

# ANNUAL REPORT

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**end of the financial year:** 31.12.2016

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## Management Report

**Nasdaq Tallinn stock exchange – a place where all ambitious Estonian companies are listed and where all ambitious Estonian people invest.**

The Tallinn Stock Exchange is the only regulated securities market in Estonia. The Tallinn Stock Exchange began regular trading with 11 listed securities on June 3, 1996. Today, Tallinn stock exchange is part of the largest stock exchange company in the world, Nasdaq, which offers services related to trading, stock exchange technologies and listed companies all over the world. The technological systems of Nasdaq are in use in more than 80 stock exchanges, settlement organizations and depositories in more than 50 countries. Nasdaq Nordic OY is the sole owner of Nasdaq Tallinn AS.

### Structure of the Group

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Since 26 May 2016, the subsidiary of Nasdaq Tallinn AS, AS Eesti Väärtpaberikeskus is 100% owned by the Latvian Central Depository. Change in the ownership took place due to the merger of the Baltic central depositories. As of the end of the year Nasdaq Tallinn AS has one subsidiary - AS eCSD expert (export of knowhow related to capital markets, including pension systems as well as technological solutions), where it has a 100% holding.

### Personnel

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As on 31 December 2016, Nasdaq Tallinn AS employed 6 employees, one of them on maternity leave (in 2015: 8 employees, no employees on maternity leave).

In 2016, the salary of the employees amounted to 280 thousand euros (in 2015: 347 thousand euros). The remunerations paid to the members of the board amounted to 71 thousand euros (in 2015: 45 thousand euros). In 2016, other benefits paid to the management amounted to 2 thousand euros (in 2015: 3 thousand euros). Obligations related to the management amounted to 8 thousand euros (in 2015: 15 thousand euros). No payments were made to the members of the supervisory council of Nasdaq Tallinn AS. In addition to other benefits, employees of the Nasdaq Group have the cross-group stock program, based on which an employee can obtain stocks of Nasdaq Group if the goals of the company and of the employee are achieved (including stock options).

## Primary Activities of Nasdaq Tallinn in 2016

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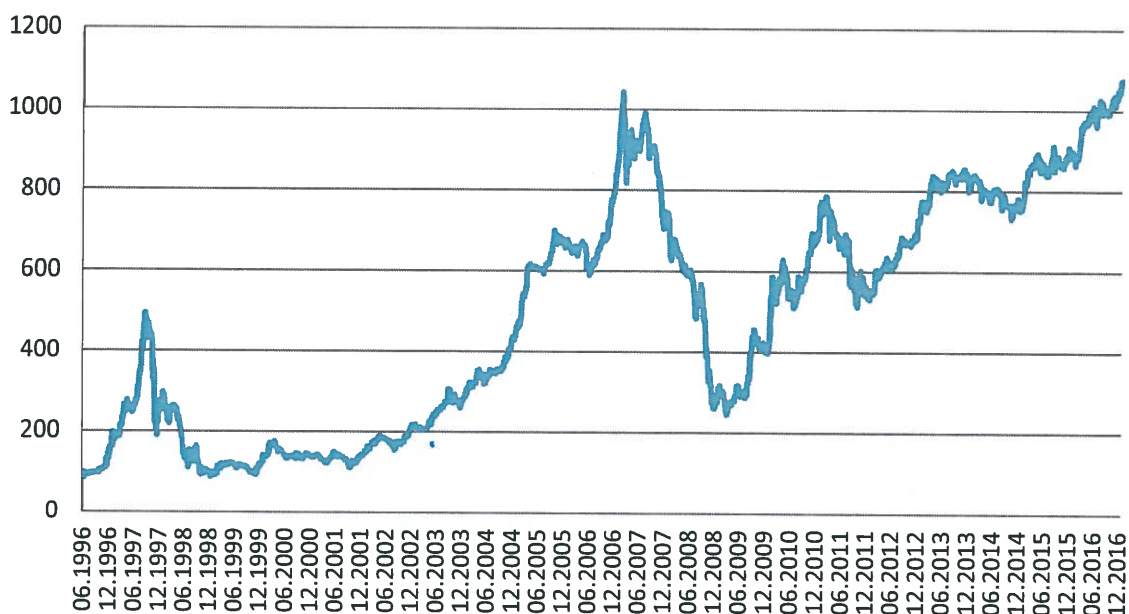
- The Nasdaq Group has developed in cooperation between the Tallinn and New York offices a blockchain technology-based e-voting and authorisation forwarding system prototype, which is a first step towards facilitating the participation of shareholders and their representatives in general meetings (remote). Estonia was selected as a test market because it is characterised by the rapidly developing information society, safe digital identification and publicity of the data on shareholders of stock companies. Additionally, an important role is played by the long-term experience of Nasdaq Tallinn's subsidiary eCSD Expert in providing the service of general meetings as well as the loyal client pool.
- In May, Nasdaq Tallinn stock exchange celebrated its 20<sup>th</sup> anniversary with a high-level international conference *The Baltic Capital Markets Forum 2016*, which focused on further development of the Baltic capital market. The conference was carried out in cooperation with FinanceEstonia.
- After three years of service, Rauno Klettenberg left the position of head of Nasdaq Tallinn at the end of June. Kaarel Ots who has long-term experience in finance was appointed as the new Member and Chairman of the Board in August.
- In November, Nasdaq Tallinn organised in cooperation with the youth organisation Ärikatel the traditional investment conference *Tark Raha (Smart Money)* with over 400 participants interested in investing.
- With the Baltic Market Awards competition, the Nasdaq Baltic stock exchanges recognized companies with the best investor relations as well as stock exchange members for their outstanding work in 2016. Tallinna Vesi was declared the company with the best investor relations in the Baltic States, and LHV Pank won the title of the Stock Exchange Member of the Year. The winner of the competition for students on the topic of securities market organised within the framework of the investor education program, which for the second time was organised as a pan-Baltic event, was Giedrė Petrošiūtė with her Master's thesis *An Assessment of Factors Influencing Corporate Governance Disclosure among Baltic and Scandinavian Listed Companies*.
- In December, Swedbank AB joined as a member of the stock exchange.
- The year 2016 was a breakthrough year in terms of new market entrants:
  - In May, LHV Group organised the first public offering of stocks aimed at retail investors in the total amount of 13.9 million euros. In total 5,485 investors took part in the issue of stocks and the issue was over-subscribed by 3.3 times.
  - In June, Baltic Horizon Fund, which is a regulated closed contractual real estate fund, organised a public offer and included approximately 30 million euros from the public. In November, the fund carried out a second public offer and received 20.6 million euros. After the second public offer, the shares of the fund can be traded with at the Nasdaq Tallinn as well as Stockholm stock exchanges.
  - Inbank entered the public securities market in October and organised the public offer of subordinated bonds aimed at retail investors in the total volume of 6.5 million euros.

## Securities Market

The year 2016 is characterised by a strong increase in stock prices at the Estonian securities market. The value of the Tallinn stock exchange index OMXT grew by 19.63% as the total of the year. The index rose in nine months out of twelve and the biggest increases were recorded in February (+5.15%) and March 2016 (+4.72%); the biggest decrease was observed in January (-1.95%). There was no decrease by quarters. The Baltic benchmark index OMX Baltic Benchmark Cap GI grew by 21.57% in the summary of the year.

By the number of transactions, the year 2016 was slightly more active as compared to the previous year – in total, 52,003 securities transactions were concluded during the year (in 2015: 49,155). Together with the growth in the number of transactions, the turnover grew by approximately 9.24% to 162.0 million euros (in 2015: 148.3 million euros). In the background of the increase of the number of transactions and turnover, the value of an average stock exchange transaction increased to approximately 3,100 euros (in 2015: 3,000 euros).

### Index OMX Tallinn 1996 - 2016



In 2016, the regulated market organised by Nasdaq Tallinn stock exchange saw the addition of the stocks of LHV Group, subordinated bonds of Inbank AS and shares of the fund of Baltic Horizon Fund. No new companies joined the alternative market First North. As on 31.12.2016, the stocks of in total 17 companies, the bonds of 3 companies and shares of one fund were traded at Nasdaq Tallinn. The total market value of the securities traded grew by 25.4% within a year, reaching 2.42 billion euros by the year end, of which stocks formed 2.30 billion euros.

Security	Abbreviation	Segment	No of transactions	Turnover (EUR)	Market value 31.12.2016 (EUR)
Arco Vara stock	ARC1T	Main list	629	594 884	8 068 695
Baltika stock	BLT1T	Main list	1 696	766 586	11 544 943
Ekspress Grupp stock	EEG1T	Main list	710	883 202	39 331 830
Harju Elekter stock	HAE1T	Main list	1 930	2 445 777	50 203 860
Merko Ehitus stock	MRK1T	Main list	4 661	8 654 707	160 185 000
Nordecon stock	NCN1T	Main list	2 312	5 352 177	43 059 392
Olympic Entertainment Group stock	OEG1T	Main list	899	1 301 484	270 188 347
PRFoods stock	PRF1T	Main list	10 414	36 419 475	14 196 610
Silvano Fashion Group stock	SFG1T	Main list	1 135	906 482	109 520 000
Skano Group stock	SKN1T	Main list	4 686	13 296 355	2 047 073
Tallink Grupp stock	TAL1T	Main list	415	159 309	611 602 303
Tallinna Kaubamaja Grupp stock	TKM1T	Main list	9 204	61 032 411	335 201 316
Tallinna Vesi stock	TVEAT	Main list	5 246	11 867 847	276 000 000
LHV Group stock	LHV1T	Main list	6 502	14 712 150	246 967 489
Pro Kapital Grupp stock	PKG1T	Secondary list	393	695 641	106 372 575
Trigon Property Development stock	TPD1T	Secondary list	290	146 288	2 663 444
LHV Group subordinated bond 2025	LHVB065025A	Bonds list	108	443 472	16 530 208
LHV Group subordinated bond 2024	LHVB072524A	Bonds list	12	887 024	16 608 323
Inbank subordinated bond 2026	INBB070026A	Bonds list	35	138 198	6 934 113
Linda Nektar stock	LINDA	First North	48	76 674	11 829 069
Mainor Ülemiste bond 2018	MAYB070018A	First North	10	162 888	5 067 345
Baltic Horizon Fund	NHCBHFFT	Funds list	668	1 084 136	76 276 638
<b>TOTAL</b>			<b>52 003</b>	<b>162 027 164</b>	<b>2 420 398 571</b>

In total, the stock prices of the majority of Estonian stock exchange companies increased, in case of one of them by more than 130% and in case of three by more than 20%. The biggest increase of the year was shown by Silvano Fashion Group (+131.3%), Nordecon (+26.7%), Linda Nektar (+25.2%) and Tallinna Kaubamaja Grupp (22.1%). The biggest fall was shown by Skano Group (-37.3%), Baltika (-17.3%) and Pro Kapital Grupp (-12.1%). Similarly to the previous year, the number of shareholders has slightly decreased for most (9/17) stock companies within the year. Proportionally, Silvano Fashion Group (-8.4%), Nordecon (-7.3%), Skano Group (-6.4%) and Arco Vara (-6.2%) have lost the most shareholders, while Tallinna Kaubamaja Grupp (+19.3%), Olympic Entertainment Group (+12.8%) and Merko Ehitus (11.6%) have won the most investors. Last year the share of investors from Switzerland (from 0.3% to 2.1%) and Latvia (from 0.6% to 0.9%) increased the most among the stock exchange investors, the share of investors from Ireland (from 0.5% to 0%), Lithuania (from 3.3% to 0.9%) and Liechtenstein (from 1% to 0.4%) fell.

In 2016, eleven stock companies decided to make dividend payments in the total volume of approximately 97.1 million euros (in 2015, ten stock companies in the total volume of approximately 78.9 million euros). Three stock companies decided to make payments related to the decreasing of the stock value – Harju Elekter, Nordecon and Tallink Grupp – they paid in total 42.4 million euros to their shareholders. Additionally, Baltic Horizon Fund made payments to the investors in the sum of approximately 1.1 million euros.



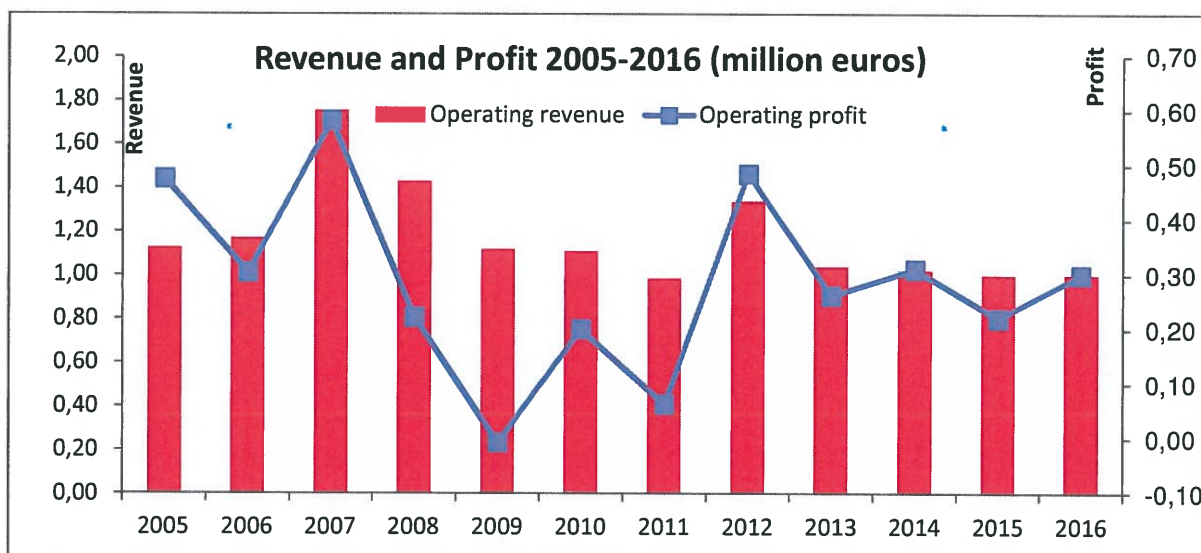
The number of Nasdaq Tallinn stock exchange members decreased in 2016 due to the fact that the membership of AS Trasta komercbanka and Nomura International Plc ended. One new member joined during the year – Swedbank AB. Another change took place in relation to the merger of members Nordea Bank Finland Plc transferred its membership to Nordea Bank AB at the end of the year. At the end of the year, Tallinn stock exchange has in total 20 members, four of whom are Estonian.

Law Office COBALT OÜ left as an advisor of First North. At the end of the year the Tallinn alternative market has five contractual advisors.

## Financial Results

The activities of Nasdaq Tallinn are not significantly seasonally influenced, but they do depend on the cyclic nature of general economic activities. The financial results of the stock exchange are significantly influenced by the change in the market value of companies listed at the stock exchange and activeness in trading. In 2016, the stocks of LHV Group were listed in the list of main list of Nasdaq Tallinn stock exchange, Inbank's bonds were listed in the bonds list and shares of Baltic Horizon Fund were listed in the fund list. There were no changes in the list of companies traded at the First North market.

Last year was characterised by a 5.8% increase in the number of transactions and 9.2% growth of turnover as compared to the year 2015. In 2016, the operating revenue of Nasdaq Tallinn remained at the previous year level of 1.0 million euros. At the end of the period, the equity capital of the company totalled 2.7 million euros (in 2015: 1.2 million euros) and the net profit of 2016 amounted to 1.7 million euros (in 2015: 0.5 million euros).



In 2016, revenue per employee was 144.0 thousand euros (in 2015: 125.6 thousand euros), profit per employee was 243.3 thousand euros (in 2015: 65.3 thousand euros).

Key financial ratios of Nasdaq Tallinn:	2016	2015
Net profit margin (net profit/revenue)	169%	52%
Return on equity (net profit/average equity capital)	85%	41%
Return on assets (net profit/average total assets)	82%	39%

## Sponsorship and Charity

One of the aims of Nasdaq Tallinn is to promote Estonian investor culture – to increase awareness of people with respect to the functioning of the securities market so that they would have the wisdom necessary for an investor and courage necessary for an entrepreneur. Thereby the securities market will function better and will be more attractive and transparent.

### Sponsorship

We support endeavours that facilitate development of investor culture. Such activities include information events, publishing of educational materials, events aimed at students etc.

The aim of the Nasdaq Tallinn investor education program ([www.rahakompass.ee](http://www.rahakompass.ee)) is to educate rationally thinking investors who could manage their money reasonably and ensure their future. For that purpose, we have:

- organised annual competition for student theses on securities markets;
- organised annual investment conference;
- published investment literature in Estonian and made it available free of charge for high schools, universities and libraries (incl *Finantsaabits (Financial ABC)* (also in Russian), *Kuidas ma investeerin börsiaktisatesse (How I Invest Into Listed Stocks)* (S. Saario), *Väärtpaberite teejuht (Guide to Securities)*, *Investeerimise teejuht (Guide to Investing)*; supported the printing of Jaak Roosaar's *Rikkaks saamise õpik (Textbook for Becoming Rich)* and its distribution for the libraries of Estonian schools;
- supported the competition for business ideas Ajujaht; contributed to the development of study programmes concerning saving and investing (Financial Literacy Development Strategy) and preparing teaching materials (Methodological Guidelines and Teaching Materials for Teaching Financial Literacy); spoken about knowledge of money to students of general education schools all over Estonia;
- held regular lectures on topics related to stock exchange and investments in the economics departments of largest Estonian universities.

### Charity

The joy of small good deeds has been the motto of Nasdaq Tallinn's co-operation with Haapsalu Welfare Centre.

We consider the clear goal of our small contribution important – its developing value for children and its continuity. Co-operation with the Palivere Children's Home (now Haapsalu Welfare Centre) started in 2002.



## Activities in 2017

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Our interest is to continue developing the Estonian securities market, create opportunities for investment for people and for involving money for companies, and for increasing visibility.

Similarly to previous years, in 2017 our main aim will be finding new companies for the stock exchange. We will also continue explanatory work for bringing state companies to the stock exchange. For that purpose, we are actively cooperating with the members of Finance Estonia in order to accelerate the entire Estonian capital market. In addition to state enterprises, our focus in 2017 will also be on small and medium-sized companies (SMEs) and alternative market First North.

## The annual accounts

### Statement of financial position

(In Euros)

	31.12.2016	31.12.2015	Note
<b>Assets</b>			
Current assets			
Cash and cash equivalents	75 917	425 876	2
Receivables and prepayments	2 691 771	62 405	3
<b>Total current assets</b>	<b>2 767 688</b>	<b>488 281</b>	
Non-current assets			
Financial investments	25 600	446 745	
Receivables and prepayments	0	400 000	3
Property, plant and equipment	12 582	6 594	6
Intangible assets	1 429	4 931	7
<b>Total non-current assets</b>	<b>39 611</b>	<b>858 270</b>	
<b>Total assets</b>	<b>2 807 299</b>	<b>1 346 551</b>	
<b>Liabilities and equity</b>			
Liabilities			
Current liabilities			
Payables and prepayments	66 717	109 377	9
<b>Total current liabilities</b>	<b>66 717</b>	<b>109 377</b>	
<b>Total liabilities</b>	<b>66 717</b>	<b>109 377</b>	
Equity			
Issued capital	700 000	700 000	11
Statutory reserve capital	174 862	174 862	
Retained earnings (loss)	162 312	-160 341	
Annual period profit (loss)	1 703 408	522 653	
<b>Total equity</b>	<b>2 740 582</b>	<b>1 237 174</b>	
<b>Total liabilities and equity</b>	<b>2 807 299</b>	<b>1 346 551</b>	

## Income statement

(In Euros)

	2016	2015	Note
Revenue	1 008 258	1 004 148	12
Other income	29	774	
Other operating expense	-417 041	-413 360	13
Employee expense	-280 216	-347 165	14
Depreciation and impairment loss (reversal)	-8 513	-8 222	6, 7
Other expense	0	-13 604	
<b>Operating profit (loss)</b>	<b>302 517</b>	<b>222 571</b>	
Other financial income and expense	1 440 891	350 082	
<b>Profit (loss) before tax</b>	<b>1 743 408</b>	<b>572 653</b>	
Income tax expense	-40 000	-50 000	
<b>Annual period profit (loss)</b>	<b>1 703 408</b>	<b>522 653</b>	

## Notes

### Note 1 Accounting policies

#### General information

The financial statements 2016 of Nasdaq Tallinn AS have been prepared in accordance with the generally accepted accounting principles of the Republic of Estonia. The main requirements of the generally accepted accounting principles of the Republic of Estonia have been stipulated in the Accounting Act of the Republic of Estonia, and supplemented by the guidelines issued by the Accounting Standards Board of the Republic of Estonia.

The financial statements have been prepared on historical cost basis, except in cases set forth in the accounting principles below.

The financial statements have been prepared in euros.

According to the Accounting Act § 29 lg 2 Nasdaq Tallinn AS is a small undertaking and does not have obligation to prepare a consolidated annual report because its consolidated figures do not exceed the terms of the small group.

#### Financial assets

The company's financial assets include cash and cash equivalents, accounts receivable and other receivables, as well as short-term and long-term financial investments.

All financial assets are initially recognised at their cost, being the fair value of the consideration given. The initial cost also includes all expenditures directly related to the purchase of the financial asset, including service charges payable to brokers and advisors, non-refundable taxes related to the transaction and other similar expenditures, except for expenses related to the acquisition of financial assets recorded at fair value with change in the income statement.

All regular way purchases and sales of financial assets under regular market conditions are recorded on the transaction date, i.e. the day when the group commits (e.g. concludes a contract) to purchase or sell the particular financial asset, except for short-term and long-term financial investments, which are recorded on the value date, i.e. the date when the company acquires or transfers ownership of the financial asset. Transactions under regular market conditions are purchases and sales transactions in the case of which the transfer of the purchased or sold financial assets from the seller to the buyer is carried out within the period established for the market of required with the relevant market regulations.

#### Financial assets at fair value

Financial assets measured at fair value are revaluated on each balance sheet date, whereas the possible transaction costs related to the disposal of the asset are not deducted. The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the Bank of Estonia on the balance sheet date. Unlisted securities are recorded at their fair value, which is found on the basis of the information on the value of the investment available to the group.

Gains and losses from the changes in fair value are recorded under "Financial income and expenses" in the income statement. Profit and loss from disposals of financial assets measured at fair value, as well as interests and dividends on the respective securities, are recognised under "Financial income and expenses" in the income statement.

#### Financial assets recorded at cost

Financial assets recorded at cost are written down to their recoverable amount, if the recoverable amount has fallen below the carrying amount. The recoverable amount of financial assets recorded at cost consists of the estimated future cash flows from the financial asset, discounted with the average rate of return from similar financial assets on the market. The amount of write-down is charged to the financial expenses of the period. The write-down of financial assets recorded at cost will not be subject to later reversal.

Financial assets are derecognized when the group no longer controls the rights arising from the financial assets, or when all the cash flows attributable to the asset, and a majority of the risks and benefits related to the financial asset are transferred to a third party.

When accounting for purchases and sales of financial assets recognised on value date, any changes in the value of assets between the trade date and the balance sheet date are charged to profit or loss, similarly with comparable financial assets owned by the company.

Subsequent to the initial recording, financial assets are measured at their fair value, except for:

- receivables, which the company has not purchased for resale and financial investments held until maturity are recorded at adjusted cost;
- investments in shares and other equity instruments the fair value of which cannot be reliably measured (incl. derivative instruments related to such assets) are recorded at cost.

**Cash and cash equivalents**

Cash at bank, demand deposits, deposits with a maturity of up to 3 months, money market fund shares and shares of other highly liquid funds are recorded as cash and cash equivalents under "Cash" in the balance sheet and cash flow statements.

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

Any currency other than the euro is considered foreign currency. Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the European Central Bank officially applicable on the transaction date. Monetary assets and liabilities denominated in foreign currency are revaluated into euro on the basis of the currency exchange rates of the European Central Bank officially applicable on the balance sheet date. Foreign exchange and losses arising from revaluation are presented in the income statement of the period. Non-monetary assets and liabilities which are denominated in foreign currency and measured at fair value, are revaluated into foreign currency on the basis of the currency exchange rates of the European Central Bank officially applicable on the date of establishment of the fair value. Non-monetary assets and liabilities which are not measured at fair value are not translated on the balance sheet, but recorded on the basis of the exchange rate of the European Central Bank on the transaction date.

**Financial investments**

Receivables, which the group has not purchased for resale and financial assets held until maturity are recorded at cost, using the effective interest rate method. The cost is calculated for the entire holding period by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction.

Financial assets measured at cost will be written down, if it is probable that their recoverable amount is lower than their carrying amount. The recoverable amount of a financial asset measured at cost is the net present value of future cash flows from the financial asset, discounted with the effective interest rate fixed at the initial recognition. The write-down of financial assets related to operating activities is charged to expenses in the income statement under "Other operating expenses", while the write-down of financial assets related to investing activities is charged to "Financial expenses" in the income statement.

**Shares of subsidiaries and associates**

Subsidiaries are companies controlled by the parent company. A subsidiary is considered to be controlled by the parent company, if the parent company directly or indirectly holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary.

Subsidiaries are recorded using the cost method.

When using the cost method the dividends paid by a subsidiary or related company are recorded in the parent company's statement as revenue at the moment when parent company obtains right to get the dividends not considering if the profit was earned before or after obtaining the subsidiary or related company.

Dividends from the subsidiaries are recorded under "Financial income".

**Receivables and prepayments**

Impairment of trade receivables is recorded according to the applicable policy for impairments. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor, and the default or delinquency in payments. If possible, accounts receivable are evaluated on individual basis. If the evaluation of the receivables on individual basis proves impossible, only the material receivables will be evaluated. Other receivables are evaluated as groups on the basis of the policies for impairment of receivables established in the group, which have been compiled on the basis of the experiences of previous years regarding overdue payments. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement under other operating expenses. When a receivable is deemed uncollectible, it is written off from trade receivables and the allowance account for trade receivables. Collection of receivables, which have been previously expensed as doubtful receivables, is recorded as an adjustment to doubtful receivables. In case of collection of receivables previously written down, or other events indicating that the write-down is no longer justifiable, the previous write-down will be reversed in the income statement as a reduction of the expense item to which the write-down was initially charged. Interest income from receivables is recorded under "Other financial income and expenses" in the income statement.

**Plant, property and equipment and intangible assets**

Assets with a useful life over 1 year and cost over 650 euros are considered to be property, plant and equipment (PPE). Assets with a useful life over 1 year, but cost of less than 650 euros, are fully expensed upon acquisition, regardless of their useful life.

PPE are initially recorded at cost, consisting of the purchase price (incl. customs duties and other non-refundable taxes) and expenses directly related to the acquisition, incurred upon bringing the assets to their present operating condition and location. An item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses.

Expenses incurred on a PPE item are recorded under PPE, if future economic benefits are expected to arise from the asset item, and the cost of the asset item can be reliably measured. Other costs on maintenance and repairs are expensed when incurred.

Depreciation is calculated on the basis of the straight-line method. Depreciation rates are determined for each PPE item individually, depending on its estimated useful life. In case of asset items with a significant final value, only the depreciable difference between the cost and the final value shall be charged to expenses over the useful life of the item. A PPE item will no longer be depreciated, if the final value of the asset rises above its carrying amount.

If PPE item consists of distinguishable components with different useful lives, these components are recorded as separate asset items, and their depreciation rates specified separately in accordance with their useful lives.

The following annual depreciation rates are applied for the PPE groups:

Other equipment and IT equipment 20%-40%

Other machinery and equipment 20%-40%

Depreciation is calculated from the moment an asset can be used for the purposes established by the management, until the final value of the assets exceeds its carrying amount, or until the assets' classification into "fixed assets held for sale", or removal from use. The depreciation rates, depreciation methods and final values are evaluated on each balance sheet date. If the recoverable amount of the fixed assets item (i.e. higher of the net selling price or the value of asset in utilization) is lower than its carrying amount, the fixed assets item will be written down to its recoverable amount.

#### Intangible assets

Intangible assets (development costs, patents, licenses, trademarks, software) are recorded on the balance sheet if the assets are controlled by the company, if future economic benefits are expected to arise from the assets and if the cost of the assets can be reliably measured. Intangible assets are initially recorded at cost, consisting of the purchase price and expenses directly related to the acquisition. An intangible asset item is recorded on the balance sheet at its cost, less accumulated amortisation and any accumulated impairment losses. On each balance sheet date, however, these assets are tested for impairment and the asset will be written down to its recoverable amount, if the recoverable amount has dropped below the carrying amount. Intangible assets with a definite useful life are amortised on a straight-line basis. Depending on the area of use of the intangible asset item, the annual amortisation rate is 20% to 40%.

Development costs are expenses incurred on the implementation of the research results for the development, design or testing of new products, services, processes or systems. Development costs are capitalised, if there is a plan for the execution of the project, and the cost amount as well as future economic benefits from the intangible assets can be reliably measured.

#### Leases

Lease transactions, where all material risks and rewards from ownership of an asset are transferred to the lessee, are recorded as finance lease. All other lease transactions are recorded as operating lease.

##### Company as the lessee

Assets acquired under finance lease are recognised in the balance sheet as assets and liabilities at their fair value or the net present value of the minimum lease payments, whichever is smaller. Lease payments are divided into financial expenses (interest expenses) and reduction of the net book value of the liability. Financial expenses are divided over the lease period so that the interest rate of the net book value of the liability would be the same at any given moment. Assets leased under finance lease terms are depreciated similarly to the acquired fixed assets, whereas the depreciation period is the estimated useful life of the asset item, or the lease period, whichever is shorter. Initial direct expenses incurred by the lessee upon conclusion of the finance lease contract are charged to the cost of the leased assets. Operating lease payments are recorded in the income statement during the rental period as expenses based on the straight-line method.

#### Financial liabilities

All financial liabilities (accounts payable, accrued expenses, and other short-term and long-term borrowings) are initially accounted for at their cost, which includes all expenses directly related to the acquisition. Subsequently, financial liabilities are recorded on the basis of the amortised cost method.

Generally, the amortised cost of short-term financial liabilities equals to their nominal value due to which short-term financial liabilities are recorded in the balance sheet at payable amount. The cost of long-term liabilities is calculated on the basis of the effective interest rate method.



Financial liabilities are recorded as short-term liabilities, if the liability is due within less than 12 months after the balance sheet date, or if the company has no unconditional right to delay payment for more than 12 months after the balance sheet date. Borrowings which are due for repayment within 12 months after the balance sheet date, but which are refinanced into long-term borrowings after the balance sheet date but before the approval of the Annual Report, are recorded as short-term borrowings. Furthermore, borrowings the immediate repayment of which can be demanded by the creditor due to the violation of a provision of the loan agreement are also recorded under short-term borrowings.

#### Equity statutory reserve capital

The company has set up a mandatory reserve in accordance with the Commercial Code of the Republic of Estonia. The mandatory reserve is set up of the annual allocations of net profit. Pursuant to the Commercial Code at least 1/20 of the net profit must be transferred to the legal reserve until the mandatory reserve amounts to 1/10 of the share capital.

Reserve capital can be used for covering the loss or for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends.

#### Revenue recognition

Revenue from sales of services is recorded upon rendering of the service, or based on the stage-of-completion method, if the service is rendered during a longer period of time.

##### Revenue from stock exchange services

- Transaction fees. Revenue from transaction fees is recorded upon conclusion of the securities transaction.
- Listing fee. Revenue is recorded upon listing.
- Membership fees. Membership fees, which do not grant additional benefits to members, are charged to income on a straight-line basis, over the period for which the fees are paid.
- Annual fee for securities. Revenue from annual fees is divided into management fees and maintenance fees. Revenue is recorded on a straight-line basis, over the agreed period.
- Information forwarding fees. Revenue from data forwarding is recorded on a straight-line basis, over the agreed period.

Interest income and dividend income is recorded when collection of the revenue is probable and the amount of the revenue can be reliably measured. Interest income is recognised based on the effective interest rate method, except if the receipt of the interest is doubtful. In this case, interest income is recorded on cash basis. Dividend income is recognised when the owner is granted a legal right to receive dividends.

#### Taxation

Pursuant to the Income Tax Act of the Republic of Estonia, companies are not subjected to income tax on the profit for the financial year in Estonia. Income tax is imposed on dividends, fringe benefits, gifts, costs of entertaining guests, non-operating expenses and transfer price adjustments. From 01.01.2015 the established tax rate is 20/80 on the net dividend paid. Under certain conditions, the dividends received may be redistributed without incurring further income tax expense. Corporate income tax is recorded under liabilities on the payment of dividends and under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid. The income tax payment obligation arises on the 10th day of the month following the dividend payment.

Due to the peculiarity of the taxation system, there are no differences between the taxation and carrying values of the assets for companies registered in Estonia and due to that there are no deferred income tax payables or liabilities. The contingent income tax liability related to the payment of dividends from retained profit is not recorded in the balance sheet. The maximum income tax liability related to the distribution of retained earnings as dividends has been disclosed in the notes to the financial statements.

#### Related parties

For the purposes of the financial statements of Nasdaq, the following are considered related parties:

- owners (parent company and owners of the parent company, and other shareholders);
- subsidiaries and other companies belonging to the OMX consolidation group;
- management board and senior management;
- family members of the persons listed above, and the companies under their control or significant influence.

## Note 2 Cash and cash equivalents

(In Euros)

	31.12.2016	31.12.2015
Settlement accounts	75 917	425 876
<b>Total cash and cash equivalents</b>	<b>75 917</b>	<b>425 876</b>

### Note 3 Receivables and prepayments

(In Euros)

	31.12.2016	Allocation by remaining maturity	
		Within 12 months	1 - 5 years
Accounts receivable	17 894	17 894	
Accounts receivables	20 134	20 134	
Allowance for doubtful receivables	-2 240	-2 240	
Receivables from related parties	2 626 994	2 626 994	
Tax prepayments and receivables	2 325	2 325	
Other receivables	33 196	33 196	
Accrued income	33 196	33 196	
Prepayments	11 362	11 362	
Other paid prepayments	11 362	11 362	
<b>Total receivables and prepayments</b>	<b>2 691 771</b>	<b>2 691 771</b>	

	31.12.2015	Allocation by remaining maturity	
		Within 12 months	1 - 5 years
Accounts receivable	7 725	7 725	0
Accounts receivables	9 457	9 457	0
Allowance for doubtful receivables	-1 732	-1 732	0
Receivables from related parties	400 000	0	400 000
Tax prepayments and receivables	3 201	3 201	0
Other receivables	33 196	33 196	0
Accrued income	33 196	33 196	0
Prepayments	18 283	18 283	0
Deferred expenses	18 283	18 283	0
<b>Total receivables and prepayments</b>	<b>462 405</b>	<b>62 405</b>	<b>400 000</b>

## Note 4 Tax prepayments and liabilities

(In Euros)

	31.12.2016		31.12.2015	
	Tax prepayments	Tax liabilities	Tax prepayments	Tax liabilities
Value added tax	2 325	0	3 201	0
Personal income tax	0	4 848	0	6 741
Fringe benefit income tax	0	606	0	915
Social tax	0	9 958	0	12 996
Contributions to mandatory funded pension	0	727	0	877
Unemployment insurance tax	0	617	0	856
<b>Total tax prepayments and liabilities</b>	<b>2 325</b>	<b>16 756</b>	<b>3 201</b>	<b>22 385</b>

## Note 5 Shares of subsidiaries

(In Euros)

Shares of subsidiaries, general information					
Subsidiary's registry code	Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
				31.12.2015	31.12.2016
10111982	AS Eesti Väärtpaberikeskus	Estonia	Financial servicesactivities auxiliary	100	0
10758689	AS eCSD expert	Estonia	Financial consulting	100	100

Disposed ownership interests:			
Name of subsidiary	Disposed ownership interest %	Disposed ownership interest at selling price	Sales profit (-loss) on disposed ownership interest
AS Eesti Väärtpaberikeskus	100	1 822 036	1 400 891

Subsidiaries book value as of 31.12.2016 is:

AS eCSD expert 25,600 euros and AS Eesti Väärtpaberikeskus 0 euros.

## Note 6 Property, plant and equipment

(In Euros)

				Total
	Computers and computer systems	Machinery and equipment	Other property, plant and equipment	
<b>31.12.2014</b>				
Carried at cost	36 845	36 845	113 521	150 366
Accumulated depreciation	-30 257	-30 257	-112 519	-142 776
<b>Residual cost</b>	<b>6 588</b>	<b>6 588</b>	<b>1 002</b>	<b>7 590</b>
Acquisitions and additions	2 851	2 851	1 109	3 960
Depreciation	-3 194	-3 194	-916	-4 110
Disposals	-846	-846	0	-846
<b>31.12.2015</b>				
Carried at cost	37 427	37 427	113 734	151 161
Accumulated depreciation	-32 028	-32 028	-112 539	-144 567
<b>Residual cost</b>	<b>5 399</b>	<b>5 399</b>	<b>1 195</b>	<b>6 594</b>
Acquisitions and additions	10 999	10 999	0	10 999
Depreciation	-4 635	-4 635	-376	-5 011
<b>31.12.2016</b>				
Carried at cost	48 426	48 426	113 734	162 160
Accumulated depreciation	-36 663	-36 663	-112 915	-149 578
<b>Residual cost</b>	<b>11 763</b>	<b>11 763</b>	<b>819</b>	<b>12 582</b>

### Disposed property, plant and equipment at selling price

	2016	2015
Machinery and equipment	0	846
Computers and computer systems	0	846
<b>Total</b>	<b>0</b>	<b>846</b>

## Note 7 Intangible assets

(In Euros)

	Computer software	Total
<b>31.12.2014</b>		
Carried at cost	106 367	106 367
Accumulated depreciation	-99 156	-99 156
<b>Residual cost</b>	<b>7 211</b>	<b>7 211</b>
Acquisitions and additions	1 831	1 831
Depreciation	-4 111	-4 111
<b>31.12.2015</b>		
Carried at cost	91 216	91 216
Accumulated depreciation	-86 285	-86 285
<b>Residual cost</b>	<b>4 931</b>	<b>4 931</b>
Depreciation	-3 502	-3 502
<b>31.12.2016</b>		
Carried at cost	91 216	91 216
Accumulated depreciation	-89 787	-89 787
<b>Residual cost</b>	<b>1 429</b>	<b>1 429</b>

## Note 8 Operating lease

(In Euros)

Accounting entity as lessee

	2016	2015
Operating lease expenses	40 271	39 574



## Note 9 Payables and prepayments

(In Euros)

	31.12.2016	Within 12 months	Note
Trade payables	375	375	
Employee payables	36 831	36 831	
Tax payables	16 756	16 756	4
Other payables	12 755	12 755	
Other accrued expenses	12 755	12 755	
<b>Total payables and prepayments</b>	<b>66 717</b>	<b>66 717</b>	

	31.12.2015	Within 12 months	Note
Trade payables	7 299	7 299	
Employee payables	77 694	77 694	
Tax payables	22 385	22 385	4
Other payables	1 999	1 999	
Other accrued expenses	1 999	1 999	
<b>Total payables and prepayments</b>	<b>109 377</b>	<b>109 377</b>	

## Note 10 Contingent liabilities and assets

(In Euros)

	31.12.2016	31.12.2015
Contingent liabilities		
Distributable dividends	1 492 576	289 850
Income tax liability on distributable dividends	373 144	72 462
<b>Total contingent liabilities</b>	<b>1 865 720</b>	<b>362 312</b>

## Note 11 Share capital

(In Euros)

	31.12.2016	31.12.2015
Share capital	700 000	700 000
Number of shares (pcs)	700 000	700 000
Nominal value of shares	1	1

## Note 12 Net sales

(In Euros)

	2016	2015
Net sales by geographical location		
Net sales in European Union		
Estonia	459 273	454 597
Other European Union net sales	548 985	549 551
<b>Total net sales in European Union</b>	<b>1 008 258</b>	<b>1 004 148</b>
<b>Total net sales</b>	<b>1 008 258</b>	<b>1 004 148</b>
Net sales by operating activities		
Transaction fees	77 577	90 045
Members fees	93 898	114 405
Issuer fees	309 127	265 554
Sales of information	437 383	445 019
Other revenues	90 273	89 125
<b>Total net sales</b>	<b>1 008 258</b>	<b>1 004 148</b>

## Note 13 Miscellaneous operating expenses

(In Euros)

	2016	2015
Leases	50 940	48 786
Miscellaneous office expenses	6 909	6 770
Travel expense	12 226	11 748
Allowance for doubtful receivables	0	-468
Marketing expenses	45 166	30 596
Personnel expenses	55 006	50 629
Other services purchased	142 500	120 855
IT expenses	83 948	120 170
Insurance	5 751	6 066
Other	14 595	18 208
<b>Total miscellaneous operating expenses</b>	<b>417 041</b>	<b>413 360</b>

## Note 14 Labor expense

(In Euros)

	2016	2015
Wage and salary expense	213 725	269 660
Social security taxes	66 491	77 505
<b>Total labor expense</b>	<b>280 216</b>	<b>347 165</b>
Average number of employees in full time equivalent units	7	8

## Note 15 Related parties

(In Euros)

Name of accounting entity's parent company	Nasdaq Nordic OY
Country where accounting entity's parent company is registered	Finland
Group name where parent company belongs	Nasdaq, Inc
Country where group's parent company is registered	USA

### Related party balances according to groups

	31.12.2016	31.12.2015
	Receivables	Receivables
Other entities belonging into same consolidation group	2 626 994	400 000

### Purchases and sales

	2016		2015	
	Purchases	Sales	Purchases	Sales
Parent company	0	30 000	0	30 000
Subsidiary	0	2 353	0	0
Other entities belonging into same consolidation group	100 065	444 865	175 950	490 411

Remuneration and other significant benefits calculated for members of management and highest supervisory body		
	2016	2015
Remuneration	70 760	45 070
Other benefits	1 764	2 507

According to the management of the company, the prices used for transactions with related parties do not significantly differ from the market prices.

Contingent liabilities to members of the Management are maximum 7,500 euros. In addition to other benefits, the employees of the Nasdaq Group can participate in the cross-group shares programme, on the basis of which shares (including share options) of Nasdaq can be obtained in the event a company or an employee achieves the set goals.

No payments were made to the members of the Supervisory Council.

Since 26 May 2016, the subsidiary of Nasdaq Tallinn AS, AS Eesti Väärtpaberikeskus is 100% owned by the Latvian Central Depository. This transaction took place due to the merger of the Baltic central depositories and Nasdaq Tallinn AS earned profit of 1.4 million euros.

## Note 16 Off-balance sheet items

	31.12.2016	31.12.2015
Guarantee fund	79 702	80 621

Guarantee fund holds the funds of the stock exchange members to guarantee the exchange trades. The holding and managing of the funds are regulated by the 14. August 2003 Act nr 48 by Ministry of Finance. The funds are kept in the Central Bank of Estonia.

## **Signatures of the Management Board to the Annual Report 2016**

Hereby we approve the Annual Report 2016 of Nasdaq Tallinn AS.

A handwritten signature in blue ink, consisting of a large, stylized 'K' followed by a vertical stroke and a horizontal stroke.

Kaarel Ots  
Member of the Management Board

25 of April 2017

Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Nasdaq Tallinn Aktsiaselts

### *Opinion*

We have audited the financial statements of Nasdaq Tallinn Aktsiaselts, which comprise the balance sheet as at 31 December 2016, and the income statement and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nasdaq Tallinn Aktsiaselts as at 31 December 2016, and its financial performance for the year then ended in accordance with the Estonian generally accepted accounting principles.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

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

### *Other information*

Management is responsible for the other information. Other information consists of management report, but does not consist of the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of management and those charged with governance for the financial statements*

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

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

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



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


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

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

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

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

Tallinn, 27 April 2017



Ivar Kiigemägi  
Authorised Auditor's number 527  
Ernst & Young Baltic AS  
Audit Company's Registration number 58



Herki Didvig  
Authorised Auditor's number 573