



AS Avaron Asset Management

**ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED ON
31 DECEMBER 2018**

Audited by KPMG

COMPANY FACTS

Beginning of the financial year	01/01/2018
End of the financial year	31/12/2018
Name of the Company	AS Avaron Asset Management
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Main activity	Management of investment funds (EMTAK 66301) Portfolio management services (EMTAK 66199)
Sworn auditor	KPMG Baltics OÜ (reg. no. 10096082)
Documents enclosed with the annual report	Sworn Auditor's Report Proposal for Profit Distribution Division of revenues in accordance with EMTAK classification standard

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MANAGEMENT REPORT

General Information

AS Avaron Asset Management (hereafter: “Avaron” or “Company”) is an independent asset management company that was established in 2007. **Our core activity involves investing the assets of our mutual funds and institutional investor managed accounts into Central and Eastern European listed equities.** We create additional **value to our clients by applying active value investing principles while also adhering to the UN Principals of Responsible Investment.** As at the end of 2018 Avaron managed 386 million euros of investor assets. The firm employs 20 investment and finance specialists.

Avaron holds a licence from the Estonian Financial Supervision Authority to manage investment portfolios and funds. Avaron is also a registered Investment Advisor with the US Securities and Exchange Commission (SEC).

Description of the Business Model

Avaron is mainly focused on offering institutional investors the opportunity to invest part of their emerging markets portfolio into Central and Eastern European listed equities. An investor can achieve this by either investing directly into mutual funds managed by Avaron or by giving us a managed account to invest the assets directly. Today Avaron manages two mutual funds domiciled in Estonia which are open to any investor that has a European bank account. Avaron Emerging Europe Fund, targeted to institutional investors, is focused on Emerging European (ex-Russia) listed equities. The fund is a UCITS-V fund and registered for public sale in Estonia, France, Switzerland, Germany, United Kingdom, Finland, Sweden and Latvia. Avaron Flexible Strategies Fund, targeted to high-net worth investors in Estonia, and is an asset allocation fund that combines investments in listed equities and bonds globally with current focus on Emerging Europe cum-Russia region. In our institutional investors’ managed accounts, we mainly focus on Central and Eastern European listed equity investments. Our managed accounts are all tailor-made with focus on Emerging Europe ex-Russia and Emerging Europe cum-Russia region. At the end of the year the assets of Avaron Emerging Europe Fund amounted to 61 million euros and Avaron Flexible Strategies Fund to 10 million euros. Total assets under management amounted to 386 million euros.

Avaron focuses on Emerging Europe listed equity asset class with an objective to deliver positive risk-adjusted return to our clients over the market cycle. Our investment region encompasses 15 Emerging Europe countries. Today most of our investments are made into listed companies in Poland, Hungary, the Czech Republic, Romania, Turkey, Russia, Estonia, Austria, Slovenia and Croatia. Our team’s more than 10 years of experience in the region has given us extensive knowledge about the public companies and countries we are active in. Our eleven-person investment team analyses 260 listed companies, researches their business models, assesses their corporate governance and evaluates their development plans. For all the companies under our coverage we establish our own target price based on our internal financial model and estimates. As such our investment decisions rely solely on in-house research. We aim to deliver alpha to our investors by constructing a portfolio of companies that maximises the aggregate upside to internally set target prices of individual companies in our investment universe taking into account the quality and ESG profile of a company, liquidity of an instrument and where relevant, also FX outlook. Based on our research we discover the 50-60 most attractive investment opportunities where we make an investment in. Each fund or managed account is invested in 15-45 different instruments. At the end of 2018 we were invested in 51 different stocks and held 13 different bonds across all Avaron run funds and portfolios.

Avaron funds and our institutional clients pay us an annual management fee based on the value of assets under management and we are also entitled to earn performance fees if we outperform the set

benchmark. Both the management and performance fee rates and terms can be found in the respective fund's prospectus and are also available on our webpage. The fees agreed upon with institutional investors are confidential. The Company's financial success mainly depends on the amount of assets under management and return of the assets managed, which underpins the performance fees and long-lasting client relationship.

Investment Philosophy: Value Investing, Stock-Picking and Responsible Investing

Our investment philosophy is based on value investing principles. Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process **we put strong emphasis on company quality that is assessed by using an internal Quality Score** focusing on management team and business model quality, and financial strength of the company. Besides conventional financial and non-financial aspects **we have integrated ESG (environmental, social, governance) analysis into our investment process leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities.** Our investment team has been following vast majority of our current listed equity universe for a decade, which serves as an important strength in assessing the companies' future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather to educate our research team and develop the knowhow in-house.

Avaron Goals and Values

Avaron's mission is to be the most suitable partner for institutional investors catering for their needs in investing into Emerging Europe listed equities. Avaron's main objective is to offer our investors positive risk weighted long-term return through value based and responsible investing. To achieve this, we adhere to our investment style and process, respectively value investing and fundamental analysis, which deliver bottom up stock picks to the portfolios. Avaron's investment team has a key role in achieving our objective and this is why the Investment Managers and key employees are also Avaron's shareholders. The Company's Investment Managers have worked at Avaron since its launch in 2007, while the three senior analysts' employment extends from 8-12 years.

Avaron's second key objective is to offer its employees opportunities for personal growth and its third key goal is to increase the Company's worth via creation of value to its shareholders. We have invested and continue to invest considerable resources into our employees. Today our investment team consisting of 11 investment specialists (2 Investment Managers, 3 Senior Analysts, 5 Analysts and 1 Trader) is one of the largest teams dedicated to Emerging Europe region stock analysis. We have invested a lot also into support team (Back-Office) and compliance function over the past five years, including building up back-up functions inside the teams. In parallel with its fast growth the Company has also dedicated significant resources to IT systems to further enhance operational efficiency and improve risk management processes.

Avaron has a strong corporate culture with passion for investing, diligence and flexibility. Passion for investing is a key characteristic we look for during our employee selection process as we consider it to be

essential for self-development and long-lasting job satisfaction. It also serves as an important driver in our search for attractive investment ideas. Diligence is key to delivering strong investment returns, a measure of quality of our work. In small sized organizations self-motivation and efficiency together with perseverance are important in successfully working towards our goals. Alongside that flexibility, both towards clients and employees, is essential in building mutually beneficial professional relationships. We believe that no problem exists without a solution.

Sustainability at Avaron

Avaron as a company is committed to sustainable business practices, which are embedded into our corporate identity. We review sustainability under the categories of People, Community, Environment and Investing. **Avaron as a company can leave the most significant footprint of its activities by investing into companies that follow ESG principles, i.e. care for the environment, pay attention to social aspects and follow corporate governance principles in their activities.** Details of these topics are available in [Avaron Sustainability Report 2018](#) publicly available at our website.

In 2018 we put significant efforts on further developing Responsible Investing area in-house by launching ESG Score and new Responsible Investment and Voting Policies ([Responsible Investment Policy](#), [Voting Policy](#)). We developed in-house ESG Score that became part of our company quality analysis tool to enable to assess the ESG performance of companies in our investment universe. Although third-party service providers are available for ESG analysis, we decided to internalise the ESG research processes as in order to be successful in constructing bottom-up portfolios our investment team needs to have a comprehensive understanding of the business models including ESG issues, i.e. environmental aspects, social and supply chain related aspects and corporate governance related aspects. We introduced new Responsible Investment and Voting Policies that came into force in February 2019. New policies are in more detail specifying responsible investing processes at the Company.

One way Avaron manages and protects the value of its clients' investments is via being an active owner, exercising the shareholder rights and engaging with managements of the listed companies. In 2018 we significantly increased communication with company managements, including one-on-one meetings and calls and group conference calls, which totalled 632 (558 in 2017). We also boosted our voting activity at shareholders' meetings by participating in 67 shareholder meetings in 2018 and voting on 656 resolutions (16 and 158 in 2017). We also engaged with several companies of our investment universe to improve corporate governance and company transparency. Detailed overview of these activities is found in [Avaron Sustainability Report 2018](#) available on our website.

In 2018 we decided to participate in several collaborative engagements to address the issue of limited carbon emission data disclosure among Emerging European listed companies. Namely we joined: Climate Action 100+, PRI-coordinated engagement on climate change transition for oil and gas, and 2018 Carbon Disclosure Project Non-Discloser Campaign.

Since 2017 Avaron is a member of the Responsible Business Forum in Estonia, a non-profit organization with an aim to inspire and support furthering corporate social responsibility (CSR) in Estonian society through being the centre of competence building and communication on CSR. In 2017 we participated for the first time in Estonian Responsible Business Index and received the highest gold level quality label that is valid for two years. The Index aims at assisting Estonian companies to define, evaluate and monitor their economic, social and environmental impact. The quality label is given to organizations that show high performance and systematic approach in responsible activities towards local community, environment, workplace and marketplace. We scored the highest among the small enterprises, proving that our efforts in adopting responsible business and investment practices are bearing fruit. In 2019 we will follow through with the process of renewing our quality label.

In 2018 Avaron was nominated among the three best companies in the category of Responsible Enterprise of the Year by the City of Tallinn.

We encourage our staff to take an active role in the community for the benefit of both our business and society. In this we put emphasis on education and youth development. Since 2014 our staff has been participating in the [Back to School](#) initiative as guest teachers. "Back to School" initiative has the objective to strengthen the cooperation between Estonian schools and the rest of the society by inviting guest teachers to schools to carry out lessons and share their experience. In December 2018 we also made a €3,000 donation to the initiative instead of sending out Christmas cards to our clients and business partners.

In an effort to support Estonian social start-up projects our investment team participated at the mentoring day of Estonian incubator for social enterprises called [NULA](#) in summer 2018. NULA incubator aims to provide support for projects or enterprises that are focusing on solving problems with material social impact. For the seven ideas that were being developed in the incubator our team provided support in establishing potential income streams, attaching relevant costs to the activities planned to be undertaken and in financial modelling. It was a unique experience for our team members to brainstorm and analyse non-profit oriented business models, and help them move forward by sharing our financial analysis expertise.

During 2017-2020 Avaron backs the foundation [Youth to Olympics](#) that is dedicated to supporting 18-25 year old Estonian athletes in their pursuit of excellence. During the four years Avaron contributes €40,000 to the foundation. "Youth to Olympics" provides long-term support to prospective young Estonian athletes that have the potential to become ambassadors of active lifestyle for the whole Estonian society and youth in particular. Avaron Partner Valdur Jaht is the founder of the Youth to Olympics foundation.

Remuneration

The remuneration principles of Management Board members, investment managers and risk-takers are set in the Company's Remuneration Policy. All Avaron employees receive a fixed salary. Employee bonuses depend on the fulfilment of Avaron's long-term goals, the Company's sustainability and employees' personal contribution, and are not linked to the return of portfolios managed by the Company. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. All bonuses are paid out during four years with annual payment of 40%-20%-20%-20% each year. Management Board members and risk-takers can be paid a severance which cannot exceed 6-month salary.

Ownership, Company and Management Structure

Avaron is fully owned by its employees and the Company has no institutional or outside investors.

82.41% of Avaron belongs to OÜ Avaron Partners, which is owned and its final beneficiaries are Kristel Kivinurm-Priisalm (CEO/COO), Peter Priisalm (co-CIO), Valdur Jaht (co-CIO) and Maris Jaht. 33.33% of Avaron Partners shares belong to Drusba Investments OÜ, which is equally owned by Valdur Jaht and his wife Maris Jaht (not active in the Company). 66.67% of OÜ Avaron Partners belongs to OÜ Princo, which is equally owned by Kristel Kivinurm-Priisalm and Peter Priisalm. 17.6% of the Company is owned by the senior research team - Rain Leesi (Head of Research and Trading, CFA, 6.85%), Piotr Jurga (Senior Analyst, CFA, 5.86%) and Reino Pent (Senior Analyst, 4.88%).

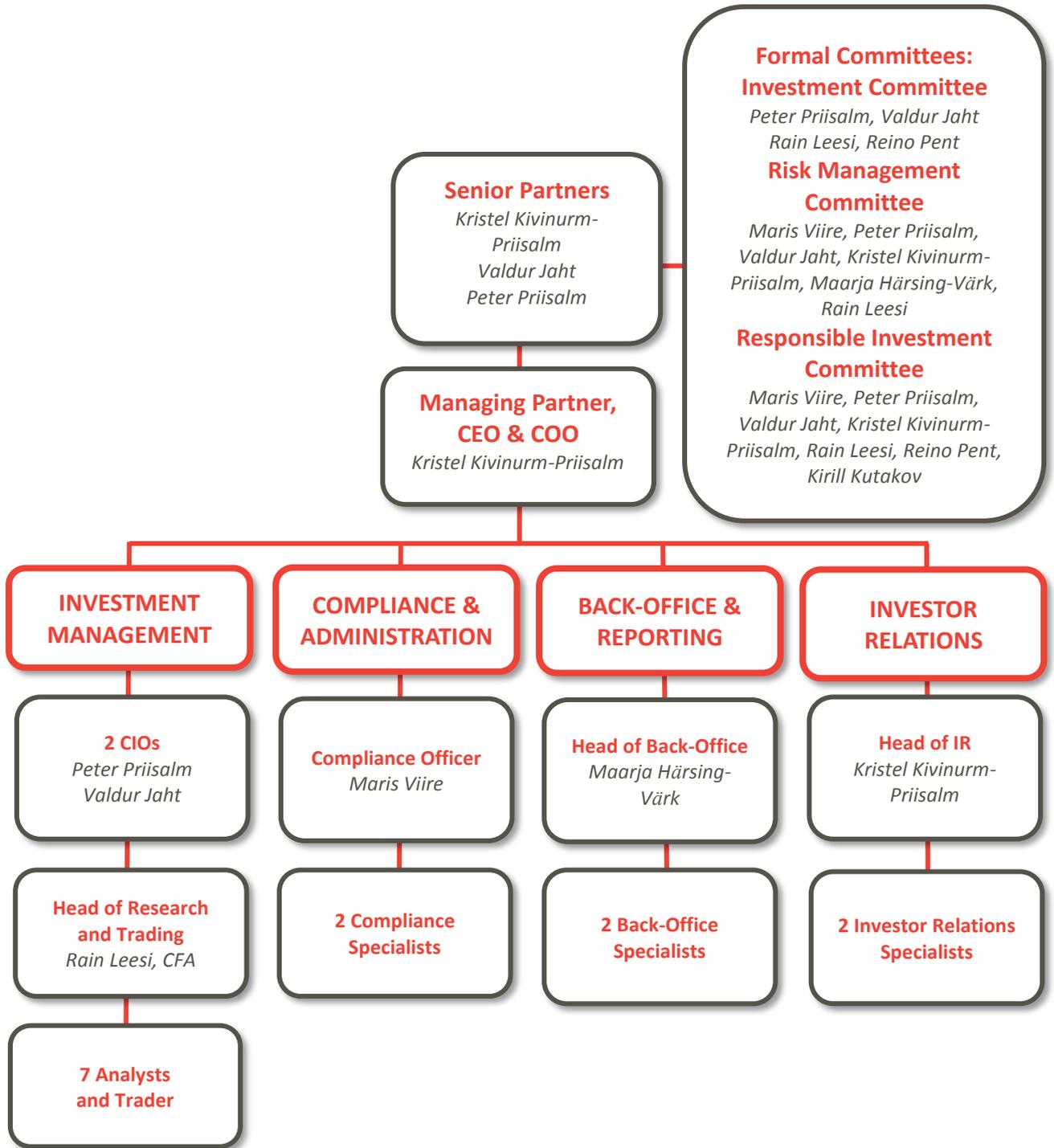
The Company's Supervisory Board consists of Peter Priisalm (Chairman), Maris Viire (Compliance Officer) and Priit Sander. Mr. Sander is an independent Supervisory Board member and has no other function in Avaron. The Management Board consists of Kristel Kivinurm-Priisalm and Valdur Jaht. The Company and

its Estonia domiciled funds are audited by KPMG. Internal audit of the Company and its Estonia domiciled funds is carried out by PwC. Compliance and risk control functions are internalised and are being carried out by an independent employee, the Company's Compliance Officer.

The Company functions as a partnership, which is being managed by the three partners: Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm. Kristel Kivinurm-Priisalm is the Managing Partner of the Company and acts as CEO and COO. She is responsible for general management, investor relations management and operations management. Valdur Jaht and Peter Priisalm are Partners and act as the Company's Investment Managers, who are responsible for the investments made by the funds and managed accounts as well as the smooth running of the investment team's work. Over the years we have built strong middle management as well. Rain Leesi (at Avaron since 2007) acts as the Company's Head of Research and Trading and is responsible for the development and operations of the research team and trading function. Maarja Härsing-Värk (at Avaron since 2007) acts as Head of Back-Office and is responsible for day to day operations as well as development of the back-office function. Maris Viire (at Avaron since 2014) is the Company's Compliance Officer and Head of Administration. She is responsible for compliance and risk management function of Avaron-run funds and portfolios as well as Avaron group companies.

Avaron has established three committees to guide its business activities and risk management. Investment Committee is the main body to manage and oversee Avaron's investment funds' and managed accounts' investment decision-making and portfolios' risk management. Risk Management Committee performs an oversight function of the risk management, determines the Company's risk appetite and tolerance as well as ensures that risk assessments are performed regularly. Responsible Investment Committee steers the implementation of the Responsible Investment Policy framework within the Company.

Figure 1. Structure of the Company



Risk Management

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

The most significant operational risks are related to Avaron's personnel. Due to this we have divided everyday operations into core and non-core activities. Core activities are carried out by Avaron employees while the non-core activities that would create significant personnel related risks or require substantial investments have been, when possible, outsourced to respective professionals. Avaron has outsourced the fund administration, transfer agent and custody functions of investment funds and portfolios to blue chip banking groups, and IT services to a blue chip IT and telecom group. Our core and non-core operational risks are mainly managed through rigorous staff selection and training together with detailed procedural guidelines and policies as well as IT systems. Our activities are insured by a policy for investment management activities and crime insurance.

We have built up our business processes in such a manner that the main business risks would be managed, this includes the monitoring of rights, existence of substitutes and alternative solutions, diligent selection and continuous evaluation of clients and partners, regular testing of the Business Continuity Plan. We apply four-eye principle in concluding transactions. The Company's employees must report all personal interests and financial transactions, including all securities transactions. For trading and investment risk management and operations risk management we have built in-house trade order management system TOM.

Operating environment in 2018 and outlook for 2019

The operating environment contains three critical elements for Avaron. Firstly, how our target investors allocate their funds globally, including which asset classes and which geographic regions they prefer. These preferences by and large depend on interest levels, global politics, economic outlook and asset valuations. During 2013-2017 the low interest rates in Europe and the US with recovering macroeconomic environment made investors keener to take risk, which was positive for Avaron as investors were more actively investing into Emerging Europe equities. In 2018, however, developed markets and global emerging markets saw negative performance and outflows from equities due to rising worries over global growth, tightening monetary policy in the US and Europe, increased protectionism and political uncertainty together with the implied peak of the global economic cycle and high valuation level of equities. Global equity index MSCI World ended the year down 10.4% in \$ terms (-6.2% in €), while Emerging Markets lost 16.6% in \$ (-12.7% in €). Equity prices in Emerging Europe ex-Russia region declined 18.6% in 2018. The before mentioned trends and decline in equity prices brought along outflows and decline of assets of Avaron Emerging Europe Fund and managed accounts. Due to relatively bearish view on equity valuations in Emerging Europe early 2018 we held larger cash buffers in Avaron Emerging Europe Fund and in products this was allowed to and were able to beat the market in Avaron Emerging Europe Fund, total assets under management of the Company still declined by 102 million euros (1/3 from outflows, 2/3 from equity price declines) to 386 million during the year.

Equity market and investor flow developments in 2019 are mainly dependent on the monetary policy actions of the Federal Reserve and ECB, consequences of the Brexit and Italy's fiscal situation, developments in global protectionism (especially the US vs. China) and the pace of global economic slowdown and corporate profit cycle. Moderation in global growth momentum that started in the second half of 2018 has become the consensus view for 2019. Recessionary scenarios have not yet gained much

traction among economists while based on the 2018 performance the equity markets seem to think otherwise. Global growth rate is expected to drop from 3.8% in 2018 to 3.5% amid trade tensions, tightening financial conditions and general belief that the economic cycle has reached the inflection point. At the same time we should still see continuing strength in domestic demand in a number of economies on the back of high employment levels, rising wages and lower energy prices. Inflation in most advanced economies is expected to further pick up but will remain below the central banks' targets in Japan and Eurozone. We expect monetary policy divergence to remain due to growth and inflation outlook differences between the US and Eurozone. All of the above will make 2019 a highly unpredictable and volatile year on the equity markets. Avaron Emerging Europe Fund and some of our managed accounts enjoy relatively large cash buffers, allowing us to take advantage of increased market volatility.

Secondly, our operating environment depends on how the Emerging Europe economic and political situations develop, in other words the general situation of the investment region. Economic slowdown in Eurozone, which carries great importance to Emerging Europe on tight trade links, is expected to continue going into 2019. Growth outlook in Emerging Europe has deteriorated since mid-2018 from the cyclical peak alongside with global softening but remains solid barring Greece and Turkey. For 2018 consensus expectations indicate a slowdown in Emerging Europe GDP growth from 5.0% to 3.7% and further to 2.7% in 2019 on expected short-term recession in Turkey. Ex-Turkey Emerging Europe economic growth is slowing down from 4.2% to 3.9% in 2018 and further to 3.2% in 2019. On top of slowdown in growth Emerging Europe is faced with increased political risk which became evident by the political crisis in Turkey and unexpected inception of new sector taxes in Romania.

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

Main Developments in 2018

In 2018 we continued to build and fine-tune the Company's business processes and operations with the aim to service our clients better and to further mitigate potential business risks.

- ❖ Over the year we continued to fine-tune and build modules for trade order management system TOM, launched in the summer of 2017, to further develop our risk management and back-office processes.
- ❖ The EU General Data Protection Regulation (EU 2016/679-GDPR) that came into force in spring 2018 did not have an immense effect on our activities as being a financial institution Avaron already fulfilled most of the requirements. Based on the new regulation we mainly complemented our operational processes of personnel management.
- ❖ At the beginning of 2018 the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and the amending Directive came into force which main aim was to make the financial services sector more transparent. Among the topics was also separation of brokerage fees asset managers paid to brokerage houses into separate fees for execution and for research. As investment decision-making at Avaron has always been based on in-house proprietary research conducted by our 11 member investment team and not based on third party research, we think this had a positive effect on Avaron investment funds' and managed accounts' investors as brokerage fees declined significantly in Emerging Europe equity markets. Although the Directive enables fund management companies to use Research Payment

Account, we do not use such account and bear all research related costs, both in-house and external, by the Company.

- ❖ In 2018 we continued to support the personal growth of our employees by continuous in-house training, involvement of employees into new processes and tasks, and lectures carried out by guest speakers. In 2018 we carried out learning sessions whereby employees of different departments introduced job-specific knowledge to other departments with the aim for all to better understand full company activities. For investment team members we continued to support and finance CFA training, a core training to become an outstanding analyst. In 2018 three junior analysts successfully passed CFA first level tests.
- ❖ As Avaron as a company has grown to 20 people, we continued to build our new employee on-boarding processes to smoothly integrate new employees to the Company.

Company Financial Results

Avaron fee income totalled 2.8 million euros (2017: 3.1 million euros) and net service income 1.9 million euros (2017: 2.1 million euros). The Company's net profit in 2018 was 0.8 million euros (2017: 1.0 million euros). The Company's total assets amount to 5.5 million euros (2017: 6.0 million euros) and decreased due to the dividend payment. In 2018 the General Meeting of Avaron decided to pay 1.3 million euros as dividends. The financial results during the 5 year period can be found in table 1.

Table 1. Avaron's financials

EUR '000	2014	2015	2016	2017	2018
Fee income	1,707	2,937	4,259	3,105	2,793
Net fee income	1,566	2,387	3,029	2,167	1,935
Expenses	797	894	756	823	794
Net profit	642	1,439	2,025	980	794
Total assets	3,188	4,763	7,010	6,061	5,512
Owners Equity	1,481	2,620	4,005	3,117	2,578
Assets under management	323,162	616,400	548,200	483,000	386,000

22 February 2019

Kristel Kivinurm-Priisalm

Member of the Management Board

MANAGEMENT BOARD DECLARATION

The Management Board is declaring its responsibility for the preparation of the annual accounts of AS Avaron Asset Management for the financial year ended on 31 December 2018.

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

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

The annual accounts reflect those significant circumstances that have an effect on the valuation of assets and liabilities until the preparation date of the annual accounts, 2 April 2019.

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

Name	Position	Signature	Date
Kristel Kivinurm-Priisalm	Member of the Management Board	/Signed digitally/	2 April 2019
Valdur Jaht	Member of the Management Board	/Signed digitally/	2 April 2019

FINANCIAL STATEMENTS**BALANCE SHEET**

EUR '000	Note	31/12/2018	31/12/2017
ASSETS			
Cash and cash equivalents	2	3,347	4,221
Short-term investments		200	-
Receivables and prepayments			
Trade receivables		431	549
Tax prepayments and receivables		25	18
Other receivables and prepayments	4	77	89
Total receivables and prepayments		533	656
Financial investments			
Bonds		492	158
Loan receivables	13	550	1,016
Units of own investment funds	13	378	-
Total financial investments		1,420	1,174
Tangible assets	3	12	10
TOTAL ASSETS		5,512	6,061
LIABILITIES AND SHAREHOLDERS' EQUITY			
Payables and prepayments			
Payable to employees	6	603	618
Tax payables	5	445	435
Other liabilities	7	1,886	1,891
Total payables and prepayments		2,934	2,944
Shareholders' equity			
Share capital in nominal value	10	272	272
Share premium		512	512
Statutory legal reserve		27	27
Retained earnings	9	973	1,326
Profit for the financial year	9	794	980
TOTAL SHAREHOLDERS' EQUITY		2,578	3,117
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,512	6,061

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KPMG, Tallinn

INCOME STATEMENT

EUR '000	Note	2018	2017
Fee income	11	2,793	3,105
Fee expense	11	858	938
Net fee income		1,935	2,167
Financial income and expenses			
Interest income		25	36
Interest expense		-31	-17
Change in value of financial investments		-8	13
Other financial income		-	71
Net financial income		-14	103
Operating expenses			
Wages and salaries	12	434	372
Social tax and unemployment insurance contribution expenses		142	122
Miscellaneous operating expenses		212	316
Total operating expenses		788	810
Depreciation and impairment of tangible assets	3	6	13
Profit before income tax		1,127	1,447
Income tax		333	467
Profit for the financial year		794	980

STATEMENT OF CASH FLOW

EUR '000	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the financial year		794	980
Adjustments:			
Depreciation and impairment of tangible assets	3	6	13
Interest income/-expense		6	-19
Change in value of financial investments		8	-13
Other financial income		-	-71
Income tax		333	467
Change in receivables and prepayments made		111	-63
Change in liabilities and prepayments collected		-41	-7
Total cash flow from operating activities		1,217	1,287
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of financial instruments		-926	-29
Sale of financial instruments		6	600
Acquisition of tangible assets	3	-7	-8
Loans given	13	-550	-1,000
Repayment of loans given	13	1,016	1,201
Interest received		36	41
Total cash flow from investing activities		-425	805
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		-1,333	-1,868
Income tax paid		-333	-467
Total cash flow from financing activities		-1,666	-2,335
Total cash flow		-874	-243
Cash and cash equivalents at beginning of period	2	4,221	4,464
Cash and cash equivalents at end of period	2	3,347	4,221

STATEMENT OF CHANGES IN EQUITY

EUR '000	Share capital	Share premium	Unregis- tered share premium	Statutory reserve capital	Retained earnings	Profit for the financial year	Total equity
31/12/2016	224	-	560	22	1,174	2,025	4,005
Distribution of profit	-	-	-	-	2,025	-2,025	-
Distributed dividends	-	-	-	-	-1,868	-	-1,868
Changes in reserve capital	-	-	-	5	-5	-	-
Share capital issued	48	512	-560	-	-	-	-
Profit for the financial year	-	-	-	-	-	980	980
31/12/2017	272	512	-	27	1,326	980	3,117
Distribution of profit	-	-	-	-	980	-980	-
Distributed dividends	-	-	-	-	-1,333	-	-1,333
Profit for the financial year	-	-	-	-	-	794	794
31/12/2018	272	512	-	27	973	794	2,578

Additional information on the share capital has been provided in Note 10.

NOTES TO THE ANNUAL ACCOUNTS

NOTE 1. ACCOUNTING POLICIES

The annual accounts of AS Avaron Asset Management for the financial year 2018 have been prepared according to the Investment Funds Act as supplemented by the Regulations by the Minister of Finance, and the Accounting Principles Generally Accepted in Estonia. The requirements of the Accounting Principles Generally Accepted in Estonia comply with the internationally acknowledged accounting and reporting principles, and are stipulated in the Estonian Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board. In accordance with Section 12-13 and 26-27 of Guideline No 2 of the Estonian Accounting Standards Board, the Company has adopted specially modified scheme of Income Statement and Balance Sheet that are better suited for presenting the operations of the Company as a fund management company. The Regulation of the Minister of Finance No 12 dated 5 February 2017 "Fund management company's Financial Supervisory Authority reports bases for preparations and presentation, and the requirements for reporting the fund management company's own funds" was adopted for the financial year 2018.

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

The principal accounting policies adopted are presented below.

Foreign currency transactions

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

Financial assets and financial liabilities

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

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

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

Financial instruments carried at fair value are re-valued on each reporting date. Change in fair value of financial assets and liabilities that are acquired for trading, as well as derivatives are recognised in the

income statement for the period. Changes in the value of other financial assets accounted for at fair value are recognised directly in equity as a revaluation reserve.

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

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

Trade receivables

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

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

Tangible assets

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

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

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

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

Impairment of assets

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

Financial assets

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

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

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

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

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

Tangible assets

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

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

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

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

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

Liabilities and obligations

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

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

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

Reserves

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

Revenue recognition

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

Interest income is recognised on accrual basis.

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

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

Leases

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

Cash and cash flows

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

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

Equity instruments

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

NOTE 2. CASH AND CASH EQUIVALENTS

Original currency, '000

		Exchange rate of the European Central Bank's % of Cash,			Exchange rate of the European Central Bank's % of Cash,	
	31/12/2018	used	converted	31/12/2017	used	converted
Current account EUR	1,652	1	49%	3,826	1	91%
Current account USD	1,935	1.145	51%	462	1.1993	9%
Current account PLN	20	4.3014	0%	41	4.177	0%
Total			100%			100%

NOTE 3. TANGIBLE ASSETS

EUR '000	IT and office equipment	Furniture and other equipment	Total
Acquisition cost			
31/12/2017	43	66	109
Addition	2	5	7
Write off	-	- 2	- 2
31/12/2018	45	69	114
Accumulated depreciation			
31/12/2017	36	63	99
Depreciation charge and impairment for the year	4	2	6
Accumulated depreciation of written off tangible assets	-	- 3	- 3
31/12/2018	40	62	102
Net book value			
31/12/2017	7	3	10
31/12/2018	5	7	12

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

EUR '000	31/12/2018	31/12/2017
Other prepaid expenses	40	53
Other receivables	35	21
Interest receivables and receivables similar to interest	2	14
Receivables from employees	-	1
Total	77	89

NOTE 5. TAX PAYABLES

EUR '000	31/12/2018	31/12/2017
Corporate income tax	421	415
Social tax	14	11
Personal income tax withheld	8	6
Unemployment insurance payables	1	1
Pension payables	1	1
Value added tax	-	1
Total	445	435

NOTE 6. PAYABLE TO EMPLOYEES

EUR '000	31/12/2018	31/12/2017
Accrued salaries and wages	8	6
Provisions for bonuses	576	603
Vacation reserve	18	9
Other liabilities to employees	1	-
Total	603	618

NOTE 7. OTHER LIABILITIES

EUR '000	31/12/2018	31/12/2017
Trade payables	126	13
Accrued expenses payable	75	218
Dividend payable	1,685	1,660
Total	1,886	1,891

NOTE 8. OPERATION LEASE

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

EUR '000

	31/12/2018	31/12/2017
Less than 1 year	18	21
Total payments from non-cancellable operating leases	18	21

Operating lease expense amounted to EUR 41 thousand (2017: EUR 38 thousand).

NOTE 9. CONTINGENT INCOME TAX ON DIVIDENDS AND OTHER DISTRIBUTIONS OF NET PROFIT

According to the effective Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on dividends and other distribution of profits as well as other payments made out of the equity of the legal entity that exceed the monetary and non-monetary contributions to the entity's share capital. Based on the effective law, resident legal entities are liable to pay income tax on all profit distributions paid out as dividends or in another form with a tax rate of 20/80 on the actual dividends paid. From 2019 onwards, a lower tax rate of up to 14/86 for companies making regular profit distributions will become available according to the effective Estonian Income Tax Act.

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

The Company's distributable retained earnings amounted to EUR 1,767 thousand as of 31 December 2018 (as of 31 December 2017: EUR 2,306 thousand). Consequently, the maximum possible tax liability which would become payable if retained earnings in gross were fully distributed is EUR 327 thousand (2017: EUR 461 thousand).

NOTE 10. SHARE CAPITAL

The Company's share capital amounted to EUR 271,383.30 as of 31 December 2018 (as of 31 December 2017: EUR 271,383.30), comprising of 3,500 ordinary shares and 747 preferred shares with nominal value of EUR 63.90 per share.

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

The shareholders of the Company are as follows:

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

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

Additional information on paid up capital instruments in the statement of own funds can be found in Note 14.

NOTE 11. FEE INCOME

EUR '000	2018	2017
Fee income		
Investment funds management fee	2,791	3,103
Portfolio management services and investment advisory services	2	2
Total fee income	2,793	3,105
Fee expense		
Other distribution and related fees	858	938
Total fee expense	858	938

NOTE 12. WAGES AND SALARIES

The remuneration principles of the Management Board members, investment managers and risk-takers are set in the Company's Remuneration Policy. The remuneration of the identified staff consists of fixed and variable remuneration. The total remuneration is based on local labour market conditions, and is designed so as to achieve a reasonable balance between the fixed and variable components of the salary.

Avaron's investment managers and risk-takers receive a fixed salary. Bonuses depend on Avaron's long-term goals, the Company's sustainability and employees' personal contribution. Bonuses are not linked to managed funds' hurdle return rates. For staff whose professional activities have a material impact on the risk profile of the Company, the variable component shall not exceed the fixed component of the remuneration. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. Avaron's investment managers and risk-takers can be paid a severance which cannot exceed 6-month salary. The full Remuneration Policy of AS Avaron Asset Management can be downloaded here www.avaron.com/documents.

The Company employed, on average, 19 specialists in 2018 (2017: 16 specialists). Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid, in total with applicable social tax EUR 5 thousand in the financial year 2018 (2017: EUR 5 thousand). Total remuneration amounted to:

EUR '000	2018	2017
Wages and salaries	434	372
Social tax and unemployment insurance contributions	142	122
Total	576	494
incl. bonus program cost with applicable taxes	26	26

NOTE 13. TRANSACTIONS WITH RELATED PARTIES

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

As of the end of the report period, OÜ Avaron Partners owns 82.41% of the Company's common shares. Additional information can be found in Note 10 regarding the issuance of preferred shares and new list of shareholders.

The transactions with related parties were as follows:

EUR '000	2018	2017
Parent company		
Interest income	9	26
Fees paid	756	792
Loans given	550	1,000
Repayment of loans given	-1,016	-1,201
Costs paid for other legal entities	27	29
Beneficiaries, executive and non-executive management and the related legal entities		
Shares, bonds, units bought	400	29
Shares, bonds, units sold	-	572
Management fees, performance fees, subscription and redemption fees of Avaron Estonia domiciled investment funds	1,024	980
Distribution fees and related fees for the management of funds and discretionary portfolios	10	55
Payments to members of management and control bodies, incl. social taxes	113	108
Total	1,873	2,390

The balances outstanding with related parties were as follows:

EUR '000	31/12/2018	31/12/2017
Parent company		
Loans given*	550	1,016
Other receivables and prepayments (accrued interest)	2	14
Accounts receivable	6	16
Supplier payables and customer prepayments	155	166
Dividend payables (present value)	1,685	1,660
Beneficiaries, executive and non-executive management and the related legal entities		
Units of Avaron Flexible Strategies Fund	378	-
Accounts receivable	1	-
Receivables from Avaron Estonia domiciled investment funds	66	130
Supplier payables and customer prepayments	2	15
Total	2,845	3,017

* Nominal currency EUR, interest rate 1.5%, with maturity 31 December 2019 (in the amount of 250,000 euros) and 31 December 2020 (in the amount of 300,000 euros).

NOTE 14. STATEMENT OF OWN FUNDS

EUR '000	Note	31/12/2018	31/12/2017
Own funds section			
Own funds		928	1,415
Tier 1 capital		928	1,415
Common equity Tier 1 capital		928	1,415
Capital instruments eligible as CET 1 capital		224	224
Paid up capital instruments	10	224	224
Retained earnings		973	1,326
Other reserves		22	22
CET 1 instruments of financial sector entities where the institution has no significant investment (-)		-291	-158
Minimum net own funds section			
Own funds		928	1,415
Minimum net own funds		206	189
Minimum own funds according to minimum amount of share capital		125	125
Minimum own funds according to fixed overheads		206	189
Excess of own funds (+)		722	1,226

SIGNATURES OF MANAGEMENT BOARD

To the Annual Report for the financial year ended on 31 December 2018

On 2 April 2019, the Management Board prepared the management report and the annual accounts of AS Avaron Asset Management together with the Management Board's proposal for profit distribution and the sworn auditor's report for the financial year ended 31 December 2018, and has presented them to the sole shareholder for approval.

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

Name	Position	Signature	Date
Kristel Kivinum-Priisalm	Member of the Management Board	/Signed digitally/	2 April 2019
Valdur Jaht	Member of the Management Board	/Signed digitally/	2 April 2019



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Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders of AS Avaron Asset Management

Opinion

We have audited the financial statements of AS Avaron Asset Management (the Company), which comprise the balance sheet as at 31 December 2018, the income statement, the statements of cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 14 to 27 present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Estonian financial reporting standard.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the activity report, but does not include the financial statements and our auditors' report thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Estonian financial reporting standard, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

/signature/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17

Tallinn

4 April 2019

PROPOSAL FOR DISTRIBUTION OF PROFIT

The Management Board of AS Avaron Asset Management proposes to distribute the net profit for the financial year ended on 31 December 2018 of EUR 794 thousand as follows:

To allocate to:

dividends

EUR 794 thousand

2 April 2019

/Signed digitally/
Kristel Kivinurm-Priisalm
Member of the Management Board

DIVISION OF REVENUES IN ACCORDANCE WITH EMTAK CLASSIFICATION STANDARD

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

EUR '000	2018	2017
66301 Management of investment funds	2,791	3,103
66199 Portfolio management services and investment advisory services	2	2
Total	2,793	3,105