

ANNUAL REPORT

(Translation of the Estonian original)

Beginning of financial year:	01.01.2015
End of financial year:	31.12.2015
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Management report

Business segments

AS SmartCap (hereinafter SmartCap) is a fully owned subsidiary of Estonian Development Fund (hereinafter Development Fund), operating as a fund manager of venture capital funds and is licensed to do so by the Estonian Financial Supervision Authority. SmartCap manages a closed-ended common investment fund (venture capital fund) named Early Fund II, which is fully owned by the Republic of Estonia. The company also provides advisory services to the Development Fund in the field of venture capital investment.

Management of Early Fund II

As of 31.12.2015, the Republic of Estonia has subscribed for EUR 25.26 million of units in Early Fund II. The first contribution of capital 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.

In accordance with the conditions of the fund and pursuant to the Estonian Development Fund Act, the assets of Early Fund II will be 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 for investment is to earn a return for investor(s) and simultaneously provoke and support change in the Estonian economy, helping to update the economy, generate export growth and create jobs requiring high qualifications.

During the year 2015, SmartCap invested a total of EUR 2,773 thousand of capital on the account of Early Fund II (during 2014 SmartCap invested a total of EUR 3,333 thousand of capital).

Advisory services

During 2015, SmartCap continued to provide advisory services related to venture capital investment to its parent entity, the Estonian Development Fund, concerning acquisition of securities, issuance of securities and sale of securities. As of 31.12.2015, the portfolio of investments of Estonian Development Fund contained 10 companies.

Personnel

In 2015 there was working three full-time and two part-time employees in SmartCap. Compensation of the employees totalled 201 689 euros (2014: 186 026 euros) (excluding social security tax). Compensation of the company's members of the management board totalled EUR 96 thousand (2014: EUR 82 thousand). Compensation of the company's members of the supervisory board totalled EUR 30 thousand (2014: EUR 33 thousand) (excluding social security tax).

Research and development

In the years 2015 and 2014, SmartCap did not carry out any research and development projects requiring substantial capital expenditures.

Risks related to currency exchange rates, interest rates and stock exchange quotations

Fluctuations in interest rates, currency exchange rates and stock exchange quotations do not have a significant impact on SmartCap's business.

Revenue and profit

Revenue of SmartCap in 2015 was EUR 955 thousand (2014: EUR 979 thousand) and net income was EUR 364 thousand (2014: EUR 407 thousand).

Fund management activities during the next reporting period

On 28.08.2014 the supervisory board of the Development Fund approved the new principles of the investment activities of the Development Fund. Based on these new principles, in 2015 the Development 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 through SmartCap.

According to the new investment strategy, funds received from the current investments activities of the Development Fund and receivables and funds received and receivable by Early Fund II will be invested in the funds of the business accelerators. By the end of 2016 it is planned to call a tender for finding up to two funds of the seed accelerators. It is expected that contracts with seed accelerators will 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 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 Development Fund, including the hand-over of the management of direct investments of the Development Fund to professional private fund managers.

Considering the above, in the second quarter 2015, the Development Fund and SmartCap started preparations for the restructuring process of investment activities. On 27.01.2016, the supervisory board of the Development Fund confirmed the resolution adopted on 28.08.2014 to hand over the management of direct investments of the Development Fund and SmartCap to a private fund manager selected in a tender. This process is scheduled to be completed by the end of 2016. Until the restructuring of the management of direct investments, SmartCap will continue management and investments of investment fund Early Fund II in accordance with the fund's terms and conditions, as well as providing advisory services to the Estonian Development Fund under the contracts that have been entered into.

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 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, therefore it is not yet possible to estimate its impact on SmartCap. It is possible that the abovementioned restructuring will be completed by the end of 2016.

The objective of SmartCap is to complete the abovementioned processes by the end of 2016.

Financial statements

Balance sheet

(in euros)

	31.12.2015	31.12.2014	Note
Assets			
Current assets			
Cash	412,741	1,276,473	
Receivables and prepayments	1,117,201	96,789	2
Total current assets	1,529,942	1,373,262	
Total assets	1,529,942	1,373,262	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and prepayments	132,855	340,104	4
Total current liabilities	132,855	340,104	
Total liabilities	132,855	340,104	
Equity			
Share capital at nominal value	325,240	325,240	6
Statutory reserve capital	29,362	9,026	
Other reserves	140,000	140,000	10
Retained earnings (losses)	538,554	152,149	
Profit (loss) for financial year	363,931	406,743	
Total equity	1,397,087	1,033,158	
Total liabilities and equity	1,529,942	1,373,262	

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Income statement

(in euros)

	2015	2014	Note
Revenue	955,207	978,977	7
Operating expenses	-146,853	-155,822	8
Staff costs	-443,585	-416,292	9
Other operating expenses	-356	-604	
Operating profit (loss)	364,413	406,259	
Other financial income and expenses	-482	484	
Profit (loss) before income tax	363,931	406,743	
Net profit (loss) for the financial year	363,931	406,743	

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Cash flow statement

(in euros)

	2015	2014
Cash flows from operating activities		
Operating profit (loss)	364,413	406,259
Change in receivables and prepayments related to operating activities	-20,413	-13,782
Change in payables and prepayments related to operating activities	-207,251	-315,069
Interest received	681	484
Interest paid	-1,162	0
Total cash flows from operating activities	136,268	77,892
Cash flows from investment activity		
Other payments from investment activity	-1,000,000	0
Total Cash flows from investment activity	-1,000,000	0
Total cash flows	-863,732	77,892
Cash and cash equivalents at the beginning of the period	1,276,473	1,198,581
Net decrease/increase in cash and cash equivalents	-863,732	77,892
Cash and cash equivalents at the end of the period	412,741	1,276,473

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Statement of changes in equity

(in euros)

	Share capital at nominal value	Statutory reserve capital	Other reserves	Retained earnings (losses)	Total
31.12.2013	325,240	1,018	140,000	160,157	626,415
Net profit (loss) for the financial year	0	0	0	406,743	406,743
Changes in reserves	0	8,008	0	-8,008	0
31.12.2014	325,240	9,026	140,000	558,892	1,033,158
Adjusted balance as at 31.12.2014	325,240	9,026	140,000	558,892	1,033,158
Net profit (loss) for the financial year	0	0	0	363,931	363,931
Changes in reserves	0	20,337	0	-20,337	0
Other changes in equity	0	-1	0	-1	-2
31.12.2015	325,240	29,362	140,000	902,485	1,397,087

Additional information about share capital is set out in Note 6.

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Notes to the financial statements

Note 1 Accounting principles

General information

AS SmartCap (hereinafter the Company) is a fully owned subsidiary of Estonian Development Fund (hereinafter Development Fund), operating as a fund manager of venture capital funds and is licensed to do so by the Estonian Financial Supervision Authority. AS SmartCap manages a closed-ended common investment fund (venture capital fund) named Early Fund II (hereinafter the Fund), which is fully owned by the Republic of Estonia. The company also provides advisory services to the Estonian Development Fund in the field of venture capital investment.

The 2015 financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in Estonia. The generally accepted accounting principles are prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting principles below.

The financial statements are presented in euros.

Financial assets

The company has the following financial assets: cash and cash equivalents and other receivables and prepayments. Cash and cash equivalents and other receivables, except for receivables acquired for the purpose of resale are carried at amortized cost. Short-term receivables are normally measured at their nominal value (less repayments and impairment losses), and therefore short-term receivables are recognized in the balance sheet at the collectible amount.

Cash and cash equivalents

Cash and cash equivalents presented in cash flow statement include cash on hand, bank account balances and term deposits with maturities of 3 months or less.

Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies apart from the functional currency – the euro – are considered as foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing on the date of transaction. All monetary assets and liabilities denominated in a foreign currency have been translated into Euros using the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the income statement as income or expense of the reporting period.

Receivables and prepayments

Current receivables that have emerged in the course of the ordinary business activities of the company are recorded as customer receivables. Receivables are recorded at amortised cost (which is nominal amount less repayments and allowances made in case of need). Impairment of trade receivables is accounted in case there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Such situations that indicate on possible impairment of trade receivables are the buyers' bankruptcy or significant financial difficulties and inability to fulfil their obligations. Impairment of trade receivables (i.e. the need for allowance) is assessed individually of each specific debtor, on basis of estimated present value of future cash flows. Receivables, which are not individually material and there are no impairment indicators, are assessed collectively based on the historical information of uncollected amounts, The value of impairment loss of trade receivables is the difference between the carrying value of these receivables and present value of future cash flows, using effective interest rate method.

The carrying value of trade receivables is reduced by the amount of impairment loss of receivables and loss from impairment is charged to the income statement as operating expenses. If the receivable is assessed to be irrecoverable, it is removed from the balance sheet. The collection of previously recognized impairment loss is reversed by adjusting the allowance account.

Financial liabilities

All financial liabilities (trade payables) are initially recognised at cost including all directly attributable expenditures. Financial liabilities are subsequently measured at amortised cost.

The amortised cost of current liabilities is usually equal to their nominal value, thus they are stated in the balance sheet at their redemption value.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date.

Statutory reserve capital

Statutory reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revenue recognition

Revenue from the rendering of a service is recognized upon the rendering of the service.

The Company gets paid by the Fund for managing it. The management fee consists of a fixed fee and performance fee. The performance fee is agreed upon percentage of the net income, which calculation basis and principles are stipulated in the Fund's conditions. In addition to the management fee the Fund also pays for the expenses directly related to managing the Fund, i.e. all expenses related to investments and established market practice (market prices) related costs, including financial, legal, tax and other audits, management fees and advisors' fees, and all of the Fund's asset purchases, sales and management related costs, including taxes, fees, registration and other expenses needed to make for the purchase, sale or management of asset.

In addition, the Company is paid for advisory services in the field of venture capital investment from Estonian Development Fund.

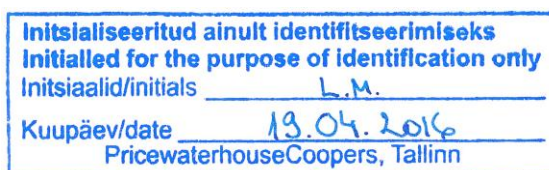
Also this fee consists of fixed fee and performance fee.

Taxation

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80 (until 31.12.2014 the tax rate was 21/79). In certain circumstances it is possible to distribute dividends without additional Income tax expense. The corporate income tax arising from the payment of dividends is recognised as a liability and an Income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due at the 10th day of the month following the payment of dividends.

Due to the nature of taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise due the payment of dividends is not recognised in the balance sheet. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in the in the notes to the financial statements.

Potential liabilities arising from tax inspection.



Tax authorities have the right to inspect the Company's tax records for up to 5 years from tax filing deadline, and may impose additional taxes, interest and penalties.

The Company's management is not aware of any circumstances which may give tax authorities a reason to impose additional taxes, interest and penalties.

Related parties

The following are considered as related parties in annual report of AS SmartCap:

- Owners (parent company and persons having control or significant influence over the parent company);
- Risk capital fund "Early Fund II" formed by SmartCap AS;
- Executive and higher management;
- Close family members of the above mentioned persons and companies under their control or under their significant influence.

Note 2 Receivables and prepayments

(in euros)

	31.12.2015	Division by due date		
		within 12 months	1-5 years	after 5 years
Trade receivables	19,200	19,200	0	0
Accounts receivable	38,400	38,400	0	0
Allowance for doubtful receivables	-19,200	-19,200	0	0
Receivables from related parties	92,841	92,841	0	0
Tax prepayments and recoveries	22	22	0	0
Other receivables	574	574	0	0
Interest receivables	574	574	0	0
Prepayments	4,437	4,437	0	0
Prepaid expenses	4,417	4,417	0	0
Other prepayments	20	20	0	0
Term deposits	1,000,000	1,000,000	0	0
Other receivables	127	127	0	0
Total receivables and prepayments	1,117,201	1,117,201	0	0

	31.12.2014	Division by due date		
		within 12 months	1-5 years	after 5 years
Trade receivables	91,660	91,660	0	0
Accounts receivable	110,860	110,860	0	0
Allowance for doubtful receivables	-19,200	-19,200	0	0
Other receivables	509	509	0	0
Accrued revenues	509	509	0	0
Prepayments	4,620	4,620	0	0
Prepaid expenses	4,620	4,620	0	0
Total receivables and prepayments	96,789	96,789	0	0

As of 31.12.2015 receivables from related parties includes receivables from Development Fund in the amount of 15,847 euros and receivables from Early Fund II in the amount of 76,994 euros (including management fees of 63,154 euros).

As of 31.12.2014 trade receivables include receivables from related party Early Fund II in the amount of EUR 67,807,

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including management fee in the amount of EUR 63,154.

Note 3 Prepaid taxes and tax liabilities

(in euros)

	31.12.2015		31.12.2014	
	Prepayment	Tax liability	Prepayment	Tax liability
VAT	0	718	0	1,551
Personal income tax	0	8,565	0	5,310
Income tax on fringe benefits	0	1,672	0	91
Social security tax	0	17,438	0	8,923
Mandatory funded pension	0	512	0	408
Unemployment insurance premiums	0	570	0	505
Prepaid account balance	22		0	
Total tax payables and prepayments	22	29,475	0	16,788

Prepaid taxes and tax liabilities are included in the balance sheet item "Payables and prepayments", see additional information in Note 4.

Note 4 Payables and prepayments

(in euros)

	31.12.2015	Division by due date			Note
		within 12 months	1-5 years	after 5 years	
Trade payables	14,652	14,652	0	0	
Payables to employees	41,621	41,621	0	0	5
Tax liabilities	29,475	29,475	0	0	3
Other liabilities	12,514	12,514	0	0	
Other accruals	12,514	12,514	0	0	
Advances received	34,593	34,593	0	0	
Deferred income	34,593	34,593	0	0	
Total payables and prepayments	132,855	132,855	0	0	

	31.12.2014	Division by due date			Note
		within 12 months	1-5 years	after 5 years	
Trade payables	4,380	4,380	0	0	
Payables to employees	41,136	41,136	0	0	5
Tax liabilities	16,788	16,788	0	0	3
Other liabilities	16,880	16,880	0	0	
Other accruals	16,880	16,880	0	0	
Advances received	260,920	260,920	0	0	
Deferred income	216,111	216,111	0	0	
Other advances	44,809	44,809	0	0	
Total payables and prepayments	340,104	340,104	0	0	

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AS SmartCap is a company used by the Estonian Development Fund since 1.04.2012 to implement its investment objectives arising from the law. Before 1.04.2012, the Estonian Development Fund made such investments directly. As a result of the reorganisation of investment activities in the first quarter of the year 2012, the Estonian Development Fund transferred to AS SmartCap its investment reserve (which constitutes funds to meet obligations to portfolio companies incurred in the past or incurring in the future), the total amount of which on 29.03.2012 stood at EUR 601,997.

In 2014, the aforementioned investment reserve has been used to meet assumed investment commitments to portfolio companies in the amount of EUR 61,750. AS SmartCap directly transferred the relevant funds on behalf of the Estonian Development Fund to the portfolio companies of the Estonian Development Fund within the framework of use of the investment reserve, therefore such payments have not been accounted for as cash flows used in investment activities in the statement of cash flows.

The line item "Other prepayments received" contains an undrawn investment reserve of EUR 44,809 as of 31.12.2014.

According to the decision of the Board of the Estonian Development Fund SmartCap AS returned a total investment of unused reserves to the Estonian Development Fund at 27.12.2015.

In addition to the above, the Estonian Development Fund as part of the reorganisation of investment activities carried out in the first quarter of the year 2012 transferred to AS SmartCap the available balance of investment capital, which amounted to EUR 860,787 as at 29.03.2012. The aforementioned amount constitutes a prepayment used to cover the contractual management fees pursuant to the service agreement between the Estonian Development Fund and AS SmartCap. The line item "Deferred income" contains an unearned prepayment balance of EUR 34,593 as of 31.12.2015 (31.12.2014: EUR 216,111).

Note 5 Payables to employees

(in euros)

	31.12.2015	31.12.2014
Wages and salaries	17,830	19,649
Vacation accrual	21,105	16,714
Other employee-related liabilities	2,686	4,773
Total employee-related liabilities	41,621	41,136

Payables to employees is included in the balance sheet item "Payables and prepayments", see additional information in Note 4.

Note 6 Share capital

(in euros)

	31.12.2015	31.12.2014
Share capital	325,240	325,240
Number of shares	327,400	327,400
Shares at nominal value	1	1

The share capital of the company as at 31.12.2015 consists of 325,000 ordinary shares with nominal value of 1 euro, 1,200 Series B preferred shares with nominal value of 0.1 euros and 1,200 Series C preferred shares with nominal value of 0.1 euros. The shares are fully paid up. The share capital of the company as at 31.12.2014 consisted of 325,000 ordinary shares with nominal value of 1 euro, 1,200 Series B preferred shares with nominal value of 0.1 euros and 1,200 Series C preferred shares with nominal value of 0.1 euros.

As at 31.12.2015, a loan had been received from the parent company in the amount of EUR 140,000 (as at 31.12.2014: EUR 140,000). The loan is free of interest, i.e. the borrower is not obligated to pay interest or other fees for the use of the loan. The loan is for unspecified term. The lender has the right to effect a standard termination of the agreement by notifying the borrower at least five (5) years in advance unless the company exercises its right to convert the loan into equity in specified cases. The borrower has the right to effect a standard termination of the agreement by notifying the

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lender at least one (1) month in advance. As according to terms of the agreement, the company is, in essence, in control of the timing of repayment or non-repayment of the money, the borrowings are included in the "Other reserves" item in equity.

The retained earnings of the Company as at 31 December 2015 amounted to EUR 363,931. Upon the payment of dividends to the shareholders, the income tax expense is 20/80 of the amount paid out as net dividends. Therefore, as at the balance sheet date it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 272,948 and the corresponding income tax would amount to EUR 90,983.

Note 7 Revenue

(in euros)

	2015	2014
Revenue by geographic locations		
Revenue from EU countries		
Estonia	955,207	978,977
Total revenue from EU countries	955,207	978,977
Total revenue	955,207	978,977
Revenue by activities		
Fund management fees	757,842	757,842
Advisory services	197,365	221,135
Total revenue	955,207	978,977

The revenue includes:

- The company's risk capital fund Early Fund II's management fees paid by the Fund; (see additional information in Note 10)
- The fee of providing advisory services to Estonian Development Fund. The company provides advisory services to Estonian Development Fund for acquisition of shareholding, issue of securities and disposals of holdings (see additional information in Note 10).

Note 8 Other operating expenses

(in euros)

	2015	2014
Lease and rental charges	15,616	20,549
Energy	1,557	0
Electricity	1,557	0
Various office expenses	7,229	4,216
Business travel expenses	37,537	42,257
Training expenses	3,581	13,482
State and local taxes	9,336	6,726
Purchased services	31,540	22,917
Procedural and monitoring costs	4,714	4,145
Information and communication technology expenses	9,067	6,134
Other expenses related to premises	1,883	5,960
Information and PR services	3,934	6,299
Other	20,859	23,137
Total administrative expenses	146,853	155,822

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In the calculation of minimum requirements of the fund manager's own funds for covering the general expenses, fixed general expenses also include "Personnel expenses" and "Other expenses" that are reported separately in the income statement.

Note 9 Personnel expenses

(in euros)

	2015	2014
Salaries	327,490	306,727
Social security charges	109,173	109,565
Total personnel expenses	436,663	416,292
Average number of employees (full-time equivalent)	5	5

3 full-time and two part-time employees worked in SmartCap in 2015. Remunerations paid to employees a total of 201,689 euros (2014: 186,026 euros) (excluding social security tax). The members of the Management Board of the Company received remuneration in the amount of 96 thousand euros (2014: 82 thousand euros) (excluding social security tax). Board members remuneration was in the amount of 30 thousand euros (2014: 33 thousand euros).

Note 10 Related parties

(in euros)

Name of the reporting entity's parent company	Estonian Development Fund
Country of incorporation of the group's parent company	Estonia

Balances with related parties by groups:

	31.12.2015		31.12.2014	
	Receivables	Liabilities	Receivables	Liabilities
Parent company	15,847	34,593	0	264,070
Early Fund II	76,994	0	67,807	0
Early Fund II's financial investment entities	19,200	0	23,853	0

2015	Purchases	Sales
Parent company	27,742	197,365

2014	Purchases	Sales
Parent company	30,279	221,135
The member of management and supervisory board with a significant interest and entities under their control or significant influence	12,366	0

The remuneration and other significant benefits paid to the members of the management and supervisory boards:		
	2015	2014
Remuneration	167,303	152,466

During the reporting period no discounts have been made to receivables from related party.

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The Company is being paid Fund management fees for managing the Fund (Early Fund II), which consists of fixed fee and performance fee.

During the reporting period the management fee amounted to EUR 757 842 (2014: EUR 757 842) (see additional information in Note 7).

As of 31.12.2015 the Funds payables to the Company for managing Early Fund II was amounted to EUR 63,154 (31.12.2014: EUR 63,154). Other Early Fund II's payables to the Company were EUR 13,841 (31.12.2014: EUR 4,654) (see additional information in Note 2).

As of 31.12.2015 the loan liabilities to parent company amounted to EUR 140,000 (31.12.2014: EUR 140,000), which has been included in equity's item "Other reserves" (see Note 6).

By terminating prematurely the service agreement of the management board members at the initiative of the Company the Company has to pay severance pay equal to three months of management board member remuneration, unless the termination of the contract will be for a good reason.

Note 11 Shares option plan

The supervisory board of AS SmartCap has approved the terms of the Series B stock option programme ("Early Fund I") and Series C stock option programme ("Early Fund II"). Stock options are distributed to the investment team, expert committee, members of the management and supervisory board of AS SmartCap (Note 6).

In accordance with the option agreements in place, the dividends payable on preferred shares are contingent upon success fees paid to AS SmartCap for the advisory services provided to the Development Fund and for the management of the venture capital fund "Early Fund II". Guidelines of the Accounting Standards Board of Estonia do not specifically regulate the accounting for stock option programmes. The company does not classify success fees as an asset because according to asset recognition criteria the certainty is inadequate and it cannot be measured reliably, therefore according to the judgment of the management of the company it is also not appropriate to recognise the corresponding potential expense that will be incurred upon payment of dividends to preferred shareholders.

Pursuant to the above, it constitutes an asset and a liability by nature, which depend on the investments of the Development Fund and the results of exits from Early Fund II investments and according to the judgment of the company's management it is appropriate and fair to recognise the revenue and expense in the same reporting period.

Note 12 Events after the balance sheet date and going concern

On 28.08.2014 the supervisory board of the Development Fund approved the new principles of the investment activities of the Development Fund. Based on these new principles, in 2015 the Development 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 through SmartCap.

According to the new investment strategy, funds received from the current investments activities of the Development Fund and receivables and funds received and receivable by Early Fund II will be invested in the funds of the business accelerators. By the end of 2016 it is planned to call a tender for finding up to two funds of the seed accelerators. It is expected that contracts with business accelerators will 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 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 Development Fund, including the hand-over of the management of direct investments of the Development Fund to professional private fund managers.

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Considering the above, in the second quarter 2015, the Development Fund and SmartCap started preparations for the restructuring process of investment activities. On 27.01.2016, the supervisory board of the Development Fund confirmed the resolution adopted on 28.08.2014 to hand over the management of direct investments of the Development Fund and SmartCap to a private fund manager selected in a tender. This process is scheduled to be completed by the end of 2016. Until the restructuring of the management of direct investments, SmartCap will continue management and investments of investment fund Early Fund II in accordance with the fund's terms and conditions, as well as providing advisory services to the Estonian Development Fund under the contracts that have been entered into.

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 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, therefore it is not yet possible to estimate its impact on SmartCap. It is possible that the abovementioned restructuring will be completed by the end of 2016.

The objective of SmartCap is to complete the abovementioned processes by the end of 2016. In spite of the restructuring of the activities of the Development Fund, including the merging of SmartCap and the fund Early Fund II under its management into the organisation of the KredEx foundation, the management continues to estimate that AS SmartCap is a going concern.

The management estimates that this restructuring does not have significant impact on the financial results of SmartCap in the near future, but may influence the activities of SmartCap in the long term. Based on the circumstances that are known, it is not yet possible to assess its impact and its scope.

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Signatures of the Management Board to the 2015 Annual Report

The 2015 Annual Report of SmartCap AS has approved on 19 April 2015 by:

/signed/

Member of the Management Board
Antti Perli

/signed/

Member of the Management Board
Mari Vavulski



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS SmartCap

We have audited the accompanying financial statements of AS SmartCap (the Company), which comprise the balance sheet as of 31 December 2015 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.



Emphasis of Matter

We draw attention to Note 12, where are disclosed plans to restructure Company's investment activities by Company's shareholder Estonian Development Fund – as a consequence Company and its managed investment Fund may be transferred to KredEx foundation – and its potential impact to financial results and going concern of the Company. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No. 287

/signed/

Verner Uibo
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.*