

# **LHV Persian Gulf Fund**

**Annual Report 2011**

**(Translation of the Estonian original)**

**LHV Persian Gulf Fund****Annual Report****01.01.2011 – 31.12.2011**

<b>Fund name</b>	LHV Persian Gulf Fund
<b>Fund type</b>	Common fund
<b>Fund Managers</b>	Mikael Kvibäck, Joel Kukemelk
<b>Main activity</b>	Investment of fund assets, EMTAK 64301
<b>Legal address</b>	Tartu mnt. 2, Tallinn 10145
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<b>Fund Management company</b>	AS LHV Varahaldus
<b>Commercial Register no. of Fund Management Company</b>	10572453
<b>Manager of Fund Management Company</b>	Mihkel Oja
<b>Auditor</b>	AS PricewaterhouseCoopers

The annual report comprises the Fund's management report, financial statements and the independent auditor's report.

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## MANAGEMENT REPORT

LHV Persian Gulf Fund is a public open-end common investment fund founded by AS LHV Varahaldus on 10 January 2008. The Fund is in compliance with the EU Council directive 85/611/EEC and the legislation of the Republic of Estonia regarding UCITS. The Fund was registered with the Financial Supervisory Authority on 23 January 2008 and the Fund commenced investment activities on 5 March 2008.

The objective of the Fund's activities is long-term growth of the Fund's assets. The Fund invests in securities that are traded on regulated markets in countries located in the Arabian Peninsula and Persian Gulf region (mostly GCC (Gulf Cooperation Council) member states, including Bahrain, Oman, Qatar, Kuwait, the United Arab Emirates and Saudi Arabia).

The year 2011 was quite volatile for the GCC markets, starting off with the so-called "Arab Spring" events at the beginning of the year. We witnessed massive unrest in Egypt, Tunisia, Libya, Syria, Yemen and Morocco, and several dictators of these countries were overthrown by their own compatriots. The stock exchange of Egypt was closed at the beginning of January for almost two months and when it reopened, its stock market index EGX 30 dropped by almost 9% in the local currency. Due to the unrest, the cumulative loss of EGX 30 Index was 23% in the local currency and 30% in euros from the beginning of the year until the end of March. The GCC and Egypt's stock markets are normally strongly correlated, but the decline in the MSCI GCC ex Saudi Arabia Index fell by almost 12% in the same period.

In addition to the aforementioned events, the GCC markets were also inhibited by the Eurozone's credit crisis and the tensions between Iran and the Western world, which could destroy the hope for a still fragile economic recovery in the developed world, worsen the European economic recession and slow down the market growth in developing countries. As a countermeasure to the European Union's (EU) restrictive sanctions involving Iran's crude oil exports, the latter threatens to close the Strait of Hormuz which is used to transport crude oil and gas out of the Persian Gulf region. Due to the escalating tension, the oil price has continued to climb higher and higher: the price of WTI \$99 per barrel at the end of the year as compared to \$91 per barrel at the end of 2010, and the price of Brent was \$107 and \$95 per barrel, respectively.

Due to the increasing risk aversion, the fund's assets under management fell from EUR 5 million to EUR 4.3 million. The fund's rate of return was -2.3%, while the MSCI Global Equity Index by 4.3 %, the MSCI (Frontier) Emerging Markets Index fell by 16% and the MSCI GCC Countries ex Saudi Arabia Index fell by 9.3%, all in euro terms.

In March 2011 (which marks the 3rd year of operations for the fund), Morningstar LHV rated LVH Persian Gulf Fund for the first time. The first rating was 3 stars. However, it was reviewed in November and changed to 4 stars and thereafter, to 5 stars which is the highest rating. At the year-end 2011, the rating was lowered to 3 stars again, raised to 4 stars in January 2012 and to 5 stars in February. At the year-end 2011, Morningstar included LHV Persian Gulf Fund among the top 3% funds based on the results for 2011 in the category of "Africa and Middle East Equity".

At the beginning of the year, an estimated 9.5% of the fund's assets was held in cash (cash and cash equivalents), but at the year-end 2011, the fund's investments made up 99.3% of the fund's volume. During the year, the fund changed the geographical allocation of its positions, reducing the investments made in Qatar from 55.9% to 49.7% and increasing the investments in the United Arab Emirates (UAE) from 19.9% to 24.2% and the investments in Kuwait from 3.1% 6.8%. The trend of reducing the share of Qatar and increasing the share of the UAE continued in the first months of 2012. In December 2011, the fund made its first three

investments in Saudi Arabia. Although Saudi Arabia's stock market is actually closed to foreign investors, the fund still benefits from the stock market movements through the acquisition of proprietary notes (P-Notes). The counterparty in these transactions is Morgan Stanley. The investments in Saudi Arabia made up 6.5% of the fund's assets at the year-end 2011.

On a positive note, it is worth mentioning that the economies of GCC countries continued to grow at a fast pace, the profit growth of companies remained strong and the rising oil price provides funding for governments' ever-increasing capital expenditure programmes, such as construction of Qatar's new modern airport, to be opened at the end of 2012 and construction of the subway in its capital Doha, to be completed in 2013. Saudi Arabia plans to extend its railroad network from 1,200 kilometres to 7,000 kilometres by the end of 2015 and all 6 GCC countries should be connected to the modern railroad by the end of 2017 at the latest. The key catalysts for the increase in the share prices of the region in 2012 may be the inclusion of Qatar and the United Arab Emirates into the MSCI Developing Market Index, possible opening of Saudi Arabia's stock market to foreign investors, ongoing stabilisation of the real estate sector, strong growth of the tourism sector in the United Arab Emirates and reversal of the outflow of foreign capital from the GCC stock markets which we witnessed in 2011. The major risks in the region's stock market could be categorised as "unrest" and "geopolitical events", i.e. increasing tensions between the Western world and GCC's neighbouring countries Iran and Syria.

At the year-end, the fund's assets under management totalled EUR 4,268,806.

#### Comparison of Fund's return with MSCI indices of different regions\*

	NAV 31.12.2010	NAV 31.12.2011	Change in period
MSCI GCC countries index, excluding Saudi Arabia	549,027	498,108	-9,27%
<b>LHV Persian Gulf Fund</b>	<b>7,4893</b>	<b>7,3137</b>	<b>-2,34%</b>

\* in euros, according to the official daily price

Source: [www.msibarra.com](http://www.msibarra.com)

**SIGNATURES OF THE FUND MANAGEMENT COMPANY'S MANAGEMENT BOARD MEMBERS TO THE 2011 ANNUAL REPORT OF LHV PERSIAN GULF FUND**

The Fund Manager's AS LHV Varahaldus Management Board has prepared the 2011 Annual report of the Persian Gulf Fund, which comprise of management report, financial statements and independent auditor's report.

**Management Board of the Fund Management Company:**

**Mihkel Oja** / signed /  
Member of the Management Board

**Kerli Lõhmus** / signed /  
Member of the Management Board

Tallinn, 10.04.2012

## FINANCIAL STATEMENTS

## Balance sheet

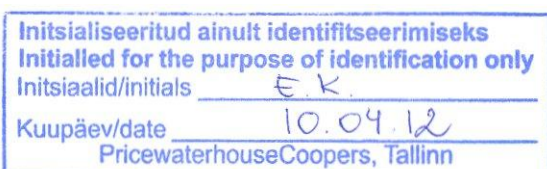
(in euros)

Assets	Note	31.12.2011	31.12.2010
<b>Securities</b>		<b>3 963 468</b>	<b>4 535 979</b>
Equities		3 952 452	4 347 430
Derivatives	4	11 016	188 549
<b>Deposits</b>		<b>197 782</b>	<b>436 879</b>
Cash and cash equivalents		197 782	257 372
Term deposits		0	179 507
<b>Other assets</b>		<b>107 556</b>	<b>15 940</b>
Accrued income	5	107 556	15 940
<b>Total assets</b>		<b>4 268 806</b>	<b>4 988 798</b>

## Liabilities and net assets

<b>Liabilities</b>		<b>11 591</b>	<b>13 848</b>
Liabilities to unit holders		1 058	1 065
Liabilities to Fund Management	6	6 505	10 381
Liabilities to depositary		4 028	2 402
<b>Fund's net assets' value (NAV)</b>	<b>3</b>	<b>4 257 215</b>	<b>4 974 950</b>
<b>Total liabilities and net assets</b>		<b>4 268 806</b>	<b>4 988 798</b>

The notes on pages 14-18 are an integral part of these financial statements.



**Statement of income and expenses***(in euros)*

	Note	2011	2010
<b>Net gain (loss) from investments</b>		<b>-15 232</b>	<b>825 825</b>
From equities		144 814	1 203 927
From derivatives		-160 705	-378 299
From deposits		659	197
<b>Other income</b>		<b>0</b>	<b>83 822</b>
Foreign exchange gain		0	83 822
<b>Total net gains (losses)</b>		<b>-15 232</b>	<b>909 707</b>
<b>Operating expenses</b>		<b>122 058</b>	<b>107 783</b>
Management fees	6	85 110	74 361
Depositary fees		25 922	22 625
Transaction fees	2	10 891	10 778
Other operating expenses		135	19
<b>Other expenses</b>		<b>14 633</b>	<b>0</b>
Foreign exchange loss		14 633	0
<b>Total expenses</b>		<b>136 691</b>	<b>107 783</b>
<b>Net result of the Fund</b>		<b>-151 923</b>	<b>801 924</b>

The notes on pages 14-18 are an integral part of these financial statements.

Initsialiseeritud ainult identifitseerimiseks Initialled for the purpose of identification only Initsiaalid/initials <u>    E.K.    </u> Kuupäev/date <u>    10.04.12    </u> PricewaterhouseCoopers, Tallinn
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**Statement of change in net assets***(in euros)*

	Note	2011	2010
1. Net assets of the Fund at the beginning of the period		4 974 950	4 205 909
2. Money received upon subscription of A units		2 705 012	3 271 849
Money received upon subscription of B units		89 937	42 837
3. Money paid upon redemption of A units		3 065 876	2 903 729
Money paid upon redemption of B units		294 885	443 840
<b>4. Net result of the Fund</b>		<b>-151 923</b>	<b>801 924</b>
5. Net assets of the Fund at the end of the period	3	4 257 215	4 974 950
6. Number of A units outstanding at the end of the period		447 894.91	486 792.97
Number of B units outstanding at the end of the period		210 000.19	277 657.19
<b>7. NAV of unit A at end of the reporting period</b>	3	<b>7.31</b>	<b>7.48</b>
<b>NAV of unit B at end of the reporting period</b>	3	<b>4.67</b>	<b>4.78</b>

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<b>Initsialiseeritud ainult identifitseerimiseks</b> <b>Initialled for the purpose of identification only</b> Initsiaalid/initials <u>    E.K.    </u> Kuupäev/date <u>    10.04.12    </u> PricewaterhouseCoopers, Tallinn
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## Statement of the Fund's investments as at 31.12.2011

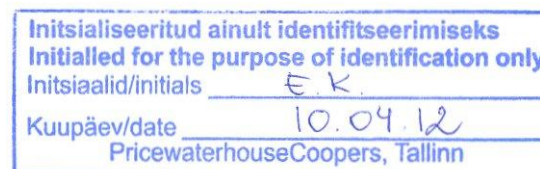
(in euros)

Issuer	Country of location	Quantity 31.12.2011	Average acquisition cost in currency	Currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2011 in currency	Total market value EUR*	Share in the market value of the Fund's assets
<b>1. Securities</b>					<b>4 304 811</b>		<b>3 963 468</b>	<b>92.85%</b>
<b>Equities</b>					<b>4 025 851</b>		<b>3 952 452</b>	<b>92.59%</b>
<b>Securities of the United Arab Emirates</b>					<b>1 432 359</b>		<b>1 029 610</b>	<b>24.12%</b>
	<b>UAE</b>							
Al-Dar Properties PJSC		370 000	0.63	USD	179 057	0.26	74 378	1.74%
Sorouh Real Estate Co		400 000	0.73	USD	226 817	0.23	71 130	1.66%
ARAMEX PJSC		309 510	0.42	USD	99 482	0.49	117 257	2.75%
National Bank of Abu Dhabi		95 898	3.28	USD	242 863	2.99	221 691	5.19%
First Gulf Bank		70 240	3.68	USD	199 978	4.18	227 001	5.32%
Union National Bank		250 000	1.33	USD	256 348	0.77	148 833	3.49%
Dana Gas Company		210 000	0.18	USD	29 318	0.12	19 484	0.46%
Emaar Properties Limited		285 000	0.90	USD	198 496	0.68	149 838	3.51%
<b>Securities of issuers of Qatar</b>					<b>1 748 341</b>		<b>2 115 357</b>	<b>49.55%</b>
	<b>Qatar</b>							
Qatar Fuel Company		6 250	36.75	USD	177 583	67.28	325 112	7.62%
Commercial Bank of Qatar		17 000	19.07	USD	250 646	23.15	304 276	7.13%
Doha Bank		11 000	11.12	USD	94 561	17.71	150 619	3.53%
Industries Qatar QSC		9 900	31.73	USD	242 843	36.94	282 748	6.62%
Qatar Electricity Water		4 700	34.73	USD	126 221	38.34	139 321	3.26%
Qatar Gas Transport Com Ltd		40 000	5.99	USD	185 337	4.82	149 064	3.49%
Qatar Insurance Company		7 300	16.71	USD	94 307	21.06	118 863	2.78%
Qatar Islamic Bank		11 000	24.42	USD	207 685	23.07	196 204	4.60%
Qatar National Bank		8 600	26.25	USD	174 571	42.02	279 397	6.54%
Qatar Telecom		5 650	44.55	USD	194 587	38.86	169 753	3.98%
<b>Securities of issuers of Kuwait</b>					<b>358 808</b>		<b>288 232</b>	<b>6.75%</b>
	<b>Kuwait</b>							
Nat Mobile Telecom		32 500	9.34	USD	234 632	6.96	174 888	4.10%
Burgan Bank		40 000	1.81	USD	55 935	1.69	52 265	1.22%
National Bank of Kuwait		20 000	4.41	USD	68 241	3.95	61 079	1.43%
<b>Securities of issuers of Oman</b>					<b>486 343</b>		<b>519 251</b>	<b>12.17%</b>
	<b>Oman</b>							
Bank Muscat SAOG		130 000	1.70	USD	170 838	1.98	199 009	4.66%
National Bank of Oman		190 000	0.90	USD	132 332	0.83	121 927	2.86%
Oman Telecom		75 000	3.16	USD	183 173	3.42	198 315	4.65%

\* Market value EUR includes accrued interest as at 31.12.2011.

The notes on pages 14-18 are an integral part of these financial statements.

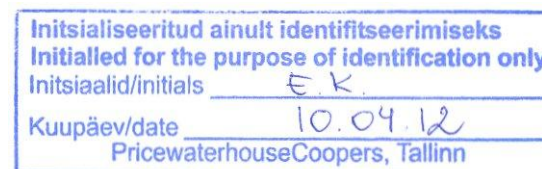
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Issuer	Country of location	Nominal value	Maturity date	Interest	Quantity 31.12.2011	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2011 in currency	Total market value EUR*	Share in the market value of the Fund's assets	
<b>Derivatives (Note 4)</b>									<b>11 016</b>	<b>0.26%</b>	
<b>Forwards and futures (currency derivatives)</b>		<b>Estonia</b>							<b>-265 155</b>	<b>-6.20%</b>	
Nordea Pank		1 057 645 EUR	18.01.2012					-79 765	-61 671	-1.44%	
Nordea Pank		2 010 192 EUR	27.04.2012					-248 031	-191 767	-4.49%	
Swedbank		1 000 000 EUR	19.03.2012					-8 543	-6 605	-0.15%	
Swedbank		125 000 EUR	19.03.2012					-6 612	-5 112	-0.12%	
<b>Warrants (rights for securities)</b>		<b>USA</b>							<b>278 960</b>	<b>276 171</b>	<b>6.46%</b>
Samba Financial Group			27.09.2013		10 000	12.49	USD	96 542	12.32	95 253	2.23%
Almarai			12.01.2015		4 500	26.58	USD	92 494	26.33	91 607	2.14%
Saudi Basic Industries			27.09.2013		4 500	25.85	USD	89 924	25.67	89 311	2.09%
<b>2. Deposits</b>		<b>Estonia</b>							<b>197 782</b>	<b>4.63%</b>	
<b>Settlement accounts</b>											
Swedbank				0.06-0.25%			EUR	56 484	56 484	1.32%	
Swedbank							USD	182 755	141 298	3.31%	
<b>3. Other assets (Note 5)</b>									<b>107 556</b>	<b>2.52%</b>	
Other receivables									107 556	2.52%	
<b>TOTAL</b>									<b>4 268 806</b>	<b>100%</b>	

\* Market value EUR includes accrued interest as at 31.12.2011.

The notes on pages 14-18 are an integral part of these financial statements.



## Statement of the Fund's investments as at 31.12.2010

(in euros)

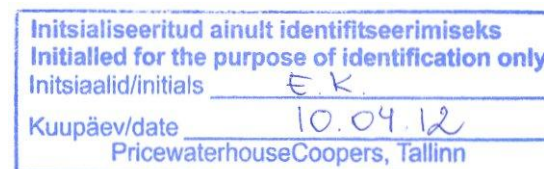
Issuer	Country of location	Quantity 31.12.2010	Average acquisition cost in currency	Currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2010 in currency	Total market value EUR**	Share in the market value of the Fund's assets
<b>1. Securities</b>					<b>3 747 860</b>		<b>4 535 979</b>	<b>90.92%</b>
<b>Equities</b>					<b>3 535 519</b>		<b>4 347 430</b>	<b>87.14%</b>
<b>Securities of the United Arab Emirates</b>					<b>977 079</b>		<b>990 975</b>	<b>19.86%</b>
	<b>UAE</b>							
First Gulf Bank		88 400	3,68	USD	243 284	4,97	328 566	6,58%
National Bank of Abu Dhabi		89 415	3,28	USD	219 330	3,20	213 981	4,29%
Sorouh Real Estate Co.		169 050	0,73	USD	92 289	0,44	55 627	1,12%
Union National Bank		159 060	1,33	USD	158 207	0,85	101 110	2,03%
ARAMEX PJSC		444 510	0,42	USD	139 620	0,57	189 483	3,79%
Al-Dar Properties PJSC		152 500	0,63	USD	71 850	0,62	70 709	1,42%
Arabtec Holding PJSC		78 000	0,90	USD	52 499	0,54	31 499	0,63%
<b>Securities of issuers of Qatar</b>					<b>2 068 945</b>		<b>2 780 320</b>	<b>55,73%</b>
	<b>Qatar</b>							
Qatar Insurance Company		11 447	16,71	USD	143 048	22,93	196 295	3,93%
Doha Bank		16 550	11,12	USD	137 631	17,85	220 928	4,43%
Qatar Islamic Bank		12 850	24,42	USD	234 673	22,11	212 474	4,26%
Qatar Fuel Company		10 100	36,75	USD	277 583	63,31	478 198	9,59%
Commercial Bank of Qatar		24 800	19,07	USD	353 685	25,27	468 674	9,39%
Qatar National Bank		12 364	26,25	USD	242 718	50,81	469 810	9,42%
Qatar Telecom		5 740	40,76	USD	174 969	49,08	210 684	4,22%
Qatar Electricity Water		2 850	34,73	USD	74 023	35,05	74 705	1,50%
Industries Qatar QSC		8 170	31,73	USD	193 868	37,90	231 566	4,64%
Qatar Gas Transport Com Ltd		52 850	5,99	USD	236 747	5,49	216 986	4,35%
<b>Securities of issuers of Oman</b>					<b>489 495</b>		<b>576 135</b>	<b>11,55%</b>
	<b>Oman</b>							
Bank Muscat SAOG		122 050	1,70	USD	155 168	2,50	228 187	4,57%
National Bank of Oman		173 000	0,90	USD	116 440	0,92	119 028	2,39%
Oman Telecom		92 200	3,16	USD	217 887	3,32	228 920	4,59%

\*Market value of securities is more than two decimals and includes accrued interest as at 31.12.2010.

\*\* Total market value EUR is the precise value of the security.

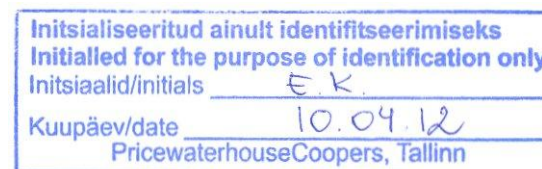
The notes on pages 14-18 are an integral part of these financial statements.

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Issuer	Country of location	Nominal value	Maturity date	Interest	Quantity 31.12.2010	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2010 in currency	Total market value EUR	Share in the market value of the Fund's assets	
<b>Derivatives (Note 4)</b>									<b>188 549</b>	<b>3,78%</b>	
<b>Forwards and futures (currency derivatives)</b>									<b>35 545</b>	<b>0,71%</b>	
	<b>Estonia</b>										
Swedbank		3 625 000 EUR	14.03.2011					38 342	28 674	0,57%	
Nordea Pank		1 000 000 EUR	18.01.2011					9 188	6 871	0,14%	
<b>Warrants (rights for securities)</b>									<b>153 004</b>	<b>3,07%</b>	
	<b>Luxembourg</b>						<b>212 341</b>				
Nat Mobile Telecom					30 400	9,34	USD	212 341	6,73	153 004	3,07%
<b>2. Deposits</b>									<b>436 879</b>	<b>8,76%</b>	
<b>Settlement accounts</b>											
Swedbank								12	1	0,00%	
Swedbank								186 529	186 529	3,74%	
Swedbank								94 728	70 842	1,42%	
<b>Deposits</b>											
Swedbank		240 000 USD	15.03.2011	0,27%				240 031	179 507	3,60%	
<b>3. Other assets (Note 5)</b>									<b>15 940</b>	<b>0,32%</b>	
Other receivables									15 940	0,32%	
<b>TOTAL</b>									<b>4 988 798</b>	<b>100%</b>	

\*Swedbank EEK and EUR settlement accounts' annual interest rate was until 07.01.2010 0,2% and 0,1% during 08.01-31.12.2010.



## Notes to financial statements

### Note 1 Accounting policies and valuation methods used in preparing the financial statements

#### General Principles

The financial statements of LHV Persian Gulf Fund have been prepared in accordance with the Investment Funds Act and the requirements of the Accounting Act applicable to investment funds, the Investment Funds Act and corresponding regulations of the Minister of Finance and based on the generally accepted accounting principles and good accounting practices.

These financial statements reflect the economic activities of the Fund in the period from 01.01.2011 to 31.12.2011.

The amounts shown in these financial statements are presented in euros.

These financial statements have been approved by the Management Board on 10 April 2012.

On 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as its national currency, replacing the Estonian kroon. Consequently, starting from 1 January 2011, LHV Persian Gulf Fund functional currency is the euro and annual reports of 2011 and following years submitted to the Financial Supervisory Authority are presented in euros. In the financial statements, the comparatives have been translated from the Estonian kroons into euros using the conversion rate EUR 1 = EEK 15.6466. As this exchange rate was also the fixed exchange rate prevailing in previous periods, no currency translation differences arose.

#### Foreign currency transactions

Foreign currencies are all currencies other than the euros. Assets and liabilities denominated in a foreign currency at the balance sheet date have been revalued into euros on the basis of the purchase (bid) exchange rates for transfers prevailing at depositary bank Swedbank as at the moment of valuation. Gains and losses on foreign currency transactions are recognised in the statement of income and expenses as income and expenses for the period.

#### Principles for recognition of investments of the Fund

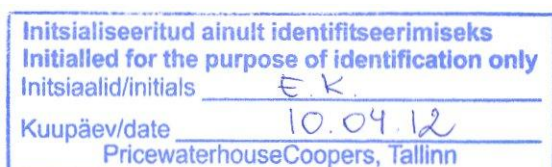
Deposits include the Fund's settlement account balances and term deposits. Accrued, but unpaid interest on deposits is recognised together with the principal of the deposit,

For the purposes of these financial statements, securities include the securities specified in section 255 of the Investment Funds Act, which are shares, fund units, bonds.

Securities are carried at cost at the transaction date which also includes direct transaction expenses (commissions).

The value of investments is determined based on the prudence principle. The investment fund daily revalues its assets and liabilities to market price. Unrealised profits and losses resulting from revaluation are recognised in the corresponding line item "Net gain (loss) on investments" in the statement of income and expenses. The gains and losses upon disposal of securities are accounted for under the FIFO method and they are included within the item "Net gain (loss) on investments" in the statement of income and expenses.

The market value of securities listed on stock exchanges is determined on the basis of the closing price at the end of the balance sheet date. The market price of securities not listed on stock exchanges is determined on the basis of their last available transaction price, best available purchase price or cost or, alternatively, their cost is adjusted so that the value of securities would be as precisely as possible equal to the probable sales price. If the market price cannot be determined reliably, investments in shares are recognised at cost. The value of the unit or share constituting the assets of the investment fund is its last known net asset value (NAV) or



its redemption price if the transaction were to occur at the redemption price which is lower than the net asset value. If the net asset value or redemption price is unavailable, the value of the unit or share is its last published net asset value or the redemption price. If it involves the so-called interest-paying units of contractual investment fund, whose net value is generally kept constant, the income calculated for the fund units and subject to payment is recognised daily as the Fund's income or expense.

Bonds and other money market instruments are valued according to their market value. Valuation is based on prices at which the instruments are tradable on stock exchanges and other internationally recognised securities markets. Purchase and sales quotations are accounted for on the basis of prices of at least two market-makers. Bonds that are listed on a stock exchange, but are not actively traded have been valued according to the current possible sales price in the market. The market price of a bond also includes accrued interest. If the sales price cannot be determined reliably, bonds are valued at amortised cost based on the effective interest rate.

### Derivatives

Derivatives (forward or swap contracts, warrants) are recognised at their fair value as assets or liabilities in the balance sheet. Gains and losses on derivatives are recognised in the statement of income and expenses as income and expenses for the period.

### Dividends

Dividends are initially recognised at the date at which shares are traded ex-dividend (ex-dividends date), considering the dividend rate declared, the number of shares held by the Fund at the date of fixing the list of shareholders and the applicable tax rate. Dividends are removed from assets when the respective amount is collected by the Fund. Overpaid dividends are included within assets until the amounts are collected by the Fund.

### Accrued Income

Accrued income generally includes dividends receivable (see the accounting policy "Dividends"), accrued but uncollected income, incl. interest and receivables with interest features, and sales transactions whose settlement date is later than the balance sheet date.

### Calculation of net asset value of the investment fund

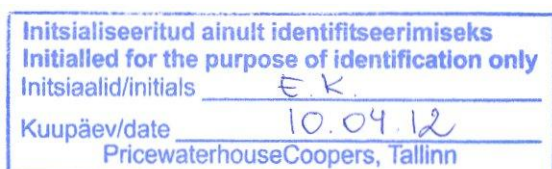
The Fund's net asset value (NAV) is determined on the basis of the Investment Funds Act, the procedure for determination of net asset value of investment funds established by the Minister of Finance, internal procedure rules of AS LHV Varahaldus (Fund Management Company), and the terms and conditions of the Fund.

To determine the Fund's net assets' value (NAV), the market value of total assets of the Fund is calculated from which the liabilities of the Fund are deducted. The NAV of the unit is calculated by dividing the total NAV by the number of units outstanding. For calculating the NAV of an A-unit, the share of the NAV of the fund attributable to the holders of A-units is calculated and divided by the number of A-units. For calculating the NAV of a B-unit, the share of the NAV of the fund attributable to the holders of B-units is calculated and divided by the number of B-units.

The Fund has two types of units. A-units are called LHV Persian Gulf Fund A, with nominal value of 10 euros and B-units are called LHV Persian Gulf Fund B, with nominal value of 6,39 euros. The register for A-units is held by AS LHV Pank, B-units are registered in Estonian Central Register for Securities that is held by AS Eesti Väärtpaberikeskus.

### Income and expenses

Income and expenses are accounted for using the accrual basis of accounting. Interest income and dividend income is recognised when it is probable that the income will flow to the Fund and the amount of the income can be measured reliably. Interest income is recognised using the effective interest rate. Dividend income is recognised when the owner becomes legally entitled to receive it.



### Management fee

The management fee is a fee payable to the Fund Management Company for the management of the Fund. The annual rate of the management fee is 1,75% of the Fund's Net assets' market value. The management fee is deducted from the Fund's net assets' value on a daily basis and is paid at the last banking day of a month following the reporting month at the latest.

### Depository charge

The depository's charge of LHV Persian Gulf Fund (including VAT) is 0,45% per annum on the market value of the fund's assets. The depository's charge is deducted from the market value of the fund's assets on a daily basis and is paid in the month following the month of reporting.

### Transaction fees

In the statement of income and expenses, transactions fees include settlement expenses and service fees directly related to transactions made on account of the Fund.

### Payments to unit holders, subscription and redemption fee

The maximum subscription fee for units is 2% and the maximum redemption fee is 1% of the NAV of the unit. These fees are to be paid to the Fund Management Company on account of the unit holder that acquired or redeemed the unit. Subscription for and redemption of units takes place according to the terms and conditions established in the prospectus.

### Financial liabilities

Financial liabilities (liabilities to Fund Management Company and to depository, other liabilities) are initially recognised at cost, including costs directly related to the acquisition. They are subsequently measured at amortised cost (except for financial liabilities incurred for the purpose of repurchasing and derivative financial instruments with negative fair value which are measured at their fair value).

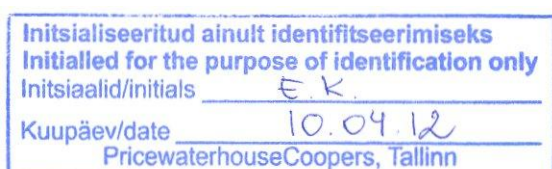
The amortised cost of current financial liabilities generally equals their nominal value therefore current financial liabilities are carried in the balance sheet in their redemption value.

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

### Note 2 Statement of commissions

	Commission paid for the buying and selling transactions of securities in Tallinn Stock Exchange	Commission for buying other securities traded in Estonia	Commission for making transactions in securities on foreign stock exchanges or in OTC securities	Total
<b>Intermediary: Swedbank</b>				
Number of transactions	-	-	135	135
Volume of transactions	-	-	6 957 942	6 957 942
Total commissions	-	-	20 886	20 886
Weighted average commission %	-	-	0.30%	0.30%

Commissions of 10 891 euros are included in the operating expenses of the reporting period according to invoices submitted by the depository and 9 995 euros account for fees charged by the intermediary at the moment of the transaction and are therefore included in the cost of securities.





**Commissions 31.12.2010**

<b>Intermediary: Swedbank</b>	Commission paid for the buying and selling transactions of securities in Tallinn Stock Exchange	Commission for buying other securities traded in Estonia	Commission for making transactions in securities on foreign stock exchanges or in OTC securities	Total
Number of transactions	-	-	128	128
Volume of transactions	-	-	3 835 578	3 835 578
Total commissions	-	-	21 117	21 117
Weighted average commission %	-	-	0,55%	0,55%

Commissions of 10 778 euros are included in the operating expenses of the reporting period according to invoices submitted by the depository and 10 339 euros account for fees charged by the intermediary at the moment of the transaction and are therefore included in the cost of securities.

**Note 3 Statement of comparison of the Fund's net assets' value**

Beginning of activities: January 2008.

	Value of Fund's net assets	NAV of unit A	NAV of unit B
31.12.2008	3 437 768	5,59	3,57
31.12.2009	4 205 909	6,23	3,98
31.12.2010	4 974 950	7,49	6,23
31.12.2011	4 257 215	7,31	4,67

**Note 4 Derivatives****Purchase rights of equities (as at 31.12.2011)**

Type of instrument / Name of underlying asset	Underlying asset Quantity (ps)	Market value	
		Per unit	Total EUR
Samba Financial Group	10 000	12.32 USD	95 253
Almarai	4 500	26.33 USD	91 607
Saudi Basic Industries	4 500	25.67 USD	89 311
<b>TOTAL</b>			<b>276 171</b>

The counterparty in all three derivative transactions is Morgan Stanley & Co. International plc (USA). Derivative instruments follow the price movements of their underlying assets (specific equity) and the instrument's value moves in tandem with the movements in the underlying asset. If the underlying asset pays dividends, they will also be paid to the fund. Derivative instruments have a due date, but once it arrives, they may automatically be rolled over commission-free to a new, extended period (if the fund does not wish to settle the derivative instrument).

**Foreign currency derivatives (as at 31.12.2011)**

Type of instrument	Issuer of Instrument	Underlying asset name and amount	Exercise date of transaction	Exercise price per unit	Market value EUR		
					total	per unit	total EUR
Forward Foreign Exchange Contract	Nordea Pank	1 057 645 EUR	18.01.2012	1.36889	1 447 800 USD	-0.0754	-61 671

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Forward Foreign Exchange Contract	Nordea Pank	2 010 192 EUR	27.04.2012	1.41778	1 499 503 USD	-0.1234	-191 767
Currency futures	Swedbank	1 000 000 EUR	19.03.2012	1.30245	1 377 530 USD	-0.0085	-6 605
Currency futures	Swedbank	125 000 EUR	19.03.2012	1.34680	1 424 436 USD	-0.0529	-5 112
<b>TOTAL</b>							<b>-265 155</b>

According to the annual reports issued in 2012, the equity of the issuer of derivatives, AS Swedbank and Nordea Bank AB totalled EUR 1,6 billion and EUR 12 billion, respectively, as at 31.12.2011.

#### Purchase rights of equities (as at 31.12.2010)

Type of instrument / Name of underlying asset	Underlying asset Quantity (pc)	Market value	
		Per unit	Total EUR
Nat Mobile Telecom	30 400	6,73 USD	153 004
<b>Total</b>			<b>153 004</b>

The warrants have been issued by Citigroup Global Markets Holdings Inc. (Luxembourg).

#### Foreign currency derivatives (as at 31.12.2010)

Type of instrument	Issuer of Instrument	Underlying asset name and amount	Exercise date of transaction	Exercise price		Market value EUR	
				per unit	total	per unit	total EUR
Forward Foreign Exchange Contract	Swedbank	4 809 650 USD	14.03.2011	0.75369	3 625 000 EUR	0.0060	28 674
Forward Foreign Exchange Contract	Nordea Pank	1 328 000 USD	18.01.2011	0.75301	1 000 000 EUR	0.0052	6 871
<b>KOKKU</b>							<b>35 545</b>

According to the annual reports issued in 2011, the equity of the issuer of derivatives, AS Swedbank and Nordea Bank AB totalled EUR 1,7 billion and EUR 1,6 billion, respectively, as at 31.12.2011.

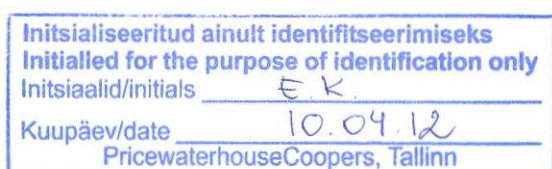
#### Note 5 Accrued income

As at 31.12.2011, accrued income includes uncollected cash for the shares subscribed for in the amount of 942 euros and uncollected cash for the sale of securities in the amount of 106 614 euros, which had been collected by the time of preparation of the financial statements. As at 31.12.2010, accrued income included uncollected cash for the shares subscribed for in the amount of 15 940 euros.

#### Note 6 Related parties

For the purposes of these financial statements, related parties include the Fund Management Company AS LHV Varahaldus and other investment and pension funds under the management of the Fund Management Company as well as other companies belonging to the same consolidation group with the Fund Management Company. LHV Persian Gulf Fund pays a monthly management fee to the Fund Management Company. In 2011, the fees totaled 85 110 euros (2010: 74 361 euros). As at the balance sheet date, the payables to the Fund Management Company made up 6 505 euros, from which 6 325 euros is management fees and 180 euros is subscription and redemption fees (as at 31.12.2010 the liability was 10 381 euros).

The Fund Management Company has not made any transactions with other funds under the management of the Fund Management Company.





## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of LHV World Equities Fund

We have audited the accompanying financial statements of LHV World Equities Fund (the Fund), managed by AS LHV Varahaldus (the Fund Management Company), which comprise the balance sheet and statement of investments as of 31 December 2011 and the statement of income and expense and statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **The Fund Management Company's Management Board Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 December 2011, and of its financial performance for the year then ended in accordance with Investment Funds Act.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla  
Auditor's Certificate No.287

/signed/

Erki Mägi  
Auditor's Certificate No.523

10 April 2012

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*\* 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.*