# LHV Persian Gulf Fund

## Annual Report 2012

**(Translation of the Estonian original)**

# LHV Persian Gulf Fund

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|---|---|
| **Annual Report** | **01.01.2012 – 31.12.2012** |
| **Fund name** | LHV Persian Gulf Fund |
| **Fund type** | Common fund |
| **Fund Manager** | Joel Kukemelk |
| **Main activity** | Investment of fund assets, EMTAK 64301 |
| **Legal address** | Tartu mnt. 2, Tallinn 10145 |
| **Phone** | (372) 6 800 400 |
| **Fax** | (372) 6 800 402 |
| **Fund Management Company** | LHV Asset Management |
| **Commercial Register no. of Fund Management Company** | 10572453 |
| **Managers of Fund Management Company** | Mihkel Oja<br>Kerli Lõhmus |
| **Auditor** | AS PricewaterhouseCoopers |

The annual report comprises the Fund's management report, financial statements and its Notes, investments reports and transaction and commission fees report, and the independent auditor's report.

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## Signatures of the Fund Management Company's Management Board members to the 2012 Annual Report of LHV Persian Gulf Fund

LHV Persian Gulf Fund's annual report 2012 comprises of management report, financial statements and independent auditor's report.

Data and additional information presented in LHV Persian Gulf Fund's Annual Report 2012 is true and complete. Financial statements give a true and fair view of the financial position, performance and cash flows.

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

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

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

Tallinn, 30.04.2013

## MANAGEMENT REPORT

LHV Persian Gulf Fund is a public open-end common investment fund founded by LHV Asset Management 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).

In 2012, the stock markets of GCC countries were mostly moving sideways, whereas the stock markets of the United Arab Emirates and Saudi Arabia showed their strength. Most of the growth came at the start of the year and although the sustainability of global economic growth decreased as a result of the escalation of the Eurozone crisis and growing fears, the year ended again on a positive note. Overall, in 2012 the LHV Persian Gulf Fund increased 12.2% after deducting all expenses. During the same time, the MSCI GCC countries index excluding Saudi Arabia (the Fund's unofficial benchmark index) gained 1.5% in euros and 3.6% in local currency. Looking at individual GCC countries, in 2012 the returns of MSCI countries indices in local currencies were 27.4% in United Arab Emirates, 0.9% in Kuwait, -2.1% in Qatar, -3.8% in Bahrain and -6.5% in Oman. In Saudi Arabia, the Tadawul Index of increased 6.0% in the local currency.

In 2012, tensions remained high in the countries neighbouring with the GCC area. For instance, the relations between Iran on the one side and Israel and the Western world on the other side remained freezing, but the conflict did not escalate. The civil war continued in Syria, Israel was mobilising forces and was very near to entering the Gaza area. During the year, also these conflicts have calmed and the worst has been avoided thanks to international efforts. The key issue for GCC countries is the price of oil and gas that accounts for between 75 and 80% of their national budgets and has remained conveniently high for GCC countries. In 2012, the weighted average oil price of GCC countries that is necessary for covering planned budget expenditure was $79 per barrel and, according to current forecasts, will be approximately between $84 and 85 per barrel in 2013. At the end of 2012, the WTI oil price was $92 per barrel versus $99 per barrel at the end of 2011; Brent crude price was respectively $111 and $107 per barrel; i.e. the crude price remains significantly higher than the amount that these countries need to finance their investments. Oil sale revenues of GCC countries were $400 billion in 2009, $465 billion in 2010, $540 billion in 2011 and an estimated $570 billion in 2012.

In 2012, LHV Persian Gulf Fund continued increasing its investments in Saudi Arabia and in January 2013 the Fund also made its first investments in Bahrain. During the year, investments in Qatar decreased from 49.7% to 35.1%, whereas the weighting of investments in UAE increased from 24.2% to 31.8% and those in Saudi Arabia gained from 6.5% to 13.7%. Cheap share prices in United Arab Emirates, the strong recovery of the Dubai real estate sector, implementation of reforms in Saudi Arabia, triggered by Arabian Spring events, increasing energy sale income sharing with the public and major state investments have made these markets more interesting in the short term than others. As at March 2013, according to the EFG analysis house, economic growth forecasts (outside the energy sector) of GCC countries is +8.5% for Qatar, +6.1% for Saudi Arabia, +5.8% for Oman, +4.1% for United Arab Emirates, +4.0% for Kuwait and +3.7% for Bahrain. Overall, the strong economic growth of GCC countries is set to continue also in 2013, creating a favourable environment for local enterprises for increasing profits and, in turn, supporting share prices of stocks traded on the stock markets of GCC countries.

The main catalysts for the growth of the region's share prices in 2013 are the same as the ones outlined in 2012. One positive development would be the inclusion of Qatar and United Arab Emirates in the MSCI Developing Market Index. Giving foreign investors access to the stock market in Saudi Arabia, after some stabilisation, the acceleration of growth in the real estate sector of United Arab Emirates and, in particular, Dubai, growth in tourism, logistics, transport and other service sectors, and continuation of large national and private investments. On the other hand, negative developments would include upheavals in the region close to GCC stock markets, continued worsening of Iran's relations with the West, escalation of the Syrian civil war, deepening of the Eurozone crisis and extensive and continued decline in oil prices.

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

| | NAV 31.12.2011 | NAV 31.12.2012 | Change in period |
|---|---|---|---|
| MSCI GCC countries index, excluding Saudi Arabia | 498.11 | 505.79 | +1.54% |
| **LHV Persian Gulf Fund** | **7.3137** | **8.2053** | **+12.19%** |

** in euros, according to the official daily price. Source: www.mscibarra.com*

## FINANCIAL STATEMENTS

### Balance sheet
*(in euros)*

| Assets | Note | 31.12.2012 | 31.12.2011 | 01.01.2011 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | | 181 309 | 197 782 | 436 879 |
| Financial assets at fair value through the statement of income and expenses | | | | |
| Shares | | 3 770 736 | 3 952 452 | 4 347 430 |
| Derivatives | | 41 806 | 11 016 | 188,549 |
| Accrued income | 7 | 0 | 107 556 | 15 940 |
| **Total assets** | | **3 993 851** | **4 268 806** | **4 988 798** |

| Liabilities and net asset value (NAV) | Note | 31.12.2012 | 31.12.2011 | 01.01.2011 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Liabilities to unit holders | | 1 561 | 1 058 | 1 065 |
| Liabilities to Fund Management Company | 8 | 5 735 | 6 505 | 10 381 |
| Liabilities to depositary | | 2 107 | 4 028 | 2 402 |
| **Total current liabilities** | | **9 403** | **11 591** | **13 848** |
| **Total liabilities** | | **9 403** | **11 591** | **13 848** |
| **Fund's net asset value (NAV)** | 6 | **3 984 448** | **4 257 215** | **4 974 950** |
| **Total liabilities and Fund's net asset value (NAV)** | | **3 993 851** | **4 268 806** | **4 988 798** |

The notes on pages 11-19 are an integral part of these financial statements.

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

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 76 | 659 |
| Dividend income | | 638 792 | 468 856 |
| Net profit/loss from financial assets at fair value through statement of income and expenses | | | |
| Shares | | -96 654 | -342 205 |
| Derivatives | | -9 798 | -142 542 |
| Net gain/loss on foreign exchange change | | 7 448 | -14 633 |
| **Total Income** | | **539 864** | **-29 865** |
| **Operating expenses** | | | |
| Management fees | 8 | 72 707 | 85 110 |
| Depositary fees | | 22 438 | 25 922 |
| Transaction fees | | 22 843 | 10 891 |
| Other operating expenses | | 154 | 135 |
| **Total operating expenses** | | **118 142** | **122 058** |
| **Net result of the Fund** | | **421 722** | **-151 923** |

The notes on pages 11-19 are an integral part of these financial statements.

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## Statement of change in net assets

*(in euros)*

| | Note | 01.01.2012 -31.12.2012 | 01.01.2011 -31.12.2011 |
|---|---|---|---|
| **Net assets of the Fund at the beginning of the period** | | 4 257 215 | 4 974 950 |
| Money received upon subscription of A units | | 1 387 154 | 2 705 012 |
| Money received upon subscription of B units | | 35 450 | 89 937 |
| Money paid upon redemption of A units | | 2 093 395 | 3 065 876 |
| Money paid upon redemption of B units | | 23 698 | 294 885 |
| **Net result of the Fund** | | **421 722** | **-151 923** |
| Net assets of the Fund at the end of the period | 6 | 3 984 448 | 4 257 215 |
| Number of A units outstanding at the end of the period | | 349 837 | 447 895 |
| Number of B units outstanding at the end of the period | | 212 091 | 210 000 |
| NAV of unit A at end of the reporting period | 6 | 8.2088 | 7.3134 |
| NAV of unit B at end of the reporting period | 6 | 5.2464 | 4.6741 |

The notes on pages 11-19 are an integral part of these financial statements.

## Statement of cash flows
*(in euros)*

| | 2012 | 2011 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 76 | 659 |
| Dividends received | 638 792 | 468 856 |
| Net of purchases and sales of financial investments | 170 693 | -33 483 |
| Change in other receivables | 942 | 14 998 |
| Operating expenses paid | -132 487 | -124 315 |
| **Net cash flows from operating activities** | **678 016** | **326 715** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from the issuance of units | 1 422 604 | 2 794 949 |
| Paid for the redemption of units | -2 117 093 | -3 360 761 |
| **Net cash flows from financing activities** | **-694 489** | **-565 812** |
| | | |
| **Total cash flows** | **-16 473** | **-239 097** |
| | | |
| **Change in cash and cash equivalents** | **-16 473** | **-239 097** |
| Cash and cash equivalents at the beginning of the accounting period | 197 782 | 436 879 |
| Cash and cash equivalents at the end of the accounting period | 181 309 | 197 782 |

The notes on pages 11-19 are an integral part of these financial statements.

## Notes to the financial statements

### Note 1 General information about the Fund

LHV Persian Gulf Fund is a public open-end common investment fund established at 10.01.2008 and started investment activities in March 2008. 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).
LHV Persian Gulf Fund is managed by LHV Asset Management, with its place of business at Tartu mnt. 2, Tallinn.

The financial statements reflect the Fund's economic activities during the period from 01.01.2012 to 31.12.2012.
The statements have been prepared in euros.
These financial statements have been approved by the Management Board on 30.04.2013.

### Note 2 Summary of significant accounting policies

#### 2.1 Basis of preparation and adoption/application of IFRS

The financial statements of LHV Persian Gulf Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS EU). Financial reporting principles of investment funds are set out by the Investment Funds Act, Accounting Act and Regulation of the Minister of Finance of 13 April 2011 "Requirements for investment fund reports subject to disclosure". The financial statements have been prepared taking into account the regulation of determining the net asset value of the Fund, adopted pursuant to the Investment Funds Act § 142 subsection 2 and § 204 subsection 1.

The financial statements of LHV Persian Gulf Fund are the first set of financial statements that have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The data of transition to IFRS is 1 January 2011.

With some exceptions, IFRS 1 requires retrospective application of the standards and interpretations effected in the financial year ended 31 December 2012. For the preparation of the IFRS opening balance in the financial year commenced at 1 January 2011 until the first IFRS reporting date, the Company has applied the respective version of the standards. In these financial statements, the Fund has not used any voluntary exemptions from the retrospective application of standards. For the Fund, the following mandatory exemptions for retrospective application apply:

(a) Estimates exemption. Estimates in accordance with IFRS at 1 January 2011 and 31 December 2011 were consistent with the estimates made at these dates according to previous accounting principles
(b) Derecognition of financial assets and liabilities. The financial assets and liabilities, which were derecognised prior to transition to IFRS, shall not be accounted for in accordance with IFRS. The management decided not to apply the exemption from the earlier date.

Transition from the generally accepted accounting principles in Estonia to IFRS had neither impacted the amounts recognised in the balance sheet as at 1.1.2012 and 31.12.2011, nor the amounts recognised in the statement of comprehensive income and cash flow statement for the financial year ended 31.12.2011.

In financial statements for 2012 of LHV Persian Gulf Fund, IFRS 13 "Fair Value Measurement" has been adopted early. The standard requires that the valuation of exchange-traded financial assets and liabilities that have a bid price and an ask price, have to be based on a price within the bid-ask spread which best reflects the fair value of the investment. The accounting policies of IFRS 13 are in accordance with accounting principles of Estonian GAAP used in preparing financial statements for previous years. Before the adoption of IFRS the Fund measured its assets at the closing market price (close price).

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**New or revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2013 and have not been adopted by the Fund early**

IFRS 9 „Financial Instruments: Classification and Measurement" addresses the classification, measurement and disclosure of financial assets and liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. The standard replaces those parts of IAS 39 that is related to classification and measurement of financial assets. IFRS 9 requires that financial assets are classified into two measurement categories: in fair value and at amortised cost. Classification is made at initial recognition and depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the financial instrument. Most of the requirements in IAS 39 are carried forward unchanged to the standard. The key change is that if that the financial liability is measured in fair value, the change in the fair value due to the changes in own credit risk is recognised through profit or loss in other comprehensive income and not in the statement of profit and loss, except if it would make accounting principles inconsistent.

The Fund is currently assessing the impact of IFRS 9 on the Fund and shall adopt it from its effective date which at present is 1 January 2015.

Amendments to IFRS 7 „Financial Instruments: Disclosures" require disclosures of new notes aimed at enabling comparison of financial statements prepared on the basis of IFRS and US GAAP. The amendment became effective on 1 January 2013.

Amendments to IAS 32 „Financial Instruments: Presentation" address requirements to offsetting financial assets and financial liabilities in a balance sheet. Effective from 1 January 2014.

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

**2.2 Management estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires the management of the Fund Management Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although judgments are based on the management's best knowledge, actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

No such estimates have been applied during the accounting period.

**2.3 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.

**2.4 Classification of financial assets and financial liabilities**

The Fund classifies financial assets and financial liabilities into the following categories:

- financial assets at fair value through profit or loss – recognised initially at fair value through profit or loss – shares, investment units, bonds;
- loans and receivables - cash and cash equivalents, term deposits, receivables from transactions recognised at trade date, interests and dividends receivables. Loans and receivables are recognised at amortised cost
- financial liabilities recognised at fair value through comprehensive income and expenses – derivatives
- financial liabilities at amortised cost – payables from transactions recognised at trade date at amortised cost

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Financial assets and financial liabilities that are recognised at fair value through profit or loss are held for trading, ie acquired or incurred principally for the purpose of selling or repurchasing.

Loans and receivables are with fixed or determinable payments that are non-derivative financial assets and not quoted in a securities exchange.

**Initial recognition and further measurement**

Financial assets at fair value through profit or loss are recognised initially on the trade date, which is the date that the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities at fair value through profit or loss are recognised initially at fair value, which is acquisition cost of purchase or sale. The transaction costs are expensed in the line item “Transaction costs” in the statement of comprehensive income. Other financial assets and financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction costs directly related to their acquisition.

Subsequent to initial recognition financial assets are measured at fair value.

Subsequent recognition of financial liabilities is done by using the amortised cost method (except financial liabilities acquired for the purpose of re-sale and derivatives with negative fair value that are recognised in their fair value). Amortised cost of short-term financial liabilities is generally equal to their nominal value, therefore short-term financial liabilities are recognised in the payable amount. Financial liability is classified as short-term if its due date is within 12 month from the balance sheet date.

Gains and losses arising from changes in assets’ fair value, except dividend and interest income/ dividend and interest expense, are recognised in the statement of comprehensive income in the line item “Net gain/loss on financial assets at fair value through profit or loss.”

**Amortised cost**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method or any difference between the initial amount recognised and the maturity amount and minus any reduction for impairment.

**Fair value measurement**

Fair value is the amount of which an asset could be exchanged between willing parties in an arm’s length transaction on the measurement date. For the exchange-traded assets and liabilities (for example: shares, investment fund units, derivatives) the fair value is based on market close price. Fund recognises all investments into securities at fair value through profit or loss, except investments which fair value cannot be found. The Fund has adopted early the IFRS 13 “Fair Value Measurement” in financial statements for 2012. According to the standard exchange-traded financial assets and liabilities are measured at market close price if it remains within the bid-ask spread. If the close price does not fall in this spread, the management will determine value within the bid-ask spread, which most accurately reflects the fair value of specific security. Early adoption of IFRS 13 has no impact to the comparative data for previous years, as previously according to fund’s accounting policies the Fund measured its assets at the closing market price (close price).

The net asset value of the Fund is determined pursuant to “The Procedure of Determining Net Asset Value of Funds” as approved by the management board of LHV Asset Management. These rules determine principles of measuring exchange-traded assets, non-traded assets and other assets and liabilities of the Fund.

Fund units and shares that are listed on the regulated markets shall be determined in the same way as other exchange-traded assets. Mutual fund shares that are not listed on the regulated market shall be determined according to last known redemption price or if this price is not available then according to the Fund’s NAV.

If the fair value of the assets cannot be estimated reliably they can be recognised at acquisition cost or the fair value will be determined by management using valuation techniques. The valuation techniques include using recent arm's length transactions between willing parties, references to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, option pricing models and other techniques based on market information as much as possible and as little as possible company's own inputs.

**2.5 Impairment of financial assets**

If the Fund's assets include financial assets that are not recognised at their fair value through profit or loss, it is assessed at each reporting date whether there is objective evidence of impairment compared to initial recognition of that asset. The following may indicate impairment of financial assets:

- financial difficulties of issuers, indications to the possible bankruptcy of the issuer
- interest or principal payments default or late payment by the issuer
- disappearance of an active market of the financial asset
- other significant events that may indicate impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by loss, which is recognised in the statement of comprehensive income. Interest on the impaired asset, measured at amortised cost, continues to be recognised. When the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss.

**2.6 Derecognition of financial assets**

Financial assets are derecognised and removed from the Fund's financial statements when the contractual rights to the cash flows of the financial assets have expired or when the financial assets with all risks and rewards have been transferred.
Upon derecognition of financial assets, the difference between the carrying amount and the sale price of a financial asset is carried in the income statement line "Net gain/loss on financial assets at fair value through profit or loss". Transaction costs are carried in the line "Transaction costs". When most of the risks and rewards of ownership of a financial asset have been transferred, the transferred financial asset shall not be derecognised.

**2.7 Dividends**

Dividends are initially recognised at the date at which shares are traded ex-dividend (ex-dlvidends 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.

**2.8 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.

**2.9 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.

**2.10 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 LHV Asset Management (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.

**2.11 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 rate of the management fee is decreased depending on the market value of Fund’s assets in accordance with the Investment Funds Act § 151 subsection 5 and the Minister of Finance Regulation no. 66 of 31 December 2008. 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.

**2.12 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.

**2.13 Subscription of units**

Subscription of units is carried out in accordance with the terms described in the Fund’s prospectus of emission.

**2.14 Payments to unit holders, subscription and redemption fee**

The maximum subscription fee for units is 5% of the unit’s NAV and the maximum redemption fee is 1% of the unit’s NAV. 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 of emission.

## Note 3 Risk management

**3.1 Market risk**

Market risk expresses potential loss that can be caused from the changes in fair value of future cash flows of financial investments due to changes in interest rates, exchange rates and share prices.

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates influence future cash flows or the fair value of a financial instrument. Most of the interest rate risk is an exposure to debt instruments. The Fund invests mostly in debts with fixed interest rate and with a maximum maturity of 8 years.

The sensitivity analysis provided in the table shows the impact of potential reasonable change in interest rates to the profitability of the Fund based on two aspects:

- annual change of net interest income of financial instruments with floating interest rate held at the end of the accounting period
- annual change in the fair value of financial instruments with fixed interest rate held at the end of the accounting period

| 31.12.2012 | Up to 3 months | 3-12 months | 1-5 years | More than 5 years |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 181 309 | 0 | 0 | 0 |
| Financial assets in fair value through the statement of income and expenses | 12 197 | 29 609 | 0 | 0 |
| **Total** | **193 506** | **29 609** | **0** | **0** |

| 31.12.2011 | Up to 3 months | 3-12 months | 1-5 years | More than 5 years |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 197 782 | 0 | 0 | 0 |
| Financial assets in fair value through the statement of income and expenses | -11 717 | -253 438 | 0 | 0 |
| **Total** | **186 065** | **-253 438** | **0** | **0** |

**Currency risk**

Currency risk is the risk that the value of the financial instruments changes as a result of the fluctuation in exchange rates. The Fund makes most of the investments in local currencies that are pegged to USD and mitigates the EUR/USD currency risk, but remains exposed to the risk that the exchange rate of the local currency to USD changes. To mitigate the currency risk resulting from changes in the USD exchange rate, the Fund uses currency swaps and futures. The maximum exposure of the Fund to the currency position is 10%. The Fund's financial liabilities are denominated in euros.

| 31.12.2012 | EUR | USD | AED | KWD | OMR | QAR | SAR |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 169 919 | 11 390 | 0 | 0 | 0 | 0 | 0 |
| Shares | 0 | 0 | 1 250 134 | 197 090 | 404 880 | 1 379 707 | 0 |
| Derivatives | 3 687 443 | -3 645 637 | 0 | 0 | 0 | 0 | 538 925 |
| Accrued income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Liabilities** | -9 403 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **3 847 959** | **-3 634 247** | **1 250 134** | **197 090** | **404 880** | **1 379 707** | **538 925** |

| 31.12.2011 | EUR | USD | AED | KWD | OMR | QAR | SAR |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 56 484 | 141 298 | 0 | 0 | 0 | 0 | 0 |
| Shares | 0 | 0 | 1 029 610 | 288 233 | 519 252 | 2 115 357 | 0 |
| Derivatives | 4 192 837 | -4 457 993 | 0 | 0 | 0 | 0 | 276 171 |
| Accrued income | 942 | 106 614 | 0 | 0 | 0 | 0 | 0 |
| **Liabilities** | -11 591 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **4 238 672** | **-4 210 081** | **1 029 610** | **288 233** | **519 252** | **2 115 357** | **276 171** |

The sensitivity analysis below provides the impact of potential reasonable changes to the statement of income and expenses.

| Impact on statement of income and expenses | Exchange rate change | 2012 | Exchange rate change | 2011 |
|---|---|---|---|---|
| USD exchange rate | +/- 10% | 13 649 | +/- 10% | 1 858 |

**Equity price risk**

Equity price risk reflects potential loss that results from unfavourable changes in the fair value of shares or derivatives related to shares resulting from changes in share indices or prices of individual stocks. The Fund mitigates this risk by diversifying its investments between different markets and by limiting concentration by countries and economic sectors. The Fund has the following investment restrictions:

- maximum investment in one instrument: 10% of NAV;
- maximum weight of securities issued by one consolidation group: 20% of NAV;
- maximum weight of consolidated position with concentration over 5%: 40% of NAV;
- maximum permitted weight in a commercial entity: 10%.

Sensitivity analysis shows the impact on the Fund's profitability in case of fluctuations of the MSCI GCC countries index excluding Saudi Arabia provided that all other variables are constant. The analysis is based on the assumption that in a year the MSCI GCC countries index excluding Saudi Arabia increased 10% (same price change as in 2011) and decreased 5% (same price change as in 2011). Calculations are based on historic data, based on the monthly price changes in the Fund unit's NAV and the MSCI Index. For assessing the impact of market fluctuations on the Fund's performance, the Beta for the Fund's positive and negative periods for the previous three years has been calculated. In case of positive market movements, the Fund's Beta is 0.38 (2011: 0.82). In case of negative market movements, the Beta is 0.71 (2011: 0.96). The estimated changes in the applicable MSCI Index are potential reasonable market movements that may not comply with the actual performance of the stock markets of GCC countries. The table below shows the financial impact of the price changes of the MSCI GCC countries index excluding Saudi Arabia on the Fund.

| Impact on statement of income and expenses | Change | 2012 | Change | 2011 |
|---|---|---|---|---|
| MSCI Index | +10% | 160 089 | +10% | 406 742 |
| MSCI Index | -5% | -150 731 | -5% | -238 007 |

In reality, trading performance may significantly differ from this sensitivity analysis since, in addition to the market sensitivity, part of the Fund's profit depends on the specific risk of investments, i.e. selection of securities. MSCI GCC countries index excluding Saudi Arabia has been used only as an example, it is not the Fund's benchmark index nor the basis for developing the investment strategy. The sensitivity analysis is made as at 31.12.2012.

### 3.2 Liquidity risk

Liquidity risk is the risk that the Fund faces difficulties in meeting its obligations once the unit-holders wish to express or redeem units.

The Fund manages liquidity risk according to the following criteria:

- Share of the free cash from the Fund's assets is 0.5%;
- The Fund invests mainly in marketable securities that can be easily monetised;
- The Fund invests at least 95% in liquid securities. Illiquid securities include bonds of commercial undertakings with sub-investment grade credit rating, stocks that are not traded on the market and units of closed funds that are not traded on the market;

The Fund's head of investments monitors the Fund's liquidity position on a daily basis. In case of insufficiency of liquid funds, the Fund manager notifies without delay the risk management unit and the Management Board. Monthly reports of the risk management unit to the Management Board include the abovementioned liquidity-related positions. The Fund held no illiquid investments at the end of 2011 and 2012.

Since the Fund has no financial liabilities with fixed maturity, no report has been prepared on the structure of the Fund's liabilities and the assets held as security for these liabilities by maturity.

### 3.3 Credit risk

Credit risk is potential loss that may be caused as a result of the failure of the counterparty of the financial instrument to fulfil its obligations. The Fund follows internal procedural rules in selecting counterparties and the Fund's investment manager regularly monitors credit ratings of counterparties, news-flow and financial reports.

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In addition, the following investment restrictions are monitored:

- The Fund may deposit up to 5% of its assets in deposits of a credit institution with credit rating below investment grade.

The table below provides the Fund's maximum exposure to the credit risk, based on the carrying amounts of instruments and derivatives being presented in gross amount. The Fund has not pledged its financial assets.

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash and cash equivalents | 181 309 | 197 782 |
| Receivable from sale of assets | 0 | 107 556 |
| Derivatives | 41 806 | 11 016 |
| **Total** | **223 115** | **316 354** |

The Fund's assets are concentrated in the following countries:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Estonia* | 3.21% | 6.86% |
| Finland* | 0.75% | -6% |
| Qatar | 35.14% | 49.57% |
| United Arab Emirates | 31.84% | 24.13% |
| Saudi Arabia | 13.73% | 6.47% |
| Oman | 10.31% | 12.17% |
| Kuwait | 5.02% | 6.75% |
| **Total** | **100%** | **100%** |

* In Estonia and Finland, exposure concerns only cash and cash equivalents

The Fund's assets are concentrated in the following industries:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash and cash equivalents | 3.97% | 0.92% |
| Services | 17.25% | 13.86% |
| Financial sector | 34.74% | 48.21% |
| Manufacturing | 17.38% | 14.13% |
| Insurance | 1.57% | 2.79% |
| Real Estate | 16.44% | 7.38% |
| Telecommunications | 8.67% | 12.72% |
| **Total** | **100%** | **100%** |

## Note 4 Capital management

The Fund's capital consists of its net assets which comprises of the money received from issuing the Fund's units and the Fund's profit. The Fund's capital changes regularly due to the issuing of new fund units. With the objective of ensuring sufficient liquidity buffer for the redemption of units, the fund manager monitors expected cash inflows and outflows.

## Note 5 Fair value of financial assets and financial liabilities

The carrying amount of the Fund's financial assets and financial liabilities mostly corresponds to their fair value, taking into consideration the differences in valuation techniques used. The table below provides an overview of valuation techniques used depending on assets measured at fair value:

| 31.12.2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Shares | 3 231 811 | 0 | 0 | 3 231 811 |
| Derivatives | 538 925 | 41 806 | 0 | 580 731 |
| **Total financial assets** | **3 770 736** | **41 806** | **0** | **3 812 542** |

| 31.12.2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Shares | 3 952 452 | 0 | 0 | 3 952 452 |
| Derivatives | 276 171 | -265 155 | 0 | 11 016 |
| **Total financial assets** | **4 228 623** | **-265 155** | **0** | **3 963 468** |

Level 1 – price quoted in active markets
Level 2 – valuation techniques based on market information inputs (prices and interest curves of similar transactions)
Level 3 – other valuation techniques (i.e., discounted cash flow method) based on observable inputs

The value of securities traded on the market is the most recent available closing price on the regulated market that in most cases falls between the bid-ask spread.

## Note 6 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 | 5.5878 | 3.5714 |
| 31.12.2009 | 4,205,909 | 6.2301 | 3.9817 |
| 31.12.2010 | 4,974,950 | 7.4898 | 6.2301 |
| 31.12.2011 | 4,257,215 | 7.3134 | 4.6741 |
| 31.12.2012 | 3,984,448 | 8.2088 | 5.2464 |

The difference of NAV provided in the financial statements from the initially published NAV is mostly due to taking into account the additional information of valuation of investments received by the time of preparing the financial statements.

## Note 7 Accrued income

There was no accrued income as at 31.12.2012. As at 31.12.2011, accrued income includes uncollected cash for the fund units 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 31.12.2011, accrued income included uncollected cash for the fund units subscribed for in the amount of 15 940 euros.

## Note 8 Related parties

For the purposes of these financial statements, related parties include the Fund Management Company LHV Asset Management 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 2012 the fees totalled 72 707 euros. As at the balance sheet date, the payables to the Fund Management Company amounted to 5 735 euros, including 5 735 euros in management fee. In 2011, management fees totalled 85 110 euros, payables as at 31.12.2011 were 6 505 euros, including 6 325 euros in management fee and 180 euros in subscription and redemption fee. As at 01.01.2011, the liability amounted to 10 381 euros, including 7 327 euros in management fee and 3 054 euros in subscription and redemption fee.

### Statement of transaction and commission fees

| 2012 | Number of transactions | Volume of transactions | Total commissions | Weighted average commission % |
|---|---|---|---|---|
| AS Swedbank | 15 | 12 656 801 | 11 748 | 51.43% |
| EFG-Hermes MENA Securities Ltd. | 128 | 3 329 400 | 10 821 | 47.37% |
| Morgan Stanley | 6 | 302 531 | 274 | 1.20% |
| **Total** | **149** | **16 288 732** | **22 843** | **100.00%** |

In 2012, the Fund changed the principle of recognising transaction fees to comply with IFRS and recognises all commission fees paid during the acquisition of a financial investment in operating expenses of the accounting period.

| 2011 | Number of transactions | Volume of transactions | Total commissions | Weighted average commission % |
|---|---|---|---|---|
| AS Swedbank | 135 | 6 957 942 | 20 886 | 100 00% |
| **Total** | **135** | **6 957 942** | **20 886** | **100.00%** |

In 2011, commissions totalling 10 891 euros are included in the operating expenses of the reporting period according to invoices submitted by the depositary. Remaining 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.

## Statement of the Fund's investments as at 31.12.2012

*(in euros)*

| Issuer | Country of location | ISIN-code | Nominal value | Currency | Quantity | Average acquisition cost in currency | Total acquisition cost in EUR | Market price per unit as at 31.12.2012 in currency* | Market value EUR | Share in the net value of the Fund's assets |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Securities** | | | | | | | **2 666 489** | | **3 812 542** | **95.69%** |
| **Shares [1]** | | | | | | | **2 666 489** | | **3 231 811** | **81.11%** |
| **Securities of the United Arab Emirates** | **UAE** | | | | | | **931 334** | | **1 250 134** | **31,38%** |
| Al-Dar Properties PJSC | | AEA002001013 | 1.00 | AED | 640 000 | 1.42 | 187 532 | 1.27 | 167 722 | 4.21% |
| ARAMEX PJSC | | AEA002301017 | 1.00 | AED | 309 510 | 1.42 | 90 692 | 2.00 | 127 736 | 3.21% |
| Emaar Properties Limited | | AEE000301011 | 1.00 | AED | 325 000 | 3.26 | 218 629 | 3.75 | 251 491 | 6.31% |
| First Gulf Bank | | AEF000201010 | 1.00 | AED | 128 000 | 4.88 | 128 895 | 11.60 | 306 391 | 7.69% |
| National Bank of Abu Dhabi | | AEN000101016 | 1.00 | AED | 50 000 | 4.70 | 48 493 | 10.30 | 106 271 | 2.67% |
| Sorouh Real Estate Co | | AES000501016 | 1.00 | AED | 690 000 | 1.07 | 152 349 | 1.25 | 177 979 | 4.47% |
| Union National Bank | | AEU000401015 | 1.00 | AED | 180 000 | 2.82 | 104 744 | 3.03 | 112 544 | 2.82% |
| **Securities of Kuwaiti issuers** | **Kuwait** | | | | | | **189 089** | | **197 090** | **4,94%** |
| Agility Public Warehousing | | KW0EQ0601041 | 0.10 | KWD | 50 000 | 0.50 | 67 349 | 0.51 | 68 696 | 1.72% |
| Burgan Bank | | KW0EQ0100077 | 0.10 | KWD | 70 000 | 0.49 | 92 403 | 0.53 | 99 946 | 2.51% |
| National Bank of Kuwait | | KW0EQ0100010 | 0.10 | KWD | 11 000 | 0.99 | 29 337 | 0.96 | 28 448 | 0.71% |
| **Securities of Omani issuers** | **Oman** | | | | | | **347 286** | | **404 880** | **10,16%** |
| Bank Muscat SAOG | | OM0000002796 | 0.10 | OMR | 147 562 | 0.47 | 136 551 | 0.58 | 167 347 | 4.20% |
| National Bank of Oman | | OM0000001483 | 0.10 | OMR | 113 625 | 0.34 | 76 063 | 0.29 | 63 759 | 1.60% |
| Oman Telecom | | OM0000003026 | 0.10 | OMR | 60 000 | 1.14 | 134 672 | 1.47 | 173 774 | 4.36% |
| **Securities of Qatari issuers** | **Qatar** | | | | | | **1 198 780** | | **1 379 707** | **34,63%** |
| Commercial Bank of Qatar | | QA0007227752 | 10.00 | QAR | 14 600 | 73.82 | 224 442 | 70.90 | 215 564 | 5.41% |
| Doha Bank | | QA0006929770 | 10.00 | QAR | 2 600 | 60.51 | 32 763 | 50.30 | 27 234 | 0.68% |
| Industries Qatar QSC | | QA000A0KD6K3 | 10.00 | QAR | 8 000 | 138.37 | 230 521 | 155.10 | 258 393 | 6.49% |
| Qatar Electricity Water | | QA0006929812 | 10.00 | QAR | 3 450 | 134.56 | 96 675 | 132.40 | 95 123 | 2.39% |
| Qatar Fuel Company | | QA0001200771 | 10.00 | QAR | 4 150 | 128.28 | 110 863 | 275.00 | 237 661 | 5.96% |
| Qatar Gas Transport Com Ltd | | QA000A0KD6L1 | 10.00 | QAR | 7 000 | 18.06 | 26 327 | 15.26 | 22 245 | 0.56% |
| Qatar Insurance Company | | QA0006929838 | 10.00 | QAR | 4 400 | 42.20 | 38 667 | 67.10 | 61 483 | 1.54% |
| Qatar Islamic Bank | | QA0006929853 | 10.00 | QAR | 1 900 | 80.16 | 31 717 | 75.00 | 29 675 | 0.74% |
| Qatar National Bank | | QA0006929895 | 10.00 | QAR | 4 600 | 113.39 | 108 620 | 130.90 | 125 394 | 3.15% |
| Qatar Navigation | | QA0007227695 | 10.00 | QAR | 7 000 | 68.00 | 99 125 | 63.10 | 91 983 | 2.31% |
| Qatar Telecom | | QA0007227737 | 10.00 | QAR | 7 700 | 91.05 | 145 999 | 104.00 | 166 764 | 4.19% |
| United Development Company | | QA000A0KD6M9 | 10.00 | QAR | 13 000 | 19.60 | 53 061 | 17.80 | 48 188 | 1.21% |

[1] Listed securities

| Issuer | Issuer | Rating | Rating Agency | Underlying asset | Maturity date | Market value EUR | Share in the net value of the Fund's assets |
|---|---|---|---|---|---|---|---|
| **Derivatives** | | | | | | **580 731** | **14.57%** |
| **Swaps and futures (currency derivatives)** | | | | | | **41 806** | **1.05%** |
| Swedbank | Swedbank | A2 | Moody's Investor Service | EUR | 18.03.2013 | 12 197 | 0.31% |
| Nordea Pank | Nordea Pank | Aa3 | Moody's Investor Service | EUR | 26.04.2013 | 29 609 | 0.74% |
| **Warrants (rights for securities)** | | | | | | **538 925** | **13.52%** |
| Aldrees Petroleum | Saudi Arabia | | | SAR | 26.01.2015 | 73 418 | 1.84% |
| Fawaz Abdulaziz Alhokair | Saudi Arabia | | | SAR | 8.09.2014 | 109 288 | 2.74% |
| Almarai Company | Saudi Arabia | | | SAR | 5.01.2015 | 72 195 | 1.81% |
| Advanced Petrochemical Company | Saudi Arabia | | | SAR | 18.04.2014 | 82 914 | 2.08% |
| Herfy Food Services | Saudi Arabia | | | SAR | 2.02.2014 | 38 194 | 0.96% |
| Saudi Basic Industries | Saudi Arabia | | | SAR | 27.09.2013 | 81 617 | 2.05% |
| Samba Financial Group | Saudi Arabia | | | SAR | 27.09.2013 | 81 299 | 2.04% |

| Issuer | Deposit type | Country of location | Rating | Rating agency | Underlying asset | Deposited amount | Interest | Market value EUR | Share in the net value of the Fund's assets |
|---|---|---|---|---|---|---|---|---|---|
| **2. Deposits** | | | | | | | | **181 309** | **4.55%** |
| Swedbank | Demand deposit | Estonia | A2 | Moody's Investor Service | EUR | 169 919 | 0.06-0.10% | 169 919 | 4.26% |
| Swedbank | Demand deposit | Estonia | A2 | Moody's Investor Service | USD | 15 027 | | 11 390 | 0.29% |
| **ASSETS TOTAL** | | | | | | | | **3 993 851** | **100.24%** |
| **Liabilities** | | | | | | | | **-9 403** | **-0,24%** |
| **FUND'S ASSETS' NET VALUE** | | | | | | | | **3 984 448** | **100.00%** |

* Unit's market value in currency includes accrued interest as at 31.12.2012

**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 |
|---|---|---|---|---|---|---|---|---|
| **1. Securities** | | | | | **4 304 811** | | **3 963 468** | **92.85%** |
| **Shares** | | | | | **4 025 851** | | **3 952 452** | **92.59%** |
| **Securities of the United Arab Emirates** | **UAE** | | | | **1 432 359** | | **1 029 610** | **24.12%** |
| 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% |
| **Securities of Qatari issuers** | **Qatar** | | | | **1 748 341** | | **2 115 357** | **49.55%** |
| 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% |
| **Securities of Kuwaiti issuers** | **Kuwait** | | | | **358 808** | | **288 232** | **6.75%** |
| 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% |
| **Securities of Omani issuers** | **Oman** | | | | **486 343** | | **519 251** | **12.17%** |
| 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.

| Issuer | Country of location | Nominal value | Maturity date | Interest | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Derivatives** | | | | | | | | | | **11 016** | **0.26%** |
| **Forwards and futures (currency derivatives)** | **Estonia** | | | | | | | | | **-265 155** | **-6.20%** |
| Nordea Pank | | 1 057 645 EUR | 18.01.2012 | | | | USD | | -79,765 | -61 671 | -1.44% |
| Nordea Pank | | 2 010 192 EUR | 27.04.2012 | | | | USD | | -248,031 | -191 767 | -4.49% |
| Swedbank | | 1 000 000 EUR | 19.03.2012 | | | | USD | | -8,543 | -6 605 | -0.15% |
| Swedbank | | 125 000 EUR | 19.03.2012 | | | | USD | | -6,612 | -5 112 | -0.12% |
| **Warrants (rights for securities)** | **USA** | | | | | | | **278 960** | | **276 171** | **6.46%** |
| 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% |
| **2. Deposits** | **Estonia** | | | | | | | | | **197 782** | **4.63%** |
| **Settlement accounts** | | | | | | | | | | | |
| Swedbank | | | | 0.06-0.25% | | | EUR | | 56,484 | 56 484 | 1.32% |
| Swedbank | | | | | | | USD | | 182,755 | 141 298 | 3.31% |
| **3. Other assets** | | | | | | | | | | **107 556** | **2.52%** |
| Other receivables | | | | | | | | | | 107 556 | 2.52% |
| **TOTAL** | | | | | | | | | | **4 268 806** | **100%** |

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

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**INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)*

To the Shareholders of LHV Persian Gulf Fund

We have audited the accompanying annual report of LHV Persian Gulf Fund (the Fund), managed by AS LHV Varahaldus (the Fund Management Company), which comprise the financial statements, statement of the Fund's investments and statement of transaction and commission fees. The financial statements comprise the balance sheet as of 31 December 2012, the statement of income and expense, statement of changes in the Fund's net asset value and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the annual report presents fairly, in all material respects, the financial position of the Fund as of 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with Investment Funds Act.

AS PricewaterhouseCoopers

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| /signed/ | /signed/ |
| Tiit Raimla<br>Auditor's Certificate No.287 | Erki Mägi<br>Auditor's Certificate No.523 |

30 April 2013

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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.*