



ANNUAL REPORT

(Translation of the Estonian original)

Beginning of the financial year:	01.01.2016
End of the financial year:	31.12.2016
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MANAGEMENT REPORT

Field of activities

SmartCap AS (hereinafter SmartCap) is a 100% subsidiary of the Estonian Development Fund (in liquidation) (hereinafter EDF) which operates as a venture capital fund management company under the license issued by Financial Supervision Authority. From 10.03.2017 it continues operating as a small fund management company, as referred to in Investment Funds Act § 306(5)(5) (in force from 10.01.2017). SmartCap manages a closed-ended common investment fund (venture capital fund) Early Fund II, a 100% of the shares owned by the Republic of Estonia. SmartCap also provides consultancy services in the field of venture capital investment to the EDF.

Management of Early Fund II

As of 31.12.2016, the Republic of Estonia has subscribed for 25.26 million euros of units in Early Fund II. The first payment of 12.47 million euros was made in August 2012, the second payment in the amount of 6.39 million euros in December 2012, and the third payment in the amount of 6.39 million euros in December 2013.

According to the Early Fund II conditions and the Estonian Development Fund Act, assets of Early Fund II will be invested into Estonian small and medium-sized businesses, which focus on innovation, create and use modern technologies as well as develop new products and services, or into investment funds, the assets of which can be invested into businesses described above. The purpose of investing is to generate returns for investors, and at the same time to stimulate and contribute to changes in Estonian economy, which will help to modernize the economy, to ensure export growth and create new high-skilled jobs. In 2016, SmartCap on behalf of Early Fund II, made investments in a total volume of 4,347 thousand euros (2,773 thousand euros in 2015).

Advisory services

In 2016, SmartCap continued to provide advisory services related to venture capital investment to its parent entity, the EDF, concerning acquisition of securities, issuance of securities and sale of securities. As of 31.12.2016 the EDF's total investment portfolio consisted of ten companies, as in 2015.

Staff

In 2016, SmartCap employed an average of four full-time and two part-time employees. The total remuneration paid to employees was 222,800 euros (201,689 euros in 2015) (social tax not included). The total remuneration paid to the members of the Board of SmartCap was 56 thousand euros (97 thousand euros in 2015) (social tax not included). The total remuneration paid as legal debt agreements was in 2016 22 thousand euros. The total remuneration paid to the members of the Supervisory Board of SmartCap was 30 thousand euros (30 thousand euros in 2015) (social tax not included).

Research and development

In 2015 nor in 2016 SmartCap did not carry out any research and development projects, which would have required a significant investment.

Risks associated with changes of foreign exchange rates, interest rates and stock exchange quotations

Interest rates, exchange rates and stock exchange prices changes cannot significantly impact the operation of SmartCap.

Revenue and profit

In 2016, the revenue of SmartCap was 931 thousand euros (955 thousand euros in 2015) and its net profit was 151 thousand euros (364 thousand euros in 2015).

Outlook for 2017

In 2017, it is planned to complete the reorganization of the investment activities of EDF and SmartCap and the process for selecting a private fund management company. For the purpose of independence and impartiality, the process was consulted by the European Investment Bank, which also declared on 25.08.2016 the call for finding the private fund management company. Six teams submitted their expressions of interest, among which four were chosen for the final round, and after the final offer, the Committee of Experts nominated by the European Investment Bank, chose Tera Ventures as the winner. Tera Ventures is a venture capital management company that begins operating in the Estonian market, consisting existing investment managers of SmartCap Andrus Oks, Stanislav Ivanov and adviser James Patrick McDougall. The direct investment portfolio is expected to be transferred to the fund established by the winning team and its management in the first half of 2017.

As part of the reorganization of EDF and SmartCap's investment activities, the Supervisory Board of EDF approved on 27.01.2016 a new investment strategy, according to which EDF and SmartCap invest the received funds returned from earlier direct investments into accelerator funds. In addition to investments, the accelerator funds offer portfolio companies also a wide range of business development services, which are funded by Startup Estonia instruments. The selection process of accelerator funds will be implemented in the form of a competitive dialogue on the basis of the Public Procurement Act, where SmartCap and Fund KredEx act as joint contracting authorities.

Accelerator fund selection process was announced in May 2016, but the first public procurement¹ failed due to the discord that occurred in the time-limit published in application documents and the tender notice published in the register of public procurements. Therefore, in October 2016, a new public procurement² was announced, and by the deadline for submission of applications in November, seven candidates submitted their expression of interest to participate in the process. Four applicants out of the seven applicants met the qualification requirements, and in January 2017, these four were proposed to participate in the dialogue. SmartCap expects to reach the conclusion of agreements with suitable accelerator funds already in the second half of 2017.

Until reorganization of the management of direct investments, the SmartCap's direct

¹ <https://riigihanked.riik.ee/register/hange/171705>

² <https://riigihanked.riik.ee/register/hange/178587>

investments will continue to be managed in accordance with the terms and conditions of the Early Fund II terms.

In the spring of 2016, the Economic Affairs Committee of Estonian Parliament concluded a principal decision to terminate the activities of EDF, to transfer monitoring activities to a new Foresight Centre to be created, and investment activities to Fund KredEx composition. In 29.06.2016 Estonian Parliament adopted the Foresight Act that terminates the activities of EDF from 29.06.2017. Transfer of investment activities of EDF (including the activities of SmartCap) into Fund KredEx composition takes place after conclusion of the contract with the winning private fund manager, during the first half of 2017 at the latest. As resulting from the restructuring, in 2017 SmartCap will become a subsidiary of Fund KredEx, which will continue implementation of the current investment strategy. As regards to continuation of its activities as a small fund manager, SmartCap intends to terminate provision of advisory services to the EDF in 2017 and restructure this part of its activities during the reorganization.

FINANCIAL STATEMENTS

Balance Sheet

(in euros)

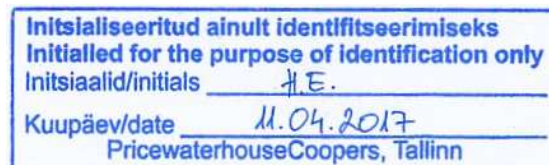
	31.12.2016	31.12.2015	Note
Assets			
Current Assets			
Money	631,193	412,741	
Trade receivables and prepayments	1,107,465	1,117,201	2
Total current assets	1,738,658	1,529,942	
Total assets	1,738,658	1,529,942	
Liabilities and owner's equity			
Liabilities			
Short-term liabilities			
Trade payables and other current liabilities	190,166	132,855	4
Total short term liabilities	190,166	132,855	
Total liabilities	190,166	132,855	
Equity Capital			
Share capital at nominal value	325,240	325,240	6
Legal reserve	32,524	29,362	
Other reserves	140,000	140,000	
Retained earnings	899,323	538,554	
Profit (loss) for the financial year	151,405	363,931	
Total owner's equity	1,548,492	1,397,087	
Total liabilities and owner's equity	1,738,658	1,529,942	

Income Statement

(in euros)

	2016	2015	Note
Sales revenue	930 717	955,207	7
Miscellaneous operating expenses	-339,020	-146,853	8
Labour expenses	-442,127	-443,585	9
Other expenses	-122	-356	
Operating profit (loss)	149,448	364,413	
Interest incomes	1,957	0	
Other financial income and expenses	0	-482	
Profit/loss before income tax	151,405	363,931	
Profit (loss) for the financial year	151,405	363,931	

Notes to the Financial Statements



Note 1 Accounting principles

General information

SmartCap is a 100% subsidiary of EDF (in liquidation), which operates as a venture capital fund management company under the license issued by Financial Supervision Authority. AS SmartCap manages a contractual closed-end investment fund (venture capital fund) Early Fund II, a 100% of the shares owned by the Republic of Estonia, and provides consultancy services in the field of venture capital investments to the EDF (in liquidation).

The financial statements of the Company in 2016 have been compiled in accordance with good practice of accounting of the Republic of Estonia. According to RTJ 15 § 62a, SmartCap has composed a shortened version of financial statements.

Main principles for generally accepted accounting practice have been laid down in Accounting Act and supplemented by the Statements of Estonian Financial Accounting Standards Board.

The financial statements have been compiled according to the acquisition cost principle excluding the cases described in the following calculation principles.

The financial statements are prepared in euros.

Financial assets

SmartCap 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 resale are recognized at amortized cost. The restated acquisition cost of short-term receivables is generally equal to their nominal value (minus repayments and possible discounts), thence the short-term receivables shall be recorded in the balance sheet as probably outstanding sum.

Cash

In cash flow statement the balances of cash and current account have been reflected as cash and cash equivalents and short-term deposits of up to 3 months.

Transactions in foreign exchange currency and financial assets and liabilities fixed in foreign exchange currency

All other currencies beside the functional currency are deemed as foreign currencies. When recording transactions performed in foreign currency, the exchange rates of the European Central Bank officially valid on transaction day are taken as the basis for the transactions. Financial assets and obligations fixed in foreign currency (receivables and loans paid in cash)

are revaluated on the balance sheet date into functional currency using the official exchange rates quoted by the European Central Bank. Exchange gains and losses resulting from the revaluation are recognized in the income statement of the reporting period.

Trade receivables and prepayments

Any short-term receivables accumulated during SmartCap's regular business activity are shown as trade receivable. Trade receivables are recognised at adjusted acquisition cost (i.e. nominal value less repayments and write-downs, if any).

Impairment of trade receivables is recognized when there is objective evidence that all receivable sums will not be received according to the original terms of the contract. Evidence of potential impairment includes the bankruptcy of the debtor or significant financial difficulties and violations of payment deadlines. The reduction of the value (i.e. necessity for a write-down) of individually significant receivables is assessed separately for each purchaser, based on the present value of the sums presumably received in the future. In case of receivables that are not individually important and the reduction in value of which cannot be directly ascertained, the reduction in value is evaluated as an aggregate whole considering the experience of previous years concerning receivables. The amount of allowance for doubtful receivables is the difference between their carrying value and the present value of future cash flows at the effective interest rate method.

The carrying value is reduced by the amount of allowance for doubtful receivables and the impairment loss is recognized in the income statement as other operational expenses. If a claim is deemed uncollectible, the receivable and its discount are written-off. Collection of doubtful accounts which have previously been written down is recognized as a decrease in the expenses of doubtful accounts.

Financial liabilities

All financial liabilities (accounts payable) are initially recorded at their acquisition cost, which also includes any expenses related to their acquisition. Further recording will be done on the basis of adjusted acquisition cost method.

The amortized 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.

Financial liabilities are classified as current liabilities if they are due within twelve months from the balance sheet date.

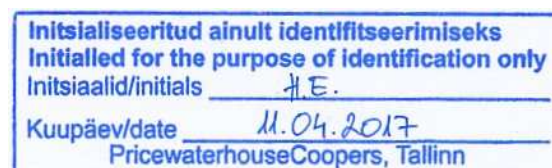
Legal reserve

Legal reserve has been formed in accordance with the Commercial Code. Legal reserve is formed from annual net profit provisions. Each financial year at least 1/20 of net income has to be transferred to legal reserve until the legal reserve forms 1/10 of share capital. Legal reserve can be used for covering the loss as well as increasing the share capital. Payments may not be made to shareholders from the legal reserve.

Revenues

Revenue from sales is recorded after service performance.

SmartCap is paid management fees on behalf of Early Fund II in exchange for management of



Early Fund II, comprised of two components: a fixed fee and a success fee. The success fee is an agreed percentage of the net income, which calculation basis and principles are set in the Early Fund II rules.

In addition to the management fee Early Fund II pays also the expenses that are directly related to Early Fund II, like all expenses related to investments execution according to common market practices (at market prices), including financial, legal, tax and other audits fees and consultants' fees and all Fund assets purchases, selling or management expenses, including taxes, fees, registration and other costs required for assets purchase, sale or management.

In addition SmartCap is also paid for consultancy services in the field of venture capital investment to the Development Fund. The mentioned remuneration consists of a fixed fee and a success fee, as well.

Taxation

According to Estonian Income Tax Act, a company's annual profit is not subjected to taxation. Income tax is paid on dividends, fringe benefits, gifts, donations, reception fees, non-business related disbursements and adjustments of the transfer price. From 01.01.2015 the income tax rate on dividends paid is 20/80 of the paid net amount. Under certain conditions it is possible to pay out dividends without any additional income tax expense.

Corporate income tax related to the payment of dividends is recorded in the income statement as a liability and an income tax expense of the same period when the dividends are announced independent of which period they have been announced for or when they will actually be paid. Income tax liability arises on the 10th date on the month following the month of the payment of the dividends.

Due to the specific nature of the taxation system, the companies registered in Estonia do not have differences in the tax bases of assets and their carrying amounts, and hence there are no deferred tax assets or liabilities. Contingent income tax liability which would arise from the payment of dividends, is not recognized on the balance sheet. The maximum income tax liability which would result when retained earnings were paid out as dividends, is described in the notes.

Potential liabilities arising from tax inspection.

Tax authorities have the right to inspect SmartCap's tax records for up to five years of submitting the tax declaration and upon finding errors, impose additional taxes, interest and penalties.

SmartCap's management is not aware of any circumstances, which may lead the tax authorities to impose the Group companies significant additional taxes.

Associated Parties

The associated parties as of compilation of the financial statements of SmartCap are as follows:

- a) owners (the parent company and persons who control the parent company or persons with significant influence over the parent company);
- b) a contractual venture capital fund "Early Fund II", founded by SmartCap;
- c) executive and top management;
- d) close family members of the aforementioned persons and companies controlled by them or under their significant influence.

Note 2 Receivables and prepayments

(in euros)

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 PricewaterhouseCoopers, Tallinn

	31.12.2016	Distribution by time remaining until due date			Note no.
		Within 12 months	1-5 years	over 5 years	
Trade receivables	19,200	19,200	0	0	
Receivables from purchasers	38,400	38,400	0	0	
Doubtful receivables	-19,200	-19,200	0	0	
Receivables from related parties	82,419	82,419	0	0	
Prepaid and deferred taxes	33	33	0	0	3
Other receivables	333	333	0	0	
Interest receivables	333	333	0	0	
Prepayments	4,473	4,473	0	0	
Future period expenses	4,473	4,473	0	0	
Term deposits	1,000,000	1,000,000	0	0	
Other receivables	1,007	1,007	0	0	
Total receivables and prepayments	1,107,465	1,107,465	0	0	
	31.12.2015	Distribution by time remaining until due date			Note no.
		Within 12 months	1-5 years	over 5 years	
Trade receivables	19,200	19,200	0	0	
Receivables from purchasers	38,400	38,400	0	0	
Doubtful receivables	-19,200	-19,200	0	0	
Receivables from related parties	92,841	92,841	0	0	
Prepaid and deferred taxes	22	22	0	0	3
Other receivables	574	574	0	0	
Interest receivables	574	574	0	0	
Prepayments	4,437	4,437	0	0	
Future period expenses	4,417	4,417	0	0	
Other paid					

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

Note 3 Tax prepayments and tax arrears

(in euros)

	31.12.2016		31.12.2015	
	Prepaid	Tax arrear	Prepaid	Tax arrear
VAT	0	2,140	0	718
Personal income tax	0	5,851	0	8,565
Income tax on fringe benefits	0	1,859	0	1,672
Social tax	0	13,264	0	17,438
Mandatory funded pension	0	585	0	512
Unemployment insurance premiums	0	468	0	570
Prepayment account balance	33		22	
Total prepaid taxes and taxes payable	33	24,167	22	29,475

Prepaid taxes and tax liabilities are shown in the balance sheet under "Trade and other payables" for which additional information is in Appendix 4. Potential liabilities arising from the tax audit. The tax authorities have the right to verify the Company's tax records up to 5 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are no circumstances which may lead the tax authorities to impose additional significant taxes on the Company.

Note 4 Payables and prepayments

(in euros)

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 Kuupäev/date 11.04.2017
 PricewaterhouseCoopers, Tallinn

	31.12.2016	Distribution by time remaining until due date			Note no.
		Within 12 months	1-5 years	over 5 years	
Trade payables	97,885	97,885	0	0	
Employee payables	52,857	52,857	0	0	5
Tax payables	24,167	24,167	0	0	3
Other debts	15,257	15,257	0	0	
Other accruals	15,257	15,257	0	0	
Total payables and prepayments	190,166	190,166	0	0	

	31.12.2015	Distribution by time remaining until due date			Note no.
		Within 12 months	1-5 years	over 5 years	
Trade payables	14,652	14,652	0	0	
Employee payables	41,621	41,621	0	0	5
Tax payables	29,475	29,475	0	0	3

Other debts	12,514	12,514	0	0
Other accruals	12,514	12,514	0	0
Prepayments	34,593	34,593	0	0
Future period expenses	34,593	34,593	0	0
Total payables and prepayments	132,855	132,855	0	0

Note 5 Employee-related payables

(in euros)

	31.12.2016	31.12.2015
Accrued remuneration	21,714	17,830
Accrued holiday remuneration	30,559	21,105
Other payables to employees	584	2,686
Total payables to employees	52,857	41,621

Payables to employees are shown in the balance sheet under "Trade and other payables" for which additional information is in Appendix 4.

Note 6 Share capital

(in euros)

	31.12.2016	31.12.2015
Share capital	325,240	325,240
Number of shares (pcs)	327,400	327,400
Nominal value of shares	1	1

SmartCap's share capital as at 31.12.2016 consists of 325,000 ordinary shares with a nominal value of 1 euro, 1200 Series B Preference shares with a nominal value of 0.1 euros, and 1200 Series C Preference shares with a nominal value of 0.1 euros. The shares are fully paid.

SmartCap's share capital as at 31.12.2015 consisted of 325,000 ordinary shares with a nominal value of 1 euro, 1200 Series B Preference shares with a nominal value of 0.1 euros, and 1200 Series C Preference shares with a nominal value of 0.1 euros.

As of 31.12.2016, the loan received from the parent company amounted 140,000 euros (as of 31.12.2015: 140,000 euros). The loan is interest-free, i.e., the borrower is not obliged to pay interest on the loan or other fees for the use of the loan. The loan is granted for an indefinite period. The lender can declare of cancellation of the contract on regular basis, notifying the borrower in advance 5 (five) days, except for if SmartCap exercises its right on justified circumstances to require to have the loan converted to share capital. The borrower has a right to cancel the contract before the prescribed term, notifying the lender at least one (1) month beforehand. As the contractual terms provide SmartCap with substantial control over the time of returning or not returning of the money, the loan received is recognized in the "Other reserves" line.

SmartCap's retained earnings as of December 31, 2016 amounted to 1,050,728 euros. Payment of dividends to holders, an income tax expense of 20/80 of the net dividend paid amount is to be considered. Thus it is possible as of the balance sheet date to pay out of retained earnings 840,582 euros and the concurrent dividend tax would be 210,146 euros.

Note 7 Return on sales

(in euros)

	2016	2015
Sales revenue by geographical regions		
Sales to European Union Member States		
Estonia	930 717	955,207
Total sales to the European Union Member	930 717	955,207
Total return on sales	930 717	955,207
Return on sales by area of activity		
Fund management fee	757,842	757,842
Consulting services fee	172,875	197,365
Total return on sales	930 717	955,207

SmartCap's sales revenue is derived from:

- (a) Fees paid by SmartCap from Early Fund II for the administration of the contractual venture capital fund Early Fund II (see Note 10);
- (b) Fees paid by SmartCap to the Development Fund for the consultancy services. SmartCap provides consulting services to the Estonian Development Fund in connection with acquisitions, issues and disposals of securities (see also Note 10).

Note 8 Miscellaneous operating expenses

(in euros)

	2016	2015
Rent	19,130	15,616
Energy	6,470	1,557
Electricity	6,470	1,557
Miscellaneous office expenses	9,746	7,229
Mission expenses	13,329	37,537
Training expenses	5,250	3,581
National and local taxes	28,460	9,336
Services purchased	158,513	31,540
Procedure and supervision expenditure	31,380	4,714
Information and communication technology	13,427	9,067
Other expenses related to premises	0	1,883
Information and PR services	21,233	3,934
Miscellaneous	32,082	20,859
Total miscellaneous operating costs	339,020	146,853

In the accounting of coverage of the minimum own funds requirement of SmartCap, in addition to a variety of operating costs, also labour expenses and other operating expenses specified in the income statement are accounted as fixed overhead.

Note 9 Labour expenses

(in euros)

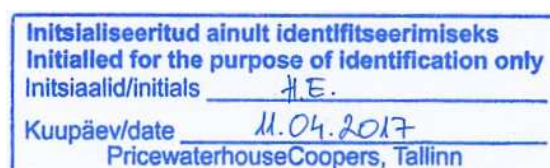
	2016	2015
Salary and wages	330,267	327,490
Social taxes	103,622	109,173
Total labour expenses	433,889	436,663
Average number of employees reduced to full time	5	5
Average number of employees by type of work:		
Persons employed under an employment contract	5	5
Persons providing services under the law of obligation, except for sole proprietors	2	4
Member of the managing or controlling body of	7	7

As for 31.12.2016 SmartCap had employed 5 full-time employees.

The total remuneration paid to employees was 222,880 euros (201,689 euros in 2015) (social tax not included). The total remuneration paid to the members of the Board of SmartCap was 56 thousand euros (96 thousand euros in 2015) (social tax not included). The total remuneration paid as legal debt agreements was in 2016 22 thousand euros. The total remuneration paid to the members of the Supervisory Board of SmartCap was 30 thousand euros (30 thousand euros in 2015) (social tax not included).

Note 10 Associated parties

(in euros)

**Balances by groups of related parties**

	31.12.2016		31.12.2015	
	Receivables	Liabilities	Receivables	Liabilities
Parent company	18,906	0	15,847	34,593
Early Fund II	63,513	0	76,994	0
Undertakings that are financial investment objects of Early Fund II	19,200	0	19,200	0

Purchases and sales

	2016		2015	
	Purchases	Sales	Purchases	Sales
Parent company	119,216	181,928	27,742	197,365

Remuneration and significant benefits calculated for executive and top management	2016	2015
Calculated remuneration	113,695	167,303

During the reporting period no discounts have been applied to the requirements against the associated parties.

SmartCap is paid management fees on behalf of Early Fund II for management of Early Fund II, comprised of a fixed fee and a success fee. During the reporting period, management fees totaled to 757,842 euros (2015: 757,842 euros)(see also Note 7).

As of 31.12.2016 the Early Fund II administration fee liability to SmartCap amounted 63,154 euros (31.12.2015: 63,154 euros) and other liabilities of Early Fund II to SmartCap amounted 359 euros (31.12.2015: 13,841 euros) (see Note 2).

As of 31.12.2016, the loan to the parent company amounted 140,000 euros (as of 31.12.2015: 140,000 euros) that is recognized in equity under "Other reserves" (see Note 6).

Upon premature termination of the contract of employment of a member of the board at the initiative of SmartCap, arises the liability for payment of severance pay in the amount equal to the payment of the member of the board within three months, except in cases where termination of the contract will be for good reason.

Note 11 Share Option Program

AS SmartCap Supervisory Board has confirmed the B-series shares option program ("Early Fund I") and C-Series share option program ("Early Fund II") terms. Options may be distributed to AS SmartCap investment team, an expert committee, the members of the Board and Supervisory Board (Note 6).

According to the option contracts concluded, the preference shares dividends paid depend on success fees that are paid to AS SmartCap Development Fund for counseling services and management of the venture capital fund "Early Fund II". Accounting Board guidelines do not specifically regulate recognition of option programmes. SmartCap does not recognize success fee as an asset because under the criteria of recognition assets it is not sufficiently resistant and can be reliably determined, so SmartCap's management estimates that it is not appropriate to reflect the respective potential expense resulting from the payment of dividends to the holders of preferred shares. From the foregoing, it is in essence an asset and liability, which depend on the Development Fund's investments and Early Fund II divestments of the results and SmartCap's management believes that it is fair and correct to recognize the income and expenses in the same period.

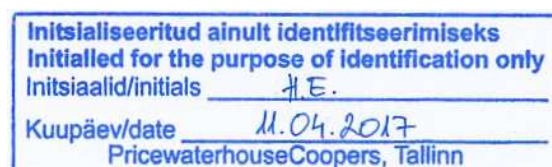
Note 12 Events after the balance day and going concern

On 27.01.2016, the Supervisory Board of the EDF approved a renewed investment strategy, according to which returned capital by the EDF investments will be invested into accelerator funds. In 2016 accelerators selection process was started, to be completed in 2017 in the form of a competitive dialogue¹ on the basis of the Public Procurement Act, where AS SmartCap and Fund KredEx act as joint contracting authorities.

At the beginning of 2017, SmartCap and the EDF started negotiations with representatives of Tera Ventures on the technical details of reorganization. The investment portfolio is expected to be transferred to a private fund management company in the first half of 2017, as resulting from the negotiations. Until the reorganization of the direct investment management, SmartCap's direct investments will continue to be managed in accordance with Early Fund II terms.

In the spring of 2016, the Economic Affairs Committee of Estonian Parliament concluded a principal decision to terminate the activities of EDF, to transfer monitoring activities to a new Foresight Centre to be created, and investment activities to Fund KredEx composition. On 29.06.2016 Estonian Parliament adopted the Foresight Act that terminates the activities of EDF from 29.06.2017. Transfer of investment activities of EDF into Fund KredEx composition takes place after conclusion of the

¹ <https://riigihanked.riik.ee/register/hange/178587>



contract with the private foundation manager, during the first half of 2017 at the latest. As resulting from the restructuring, AS SmartCap will become a subsidiary of Fund KredEx, which will continue implementation of the current investment strategy.

Regardless of the reorganization of the activities of EDF, including the transfer of SmartCap into Fund KredEx composition, the management estimates SmartCap as a continuously operating organization.

Signatures of the Management Board to the 2016 Annual Report

The 2016 Annual Report of SmartCap AS has approved on 10 April 2017 by:

/signed/
Fund Manager, Member of the Management Board
Sille Pettai

/signed/
Member of the Management Board
Mari Vavulski



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS SmartCap

Our opinion

In our opinion, the abridged financial statements present fairly, in all material respects, the financial position of AS SmartCap (the Company) as at 31 December 2016, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Estonia.

We audited the Company's abridged financial statements that comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended; and
- the notes to the abridged financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the abridged financial statements* section of our report.

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of 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 will 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.



Other information

The Management Board is responsible for the other information contained in the annual report in addition to the abridged financial statements and our auditor's report thereon.

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

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

Responsibilities of the Management Board and those charged with governance for the abridged financial statements

The Management Board is responsible for the preparation and fair presentation of the abridged 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 abridged financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the abridged financial statements

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

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

- Identify and assess the risks of material misstatement of the abridged financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the abridged financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the abridged financial statements, including the disclosures, and whether the abridged financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's certificate no.287

/signed/

Verner Uiibo
Auditor's certificate no.568

11 April 2017

** 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.*