "Lincona Maja", located at Pärnu Rd. 139a, Tallinn, Estonia (hereinafter referred to as Object) for financial statement purposes.

Following to the Client request, the purpose of current pepper is to add an Executive Summary of the Valuation Report No. 57/E/16 prepared at October 28 2016.

## EXECUTIVE SUMMARY

Client	BPT Baltic Fund 1 OÜ	(reg. No. 12127485)	
Valuer	Colliers International Advisors OÜ (reg. No. 11330404) Within the framework of this assignment, Colliers International Advisors has acted for the Client as an external Valuer.		
Agreement with client	Written order by email	approved	September 9, 2016
Owner of Subject Property	BPT Baltic Fund 1 OÜ	(reg. No. 12127485)	
Subject Property	Real property interests		
<i>General description</i>	Office building with supporting commercial premises.		
<i>Property units</i>	1		
<i>Property brand name</i>	Lincona		
<i>Address</i>	<i>Property cadastral number</i>	<i>Land Book Real Property No.</i>	<i>Legal share</i>
<i>Pärnu road 139a, Tallinn</i>	78401:118:0132	n/a <sup>1</sup>	1/1
<i>Detailed property structure</i>	See "Description of the Object" Section of the valuation report		
Land tenure	Freehold		
Type of use	<i>Current use</i>	<i>Alternative use</i>	
	Entertainment / leisure / retail	-	
Property key parameters	<i>Physical share of Land, m<sup>2</sup></i>	<i>Net building area, m<sup>2</sup></i>	<i>Net leasable area, m<sup>2</sup></i>
	8,008	12,435	10,859
Purpose of the valuation	Internal use, financial reporting		
Intended users of the report	-		

<sup>1</sup> New cadaster unit has been composed in 2016, the property registration is under the process that is not yet finalized. Thus, the property registration / identification code is not yet issued.



<b>Applied valuation standards</b>	The Market Value is determined in accordance with the appropriate methodology as applied on the local market and the national valuation standards (Estonian Valuation Standards EVS - 875) prepared by the Estonian Association of Valuers (EKHÜ), which based on the International Valuation Standards (IVS). The terms and valuation methodology used in the Valuation Report corresponds the principles of Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards “Red Book”.	
<b>Special assumptions, instructions or departures</b>	It assumes that there are no physical changes were done with the property between the date of valuation and date of inspection.	
<b>Inspection date</b>	October 24, 2016 (interior and exterior)	
<b>Date of valuation</b>	September 30, 2016	
<b>Date of the valuation report</b>	October 28, 2016	
<b>Results found</b>		
	<b>Market Value</b>	EUR 15,700,000      Fifteen million and seven hundred thousand Euros
<b>VAT</b>	Stated value does NOT include value added tax (VAT)	
<b>Notes to results</b>	-	

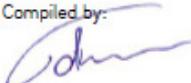
**Method of Valuation:** The Market Value is determined using the Income Approach, which is applied through Discounted Cash Flow method. Another alternative approach to valuation - Sales Comparison Approach, is not used in current report due the lack of comparable respectable transactions with open rent-roll data that have occurred in the local markets recently.

The conditions, assumptions and limiting factors listed in the valuation report are an integral part of the report. Presented results, opinions and conclusions should be considered only in the context of the valuation report as a whole.

Additional information, including documents and information provided to the Valuer that is not included in the report, as well as further explanations to calculations and conclusions are available upon request.

**Probability of changes**

The value stated in the report was estimated as of the presumptive data. Constantly changing market situation, banks' lending and country's economic, social and political conditions, as well as properties physical conditions have varying effects on the real property value. Even after the passage of a relatively short or mid-term period of time, property value may change substantially and require a review based on differing market conditions.

Compiled by:  
  
 Aleksander Sibul, MRICS  
 Head of valuation  
 Certified Valuer No. 069702

Verified by:  
  
 Maile Kajak  
 CEO  
 Certified Valuer No. 095309

Member of the Estonian Association of Valuers  
 Member of Royal Institute of Chartered Survivors

Member of the Estonian Association of Valuers

Date of the valuation report: October 28, 2016.



BOF CC Plaza OÜ  
Rävala 5  
Tallinn 10143

October 28, 2016

Executive Summary to Valuation Report No. 56/E/16

Colliers International Advisors OÜ (hereinafter referred to as Valuer), was mandated by the way of a valuation services written order that was approved at 9 September 2016 by members of the board Mr. Tarmo Karotam, acting under the Statutes of BPT Baltic Opportunity Fund OÜ, as a "Client".

Pursuant to the written order for real estate valuation services, Colliers International Advisors OÜ has performed the valuation of Market Value of the the real property interests, known as cinema building "Coca-Cola Plaza", located at Hobujaama St 5, Tallinn, Estonia (hereinafter referred to as Object) for financial statement purposes.

Following to the Client request, the purpose of current pepper is to add an Executive Summary of the Valuation Report No. 56/E/16 prepared at October 28 2016.

## EXECUTIVE SUMMARY

<b>Client</b>	BOF CC Plaza OÜ (reg. No. 12399823)		
<b>Valuer</b>	Colliers International Advisors OÜ (reg. No. 11330404) Within the framework of this assignment, Colliers International Advisors has acted for the Client as an external Valuer.		
<b>Agreement with client</b>	Written order by email	approved	September 9, 2016
<b>Owner of Subject Property</b>	BOF CC Plaza OÜ (reg. No. 12399823)		
<b>Subject Property</b>	Real property interests		
<i>General description</i>	Cinema building with supporting commercial premises.		
<i>Property units</i>	1		
<i>Property brand name</i>	Coca Cola Plaza		
<i>Address</i>	<i>Property cadastral number</i>	<i>Land Book Real Property No.</i>	<i>Legal share</i>
Hobujaama Str. 5, Tallinn	78401:114:0880	1131501	1/1
<i>Detailed property structure</i>	See "Description of the Object" Section of the valuation report		
<b>Land tenure</b>	Freehold		
<b>Type of use</b>	<i>Current use</i>	<i>Alternative use</i>	
	Entertainment / leisure / retail	-	
<b>Property key parameters</b>	<i>Physical share of Land, m<sup>2</sup></i>	<i>Net building area, m<sup>2</sup></i>	<i>Net leasable area, m<sup>2</sup></i>
	3,937	11,458	8,664
<b>Purpose of the valuation</b>	Financial statement purposes		
<b>Intended users of the report</b>	-		
<b>Applied valuation standards</b>	The Market Value is determined in accordance with the appropriate methodology as applied on the local market and the national valuation standards (Estonian Valuation Standards EVS - 875) prepared by the Estonian Association of Valuers (EKHÜ), which based on the International Valuation Standards (IVS). The terms and valuation methodology used in the Valuation Report corresponds the principles of Royal		



	Institution of Chartered Surveyors (RICS) Valuation – Professional Standards “Red Book”.	
Special assumptions, instructions or departures	It assumes that there are no physical changes were done with the property between the date of valuation and date of the inspection.	
Inspection date	October 24, 2016 (interior and exterior)	
Date of valuation	September 30, 2016	
Date of the valuation report	October 28, 2016	
Results found		
	<i>Market Value</i>	EUR 13,000,000                      thirteen million Euros
VAT	Stated value does NOT include value added tax (VAT)	
Notes to results	-	

**Method of Valuation:** The Market Value is determined using the Income Approach, which is applied through Discounted Cash Flow method. Another alternative approach to valuation - Sales Comparison Approach, is not used in current report due the lack of comparable respectable transactions with open rent-roll data that have occurred in the local markets recently.

The conditions, assumptions and limiting factors listed in the valuation report are an integral part of the report. Presented results, opinions and conclusions should be considered only in the context of the valuation report as a whole.

Additional information, including documents and information provided to the Valuer that is not included in the report, as well as further explanations to calculations and conclusions are available upon request.

**Probability of changes**

The value stated in the report was estimated as of the presumptive data. Constantly changing market situation, banks' lending and country's economic, social and political conditions, as well as properties physical conditions have varying effects on the real property value. Even after the passage of a relatively short or mid-term period of time, property value may change substantially and require a review based on differing market conditions.

Compiled by:

Aleksander Sibul, MRICS  
 Head of valuation  
 Certified Valuer No. 069702

Verified by:

Maile Kajak  
 CEO  
 Certified Valuer No. 095309

Member of the Estonian Association of Valuers  
 Member of Royal Institute of Chartered Survivors

Member of the Estonian Association of Valuers

Date of the valuation report: October 28, 2016.

## EXECUTIVE SUMMARY

Client	BOF Sky, SIA		(reg. No. 40103538571)	
Valuer	Colliers International Advisors, SIA (reg. No. 40103255403)			
Agreement with client	No. 1674/VD/16	signed on	September 06, 2016	
Owner of Subject Property	BOF Sky, SIA		(reg. No. 40103538571)	
Subject Property	Real property			
<i>General description</i>	neighborhood shopping centre in one of Riga's residential micro-districts (Mežciems); anchor tenant – food retailer SKY			
<i>Property units</i>	1			
<i>Property brand name</i>	SKY			
	<i>Address</i>	<i>Property cadastral number</i>	<i>Land Book file No.</i>	<i>Ideal parts</i>
	Biķernieku Street 120B	0100-622-0133	30600	1/1
	Biķernieku Street	0100-122-2047	25714	1/1
	Biķernieku Street	0100-122-2068	27543	1/1
<i>Detailed property structure</i>	see Section 4 of this Report			
Land tenure	freehold	0100-122-2047		
	freehold	0100-122-2068		
Type of use	<i>Current use</i>	<i>Alternative use</i>		
	Retail	-		
Property key parameters	<i>Land area, sqm</i>	<i>Interior area (buildings), sqm</i>	<i>NLA (buildings), sqm</i>	
	15 206	3 814.7	3 268.5	
Purpose of the valuation	financial reporting			
Intended users of report				
Applied valuation standard	IVS 2013			
Special assumptions, instructions or departures	- estimations are based on the rent roll (contractual and actual rent rates, agreement expiry terms, indexation terms, additional payments and reimbursable expenses) and property costs breakdown as provided by the Client			
Inspection date	October 22, 2016			
Value date	September 30, 2016			
Date report issued	October 25, 2016			
Results found				
	<i>Market Value</i>	EUR 5 430 000 ( five million four hundred thirty thousand euro)		
VAT	Stated values do NOT include value added tax (VAT)			
Notes to results	-			

**Purpose (task) of Valuation:** the purpose of the valuation is to estimate the Market Value of the Subject Property for financial reporting purposes. Valuation for financial reporting purposes should be done under International Financial Reporting Standards (IFRS) in accordance to IAS 40 Fair Value disclosure requirement. According to IVS Fair Value under IFRS is consistent with the concept of Market Value defined in IVS.

VALUATION REPORT NO. 1764/VD/16 (1); BIĶERNIEKU STREET 120B, RIGA, LATVIA

**Method of Valuation:** The Market Value estimate is estimated using the Income Approach, which is applied through the Discounted Cash Flow method.

The conditions, assumptions and limiting factors listed in further sections of this report are an integral part of the valuation report. The presented results, opinions and conclusions should be considered only in context of this report as a whole.

Additional information, including documents and information provided to the Valuer that is not included in this report, as well as further explanations to calculations and conclusions are available upon request.

Compiled:



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Jānis Kalniņš  
Appraisal Consultant | Valuation  
Department  
Latvian certified real property valuer  
(cert. No.133)

Approved:



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Deniss Karpāns  
Chairman of the Board



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Jānis Ozols MRICS  
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## APPENDIX L

### Calculations of Full Year Income Capacity

The purpose of this appendix is to explain calculations that were performed in order to compute financial figures presented in section 6.13 "Historical Income Capacity".

In order to show the historical income capacity and historical yields of the Fund and its predecessor BOF, full year normalised figures were calculated. Full year normalised figures are meant to display the net rental income and yield levels as if all properties had been acquired on the 1st of January of the acquisition year.

Tables from L-1 to L-8 describe calculations related to properties' acquisition price and fair value.

**Table L-1: Acquisition price, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	15,396	15,396	15,396	15,396	14,560	14,560
Sky Supermarket			4,510	4,510	4,510	4,510
Coca Cola Plaza			11,944	11,944	11,944	11,944
Domus Pro 1st stage				12,087	12,087	12,087
Domus Pro 2nd stage						
Europa SC					35,787	35,787
<b>Total acquisition price</b>	<b>15,396</b>	<b>15,396</b>	<b>31,850</b>	<b>43,937</b>	<b>78,888</b>	<b>78,888</b>

**Table L-2: Capital expenditure, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona		167	20	315	155	31
Sky Supermarket			5	22	45	15
Coca Cola Plaza						
Domus Pro 1st stage						
Domus Pro 2nd stage					2,437	704
Europa SC					330	119
<b>Total capital expenditure</b>	<b>-</b>	<b>167</b>	<b>25</b>	<b>337</b>	<b>2,967</b>	<b>869</b>
<b>Capital expenditure related to expansion</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,437</b>	<b>704</b>
<b>Capital expenditure related to operations</b>	<b>-</b>	<b>167</b>	<b>25</b>	<b>337</b>	<b>530</b>	<b>165</b>

**Table L-3: Acquisition price incl. capital expenditure, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	15,396	15,563	15,583	15,898	15,217	15,248
Sky Supermarket			4,515	4,537	4,582	4,597
Coca Cola Plaza			11,944	11,944	11,944	11,944
Domus Pro 1st stage				12,087	12,087	12,087
Domus Pro 2nd stage					2,437	3,141
Europa SC					36,117	36,236
<b>Total acquisition price incl. capital expenditure</b>	<b>15,396</b>	<b>15,563</b>	<b>32,042</b>	<b>44,466</b>	<b>82,384</b>	<b>83,253</b>

**Table L-4: Fair value, period end, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	15,590	15,330	16,050	16,410	15,460 <sup>1</sup>	15,491
Sky Supermarket			4,900	5,100	5,150	5,165
Coca Cola Plaza			12,185	12,620	12,650	12,650
Domus Pro 1st stage				11,190	12,830	12,830
Domus Pro 2nd stage				850	3,510	3,773
Europa SC					37,210	37,329
<b>Total fair value, period end</b>	<b>15,590</b>	<b>15,330</b>	<b>33,135</b>	<b>46,170</b>	<b>86,810</b>	<b>87,238</b>

<sup>1</sup> The figure no longer includes a fair value of Babycenter, a standalone building acquired together with Lincona office complex, which was sold in March 2015. At the end of 2014, a fair value of Babycenter amounted to EUR 1,000 thousand.

**Table L-5: Fair value, period start, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	15,396	15,590	15,330	16,050	16,410 <sup>1</sup>	15,460
Sky Supermarket			4,510	4,900	5,100	5,150
Coca Cola Plaza			11,944	12,185	12,620	12,650
Domus Pro 1st stage				12,087	11,190	12,830
Domus Pro 2nd stage					850	3,510
Europa SC					35,787	37,210
<b>Total fair value, period start</b>	<b>15,396</b>	<b>15,590</b>	<b>31,784</b>	<b>45,222</b>	<b>81,957</b>	<b>86,810</b>

The value is equal to either the acquisition price if the property was acquired during the period or the fair value at the end of the previous period if the property was owned throughout the whole period. The number can be interpreted as the value of the properties going in to the period as if they all were acquired on the 1st of January.

<sup>1</sup> The figure includes EUR 1,000 thousand fair value of Babycenter, a standalone building acquired together with Lincona office complex, which was sold in March 2015.

**Table L-6: Fair value gain, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	194	-427	700	45	-105 <sup>1</sup>	-
Sky Supermarket			385	178	5	-
Coca Cola Plaza			241	435	30	-
Domus Pro 1st stage				-897	1,640	-
Domus Pro 2nd stage				850	223	-441
Europa SC					1,093	-
<b>Total fair value gain</b>	<b>194</b>	<b>-427</b>	<b>1,326</b>	<b>611</b>	<b>2,886</b>	<b>-441</b>
<i>Value gain, % of fair value at period start</i>	<i>1.26%</i>	<i>-2.74%</i>	<i>4.17%</i>	<i>1.35%</i>	<i>3.52%</i>	<i>-0.51%</i>

Calculated as follows: fair value at period end - (fair value at period start + total capital expenditure), or if the property was acquired during the year: fair value at period end - (acquisition price + total capital expenditure)

<sup>1</sup> When calculating this figure, EUR 1,000 thousand fair value of Babycenter, a standalone building acquired together with Lincona office complex and sold in March 2015, is excluded from Lincona's fair value at the beginning of 2015 so that effective fair value at period start becomes EUR 15,410 thousand.

**Table L-7: Fair value based on 30 June 2016 values, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	15,491	15,491	15,491	15,491	15,491	15,491
Sky Supermarket			5,165	5,165	5,165	5,165
Coca Cola Plaza			12,650	12,650	12,650	12,650
Domus Pro 1st stage				12,830	12,830	12,830
Domus Pro 2nd stage						3,773
Europa SC					37,329	37,329
<b>Total fair value based on 30 June 2016 values</b>	<b>15,491</b>	<b>15,491</b>	<b>33,306</b>	<b>46,136</b>	<b>83,465</b>	<b>87,238</b>

**Table L-8: Rentable area, period end, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	11,347	11,365	11,364	11,490	10,849	10,859
Sky Supermarket			3,241	3,241	3,263	3,263
Coca Cola Plaza			8,664	8,664	8,664	8,664
Domus Pro 1st stage				7,533	7,533	7,533
Domus Pro 2nd stage					1,485	3,714
Europa SC					16,856	16,856
<b>Total rentable area, period end</b>	<b>11,347</b>	<b>11,365</b>	<b>23,268</b>	<b>30,928</b>	<b>48,651</b>	<b>50,889</b>
<i>Fair value at period end, EUR/sqm</i>	<i>1,374</i>	<i>1,349</i>	<i>1,424</i>	<i>1,493</i>	<i>1,784</i>	<i>1,715</i>

The following tables from L-9 to L-15 explain calculations related to full year normalised net rental income (NRI) and resulting yield provided in section 6.13 "Historical Income Capacity". A build-up of NRI reported on the Fund's income statement is presented which is used to arrive at the full year normalised NRI. The full year normalised NRI can be interpreted as the historical NRI of the Fund and its predecessor BOF as if all properties had been acquired on the 1st of January instead of their true acquisition dates during the year they were acquired.

**Table L-9: Rental income at zero vacancy, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	700	1,471	1,365	1,271	1,353	680
Sky Supermarket			428	448	460	235
Coca Cola Plaza			751	964	974	491
Domus Pro 1st stage				643	963	487
Domus Pro 2nd stage						53
Europa SC					2,459	1,443
<b>Total rental income at zero vacancy</b>	<b>700</b>	<b>1,471</b>	<b>2,544</b>	<b>3,327</b>	<b>6,209</b>	<b>3,390</b>

**Table L-10: Expenses reimbursement revenue, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	110	312	291	272	273	143
Sky Supermarket			341	355	339	174
Coca Cola Plaza						
Domus Pro 1st stage				202	421	212
Domus Pro 2nd stage						23
Europa SC					1,028	641
<b>Total expenses reimbursement revenue</b>	<b>110</b>	<b>312</b>	<b>632</b>	<b>829</b>	<b>2,062</b>	<b>1,193</b>
<b>Rental income at zero vacancy plus expenses reimbursement revenue</b>	<b>810</b>	<b>1,783</b>	<b>3,176</b>	<b>4,156</b>	<b>8,271</b>	<b>4,584</b>

**Table L-11: Vacancy, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	-34	-68	-90	-187	-52	-29
Sky Supermarket			-0	-2	-0	-1
Coca Cola Plaza			-	-	-	-
Domus Pro 1st stage				-91	-30	-9
Domus Pro 2nd stage						-
Europa SC					-54	-76
<b>Total vacancies</b>	<b>-34</b>	<b>-68</b>	<b>-90</b>	<b>-279</b>	<b>-136</b>	<b>-115</b>
<i>Total vacancies, %</i>	<i>4.9%</i>	<i>4.6%</i>	<i>3.5%</i>	<i>8.4%</i>	<i>2.2%</i>	<i>3.4%</i>
<b>Rental income and expenses reimbursement revenue</b>	<b>775</b>	<b>1,716</b>	<b>3,086</b>	<b>3,877</b>	<b>8,134</b>	<b>4,469</b>

Vacancy in the table above reflects the absolute rent lost due to vacant plot and is calculated by taking an average rent price per sqm of the property multiplied by the average vacant area in sqm and subtracting the average costs from that vacant area.

**Table L-12: Cost of rental activities, EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	-146	-408	-397	-457	-432	-187
Sky Supermarket			-399	-399	-385	-202
Coca Cola Plaza			-10	-12	-12	-6
Domus Pro 1st stage				-310	-489	-231
Domus Pro 2nd stage						-50
Europa SC					-1,479	-878
<b>Total cost of rental activities</b>	<b>-146</b>	<b>-408</b>	<b>-806</b>	<b>-1,177</b>	<b>-2,796</b>	<b>-1,554</b>

**Table L-13: Reported net rental income (NRI), EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	629	1,307	1,169	899	1,142	607
Sky Supermarket			369	403	414	207
Coca Cola Plaza			741	953	962	485
Domus Pro 1st stage				445	866	460
Domus Pro 2nd stage						26
Europa SC					1,954	1,130
<b>Total reported NRI</b>	<b>629</b>	<b>1,307</b>	<b>2,280</b>	<b>2,700</b>	<b>5,339</b>	<b>2,915</b>

**Table L-14: Full year normalised net rental income (NRI), EUR thousand**

	2011	2012	2013	2014	2015	Jan - Jun 2016 <sup>1</sup>
Lincona	1,258	1,307	1,169	899	1,142	1,214
Sky Supermarket			369	403	414	413
Coca Cola Plaza			911	953	962	970
Domus Pro 1st stage				668	866	920
Domus Pro 2nd stage <sup>1</sup>						279
Europa SC					2,353	2,260
<b>Total full year normalised NRI</b>	<b>1,258</b>	<b>1,307</b>	<b>2,449</b>	<b>2,922</b>	<b>5,737</b>	<b>6,057</b>

Full year normalised NRI is calculated so that the normalised NRI represents the NRI of the property as if the property was acquired on the 1st of January. To derive the full year normalised NRI, the reported NRI of the property is divided by the fraction of the year during which the property has been in the Fund's portfolio. An example would be if the property was acquired on 1 July 2015, the full year normalised NRI would be: (reported NRI) / (the fraction of the year represented by the number of whole days between two dates (e.g. 1 July 2015 and 31 December 2015)) = (reported NRI) / 0.5 = 2 \* (reported NRI).

<sup>1</sup> For all properties, except for Domus Pro 2<sup>nd</sup> stage, full year normalised NRI was calculated by annualizing (multiplying by 2) reported NRI for the first 6 months of 2016. As Domus Pro 2<sup>nd</sup> stage was finished in May 2016, the full year normalised NRI was calculated differently. Its NRI in August 2016 was EUR 23.7 thousand and by multiplying this figure by 12 the full year normalised NRI is calculated to be EUR 279 thousand.

**Table L-15: Yields by property calculated on full year normalised NRI and fair value at period start**

	2011	2012	2013	2014	2015	Jan - Jun 2016
Lincona	8.2%	8.4%	7.6%	5.6%	7.0%	7.9%
Sky Supermarket			8.2%	8.2%	8.1%	8.0%
Coca Cola Plaza			7.6%	7.8%	7.6%	7.7%
Domus Pro 1st stage				5.5%	7.7%	7.2%
Domus Pro 2nd stage						7.9%
Europa SC					6.6%	6.1%
<b>Total</b>	<b>8.2%</b>	<b>8.4%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>7.0%</b>	<b>7.0%</b>

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