

Annual Report

(Translation of the Estonian original)

Early Fund II

Beginning of reporting period: 1 January 2015

End of reporting period: 31 December 2015

Fund Management Company: AS SmartCap

Fund Manager: Andrus Oks

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Auditor: AS PricewaterhouseCoopers

Main activities: Venture capital fund investing into Estonian start-up companies with international growth potential.

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MANAGEMENT REPORT

Early Fund II (hereinafter the “Fund”) is a closed-ended common investment fund formed on 20 February 2012. The fund is a venture capital fund according to the definition of § 254¹ of the Investment Funds Act. The terms and conditions of Early Fund II were registered by the Estonian Financial Supervision Authority on 1 August 2012.

The manager of the fund is AS SmartCap, commercial register number 12071991 (hereinafter “fund management company”), acting as the fund management company of the venture capital fund under the supervision of the Estonian Financial Supervision Authority. AS SmartCap is a fully owned subsidiary of the Estonian Development Fund (hereinafter “EDF”).

The shares of Early Fund II are fully owned by the Republic of Estonia. As of 31.12.2014 and 31.12.2015, the Republic of Estonia has subscribed for EUR 25.26 million of shares in Early Fund II. The first contribution of equity in the amount of EUR 12.47 million was made in August 2012, the second contribution in the amount of EUR 6.39 million was made in December 2012 and the third contribution in the amount of EUR 6.39 million was made in December 2013.

The fund was established for an unspecified term. The assets of Early Fund II are invested in small and medium-sized companies registered in Estonia, which are aimed at innovation, create or use contemporary technology and develop new products and services. Target companies also have substantial growth and export potential and prospects for achieving a considerable position on an international target market but are unable to meet their needs for capital using other instruments existing in the economy. The objective of the fund is to earn an income for shareholders of the fund and simultaneously provoke and support change in the Estonian economy, helping to update the economy, generate export growth and create jobs requiring high qualifications.

In accordance with the terms and conditions of the fund, the fund management company is paid management fees on behalf of the fund in exchange for management of the fund, comprised of two components: a fixed fee and a success fee. Fees payable to the fund management company are accounted for on the same basis and equivalent to fees generally applicable in the industry.

The business activities and financial results of the fund are not significantly impacted by fluctuations in currency exchange rates and stock market quotations because most of the fund's assets and liabilities are denominated in euros or linked to fixed interest rates.

During the period from 1 January to 31 December 2015, a total of EUR 2,773 thousand of capital was invested on the account of Early Fund II in existing portfolio companies (during 2014 a total of EUR 3,333 thousand of capital was invested). The operating expenses of Early Fund II in the financial year 2015 were EUR 791 thousand (2014: EUR 771 thousand).

The net asset value of Early Fund II as of 31.12.2015 was EUR 25,170,444 and the net asset value per share was EUR 9,850.2121, representing a decrease of 1.5% from the nominal value of the share (EUR 10,000) (31.12.2014: net asset value of EUR 24,393,586 and net asset value per share of EUR 9,546.1962, representing a decrease of 4.54% from the nominal value of the share). It is typical in the case of venture capital funds that the net asset value of the fund and the share decreases at the start of the investment period because the majority of expenditure is incurred during the investment process. The value of financial investments made by the fund is expected to increase over time and the net asset value of the fund will increase accordingly.

Early Fund II in the next reporting period

On 28.08.2014, the supervisory board of Estonian Development Fund approved the new core investment principles of the Development Fund. Based on these new principles, in 2015 the Fund prepared the new amended investment strategy that was approved by the supervisory board of the Development Fund on 27.01.2016. These investment activities are planned to be implemented with the funds of Early Fund II, among others.

According to the new investment strategy, funds received and receivable by Early Fund II will be invested in the funds of the business accelerator. By the end of 2016 it is planned to call a tender for finding up to two funds of the business accelerator. Contracts with business accelerators are expected to be entered into in the first half of 2017.

On 11.02.2015, the Riigikogu (Parliament of Estonia) enacted the Support of Enterprise and State Loan Guarantees Act and the Amendment Act to the Estonian Development Fund Act, whereby the legal framework was established for KredEx to make investments in funds that would in turn make equity investments in companies. As a result of that, it is probable that at least 3 new funds managed by a private fund manager will enter the market in the near term, making investments in the same phase as the Estonian Development Fund and SmartCap. As the state should not be competing with private market fund managers in making direct investments, the same law also provided for a basis for making changes to the investment activities of the Estonian Development Fund, including the hand-over of the management of direct investments of the Development Fund to professional private fund managers.

As a result of the above, in the second quarter 2015, the Estonian Development Fund and SmartCap initiated the process of reorganising their investment activities. On 27.01.2016, the supervisory board of the Estonian Development Fund confirmed the resolution adopted on 28.08.2014 – management of direct investments of the Estonian Development Fund and Smartcap will be handed over to a private fund manager selected in a contest. This process is scheduled to be completed by the end of 2016. Until the restructuring of the management of direct investments, the management and investment of investment fund Early Fund II will continue in accordance with the fund's terms and conditions.

According to the proposal of the workgroup set up on the initiative of the committee on economic affairs of the Riigikogu, the investment activities of the Estonian Development Fund (incl. SmartCap) are planned to be merged into the organisation of the KredEx foundation. At the current moment the detailed terms and timetable of this process are still being developed, the impact of the process as described above to the business of Early Fund II cannot be conclusively evaluated. It is possible that the abovementioned restructuring will be completed by the end of 2016.

Signatures of the Fund Management Company's Management Board members to the 2015 Annual Report of Early Fund II

The management board of AS SmartCap has prepared the annual report of Early Fund II for the financial year 2015, which consists of the management report, financial statements (including notes to the financial statements), statement of investments and the independent auditor's report.

Andrus Oks

AS SmartCap

Fund Manager

Mari Vavulski

AS SmartCap

Member of the Management Board

Antti Perli

AS SmartCap

Member of the Management Board

Tallinn, 19.04.2016

FINANCIAL STATEMENTS**Statement of financial position**

(in euros)

	Note	31.12.2015	31.12.2014
ASSETS			
Non-current assets			
Financial investments at fair value through profit or loss	8	9,702,422	6,288,147
Long term receivables	9	219,930	0
Total non-current assets		9,922,352	6,288,147
Current assets			
Cash and cash equivalents	5	8,301,567	1,969,059
Term deposits	6	7,000,000	16,000,000
Trade receivables and prepayments	7	23,519	210,553
Total current assets		15,325,086	18,179,612
TOTAL ASSETS		25,247,438	24,467,759
Current liabilities			
Trade payables and other current liabilities	10	76,994	74,173
Total current liabilities		76,994	74,173
TOTAL LIABILITIES		76,994	74,173
Fund's net asset value	12	25,170,444	24,393,586

The notes on pages 10-29 are an integral part of these financial statements.

Statement of comprehensive income

(in euros)

	Note	2015	2014
Finance income and expenses		286,410	84,580
Interest income		286,410	84,580
Operating expenses	11	-791,556	-771,002
Management fees	11, 13	-757,842	-757,842
Other expenses		-10,940	-13,160
Expert committee fees	11	-22,774	0
Realised profit from disposal of financial assets at fair value		373,641	0
Net profit/loss from financial assets at fair value through profit or loss	8	908,363	444,199
Net result of the fund		776,858	-242,223

The notes on pages 10-29 are an integral part of these financial statements.

Statement of cash flows

(in euros)

	Note	2015	2014
Cash flows from operating activities			
Operating expenses paid		-787,571	-761,157
Loans granted	8	-986,254	-2,546,990
Acquisition of financial investments		-1,786,651	-963,948
Received from the sale of financial investments		791,221	0
Interest received		101,763	81,211
Total cash flows from operating activities		-2,667,492	-4,190,884
Cash flows from investing activities			
Payments to/repayments from deposits	6	9,000,000	-16,000,000
Total cash flows from investing activities		9,000,000	-16,000,000
Total cash flows		6,332,508	-20,190,884
Cash and cash equivalents at beginning of period	5	1,969,059	22,159,943
Change in cash and cash equivalents		6,332,508	-20,190,884
Cash and cash equivalents at end of period	5	8,301,567	1,969,059

The notes on pages 10-29 are an integral part of these financial statements.

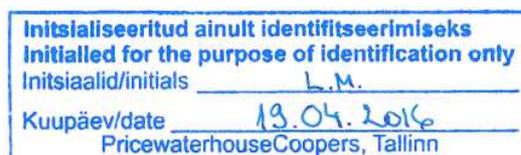
Statement of changes in fund's net asset value

(in euros)

	2015	2014
Net assets of the fund at the beginning of the period	24,393,586	24,635,809
Net result of the fund	776,858	-242,223
Net assets of the fund at the end of the period	25,170,444	24,393,586
Number of units outstanding at the end of the period	2,555.320	2,555.320
Net asset value per share at the end of the period	9,850.2121	9,546.1962

More detailed information on fund units is provided in Note 12.

The notes on pages 10-29 are an integral part of the financial statements.



Notes to the Financial Statements

Note 1 General information about the Fund

Early Fund II (hereinafter the “Fund”) is a closed-ended common investment fund (venture capital fund) formed on 20 February 2012. The Fund is comprised of money raised through subscription of share and other assets received from investing such money, owned collectively by investors and managed by the Fund management company. The Estonian Financial Supervision Authority is the body exercising financial supervision over the Fund.

The Fund is managed by AS SmartCap (the Fund management company). The sole shareholder of AS SmartCap is the Estonian Development Fund, which is a legal entity governed by public law established on the basis of the Estonian Development Fund Act.

The registered address of the Fund is Rotermanni 8, Tallinn 10111, Republic of Estonia. The financial year of the Fund starts on 1 January and ends on 31 December.

The management board of the Fund management company has approved the financial statements of the Fund on 19.04.2016.

Note 2 Overview of key accounting and reporting policies

An overview of the key accounting and reporting policies applied to the preparation of the financial statements is presented below. These accounting and reporting policies have been used consistently to all reporting periods, other than the cases for which information has been disclosed separately.

2.1. Basis of preparation

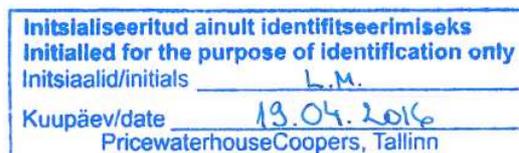
The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). Financial reporting principles of investment funds are set out by the Investment Funds Act, Accounting Act and Regulation no 21 of the Minister of Finance of 13 April 2011 “Requirements for investment fund reports subject to disclosure”. The financial statements have been prepared taking into account the regulation of determining the net asset value of the Fund, adopted pursuant to the Investment Funds Act § 142 subsection 2 and § 204 subsection 1.

The financial statements of the Fund have been prepared in accordance with IFRS in the extent that complies with the requirements of the Investment Funds Act and Regulation no 21 of the Minister of Finance. In case of non-compliance, the Fund has taken into account the requirements provided in the Investment Funds Act and in the Regulation no 21 of the Minister of Finance.

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss (long-term financial investments). In accordance with requirements of IFRS, several financial indicators presented in the financial statements are based on management’s estimates. The management is also required to exercise its judgment in the process of applying the reporting and accounting principles. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Changes in accounting and disclosure principles

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on 01.01.2015 that would be expected to have a material impact to the Fund.



New or revised standards and interpretations

Certain new International Financial Reporting Standards, also amendments and interpretations to existing standards have been published by the date of approving these financial statements, which become mandatory for the Fund's subsequent accounting periods:

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the European Union).

Key features of the standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Fund is currently assessing the impact of the amendments on its financial statements.

"Amendments to IFRS 2012" (effective for annual periods beginning on or after 1 February 2015). Among others, the following amendments will be made in existing standards.

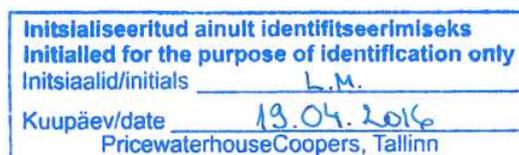
IFRS 13 "Basis for conclusions" was amended to clarify that the objective in annulment of certain sections of IAS 39 made in connection with the publication of IFRS 13 was not to abolish the possibility to recognize non-current receivables and liabilities in the billing amount if the impact of discounting is negligible.

IAS 24 was amended to include as related parties business undertakings that provide key management services to the reporting undertaking or to the reporting parent undertaking (i.e., management undertaking) and to request disclosure of fees charged by the management undertaking from the reporting undertaking.

The Fund is estimating the impact of the amendments to its financial statements.

Disclosure Initiative – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016; not yet adopted by the European Union).

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.



The Fund is currently assessing the impact of the amendments on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Fund.

2.3 Classification of assets and liabilities into current and non-current

In the statement of financial position, assets and liabilities are classified as current and non-current. Current assets include the assets which are expected to be disposed of in the next financial year or during the normal operating cycle of the Fund. Current liabilities include liabilities which payment date is in the next financial year or which are expected to be paid in the next financial year or during the normal operating cycle of the Fund. All remaining assets and liabilities are considered as non-current.

2.4 Financial assets

2.4.1 Classification

The Fund's financial assets are classified into the following categories:

- 1) Financial assets at fair value through profit or loss
- 2) Loans and receivables.

Financial assets are classified depending on the purpose for which the financial assets were acquired. The financial assets are classified by fund manager at the initial recognition of the financial asset.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months as at period end date, which are classified as non-current assets. The following financial assets are included in the category of loans and receivables: "Cash and cash equivalents", "Term deposits" and "Other receivables".

(b) Financial investments

The Fund reflects the venture capital investment in early-phase companies (hereinafter referred to as financial investments) at fair value through profit or loss. Venture capital investments in financial assets are initially recognized at fair value through profit or loss if the fair value of financial assets are evaluated in accordance with documented risk management policies and investment strategies and reporting to the unit holders is based on the same principles.

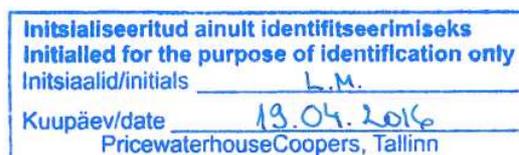
Granted convertible loans which likelihood of conversion fund manager has evaluated high in accordance with documented risk management policies and investment strategies are initially recognized financial assets at fair value through profit or loss. Other loans are recognised at amortized cost.

2.4.2 Recognition and Measurement

Purchases and sales of financial assets under normal market conditions are recognised on settlement date. Fund derecognises a financial asset when the contractual rights to the cash flows generated by the financial assets have expired or have been transferred and substantial part of risks and rewards bound to the financial asset have been transferred.

(a) Loans and receivables

Loans and receivables are initially recognised at their fair value plus transactions costs. After initial recognition loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Interest income is recognised in the statement of comprehensive income on line "Interest income".



(b) Financial investments

Financial assets that are recognised at fair value through profit or loss are initially recognized at fair value and acquisition-related transaction costs are recognized as an expense in the statement of profit or loss. Financial assets that are recognised at fair value through profit or loss are after initial recognition recognised at fair value. Changes in fair value are recognized in statement of comprehensive income under "Profit / loss from financial assets at fair value through profit or loss" in period in which they incurred.

For investment objects the Fund will assess whether the Fund would have a significant influence on the investment object. In general, significant influence is presumed to exist when the Fund owns 20% to 50% of the voting rights.

In exceptional cases it may also be presumed as a significant influence on holding less than a 20% of the shares. Significant influence is usually characterized by the following facts:

- (a) representation in the management or in a higher supervisory body of the investment object;
- (b) participation in business-political decision-making of investment object;
- (c) material transactions between the investor and the investment object;
- (d) partial overlaps of the managements of the investor and the investment object;
- (e) exchange of technical information between the investor and the investment object.

Investments in associates are recognised similarly to other investment objects at fair value through profit or loss according to an exception in IAS 28 "Investments in associates" for venture capital company financial statements for recognition of associates. An investment in an associate is initially recognized at fair value and transaction costs are recognized as expenses in the income statement.

2.5 Cash and cash equivalents

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents include bank account balances (except bank overdraft), term deposits with maturities of 3 months or less at the time of acquisition and investments in money market funds and other highly liquid funds, assuming that the fund invests in financial assets that meet the definition of cash and cash equivalents.

The financial resources presumably needed for the Fund's daily operational activities are placed in term deposits with maturities of three months or less and funds that are not expected to be used for the operational activities in the subsequent period, are placed in term deposits with longer maturities for investment purposes. Consequently, as at 31.12.2015 term deposits with maturities of over three months are not classified as cash and cash equivalents in the statement of financial position, but on a separate line "Term deposits".

2.6 Trade receivables and prepayments

Loans granted and other short and long-term receivables are carried at amortised cost. The amortised cost of the short-term receivables normally equals their nominal value (less repayments or any impairment); therefore short-term receivables are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently interest income is calculated on the receivable using the effective interest rate method.

At each balance sheet date will be evaluated whether there are signs of impairment of financial assets or a group of financial assets measured at amortized cost. In case there are signs of impairment the financial assets measured at amortized cost are discounted to the expected net present value of future cash payments (discounted at the initial recognition of the financial asset with original effective interest rate) and financial assets recognised at first cost are discounted to the amount that is reasonably estimated to be the selling price at the balance sheet date. Impairment losses are recognised as an expense in the statement of comprehensive income.

2.7 Impairment of financial assets

If the Fund has financial assets that are not recognized in their fair value through profit and loss, at each reporting date, it assessed whether there is objective evidence that a financial asset is impaired. Factors that may indicate to the impairment of financial assets include:

- financial problems of the security's issuer, signs of possible bankruptcy of the issuer;
- defaulting or overdue payment of interest or principals of the security;
- loss of active market of the financial asset;
- other significant events that may indicate impairment.

In impairment of assets recognized at amortized cost, the impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced by this amount and the loss is recognized in the statement of profit or loss. In case of impairment of financial assets recognized in amortized cost, the calculation of interest income of the assets is not amended. Impairment loss on financial assets carried at amortized cost is reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

2.8 Financial liabilities

All financial liabilities (supplier payables, accrued expenses and other short and long-term borrowings) are initially recorded at amortised cost. The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet in their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest expense is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the Fund does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date or when the borrower has the right to recall the loan at the balance sheet date, due to breach of contract.

2.9 Foreign currency translation

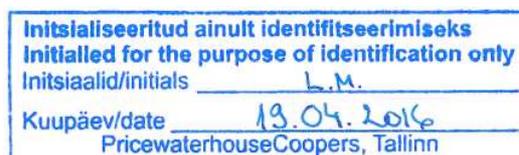
The functional currency of the Fund is Euro. The Fund's financial statements are presented in euros as well.

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the income statement of the reporting period.

Non-monetary assets and liabilities that are measured at fair value and denominated in a foreign currency are translated into the functional currency, using the official exchange rates of the European Central Bank which prevail at the date of determining fair value.

2.10 Related party transactions

In preparing the financial statements, the related parties include associates, fund's management company SmartCap and its executive and senior management and other persons and entrepreneurs who have the control or significant influence over fund's financial and business decisions. Since the shares of Early Fund II are 100% owned by the Republic of Estonia, the related parties include also all entities under control or significant influence of Republic of Estonia.



2.11 Revenues

(a) Interest income

Interest income is recognised when the receipt of revenue is certain and the amount of revenue can be measured reliably. Interest income is recognised using the asset's effective interest rate unless the receipt of interest is uncertain. In such cases, interest income is reported on a cash basis.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.12 Fund units

The Fund has subscribed one class of shares that give the unit holder the right to a pro rata share of the Fund's net assets in liquidation of the Fund upon maturity (see note 2.15 of Fund's rules). Fund units are not associated with any other contractual obligations except their redemption in case of fund liquidation.

Fund units are recognised as equity instruments as following IAS 32 criteria are met:

- Units provide owners with a right to receive a pro-rata share of the Fund's net assets (or net asset value) upon the Fund's liquidation. The Fund's net asset value is determined by subtracting the Fund's liabilities from the market value of the Fund's assets. A pro-rata share is calculated as follows: the Fund's net asset value is divided by the number of units issued and the result is multiplied by the number of units owned by each unit owner;
- Units are subordinate to all other debt and other instruments issued by the Fund;
- The rights arising from all units (to receive payment in accordance with a pro-rata share in net assets) are identical;
- The Fund has no other financial instruments or contracts whose cash flows are largely based on profit, changes in net assets or fair value change in net assets accounted for on the balance sheet/ off-balance sheet, as a result of which the income of unit owners would be substantially limited or fixed.

If the terms related to units change so as to cause the criteria listed above to be no longer met, the units shall be classified as financial liabilities from the date that such conditions are no longer met. A financial liability is recognised at the fair value of the transaction date. In the event of a difference arising between the carrying amount of an equity instrument and the fair value of a liability, the difference is recognised in net assets.

Direct expenses related to the issuance of new units are recognised in net assets as a reduction of the amount paid-in for units. If the Fund repurchases its own units, the equity attributable to unit owners is reduced by the payment received, less costs to sell.

2.13 Rules of the Fund

Fund rules regulate the relations with the Fund unit holders and with the management company.

Fund units

Fund units are issued by the Fund management company. Issuance of the units is not public. Fund management company will conduct the issuance of units targeting professional investors as set out in Securities Market Act § 6 subsection 2. Unit represents the investor's share of the Fund's assets. The Fund has one class of units. Units are held in registered form and ownership documents will not be issued for the unit. Shares acquired by the investor will be recorded in the investor's securities account. Units cannot be redeemed to the investor's request. Redemption of the units will be carried out on fund liquidation. Unit's nominal value is 10,000 (ten thousand) euros. Fund management company will issue the units at issue price, that is the latest NAV by the time the purchase order came in. Number of units issued to the investor will be calculated by dividing amount paid by the investor by the unit issue price. When issuing units the Fund management company does not take subscription fee from the investors. Units are divisible. When dividing units fractions are rounded to three decimal places.

Rights arising from ownership of units

Rights and obligations arising from units will rise as unit is issued and will be terminated as unit is redeemed. The unit is issued from the moment of registration and redeemed from the moment of removal from the register.

Ownership of a unit is certified by an entry in the register. Investors are participating in the management of the Fund through general meetings. The investor does not have the right to request termination of the common ownership or separation of its unit from the assets of the Fund. Investors are entitled under the ownership of the units, including, but not limited to the following:

- units may be disposed to professional investors in the stock market;
- get in case of payments made from the Fund their share (accordingly to units owned) of the profit according to the Fund's rules;
- in case of funds liquidation receive according to the Fund's rules its share of fund's assets remained accordingly to units owned;
- convene a general meeting and to attend and vote at general meetings;
- require that the management company compensates the damage caused by breaching of its obligations.

Investor is not personally liable for the obligations of the Fund, the Fund management company has taken account of the Fund, as well as the responsibilities that fund management company has the right to require from the Fund, according to funds rules. Investor responsibility for the performance of such obligations is limited to his share of the Fund's assets.

Fees and expenses paid from Fund's accounts

Fund's management company is paid fund management fee for managing the Fund, which consists of a fixed fee and success fee. Fixed fee is paid on a monthly basis and is amounted 3% of fund's assets (initial investment capital). If the Fund's net income is (amount received for the exit from the investments, minus the initial investment capital) positive, success fee amounted 20% of fund's net profit is paid to the Fund management company.

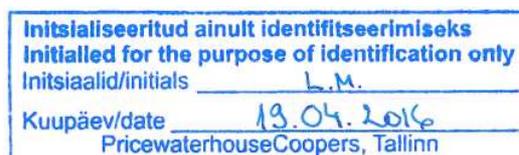
In addition to the management fee expenses directly related to the management of the Fund are paid from fund's accounts, which include, for example:

- all costs related to investments and the costs corresponding to market practice (at market prices);
- all costs related to the purchase, sale or management of fund's assets;
- costs related to the valuation of fund's assets;
- costs associated with formation and liquidation of the fund;
- register fees;
- costs associated with convening and conducting general meetings;
- expert committee fees;
- costs of preparing fund's reports (incl. the annual report) and auditing fees of the annual report;
- other charges relating to the Fund, such as transaction fees, bank charges, commissions, security account management fees, stamp duties, fees for legal services, legal costs.

Fees (fixed fee paid to the Fund's management company for managing the Fund) and expenses paid in a one year from fund's accounts cannot be more than 6% from fund's assets.

Note 3 Financial risk management

The Fund management company has established rules from the identification, measurement, management, monitoring and reporting of risks. The objective of such rules is to regulate the procedures related to risk management on the level of the Fund management company and the Fund. The general risk management policies are approved by the supervisory board of the Fund management company. The management board of the Fund management company submits reports and overviews on a regular basis to the supervisory board regarding the risks associated with the Fund management company's business and loss events arising from the materialisation of such risks. The management board is responsible for the implementation of risk management policies approved by the supervisory board. The Fund manager is obligated to immediately communicate any material unusual risks associated with the investment of the



Fund's assets or other activities related to management of the Fund. The Fund manager monitors the compliance of the Fund management with applicable legislation and terms and conditions of the Fund.

Risk management, including the decision-making process and the roles of various individuals (including investment managers) and bodies (including the expert committee) in making investments, management of investments and exiting investments on account of the Fund are regulated by the conditions of the Fund and by the document "Implementation and management principles of direct investment" established by the Fund management.

Risks associated with the operations of the Fund management company are classified as risks associated with the Fund and risks associated with other business activities of the Fund management company. Operational risk is also monitored on the level of risks associated with the operations of the Fund management company. This risk arises from inadequacy or failure to function in an expected manner of processes, actions by people or systems or external events. Operational risk includes legal risk, regulatory risk, information technology risk, model risk, procedural risk, personnel risk, control risk and management risk.

3.1 Financial risks

The Fund that is managed by the Fund management company is an early seed and start-up stage venture capital investment fund and the investments that it makes are inherently of a high risk level. Investment risks arise from the following attributes:

- Early stage of development of investees, therefore their business models and revenue generation capacity have not yet been proved and thus several investees could experience failure;
- Concentration of investments of a similarly high risk level in the Fund;
- Low level of liquidity of long-term non-marketable securities, therefore the exit from such investments may significantly impact the return on investment and the return of the whole fund.

The primary risks involved in the Fund from the standpoint of the Fund management company's operations include failure to achieve a critical level of assets under management, rendering it unreasonably expensive to manage the Fund, and/or a lower than expected return on invested capital, causing shareholders in the Fund to not receive the return that they expected on their invested capital or, worse, fail to even achieve the return of the capital that they invested.

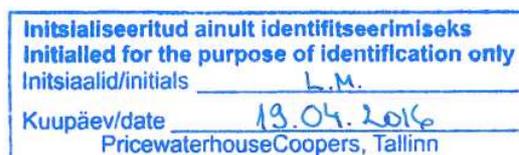
The potential investees of the Fund are extensively researched before an investment is made (including a legal and business analysis of the investment projects, technical expert assessment and due diligence is conducted). A multi-tiered structure has been established for the management of risks associated with the selection of investments for the Fund and lack of management quality whereby an independent expert committee will also participate in giving an investment recommendation in addition to the management board of the Fund management company.

In addition, the involvement of independent co-investors from the private sector in each company will contribute to lowering the risks associated with direct fund investments (The Fund only has the right to make investments in companies in conjunction with legal entities governed by public law (private fund-raising) and on equal terms).

For the purposes of diversifying risks, the terms and conditions of the Fund contain limits in order to prevent significant negative impacts on the assets under management of the Fund that may result from the materialisation of an individual investment risk and also for the existence of a sufficient number of investees in the Fund that is needed to generate the required return.

When investing capital and managing investments of the Fund, the Fund management company and its employees take into account the following specific risks associated with the Fund's investments:

- Market risk - the market related to the Fund's investee may rise or fall and thereby impact the value of the Fund's assets. The value of the Fund's investments may be influenced not only by the overall condition of the economy but also developments in the relevant sector.
- Credit risk - the issuer of a security owned by the Fund or the counterparty of a transaction involving the Fund's assets fails to partially or fully perform its obligations (for example the acquirer of a portfolio company fails to make payment as due upon the Fund's exit from an investment). Measures taken in order to mitigate credit risk include the investment of the available Funds of the investment fund in low-risk securities and counterparties



with low credit risk are preferred. The risk of the acquirer of a portfolio company failing to make due payment upon the Fund's exit from an investment is regulated contractually (for example using appropriate collateral or prepayment).

- Liquidity risk - the risk that it becomes impossible to liquidate a position or the Fund's assets cannot be sold on a timely basis at a fair price. As the Fund invests in long-term non-marketable securities, there may not be a market for the Fund's investments once the Fund desires to exit an investment. In order to enable an exit from an investment, the Fund typically starts planning an exit approximately 3 years in advance. Management of liquidity risk is based on the procedure for financial asset management of the Fund management company.
- Issuer risk - the price of a security may be subject to adverse changes upon discovery of unfavourable circumstances dependent on the issuer. The businesses of the issuers are analysed and monitored in order to manage issuer risk. Employees of the Fund management company participate in the supervisory board of an issuer in order to manage issuer risk.
- Interest rate risk arises from a change in interest rates. As the Fund may grant loans to companies in addition to making an investment in the equity of the company, the Fund is exposed to interest rate risk. However, convertible loans granted typically carry a fixed rate of interest.
- Concentration risk is associated with the concentration of assets. The Fund management company monitors the requirements for diversification of risks as stipulated in the terms and conditions of the Fund when investing the Fund's assets.
- Legal risk - the risk that legislation that the Fund is subject to may change, including legislation governing the tax system. The Fund management company monitors changes in the legal environment in order to manage legal risk and adapts the operations of the Fund in accordance with any changes in legislation.

The Fund management company views the levels of market risk, credit risk, liquidity risk and issuer risk as relatively high due to the characteristics of the Fund's investments. The Fund management company does not aim to avoid those risks but rather to manage them appropriately and proactively. The Fund has maintained a sufficient level of liquid assets in the form of cash and cash equivalents in order to mitigate liquidity risk and perform obligations on a timely basis and as at 31.12.2015 the liquid funds exceed the Fund's liabilities. The Fund also has adequate liquid funds to meet financial obligations that will be incurred in the year 2016 and to make new investments. (Also see Note 5 - cash and cash equivalents and Note 10 - liabilities as at 31.12.2015). No custody risk arises in association with the Fund's operations because the Fund does not have a depository. The investments of the Fund are also not exposed to currency risk because the Fund's assets are only invested in the equity of Estonian companies.

Financial assets of the Fund indicated in Notes 5, 6, 7 and 8 are exposed to credit risk. In order to mitigate credit risk, the entity has selected for holding its cash and bank accounts subsidiaries/ branches of Scandinavian banks that are well-known in the Estonian market and in a strong financial position with a Moody's credit rating of at least Aa3. The credit risk of investments measured at fair value is high due to the early phase of development of these investees.

3.2 Management of capital risk

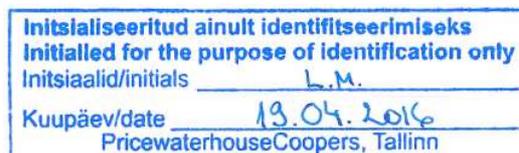
Shares subscribed for by investors of the Fund constitute capital. Shares are not redeemed at the investor's request. The redemption of shares only occurs upon liquidation of the Fund. Shareholders may resolve to liquidate the Fund.

All of the shares of Early Fund II are owned by the Republic of Estonia. Decisions concerning the distribution of dividends and subscription or redemption of shares are made by the Republic of Estonia (via the Ministry of Economic Affairs and Communications). The equity of the Fund is not subject to regulation by the Commercial Code and there are no other requirements arising from law.

When liquidating the Fund, it must be taken into account that the Fund's assets are highly illiquid and this factor causes a high risk to maintaining the fair value of assets in the course of the liquidation process. The Fund does not employ financial leverage.

3.3 Fair value

According to the judgment of the Fund manager, the fair value of financial assets and liabilities measured at amortised cost are not significantly different than the carrying amounts presented in the balance sheet as at 31 December 2015. The financial assets measured at amortised cost are short-term in duration and bear interest at rates that have not substantially changed in the market between the dates of recognition of the financial assets and the balance sheet date,



therefore the carrying amount is estimated to approximate the fair value. As financial liabilities are short-term and are not interest-bearing and have been repaid by the date of approval of the financial statements, their carrying amount is estimated to approximate the fair value.

The Fund classifies financial investments in three levels according to revaluation:

Level 1: Financial investments measured at unadjusted stock exchange quotations or quoted prices in other active regulated markets;

Level 2: Financial instruments measured using methods that are based on observable inputs. This category includes for example financial instruments that are measured using prices of similar instruments in an active regulated market or financial instruments for which quoted prices from regulated markets are used but where market liquidity is low.

Level 3: Financial instruments where the methods used for revaluation are based on unobservable inputs.

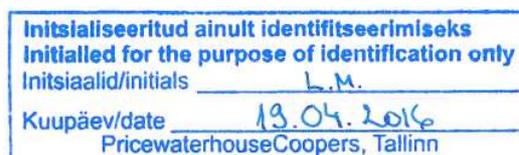
The following are determined in accordance with the Fund's rules for determining net asset value as adopted by the supervisory board of the Fund management company:

- The value of cash on hand and deposits at their nominal value;
- The value of interest that is accrued but unpaid is accounted for as accrued income;
- The determination of fair value of non-marketable securities is primarily based on the valuation methods stipulated by IFRS and valuation methods provided in the valuation guidance issued by the European Private Equity & Venture Capital Association (EVCA), which may be:
 - The price of the most recent investment transaction;
 - The discounted cash flow method;
 - The net assets method;
 - Determination of value on the basis of a profit multiplier.

All investments of the Fund measured at fair value as classified as Level 3.

The fair value of the Fund's financial investments as of 31.12.2015 has been determined as follows:

- GOLIATH Wind OÜ, WeatherMe OÜ, Lingvist Inc., Jobbatical OÜ, Realeyes (Holdings) Limites and IOT Holding OÜ: the price of the most recent investment transaction. The price of the most recent transaction at which valuation a new external investor or investors entered has been used as the price of the most recent investment transaction. If an aforementioned transaction did not occur close to the balance sheet date (i.e. more than 3 months prior to or after the balance sheet date), the fair value at the balance sheet date has been determined based on the operations of the investee during the interim period and the rate at which actual operations correspond to initial targets on the basis of which the transaction price and value of the investee were determined by investors. No significant adjustments due to changes during the period between the transaction date and the balance sheet date have been made regarding the investments provided above;
- Thinnect OÜ and Monese Ltd: price of the most recent investment transaction /cost. The Fund's initial transaction involving the investee has been used as the price of the most recent investment transaction /cost because it is estimated that the transaction occurred close to the balance sheet date (i.e. 3 months prior to or after the balance sheet date) or no incremental investments by new external investors have been made after the initial purchase. The fair value at the balance sheet date has been determined using the operations of the investee during the interim period and the rate at which actual operations correspond to initial targets on the basis of which the transaction price and value of the investee were determined by investors. No significant adjustments due to changes during the period between the transaction date and the balance sheet date have been made regarding the investments provided above;
- CX Cloud Services OÜ and Sportlyzer OÜ: price of the most recent investment transaction /cost. The Fund's initial transaction involving the investee has been used as the price of the most recent investment transaction /cost because it is estimated that the transaction occurred close to the balance sheet date (i.e. 3 months prior to or after the balance sheet date) or no incremental investments by new external investors have been made after the initial purchase. The fair value at the balance sheet date has been determined using the operations of the investee during the interim period and the rate at which actual operations correspond to initial targets on the basis of which the transaction price and value of the investee were determined by investors. No significant adjustments due to changes during the period between the transaction date and the balance sheet date have been made regarding the investments provided above;



The fair value of the Fund's financial investments as of 31.12.2014 has been determined as follows:

- GOLIATH Wind OÜ, WeatherMe OÜ, Fits.me Holdings Ltd, Sportlyzer OÜ and IOT Holding OÜ: the price of the most recent investment transaction. The price of the most recent transaction at which valuation a new external investor or investors entered has been used as the price of the most recent investment transaction. If an aforementioned transaction did not occur close to the balance sheet date (i.e. more than 3 months prior to or after the balance sheet date), the fair value at the balance sheet date has been determined based on the operations of the investee during the interim period and the rate at which actual operations correspond to initial targets on the basis of which the transaction price and value of the investee were determined by investors. No significant adjustments due to changes during the period between the transaction date and the balance sheet date have been made regarding the investments provided above;
- CX Cloud Services OÜ, Lingvist Inc., Jobbatical OÜ and Monese OÜ: price of the most recent investment transaction /cost. The Fund's initial transaction involving the investee has been used as the price of the most recent investment transaction /cost because it is estimated that the transaction occurred close to the balance sheet date (i.e. 3 months prior to or after the balance sheet date) or no incremental investments by new external investors have been made after the initial purchase. The fair value at the balance sheet date has been determined using the operations of the investee during the interim period and the rate at which actual operations correspond to initial targets on the basis of which the transaction price and value of the investee were determined by investors. No significant adjustments due to changes during the period between the transaction date and the balance sheet date have been made regarding the investments provided above;
- Realeyes (Holdings) Limited: price of the most recent investment transaction concerning the share owned by the Fund and the price of the most recent investment transaction / cost concerning the convertible loans granted by the Fund;

More detailed quantitative information concerning investments measured at fair value is presented in Note 8. In accordance with the circumstances disclosed in Note 4, sensitivity analysis has not been performed for investments classified as Level 3 in these financial statements.

Note 4 Significant accounting estimates

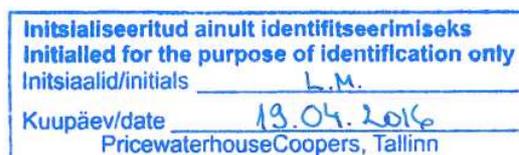
Several accounting estimates and assumptions which have an impact on the assets and liabilities as well as off-balance sheet assets and contingent liabilities disclosed in the notes have been used in preparing the financial statements. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ ultimately from those estimates. Changes in management estimates are recognised in the statement of comprehensive income of the period of the change.

Estimates concerning the fair value of financial investments have the greatest impact on the financial information presented in the financial statements. Long-term financial investments account for 36.1% of the Fund's assets at the balance sheet date (31.12.2014: 25.78% of the Fund's assets).

The basis for the value of financial investments measured at fair value is a valuation conducted as at 31.12.2015. In accordance with the disclosure in Note 3.3, the price of the most recent investment transaction / cost has been used as the method.

Note 5 Cash and cash equivalents

	31.12.2015	31.12.2014
Cash in bank accounts	8,301,567	1,969,059
Total cash and cash equivalents	8,301,567	1,969,059



Cash and cash equivalents by currency

	31.12.2015	31.12.2014
Euro	8,301,567	1,969,059
Total cash and cash equivalents	8,301,567	1,969,059

Note 6 Term deposits

	31.12.2015	Currency	Starting date	Maturity date	Interest rate
Term deposit Nordea	3,000,000	EUR	17.07.15	18.01.16	0.30%
Term deposit Nordea	4,000,000	EUR	20.10.15	20.10.16	0.23%
Total term deposits	7,000,000	EUR			

	31.12.2014	Currency	Starting date	Maturity date	Interest rate
Term deposit Swedbank AS	7,000,000	EUR	18.12.14	18.12.15	0.53%
Term deposit Swedbank AS	6,000,000	EUR	27.02.14	27.02.15	0.60%
Term deposit Swedbank AS	2,000,000	EUR	18.12.14	18.06.15	0.28%
Term deposit Nordea	1,000,000	EUR	16.12.14	16.06.15	0.23%
Total term deposits	16,000,000	EUR			

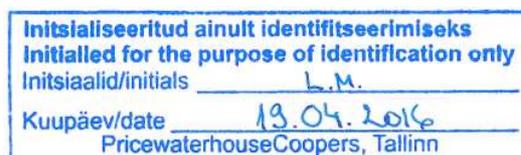
Note 7 Trade receivables and prepayments

	31.12.2015	31.12.2014
Short-term trade receivables and prepayments		
Other short-term receivables		
<i>Interests</i>	6,065	32,563
<i>Other receivables</i>	17,454	177,990
Total short-term trade receivables and prepayments	23,519	210,553

As at 31.12.2015, interest receivable includes accrued interest on term deposits. Interests are collected at the end of the term of the deposit.

As at 31.12.2015, the line item "Other receivables" includes receivables from sale of Fits.me Holding Ltd shares.

As at 31.12.2014, the line item "Other receivables" includes a contribution to equity of Goliath WIND OÜ in exchange for a share with EUR 255 of nominal value. The corresponding entry had not been made in the Commercial Register as at the balance sheet date.



The fair value of receivables does not materially differ from its carrying amount. The collection of receivables and the receipt of services and goods for prepayments are not secured by collateral. All of the receivables and prepayments of the Fund are denominated in euros.

Note 8 Financial investments at fair value through profit or loss

	31.12.2015	31.12.2014
The carrying value of the holdings at the beginning of the year	3,881,277	1,600,000
Fair value of the convertible loans granted at the beginning of the year	2,406,870	911,000
Total of investments in associates at fair value at the beginning of the year	6,288,147	2,511,000
Cost of acquired share holdings	1,964,641	785,958
Convertible loans granted	986,254	2,546,990
Calculated interests	209,981	0
Fair value revaluation of holdings/loans	908,363	444,199
The sale of shares	-654,964	0
Convertible loans converted in to share capital	1,490,716	1,233,990
The fair value of the holdings at the end of the year	7,836,525	3,881,277
Fair value of convertible loans granted at the end of year	1,865,897	2,406,870
Total of investments in associates at fair value at the end of the year	9,702,422	6,288,147

Associated company	Field activity	Shareholding as at 01.01.2014 (%)	Acquired shareholding %	Shareholding as at 31.12.2014 (%) ¹
GOLIATH Wind OÜ	Production of electrical motors, generators and transformers	0%	12.62%	12.62%
Fits.me Holdings Ltd	Other professional, scientific and technical activities	1.73%	5.76%	7.49%
IOT Holding OÜ (Defendec OÜ)	Holding companies	0%	20.35%	20.35%
Sportlyzer OÜ	Computer programming	0%	6.75%	6.75%
Realeyes (Holdings) Limited (Realeyes OÜ)	Data processing, web hosting and related activities	0%	18.60%	18.60%
WeatherMe OÜ	Other information service activities	0%	0%	0%
CX Cloud Services OÜ	Data processing, web hosting and related activities	0%	0%	0%
Keel 24 OÜ	Computer programming	0%	0%	0%
Jobbatical OÜ	Other information service activities	0%	16.50%	16.50%
Monese OÜ	Holding companies	0%	0%	0%

¹ In recognizing the position of investments as of the balance sheet date, account has been taken of share option programmes approved and issued by investees that has a diluting effect on determining the value of the shareholding.

Associated company	Field activity	Shareholding as at 01.01.2015 (%)	Acquired shareholding %	Shareholding as at 31.12.2015 (%) ²
GOLIATH Wind OÜ	Production of electrical motors, generators and transformers	12.62%	5.12%	15.71%
Fits.me Holdings Ltd	Other professional, scientific and technical activities	7.49%	-7.49%	0%
IOT Holding OÜ (Defendec OÜ)	Holding companies	20.35%	0%	20.35%
Sportlyzer OÜ	Computer programming	6.75%	0%	6.75%
Realeyes (Holdings) Limited (Realeyes OÜ)	Data processing, web hosting and related activities	18.60%	1.8%	20.40%
WeatherMe OÜ	Other information service activities	0%	16.72%	16.72%
Jobbatical OÜ	Other information service activities	16.50%	0%	16.50%
Lingvist Inc. (Keel 24 OÜ)	Computer programming	0%	8.79%	8.79%
CX Cloud Services OÜ	Data processing, web hosting and related activities	0%	0%	0%
Thinnect OÜ	Other information technology and computer service activities	0%	0%	0%
Monese OÜ	Holding companies	0%	0%	0%

In table above, associates with 0% shareholding as at 31.12.2014 or 31.12.2015, the Fund has correspondingly not made any investments or has made an investment only as a convertible loan.

The Fund invests in the shares of early-stage knowledge-intensive and technology-intensive Estonian companies. Investments are made in conjunction with co-investors from the private sector on equal terms and on the basis of commercial considerations. The Fund has not invested in situations where they would have acquired the shares of other shareholders or investors. As a result of the investment, the Fund's ownership interest in the company is typically within the range of 10% to 49% of the voting rights.

The Fund may grant loans to the investees for improved structuring of equity investments. Loans granted to investees bear interest at rates of 8%, 10%, 15% and 20% depending on the terms of the loan agreement. The loans are convertible into equity.

During the years 2015 and 2014, the Fund has not received dividend income.

The methodology for the estimation of fair value of investees and the fair value of convertible loans is presented in Note 3.3. According to terms of the shareholder agreements and loan agreements, the Fund has significant influence over WeatherMe OÜ, IOT Holding OÜ, Realeyes (Holdings) Limited, GOLIATH Wind OÜ, Lingvist Inc, Sportlyzer OÜ, Jobbatical OÜ, Monese OÜ, CX Cloud Services OÜ and Thinnect OÜ. As at 31.12.2015, the Fund had agreed to unfunded investment commitments in the amount of EUR 570 thousand (31.12.2014: EUR 235 thousand)

² In recognizing the position of investments as of the balance sheet date, account has been taken of share option programmes approved and issued by investees that has a diluting effect on determining the value of the shareholding.

Note 9 Long-term receivables

	31.12.2015	31.12.2014
Long-term receivable	219,930	0
Total long term receivable	219,930	0

As at 31.12.2015 the Fund had long-term receivables in the amount of EUR 219,930 in accordance with the sale contract of portfolio shares concluded 15.05.2015. The claim is based on a conditional time deposit opened 15.05.2015. The deposit period is 18 months.

Note 10 Trade and other payables

	31.12.2015	31.12.2014
Short-term trade and other payables		
Trade payables	76,994	67,807
Other accruals	0	6,366
Total short-term trade and other payables	76,994	74,173

Note 11 Operating expenses

	2015	2014
Fund management fee (<i>Note 13</i>)	757,842	757,842
Shares registrar fee	2,000	2,000
Purchased services	8,939	11,160
Fund management fees (expert committee)	22,774	0
Total operating expenses	791,555	771,002

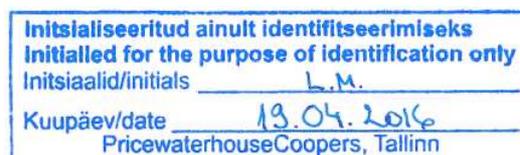
Note 12 Fund units and statement of comparison of the Fund's net asset value

With its decision dated 01.08.2012, the Fund management company approved the issuance of fund shares, specifying 1,247.908 shares as the size of the offering. The nominal value of one share is EUR 10,000.

Acting on the basis of order number 171 of the Government of the Republic dated 12.04.2012 and the contract between the Estonian Development Fund and the Ministry of Economic Affairs and Communications dated 6.12.2011, the Estonian Development Fund on 02.08.2012 on behalf of the Ministry of Economic Affairs and Communications subscribed for the entire offering of 1,247.908 fund shares and paid the issue price totalling EUR 12,479,080. After the Fund's terms and conditions were approved on 01.08.2012, the Fund acquired an unconditional claim and the Estonian Development Fund assumed an unconditional obligation to subscribe for shares in the Fund.

With a decision adopted at its session of 06.12.2012 (item number 15 on the agenda) the Government of the Republic authorised the Ministry of Economic Affairs and Communications to acquire additional shares in the Fund paid for in full with a cash contribution of EUR 6,391,165.

AS SmartCap as the Fund management company issued to the Ministry of Economic Affairs and Communications an additional 645.561 shares in the Fund. The nominal value of one share is EUR 10,000. Shares were issued at their issue price, which was the most recent net asset value per share by the time that the purchase order from the Ministry



of Economic Affairs and Communications was received as at 30.11.2012, which was EUR 9,900.1661. The Ministry of Economic Affairs and Communications subscribed for EUR 6,391,165 worth of shares and paid for them.

With a decision adopted at its session of 05.12.2013 (item number 21 on the agenda) the Government of the Republic authorised the Ministry of Economic Affairs and Communications to acquire additional shares in the Fund paid for in full with a cash contribution of EUR 6,391,165.

AS SmartCap as the Fund management company issued to the Ministry of Economic Affairs and Communications an additional 661.851 shares in the Fund. The nominal value of one share is EUR 10,000. Shares were issued at their issue price, which was the most recent net asset value per share by the time that the purchase order from the Ministry of Economic Affairs and Communications was received as at 30.11.2013, which was EUR 9,656.4968. The Ministry of Economic Affairs and Communications subscribed for EUR 6,391,165 worth of shares and paid for them.

Year	Net value of the Fund	Net value of the Fund's share
31.12.2015	25,170,444	9,850.2121
31.12.2014	24,393,586	9,546.1962

Note 13 Related party transactions

Related parties of the Fund are:

- Investee companies over which the Fund has significant influence;
- Fund management company (AS SmartCap) and its management and senior management;
- Close family members of the aforementioned persons and companies controlled by them or under their significant influence;
- The sole shareholder of the Fund, the Republic of Estonia, and the entities under state control or significant influence.

Excluding investment transactions, the Fund has not entered into any transactions during the year 2015 with investee companies. Transactions involving investee companies are disclosed in Note 8.

The Fund management company is paid management fees on behalf of the Fund in exchange for management of the Fund, comprised of two components: a fixed fee and a success fee. During the reporting period, management fees totaling EUR 757,842 have accrued to the Fund management company (2014: EUR 757,842). As at 31.12.2015, the Fund had a balance of management fees payable to the Fund management company of EUR 63,154 (31.12.2014: EUR 63,154) and other liabilities to the Fund management company of EUR 13,490 (31.12.2014: EUR 4,653). Transactions involving the shareholder, the Republic of Estonia, are disclosed in Note 12.

Note 14 Events after the balance sheet date and going concern

On 28.08.2014, the supervisory board of Estonian Development Fund approved the new core investment principles of the Development Fund. Based on these new principles, in 2015 the Fund prepared the new amended investment strategy that was approved by the supervisory board of the Fund on 27.01.2016. These investment activities are planned to be implemented with the funds of Early Fund II, among others.

According to the new investment strategy, funds received and receivable by Early Fund II will be invested in the funds of the business accelerator. By the end of 2016 it is planned to call a tender for finding up to two funds of the business accelerator. Contracts with business accelerators are expected to be entered into in the first half of 2017.

On 11.02.2015, the Riigikogu (Parliament of Estonia) enacted the Support of Enterprise and State Loan Guarantees Act and the Amendment Act to the Estonian Development Fund Act, whereby the legal framework was established for KredEx to make investments in funds that would in turn make equity investments in companies. As a result of that, it is probable that at least 3 new funds managed by a private fund manager will enter the market in the near term, making investments in the same phase as the Estonian Development Fund and SmartCap. As the state should not be

competing with private market fund managers in making direct investments, the same law also provided for a basis for making changes to the investment activities of the Estonian Development Fund, including the hand-over of the management of direct investments of the Development Fund to professional private fund managers.

As a result of the above, in the second quarter 2015, the Estonian Development Fund and SmartCap initiated the process of reorganising their investment activities. On 27.01.2016, the supervisory board of the Estonian Development Fund confirmed the resolution adopted on 28.08.2014 – management of direct investments of the Estonian Development Fund and Smartcap will be handed over to a private fund manager selected in a contest. This process is scheduled to be completed by the end of 2016. Until the restructuring of the management of direct investments, SmartCap will continue the management and investment of investment fund Early Fund II in accordance with the fund's terms and conditions.

According to the proposal of the workgroup set up on the initiative of the committee on economic affairs of the Riigikogu, the investment activities of the Estonian Development Fund (incl. SmartCap) are planned to be merged into the organisation of the KredEx foundation. At the current moment the detailed terms and timetable of this process are still being developed, the impact of the process as described above to the business of Early Fund II cannot be conclusively evaluated. It is possible that the abovementioned restructuring will be completed by the end of 2016.

In spite of the restructuring of the activities of the Estonian Development Fund, including the merging of Smartcap into the organisation of the KredEx foundation, the management of the fund manager continues to estimate that Early Fund II is a going concern.

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Statement of investments

According to regulation of the Minister of Finance no 21 "Requirements for investment fund reports subject to disclosure" the following information of fund's investments as at 31.12.2015 has been disclosed (in euros):

Company	ISIN-code (Commercial Registry No)	Country	Nominal value	Currency	Quantity	Average acquisition cost per unit	Total average acquisition cost	Market value per unit	Total market value	Share of Fund's net assets
Investments in equity										
GOLIATH Wind OÜ	11441701	EE	1,888	EUR	1	-	-	-	-	-
Sportlyzer OÜ	11671051	EE	576	EUR	1	-	-	-	-	-
WeatherMe OÜ	12247361	EE	864	EUR	1	-	-	-	-	-
Realeyes (Holdings) Ltd	8922462	GB	0.001	EUR	1,126,067	-	-	-	-	-
Jobbatical OÜ	12671900	EE	769	EUR	1	-	-	-	-	-
IOT Holding OÜ	12580341	EE	3,727	EUR	1	-	-	-	-	-
Lingvist Inc.		US	0.0001	USD	33,326	-	-	-	-	-
Total investments in equity					7	6,127,145	6,127,145	7,836,525	7,836,525	31.04%
Convertible loans										
Realeyes (Holdings) Ltd	8922462	GB	-	EUR	2	-	-	-	-	-
Monese OÜ	12653693	EE	-	EUR	2	-	-	-	-	-
Jobbatical OÜ	12671900	EE	-	EUR	1	-	-	-	-	-
Thinect OÜ	12925756	EE	-	EUR	1	-	-	-	-	-
IOT Holding OÜ	12580341	EE	-	EUR	1	-	-	-	-	-
CX Cloud Services OÜ	12394106	EE	-	EUR	1	-	-	-	-	-
Total convertible loans					8	1,931,250	1,931,250	1,865,897	1,865,897	6.86%

	Country	Nominal value	Total market value	Share of Fund's net assets as at 31.12.2015
Long-term receivables				
Fits.me sales	EE	219,930	219,930	0.87%
Total long term receivables		219,930	219,930	0.87%

Cash and bank accounts	Moody's rating	Country	Nominal value	Currency	Total market value	Share of Fund's net assets
Nordea Bank AB Estoniaian branch	Aa3	EE	1,197	EUR	1,197	0.005%
Swedbank Estoniab branch	Aa3	EE	7,901,706	EUR	7,901,706	31.30%
Total cash and bank accounts			7,902,903		7,902,903	31.30%

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Deposits	Moody's rating	Country	Nominal value	Currency	Starting date	Maturity date	Interest rate	Total average acquisition cost	Total market value	Share of Fund's net assets as at 31.12.2014
Term deposit Nordea Bank AB Estonia Branch	Aa3	EE	3,000,000	EUR	17.07.2015	18.01.2016	0.30%	3,000,000	3,000,000	11.88%
Term deposit Nordea Bank AB Estonia Branch	Aa3	EE	4,000,000	EUR	20.10.2015	20.10.2016	0.23%	4,000,000	4,000,000	15.84%
Total deposits			7,000,000	EUR				7,000,000	7,000,000	27.73%

Overnight deposit SEB Pank AS	A1	EE	398,664	EUR			0.01%	398,664	398,664	1.58%
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Other short-term receivables

J Shaw SLCTR LTD (Fits.me sales)		EE	17,454	EUR					17,454	0.07%
Interest receivable Nordea		EE	1,866	EUR					1,866	0.0074%
Interest receivable Nordea		EE	4,200	EUR					4,200	0.0166%
Investment in Goliath Wind OÜ			23,520						23,520	0.09%

Total assets of the Fund									25,247,438	100.31%
Fund liabilities									-76,994	-0.30%
Net assets of the Fund									25,170,444	100.00%

As the aforementioned equity investments and convertible loans do not constitute marketable securities, the fair value of such investments has been determined through the use of alternative information based on estimates. As the disclosure of information concerning the fair value of such investments is restricted due to confidentiality agreements in place and as it would undermine the Fund's position in exiting the investments, the average acquisition cost and the total market value or fair value of such investments is disclosed in aggregate.

As at 31.12.2014, the following information in euros has been disclosed:

Company	ISIN-code (Commercial Registry No)	Country	Nominal value	Currency	Quantity	Average acquisition cost per unit	Total average acquisition cost	Market value per unit	Total market value	Share of Fund's net assets
Investments in equity										
Fits.me Holdings Ltd	7871517	GB	0.01	GBP	502,530	-	-	-	-	-
Realeyes (Holdings) Ltd	8922462	GB	0.001	EUR	1,126,067	-	-	-	-	-
GOLIATH Wind OÜ	11441701	EE	1,312	EUR	1	-	-	-	-	-
IOT Holding OÜ	12580341	EE	3,727	EUR	1	-	-	-	-	-
Sportlyzer OÜ	11671051	EE	576	EUR	1	-	-	-	-	-
Jobbatical OÜ	12671900	EE	769	EUR	1	-	-	-	-	-
Total investments in equity						3,619,374	3,619,374	-	3,881,277	15.91%
Convertible loans										
Realeyes (Holdings) Ltd	8922462	GB	-	EUR	2	-	-	-	-	-
WeatherMe OÜ	12247361	EE	-	EUR	2	-	-	-	-	-
Lingvist Inc.		US	-	EUR	1	-	-	-	-	-

Monese OÜ	12653693	EE	-	EUR	1	-	-	-	-	-
CX Cloud Services OÜ	12394106	EE	-	EUR	1	-	-	-	-	-
Total convertible loans						2,137,000	2,137,000	-	2,406,870	9.87%

Deposits	Moody's rating	Country	Nominal value	Currency	Starting date	Maturity date	Interest rate	Total average acquisition cost	Total market value	Share of Fund's net assets as at 31.12.2014
Term deposit Swedbank AS	A1	EE	7,000,000	EUR	18.12.2014	18.12.2015	0.53%	7,000,000	7,000,000	28.7%
Term deposit Swedbank AS	A1	EE	6,000,000	EUR	27.02.2014	27.02.2015	0.60%	6,000,000	6,000,000	24.6%
Term deposit Swedbank AS	A1	EE	2,000,000	EUR	18.12.2014	18.06.2015	0.28%	2,000,000	2,000,000	8.2%
Term deposit Nordea Bank AB Estonia Branch	Aa3	EE	1,000,000	EUR	16.12.2014	16.06.2015	0.23%	1,000,000	1,000,000	4.1%
Total deposits			16,000,000					16,000,000	16,000,000	65.59%

Overnight deposit SEB Pank AS	A1	EE	1,968,908	EUR			0.01%	1,968,908	1,968,908	8.07%
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Other short-term receivables

Accrued interest on deposits		EE	32,563	EUR					32,563	0.13%
Investment in Goliath Wind OÜ		EE	177,990	EUR					177,990	0.73%

Total assets of the Fund									24,467,759	100.30%
Fund liabilities									-74,173	-0.30%
Net assets of the Fund									24,393,586	100.00%

As the aforementioned equity investments and convertible loans do not constitute marketable securities, the fair value of such investments has been determined through the use of alternative information based on estimates. As the disclosure of information concerning the fair value of such investments is restricted due to confidentiality agreements in place and as it would undermine the Fund's position in exiting the investments, the average acquisition cost and the total market value or fair value of such investments is disclosed in aggregate.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Early Fund II

We have audited the accompanying annual report of Early Fund II (the Fund) managed by AS SmartCap (the Fund Management Company), which comprise the financial statements and statement of the Fund's investments. The financial statements comprise the statement of financial position as of 31 December 2015 and the statement of comprehensive income, statement of changes in Fund's net asset value and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

The Fund Management Company's Management Board Responsibility for the Fund's Annual Report

The Fund Management Company's Management Board is responsible for the preparation and fair presentation of Fund's annual report in accordance with Investment Funds Act, and for such internal control as the Fund Management Company's Management Board determines is necessary to enable the preparation of Fund's annual report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this annual report 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 annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual report, 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 annual report 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 of the Fund Management Company, as well as evaluating the overall presentation of the annual report.

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 annual report presents fairly, in all material respects, the financial position of the Fund as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Investment Funds Act.



Emphasis of Matter

We draw attention to Note 14, where are disclosed plans to restructure Fund Management Company's investment activities by Fund Management Company's shareholder Estonian Development Fund – as a consequence Fund Management Company and Fund may be transferred to KredEx foundation – and its potential impact to going concern of the Fund. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No. 287

/signed/

Verner Uiibo
Auditor's Certificate No. 568

19 April 2016

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*