AS Avaron Asset Management

ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED ON
31 DECEMBER 2016

Audited by Deloitte

COMPANY FACTS

Beginning of the financial year	01/01/2016
End of the financial year	31/12/2016
Name of the Company	AS Avaron Asset Management
Registration number	11341336
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Phone	+ 372 664 4200
Facsimile	+ 372 664 4201
E-mail	avaron@avaron.com
Web site	www.avaron.com
Main activity	Management of investment funds (EMTAK 66301) Portfolio management services (EMTAK 66199)
Sworn auditor	AS Deloitte Audit Eesti (reg. no. 10687819)
Documents enclosed with the annual report	Sworn Auditor's Report Proposal for Profit Distribution Division of revenues in accordance with EMTAK classification standard

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MANAGEMENT REPORT

General Information

AS Avaron Asset Management (hereafter Avaron or Company) is an independent asset management company that was established in 2007. Our core activity involves investing the assets of our mutual funds and institutional investors mandates into Central and Eastern European listed equity and bonds. We create additional value to our clients by applying active value investing principles while also adhering to the UN Principals of Responsible Investment. Avaron holds a licence from the Estonian Financial Supervision Authority to manage investment portfolios and funds. Avaron is also a registered Investment Advisor with the US Securities and Exchange Commission (SEC).

In spring 2017 Avaron celebrates its 10th anniversary. In these 10 years, we have built a successful asset management company with 548 million euros of assets under management as at the end of 2016. The firm employs 14 investment and finance specialists.

Description of the Business Model

Avaron is mainly focused on offering institutional investors the opportunity to invest part of their emerging markets portfolio into Central and Eastern European listed equities and bonds. An investor can achieve this by either investing directly into mutual funds manged by Avaron or by giving us a managed account to invest the assets directly. Today Avaron manages three mutual funds domiciled in Estonia which are open to any investor that has a European bank account. Avaron Emerging Europe Fund is mainly focused on Emerging European (ex-Russia) listed equities. Avaron Eastern Europe Fixed Income Fund invests into high yield corporate (predominantly equity also listed) and sovereign bonds in the whole Emerging Europe region (cum Russia). Avaron Flexible Strategies Fund combines the strategies of the above-mentioned funds and unlike them can invest globally. In our institutional investors' portfolios, we mainly focus on Central and Eastern European listed equity investments. Estonian retail investors have the opportunity to invest into any of the three mutual funds domiciled in Estonia. Retail investors are recommended to invest into Avaron Flexible Strategies Fund, where our fund managers adjust risk based on the market cycle. Total assets under management of Avaron's mutual funds in the end of 2016 amounted to 82 million euros, out of which 63 million euros was in Avaron Emerging Europe Fund. The total size of institutional investor mandates was 461 million euros. Avaron also manages some 5 million euros worth of portfolios for high net worth individuals.

Based on Avaron funds' prospectuses and investment management agreements of managed accounts Avaron's investments are focused on the Central and Eastern European listed equity and bonds. Our team's more than 10 years of experience in the region has given us extensive knowledge about the public companies and countries where we are active in. Our eight-person investment team analyses 250 listed companies in Emerging Europe, researches their business models, assess their corporate governance and evaluates their development plans. For all the companies under our coverage we establish our own target price based on our internal financial model and estimates, as such our investment decisions rely solely on in-house research. Based on our research we discover the 50-60 most attractive investment opportunities where we make an investment in. Each fund or managed account is invested in 15-45 different instruments. In the end of 2016 we were invested in 57 different stocks and held 21 different bonds across all Avaron run funds and portfolios. Our investment philosophy follows value investing principles. Avaron funds and our institutional clients pay us an annual management fee based on the value of assets under management and we are also entitled to earn performance fees if we outperform the set benchmark. Both the management and performance fee rates and terms can be found in the respective fund's prospectus and are also available on our webpage. The fees agreed upon with institutional investors are confidential. The Company's financial success mainly depends on two things – the amount of assets under management and return of the assets managed, which underpins the performance fees and long-lasting client relationship.

Goals and Values

Avaron's mission is to be the most suitable partner for institutional investors catering for their needs in investing into Central and Eastern European listed equity and bonds. Avaron's main objective is to offer our investors positive risk weighted long-term return through value based and responsible investing. To achieve this, we adhere to our investment style and process, respectively value investing and fundamental analysis, which produce our bottom up stock picks to the portfolios. Avaron's investment team has a key role in achieving our objective and this is why the Investment Managers and key employees are also the Company shareholders. The Company's Investment Managers have worked in Avaron for 10 years while the three key analysts' employment extends from 6-10 years. Avaron has invested considerable resources into its employees and IT systems. Today our research team, purely dedicated to the Emerging European region stock analysis, of 8 investment specialists is one of the largest among our peers. In parallel with its fast growth the Company has also dedicated significant funds to IT systems to further enhance efficiency and better manage portfolio risks.

Avaron's second key objective is to offer its employees opportunities for personal growth and its third key goal is to increase the Company's worth and thus create value to its shareholders.

Avaron has a strong corporate culture with passion for investing, diligence and flexibility. Passion for investing is a key characteristic we look for during our employee selection process as we consider it to be essential for self-development and long-lasting job satisfaction. Avaron is flexible both towards its clients and employees, offering tailor-made solutions. Another key characteristic of our team is transparency – we are transparent as a company and also how we manage investments, which further assures our investors that Avaron is a professional partner for them.

Operating environment

The operating environment contains three critical elements for Avaron. Firstly, how our target investors allocate their funds globally, including which asset classes and which geographic regions they prefer. These preferences by and large depend on interest levels, global politics, economic outlook and asset valuations. The low interest rates in Europe and US in recent years have made investors keener to risk, which has been positive for Avaron. Returns on high quality bonds have missed expectations and thus investors have allocated funds to assets with higher potential return, which include high yield bonds, including emerging markets' bonds, and stocks. In the next few years our operating environment will be affected by the US Federal Reserve's and European central banks' interest rate policies. We believe that interest rates both in US and Europe are bound to increase in the next 3 years, which in turn might make investors more conservative and prone to invest into higher quality bonds. The global political situation is also a key factor for investors. Should any of the current political hotspots, like Syria and North-Korea, Brexit or the European refugee crises take a turn for the worse, then this could result in a stock market correction, which in turn would have a negative effect on Avaron's operating environment.

Secondly, how the Central and Eastern European economic and political situations develop, in other words the general situation of the investment region. Currently the strong European economy, especially Germany, together with the low interest rates has strengthened the economic environment in most Central and Eastern European countries. Economic growth in the region is underpinned by strong domestic consumption and increasing investments. This growth has also revitalized investor interest towards Emerging Europe. However, there are two countries in the region that make us wary. Turkey, where the domestic political situation has resulted in the weakening of the local currency and increased stock market volatility, and Russia, that is highly dependent on oil price and is also trying to increase its influence on the global political scene by taking risky gambles. In the next few years the political developments in these two countries will have significant effect on Avaron's operating environment and will be both a source of risk and opportunity for us.

Thirdly, how competitive is Avaron compared to other asset management companies. In the last few years investing through index funds has become more popular as it offers investors an efficient means to take market risk. This means that raising money from institutional investors has become ever more difficult for asset managers who purely imitate the index or who underperform it for long. On the other hand, this market trend offers opportunities for asset managers whose portfolios differ from the index or who manage to deliver long-term outperformance compared to the market index.

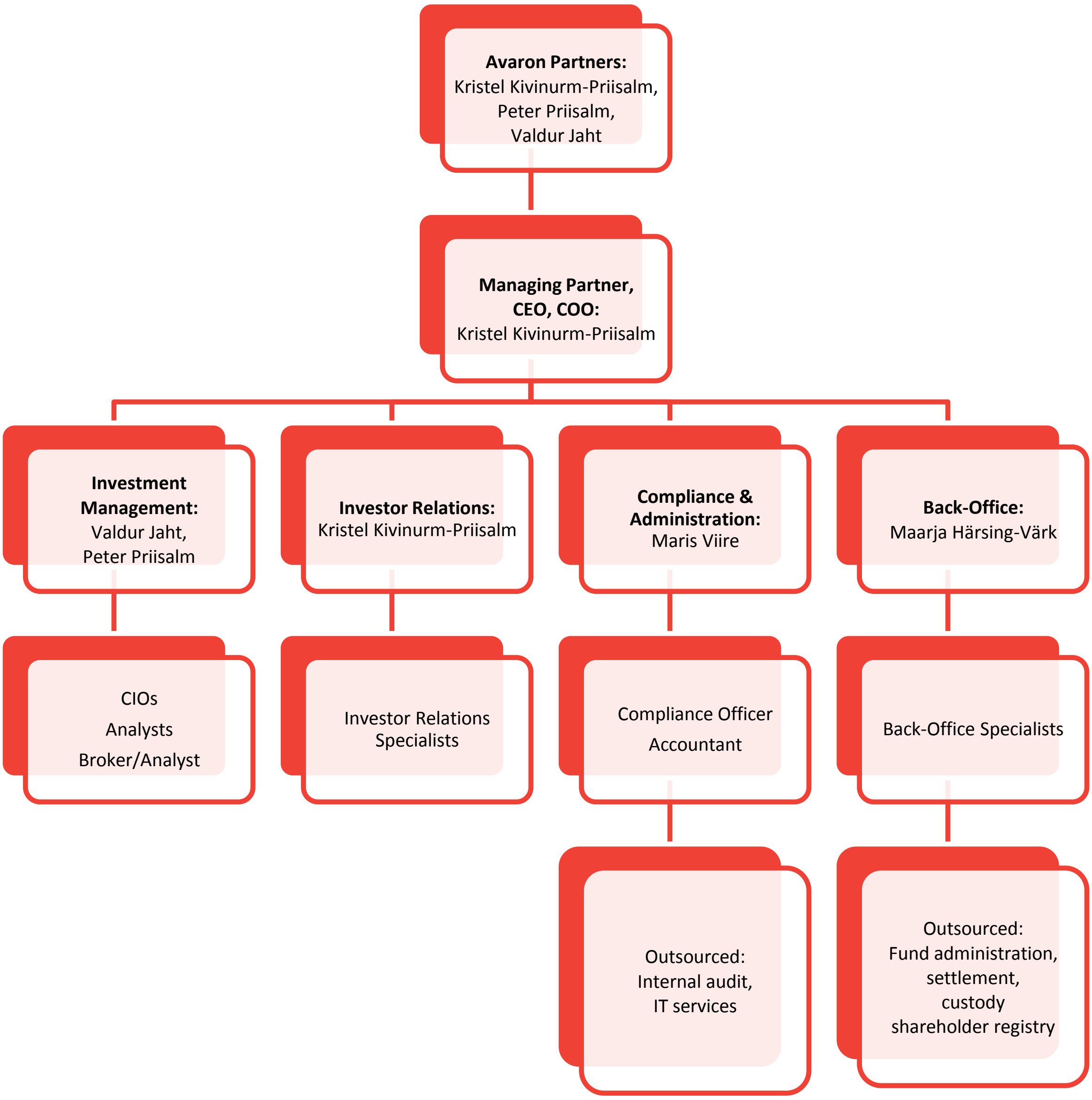

Figure 1. *Avaron's Structure*

Ownership and Management Structure

Avaron is owned by its employees and the Company has no institutional investors. 82.41% of Avaron belongs to Avaron Partners OÜ, which is owned and its final beneficiaries are Kristel Kivinurm-Priisalm, Peter Priisalm, Valdur Jaht and Maris Jaht though their stakes. 33.33% of Avaron Partners shares belongs to Drusba Investments OÜ, which is equally owned by Valdur Jaht and his wife Maris Jaht (not active in the business). 66.67% of Avaron Partners belongs to Princo OÜ, which is equally owned by Kristel Kivinurm-Priisalm and Peter Priisalm. The company is consolidated under Princo OÜ. In the end of 2016 Avaron issued preferred shares which were acquired by senior analysts of the Company - Rain Leesi (6.85%), Piotr Jurga (5.86%) and Reino Pent (4.88%).

The Company's Supervisory Board consists of Peter Priisalm (Chairman), Maris Viire and Priit Sander. Mr. Sander is an independent Supervisory Board member and has no other function in Avaron. The Management Board consists of Kristel Kivinurm-Priisalm and Valdur Jaht. The Company is audited by Deloitte and internal audit is carried out by PwC. Compliance functions are internalised and are being carried out by an independent employee.

The Company functions as a partnership, which is being managed by the three partners: Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm. Kristel Kivinurm-Priisalm is responsible for general management, investor relationship management and operations management. Valdur Jaht and Peter Priisalm are the Company's Investment Managers, who are responsible for the investments made by the funds and managed accounts as well as the smooth running of the investment team's work. Structure of the Company can be seen on figure 1.

Risk Management

Risk management in Avaron occurs simultaneously on two levels that cover the Company's main day-to-day business risks. One being the management of the operational risks and the other being the risk management of Avaron's funds and investment portfolios. In both of these functions our goal is to first determine the material risks and then manage these by applying appropriate risk management methods.

The most significant operational risks are related to Avaron's personnel. Due to this we have divided the everyday operations into core and non-core activities. The prior are carried out by Avaron employees while the non-core activities that would create significant personnel related risks or require significant investments have been, when possible, outsourced to respective professionals. Avaron has outsourced the custody functions of the funds and portfolios. We also purchase IT services and legal counselling. Our core and non-core operational risks are mainly managed through rigorous staff selection and training together with detailed procedural guidelines and policies as well as IT systems. We have built up our business processes in such a manner that the main business risks would be managed, this includes the monitoring of rights, existence of substitutes and alternative solutions, diligent selection and continuous evaluation of clients and partners, regular testing of the Business Continuity Plan. We apply the four-eye principle in concluding transactions. The Company's employees must report all interests and financial transactions, including all transaction with securities on personal accounts. During 2016 Avaron started to develop a new order management system, which will further enhance our operational risk management related to order management and portfolio risk metrics.

The funds and investment portfolio risks are mainly managed through thorough company research and careful investment selection process. In addition to complying with the UN Principles of Responsible Investments Avaron has also developed an inhouse company quality score card and investee company and portfolio liquidity parameters, which are important risk management components.

Remuneration

The remuneration principles of Management Board members, fund managers and risk-takers are set in the Company's Remuneration Policy. Avaron's fund managers and risk-takers receive a fixed salary. Bonuses depend on Avaron's long-term goals, the Company's sustainability and employees' personal contribution. Bonuses are not linked to managed funds' hurdle return rates. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. Management Board members and risk-takers can be paid a severance which cannot exceed 6-month salary.

2016 Results

2016 was a record breaking year for Avaron. The Company's service income increased 45% year-on-year to 4.3 million euros (2015: 2.9 million euros). Net service income grew 27% to 3.0 million euros (2015: 2.4 million euros). Avaron's net profit in 2016 reached 2.0 million euros, being 41% higher (2015: 1.4 million euros) in year-on-year comparison. The Company's total assets amount to 7.0 million euros (2015: 4.8 million euros). The great 2016 results were driven by the good performance of the assets under management, which allowed us to record performance fees.

Table 1. *Avaron's financials*

EUR '000	2013	2014	2015	2016
Fee income	889	1,707	2,937	4,259
Net fee income	771	1,566	2,387	3,029
Expenses	468	797	894	756
Net profit	334	642	1,439	2,025
Total assets	2,147	3,188	4,763	7,010
Owners Equity	1,839	1,481	2,620	4,005
Assets under management	309,100	323,162	616,400	548,200

In December 2016 three long-term employees entered the Company's ownership structure as they subscribed Avaron's preferred shares. Cumulatively 17.59% of the Company now belongs to three key research team members and 82.41% belongs to Avaron Partners OÜ.

During the 2016 General Shareholder Meeting it was decided that 1.2 million euros out of the 2015 net profit will be paid out as dividends to the shareholders, over the course of 2016 0.4 million euros of this amount was paid out.

In 2016 Avaron was awarded the third place as the most competitive financial institution as part of the largest business competition in Estonia, which was organized by Enterprise Estonia and Estonian Chamber of Commerce and Industry, being the third runner up after the two largest commercial banks. The City of Tallinn also nominated Avaron in 2016 as one of the three most Responsible Entrepreneurs.

Outlook

Over the next years Avaron plans to continue with its current course of business by offering professional investors the opportunity to invest a part of their emerging market allocation to Central and Eastern European listed equity and bonds either through Avaron's funds or managed accounts. Estonian retail investors can invest their money in to the Company's Estonia-domiciled mutual funds, first and foremost to Avaron Flexible Strategies Fund. Our goal is to further grow and improve the Company by investing into our employees and IT systems. In 2017, we plan to launch the new order and risk management system, that has been developed exclusively for Avaron.

17 February 2017
Kristel Kivinurm-Priisalm
Member of the Management Board

MANAGEMENT BOARD DECLARATION

The Management Board is declaring its responsibility for the preparation of the annual accounts of AS Avaron Asset Management for the financial year ended on 31 December 2016.

The annual accounts are prepared according to the Accounting Principles Generally Accepted in Estonia, and present a true and fair view of the financial position, economic performance and cash flows of AS Avaron Asset Management.

Preparation of the annual accounts according to the Accounting Principles Generally Accepted in Estonia assumes the Management Board to make estimates on the assets and liabilities of AS Avaron Asset Management as of the balance sheet date, and on income and expenses for the reporting period. These estimates are based on up-to-date information about the state of AS Avaron Asset Management and consider the plans and risks as of the annual accounts' preparation date. The ultimate outcome of the business transactions recorded may differ from those estimates.

The annual accounts reflect those significant circumstances that have an effect on the valuation of assets and liabilities until the preparation date of the annual accounts, 28 April 2017.

The Management Board considers AS Avaron Asset Management to carry its activities as a going concern.

Name	**Position**	**Signature**	**Date**
Kristel Kivinurm-Priisalm	Member of the Management Board		28 April 2017
Valdur Jaht	Member of the Management Board		28 April 2017

FINANCIAL STATEMENTS

BALANCE SHEET

EUR '000	Note	31/12/2016	31/12/2015
ASSETS			
Cash and cash equivalents	2	4,464	1,573
Trade receivables	12	520	1,420
Tax prepayments and receivables		27	2
Other receivables and prepayments	4	50	72
Total receivables and prepayments		**597**	**1,494**
TOTAL CURRENT ASSETS		**5,061**	**3,067**
Loan receivables	12	1,217	1,237
Bonds		167	162
Units of own investment funds	12	550	264
Total financial investments		**1,934**	**1,663**
Tangible assets	3	15	33
TOTAL FIXED ASSETS		**1,949**	**1,696**
TOTAL ASSETS		**7,010**	**4,763**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Supplier payables and customer prepayments		221	332
Payable to employees	6	638	677
Tax payables	5	216	15
Dividend payables	12	795	-
TOTAL CURRENT LIABILITIES		**1,870**	**1,024**
Dividend payables	12	908	895
Income tax on dividend payables	5	227	224
TOTAL LONG-TERM LIABILITIES		**1,135**	**1,119**
TOTAL LIABILITIES		**3,005**	**2,143**
Share capital in nominal value	9	224	224
Unregistered share capital in nominal value	9	48	-
Unregistered paid-in capital in excess of par value	9	512	-
Statutory reserve capital		22	22
Retained earnings		1,174	935
Profit for the financial year		2,025	1,439
TOTAL SHAREHOLDERS' EQUITY		**4,005**	**2,620**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,010**	**4,763**

INCOME STATEMENT

EUR '000	Note	2016	2015
Fee income	**10**	4,259	2,937
Fee expense		1,230	550
Net fee income		**3,029**	**2,387**
Financial income and expenses			
Interest income		12	-1
Change in value of financial investments		41	22
Other financial income		-1	-
Net financial income		**52**	**21**
Operating expenses			
Wages and salaries	**11**	317	556
Social tax and unemployment insurance contribution expenses	**11**	110	98
Miscellaneous operating expenses		309	219
Total operating expenses		**736**	**873**
Depreciation and impairment of tangible assets	**3**	20	21
Income tax		300	75
Profit for the financial year		**2,025**	**1,439**

STATEMENT OF CASH FLOW

EUR '000	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the financial year		**2,025**	**1,439**
Adjustments:			
Depreciation and impairment of tangible assets	3	20	21
Interest income		-12	1
Change in value of financial investments		-41	-22
Income tax		300	75
Change in receivables and prepayments made		895	-1,131
Change in liabilities and prepayments collected		-148	488
Total cash flow from operating activities		**3,039**	**871**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of securities		-278	-179
Sale of securities		28	22
Acquisition of tangible assets	3	-2	-6
Loans given		-	-100
Repayment of loans given		20	221
Interest received		30	21
Total cash flow from investing activities		**-202**	**-21**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of preferred shares		559	-
Dividends paid		-405	-360
Income tax paid	3	-101	-90
Total cash flow from financing activities		**53**	**-450**
Total cash flow		**2,890**	**400**
Cash and cash equivalents at beginning of period	2	**1,573**	**1,173**
Effects of currency translation on cash and cash equivalents		**1**	**-**
Cash and cash equivalents at end of period	2	**4,464**	**1,573**

STATEMENT OF CHANGES IN EQUITY

EUR '000	Share capital	Unregis-tered share capital	Unregis-tered share premium	Statutory reserve capital	Retained earnings	Profit for the financial year	Total equity
31/12/2014	**224**	**-**	**-**	**22**	**593**	**642**	**1,481**
Distribution of profit	-	-	-	-	642	-642	-
Distributed dividends	-	-	-	-	-300	-	-300
Profit for the financial year	-	-	-	-	-	1,439	1,439
31/12/2015	**224**	**-**	**-**	**22**	**935**	**1,439**	**2,620**
Distribution of profit	-	-	-	-	1,439	-1,439	-
Distributed dividends	-	-	-	-	-1,200	-	-1,200
Share capital issued	-	48	512	-	-	-	560
Profit for the financial year	-	-	-	-	-	2,025	2,025
31/12/2016	**224**	**48**	**512**	**22**	**1,174**	**2,025**	**4,005**

Additional information on the share capital has been provided in Note 9.

NOTES TO THE ANNUAL ACCOUNTS

For the financial year ended on 31 December 2016

NOTE 1. ACCOUNTING POLICIES

The annual accounts of AS Avaron Asset Management for the financial year 2016 have been prepared according to the Investment Funds Act as supplemented by the Regulations by the Minister of Finance, and the Accounting Principles Generally Accepted in Estonia. The requirements of the Accounting Principles Generally Accepted in Estonia comply with the internationally acknowledged accounting and reporting principles, and are stipulated in the Estonian Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board. The Regulation of the Minister of Finance No 73 dated 11 June 2003 "Layout, contents and methods for preparation and presentation of the balance sheet and income statement of a fund management company" was repealed in 2009 and new regulations regarding the reporting of fund management companies were adopted. In accordance with Section 12-13 and 26-27 of Guideline No 2 of the Estonian Accounting Standards Board, the Company has adopted specially modified scheme of Income Statement and Balance Sheet that are better suited for presenting the operations of the Company as a fund management company.

The annual accounts have been prepared in thousands of EUR unless indicated differently. The annual accounts have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that have been accounted for at fair value.

The principal accounting policies adopted are presented below.

Foreign currency transactions

Foreign currency transactions are recorded at the rates of exchange quoted by the European Central Bank at the transaction date. Foreign currency monetary items and those non-monetary items that are carried at fair value are retranslated into EUR at the official foreign currency exchange rates prevailing on the balance sheet date. Non-monetary items, which are not carried at fair value (i.e. prepayments and tangible assets), are not retranslated; instead, foreign currency exchange rates prevailing on the transaction date are used. Gains and losses from foreign currency transactions are recorded in the income statement on net basis.

Financial assets and financial liabilities

Cash, contractual rights to receive cash or other financial assets (i.e. trade receivables) from third parties, equity instruments of other entities and contractual rights to exchange financial assets with third parties under the conditions that are potentially favourable to the Company, are considered to be financial assets. Contractual obligations to deliver cash or other financial assets to third parties and contractual obligations to exchange financial assets with third parties under the conditions that are potentially unfavourable to the Company are considered to be financial liabilities.

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received to acquire the financial asset or liability. Initial cost of all financial assets and liabilities include direct transaction costs.

A regular purchase or sale of financial assets is recognised on value date. If the balance sheet date is between trade date and value date of a transaction, the change in value between the trade date and the balance sheet date shall be recognised as the accounting period's profit or loss. Depending on their category, financial assets and liabilities are subsequently measured at fair value, cost or amortized cost.

Financial instruments carried at fair value are re-valued on each balance sheet date. Change in fair value of financial assets and liabilities that are acquired for trading, as well as derivatives are recognised in the income statement for the period. Changes in the value of other financial assets accounted for at fair value are recognised directly in equity as a revaluation reserve.

The amortized cost of a financial instrument is the amount at which it is measured at initial recognition, discounted using the effective interest method less principal repayments and any reduction for impairment or uncollectibility.

Financial assets are derecognised when the Company loses the right to the cash flows arising from the financial asset or transfers the cash flows derived from the financial asset and most risks and rewards of ownership of the financial asset to a third party. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

Trade receivables

Current and non-current trade receivables are recorded at amortized cost, i.e. at their net present value, from which doubtful accounts are deducted.

Trade receivables, which partly or fully are not expected to be collected, are expensed and reported in the income statement as “Miscellaneous operating expenses”. Receivables, collection of which is not feasible or economically justified, are considered to be non-collectible and written-off from the balance sheet.

Tangible assets

Assets held for use in the supply of services or for administrative purposes, with useful life of over one year and with a minimum value EUR 639 are considered to be tangible assets. Tangible assets are recorded at cost, which comprises purchase price and other directly attributable expenditures.

Depreciation is calculated on the straight-line method. Depreciation rates are assigned separately to each tangible asset or its separately identifiable component depending on its estimated useful life as follows:

- IT equipment – 30% per annum,
- Office equipment – 30% per annum,
- Furniture – 25% per annum,
- Other equipment – 25% per annum.

Improvements to tangible assets are capitalised if they comply with the definition of a tangible asset and the criteria for recognizing an asset on the balance sheet, including the participation of these costs in generating future economic benefits. Maintenance and repairs are expensed when incurred.

Impairment of assets

At each balance sheet date, it is reviewed whether there is any indication that assets are impaired. If the management board of the Company detects any indication that the value of an asset may have declined below its carrying amount, impairment test is carried out.

Financial assets

Impairment of individually significant financial assets is assessed separately for each asset. Impairment of financial assets that are not individually significant and for which there are no objective evidence of impairment, are assessed in aggregate.

If there is any objective evidence that a financial asset is impaired, financial assets carried at amortized cost are written down to their net present value of the estimated future cash inflows (discounted with the effective interest rate of the financial asset determined at recognition). Impairment of a financial asset is recognized as expense in the income statement for the financial year.

If the value of financial assets carried at amortized cost increases in subsequent periods, the previously recognized impairment loss is reversed up to the amount which is lower from both the following:

- net present value of expected future cash inflows from the financial asset,
- carrying amount measured at amortized cost as if no impairment loss had been recognized.

The amount of the reversal of impairment losses are recognized in the income statement for the financial year on the same expense account as a reverse entry.

Tangible assets

The recoverable amount of a tangible asset recognized at cost is estimated to conduct the impairment test. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a cash-generating unit to which the asset belongs, is determined.

The recoverable amount is the higher of the asset's net selling price and asset's value in use. In assessing the value in use, the estimated future cash flows from continuous use and subsequent disposal are discounted to their present value using a discount rate that reflects expected return on similar investments.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognized in the income statement as "Change in value of tangible assets" when incurred.

The Company assesses at each reporting date whether there are any indications that the recoverable amount of an impaired asset has increased by performing an impairment test. If it appears as a result of the impairment test, that the recoverable amount has increased and the previously recognized impairment loss is no longer justified, the carrying amount is increased. The reversal should not result in a carrying amount exceeding the amortized cost if no impairment had been recognized.

The amount of the reversal of impairment loss is recognized in the income statement as "Change in value of tangible assets" for the financial year on the same expense account as a reverse entry.

Liabilities and obligations

All known liabilities that can be reliably measured and the realisation of which is probable are recognised in the balance sheet as liabilities. All financial liabilities are measured at amortised cost in the balance sheet, except for derivatives with a negative fair value that are measured at fair value.

Other liabilities the realisation of which is dependent on the fulfilment of certain conditions are disclosed in the notes to the annual accounts as contingent liabilities.

Holiday pay has been expensed in the period when the obligation was due, i.e. when an employee becomes entitled to demand paid holiday. Bonuses to employees have been expensed in the period for which the bonuses are payable. The creation of a provision for holiday pay and bonuses together with the applicable social tax and unemployment insurance tax or the relevant change in the provision is recognized as an expense in the income statement and as a liability on the balance sheet.

Reserves

The statutory legal reserve is recorded according to the requirements of the Commercial Code and comprises distributions made out of the net profit. The annual contribution must amount to at least 1/20 of the net profit for the financial year until the statutory legal reserve equals at least 1/10 of the share capital amount.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, i.e. representing the amounts receivable for the services provided. Fee income is recognised in the period when the service was provided, provided that the collection of the relevant receivables is probable, and income and expenses incurred in respect of the transaction can be measured reliably. The revenues have been received for services provided in the Republic of Estonia.

Interest income is recognised on accrual basis.

Fee income includes fund management fees, subscription and redemption fees, fees from managing discretionary securities portfolios, investment advisory fees and fees for providing services in to third-party funds under outsourcing agreements.

Fee expense includes expenses directly related to earning fee income, i.e. rebates of fund management and other service fees, fees payable for the services of credit institutions and registrars, and other fee expense directly related to providing the Company's main services.

Leases

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

Cash and cash flows

Cash in the cash flow statement includes cash at hand, demand deposits and other deposits with credit institutions (with remaining term up to 3 months).

Cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the financial year.

Equity instruments

Equity instruments are recognised after the entity has issued these instruments and the other party has a contractual obligation to pay for them. Equity instruments are recorded at the fair value of proceeds received or receivable less issuance costs. If the fair value of proceeds receivable differs from the nominal value of issued equity instruments, the positive difference will be recorded in the item "Share premium" and the negative difference as a reduction of "Share premium" in case it has a positive balance, otherwise in the item "Retained earnings".

NOTE 2. CASH AND CASH EQUIVALENTS

EUR '000	31/12/2016	% of Cash, converted into EUR	31/12/2015	% of Cash, converted into EUR
Current account EUR	4,438	99%	1,517	96%
Current account USD	20	1%	36	2%
Current account PLN	30	0%	101	2%
Total		**100%**		**100%**

NOTE 3. TANGIBLE ASSETS

EUR '000	IT and office equipment	Furniture and other equipment	Total
Acquisition cost			
31/12/2014	**42**	**60**	**102**
Addition	4	2	6
Write off	- 5	-	- 5
31/12/2015	**41**	**62**	**103**
Addition	2	-	2
Write off	- 4	-	- 4
31/12/2016	**39**	**62**	**101**
Accumulated depreciation			
31/12/2014	**26**	**29**	**55**
Depreciation charge and impairment for the year	9	12	21
Accumulated depreciation of written off tangible assets	- 6	-	- 6
31/12/2015	**29**	**41**	**70**
Depreciation charge and impairment for the year	7	13	20
Accumulated depreciation of written off tangible assets	- 4	-	- 4
31/12/2016	**32**	**54**	**86**
Net book value			
31/12/2015	**12**	**21**	**33**
31/12/2016	**7**	**8**	**15**

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

EUR ‘000	31/12/2016	31/12/2015
Other prepaid expenses	27	37
Interest receivables and receivables similar to inter	18	20
Other receivables	4	14
Receivables from employees	1	-
Total	**50**	**72**

NOTE 5. TAX PAYABLES

EUR ‘000	31/12/2016	31/12/2015
Value added tax	1	1
Corporate income tax*	426	224
Social tax	9	8
Personal income tax withheld	5	4
Unemployment insurance payables	1	1
Pension payables	1	-
Total	**443**	**238**

*Including long-term corporate income tax on dividends at present value

NOTE 6. PAYABLE TO EMPLOYEES

EUR ‘000	31/12/2016	31/12/2015
Accrued salaries and wages	5	3
Provisions for bonuses	629	669
Vacation reserve	3	3
Other liabilities to employees	1	2
Total	**638**	**677**

NOTE 7. OPERATION LEASE

The Company is renting an office space on the conditions of an operating lease. Future expenses from operating leases are as follows:

EUR ‘000

	31/12/2016	31/12/2015
Less than 1 year	21	7
Total payments from non-cancellable operating leases	**21**	**7**

Operating lease expense amounted to EUR 38 thousand (2015: EUR 41 thousand)

NOTE 8. CONTINGENT INCOME TAX ON DIVIDENDS AND OTHER DISTRIBUTIONS OF NET PROFIT

According to the effective Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on dividends and other distribution of profits as well as other payments made out of the equity of the legal entity that exceed the monetary and non-monetary contributions to the entity's share capital. Based on the effective law, resident legal entities are liable to pay income tax on all profit distributions paid out as dividends or in another form, with a tax rate of 20/80 on the actual dividends paid.

The contingent tax liability that may occur if all distributable retained earnings should be paid out or if the share capital would be reduced is not reported in the balance sheet. The income tax due on dividend distribution is expensed in the income statement when dividends are declared or when other payments reducing the share capital are made. The Company has not executed any bonus issues of shares that would affect the size of income tax in case the Company decided to reduce share capital.

The Company's distributable retained earnings amounted to EUR 3,199 thousand as of 31 December 2016 (as of 31 December 2015: EUR 2,374 thousand). Consequently, the maximum possible tax liability which would become payable if retained earnings in gross were fully distributed is EUR 640 thousand (2015: EUR 475 thousand).

NOTE 9. SHARE CAPITAL

The Company's share capital amounted to EUR 271,383.30 as of 31 December 2016 (as of 31 December 2015: EUR 223,650), comprising 3,500 ordinary shares and 747 preferred shares with nominal value of EUR 63.90 per share. As the process of issuance of preferred shares had not been completed at the end of the financial year, the value of preferred shares and capital in excess of par value has been recorded as unregistered capital. The cash for the issuance of the preferred shares was received in 2016.

The Company has an option to repurchase the preferred shares from the shareholder, exercisable at any time at the discretion of the Company. The shareholder may request that the Company exercises the repurchase option of the preferred shares to ensure commitments. The preferred shares can be pledged and grant a dividend in the amount of at least 0.5% of the nominal value of the share.

The shareholders of the Company are as follows:

	Number of shares	Share type	Equity stake	Voting power
OÜ Avaron Partners (reg no 12135426)	3,500	Common share	82.41%	+
Rain Leesi	291	Preferred share	6.85%	-
Piotr Jurga	249	Preferred share	5.86%	-
Reino Pent	207	Preferred share	4.88%	-
Total	**4,247**		**100.00%**	

In 2016 the shareholders of the parent company of Avaron, OÜ Avaron Partners approved a decision to issue stock options for the selected employees of Avaron. According to the decision employees may acquire 747 preferred shares of Avaron at the nominal value. An option agreement has been entered into with vesting period starting on the third anniversary of the agreement date. The options cannot be transferred, assigned, pledged or otherwise encumbered. An option shall immediately terminate and cease to be exercisable should the option holder become a leaver.

NOTE 10. FEE INCOME

EUR '000	2016	2015
Management of investment funds	4,257	2,933
Portfolio management services and investment advisory services	2	4
Total	**4,259**	**2,937**

NOTE 11. WAGES AND SALARIES

The Company employed 14 people based on employment contract as at the end of 2016 (end-2015: 14 people). Total wages and salaries with the applicable social tax and unemployment insurance contributions amounted to EUR 427 thousand in the financial year (2015: EUR 654 thousand). Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid in total with applicable social tax EUR 5 thousand in the financial year 2016 (2015: EUR 2 thousand).

NOTE 12. TRANSACTIONS WITH RELATED PARTIES

Parties are considered related if one party is controlled by another, or one party has significant influence over another, including the parent company and other group companies, managed investment funds, shareholders, the members of the Supervisory Board and the Management Board, their families and the companies in which they hold majority interest or have significant influence.

As of the end of the report period, the Company is fully owned by OÜ Avaron Partners that owns 100% of the Company's common shares. Additional information can be found in Note 9 regarding the issuance of preferred shares and new list of shareholders, which came into effect in 2017.

The transactions with related parties were as follows:

EUR '000	31/12/2016	31/12/2015
Parent company		
Interest income	18	20
Fees paid	1,146	301
Repayment of loans given	-20	-121
Costs paid for other legal entities	35	47
Shares, bonds, units bought	-	53

EUR '000	31/12/2016	31/12/2015
Beneficiaries, executive and non-executive management and the related legal entities		
Shares, bonds, units bought	278	68
Shares, bonds, units sold	-	7
Loans given	-	100
Repayment of loans given	-	-100
Costs paid for other legal entities	1	-
Management fees, performance fees, subscription and redemption fees of Avaron Estonia domiciled investment funds	1,833	960
Rebates to Avaron Flexible Strategies Fund for investment into Avaron Eastern Europe Fixed Income Fund, and other rebates to related parties for investment into Avaron Estonia domiciled funds	57	52
Total	**3,348**	**1,387**

The balances outstanding with related parties were as follows:

EUR '000	31/12/2016	31/12/2015
Parent company		
Loans given*	1,217	1,237
Other receivables and prepayments (accrued interest)	18	20
Accounts receivable	4	13
Supplier payables and customer prepayments	158	263
Dividend payables (present value)	1,703	895
Beneficiaries, executive and non-executive management and the related legal entities		
Units of Avaron Eastern Europe Fixed Income Fund	550	264
Receivables from Avaron Estonia domiciled investment funds	123	63
Supplier payables and customer prepayments	20	10
Total	**3,794**	**2,765**

* Nominal currency EUR interest rate 1.5% with maturity 5 June 2018 and 31 December 2018.

NOTE 13. STATEMENT OF OWN FUNDS

EUR ‘000

	Note	31/12/2016	31/12/2015
Own funds section			
Own funds		1,813	1,019
Tier 1 capital		1,813	1,019
Common equity Tier 1 capital		1,813	1,019
Capital instruments eligible as CET 1 capital		783	224
Paid up capital instruments	9	271	224
Share premium	9	512	-
Retained earnings		1,174	935
Other reserves		22	22
CET1 instruments of financial sector entities where the institution has no significant investment		-167	-162
Minimum net own funds section			
Own funds		1,813	1,019
Minimum net own funds		224	199
Minimum own funds according to minimum amount of share capital		125	125
Minimum own funds according to fixed overheads		224	199
Excess of own funds		1,589	820

SIGNATURES OF MANAGEMENT BOARD

To the Annual Report for the financial year ended on 31 December 2016

On 28 April 2017, the Management Board prepared the management report and the annual accounts of AS Avaron Asset Management together with the Management Board's proposal for profit distribution and the sworn auditor's report for the financial year ended 31 December 2016, and has presented them to the sole shareholder for approval.

By signing the annual report, all members of the Management Board validate the fair presentation of the annual report.

Name	Position	Signature	Date
Kristel Kivinurm-Priisalm	Member of the Management Board		28 April 2017
Valdur Jaht	Member of the Management Board		28 April 2017

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[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS Avaron Asset Management

Opinion

We have audited the financial statements of AS Avaron Asset Management (hereinafter also „the Company"), which comprise the balance sheet as at 31 December 2016, and the income statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia and with Investment Funds Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report and in the Statement of management of mandatory pension funds, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Estonia and with Investment Funds Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

28 April 2017

M. Akkermann

Mariel Akkermann
Certified Auditor, No. 574
AS Deloitte Audit Eesti
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Roosikrantsi 2, 10119 Tallinn, Estonia

PROPOSAL FOR DISTRIBUTION OF PROFIT

The Management Board of AS Avaron Asset Management proposes to distribute the net profit for the financial year ended on 31 December 2016 of EUR 2,025 thousand as follows:

To allocate to:

retained earnings	EUR 2,020 thousand
statutory reserve capital	EUR 5 thousand

28 April 2017

Kristel Kivinurm-Priisalm
Member of the Management Board

DIVISION OF REVENUES IN ACCORDANCE WITH EMTAK CLASSIFICATION STANDARD

The revenues (fee income) of AS Avaron Asset Management were divided in accordance with EMTAK classification standard as follows:

EUR '000	**2016**	**2015**
66301 Management of investment funds	4,257	2,933
66199 Portfolio management services and investment advisory services	2	4
Total	**4,259**	**2,937**