



**AS „Rīgas Fondu birža”  
Consolidated Annual Report  
for the year ended 31 December 2006**

**AS RĪGAS FONDU BIRŽA  
CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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## **REPORT OF THE MANAGEMENT**

### **Type of operations**

The main business operations of the OMX Riga Group – AS “Rīgas Fondu birža (Riga Stock Exchange or RSE) and AS “Latvijas Centrālais Depozitārijs” (Latvian Central Depository or LCD), hereinafter commonly OMX Riga Group companies – are the development and maintenance of the infrastructure for the financial instruments (securities) market. The main business services of the RSE are organization of the securities market for financial instruments, provision of open and fair trading facilities for the financial instruments listed on the RSE, quotation of the financial instruments (equities, debt securities and other financial instruments) on a regular basis, dissemination of market information, fulfilment of any other functions assigned to a regulated market organizer by the Law on Financial Instruments Market. In addition, RSE actively takes part in implementation of privatization projects, as well as provides infrastructure for public offering for cash of state-owned property objects.

The main business services of the LCD are provision of securities custody, clearance and settlement, as well as development and maintenance of different data registers.

The entities of the OMX Riga Group are fully integrated in terms of personnel and structure on all corporate levels; however, the entities maintain segregate core business operations.

### **OMX Riga Group financial performance during the accounting period**

In 2006 the RSE and LCD continued the activities started in the previous years concerned with improvement of corporate governance and systems integration. The good financial performance demonstrates the right choice of strategy in the previous years.

The past year has been another successful year in the history of both entities. Core operations alone generated stable revenues, thus precisely demonstrating the capacity of the domestic market, as well as the capability of the market operator to run the business successfully, to develop and make profit. There are also sufficient grounds to believe that the upward trend of financial performance is sustainable.

### **Investments**

RSE has not made any new investments in terms of acquisitions, or establishing new companies. The RSE retains 100% control over the LCD. At the end of the year the RSE:

- Owns 370 LCD shares;
- Nominal value of a share is LVL 500;
- The total value of paid in shares is LVL 185,000;
- The ownership interest in LCD is 100%.

### **Employees**

OMX Riga Group average number of employees in 2006 was 25.

### **Events after the end of the financial year**

No events have occurred in the period between the end of the financial year and the day of signing this report that might have a material effect on OMX Riga Group financial or business performance, or on the result of the year.

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**REPORT OF THE MANAGEMENT** (continued)

**Key events**

Company management feels gratified with the results of the past year. The achievements of the year allow stating that OMX Riga Group integration into the Nordic markets and creation of joint Baltic market has triggered off the development of the Latvian capital market. Now, by employing the RSE infrastructure, the businesses have access both to domestic as well as international capital that may be used for growth and development. The past year has been a year of development. We have been devoting continuous effort to expand the range of products and services offered by the Baltic stock exchanges, and to enhance their quality.

The main focus has been on enhancing the quality of the existing services, and creating new ones, as well as further integration of the central securities depositories of the Baltic countries. For this purpose, a separate Market Development Unit was set up at the Baltic exchanges.

Main accomplishments in 2006:

- Improvement of overall market quality – increase of liquidity, improvement of the disclosure contents, and enhancement of market practices. Implementation of Baltic membership; restructuring of the RSE market surveillance system; Baltic Market Awards; upgrade of the e-broker service;
- Development and launch of new products – new Baltic index family, Baltic Fund center;
- Expanding and complementing to the range of products and services provided by the LCD – harmonization of cut-off times between Riga, Vilnius and Tallinn for stock exchange trade settlement; implementation DVP FOP link between the Baltic central securities depositories;
- Technical support to “Ventspils nafta” privatization cash auction;
- An active marketing and sales of core services promoting IPOs; attracting of new members and information vendors; education in increasing the awareness of retail investors of the investment opportunities in stock-exchange listed products;
- In the light of the latest trends in Europe in the area of securities custody and settlement, work has started to implement single future strategy for Baltic central securities depositories;
- Signing of ‘Code of Conduct’ and starting its implementation;
- Increase of OMX Riga Group value to shareholders.

**Future prospects**

The achievements of the past couple of years as well as an accurate implementation of the long-term strategy and business plan allow facing the future with expectations and optimism, and making a conclusion that the Latvian capital market is opening a new state of development in terms of quality.

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**REPORT OF THE MANAGEMENT** (continued)

**Future prospects** (continued)

It is expected that year 2007 is going to be as intensive and work consuming as the previous one. This is why the priorities of 2007 are to continue on the developments started in 2006, related to:

- Increase of trading volume and further improvement of market quality – by being pro-active in bringing new equity, debt and fund unit listings to the market;
- Development of new products and services, including foundation and launch of Alternative market;
- Aggressive marketing of the capital-raising opportunities offered by the stock exchange;
- Launch of TARGET 2 in Latvia;
- Implementation of uniform corporate actions service procedure in the Baltics;
- To continue with the research of the possibility to implement a single pan-Baltic settlement system, in order to promote the increase of competitive ability and growth of the Baltic securities market;
- Implementation of investor education program;
- Increase of employee satisfaction and competency.

  
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Daiga Auziņa-Melalksne  
Chairman of Management Board

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**STATEMENT OF THE RESPONSIBILITIES OF THE MANAGEMENT**

The Management of AS Rīgas Fondu birža is responsible for preparing the consolidated financial statements of AS Rīgas Fondu birža and its subsidiary undertaking (the Group) from the books of prime entry of the Group's companies for each financial period that present fairly the state of affairs of the Group as at the end of each financial period and the results of its operations.

The Management of AS Rīgas Fondu birža confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in preparation of these consolidated financial statements. The Management of AS Rīgas Fondu birža also confirms that applicable International Financial Reporting Standards have been followed and the consolidated financial statements have been prepared on a going concern basis.

The Management of AS Rīgas Fondu birža is responsible for maintenance of proper accounting records, for safeguarding the assets of the Group and for prevention and detection of fraud and other irregularities. The Management of AS Rīgas Fondu birža is responsible for compliance with the requirements of the Republic of Latvia legislation.

On behalf of the Management of AS Rīgas Fondu birža:



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Daiga Auziņa-Melalksne  
Chairman of Management Board

Rīga, 27 January 2007

## INDEPENDENT AUDITORS' REPORT

**To the shareholders of AS Rīgas Fondu birža**

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements on pages 9 to 32 of AS Rīgas Fondu birža and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

We have read the Management Report set out on pages 3 to 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the consolidated financial statements for 2006.

PricewaterhouseCoopers SIA  
Audit company licence No. 5



Juris Lapshe  
Certified auditor  
Certificate No. 116

Member of the Board

Riga, Latvia  
28 February 2007

**AS RĪGAS FONDU BIRŽA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
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**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 Ls	2005 Ls
Revenue	1	1,989,820	1,504,511
Employee related expenses	2	(428,566)	(358,171)
Depreciation, amortisation	7, 8	(65,579)	(83,418)
IT system operational expenses		(121,024)	(132,981)
Received services for corporate projects		(228,453)	(24,619)
Other expenses	3	(533,814)	(378,588)
Other operating (loss)/ income, net	4	(14,278)	74,616
<b>Operating profit</b>		<b>598,106</b>	<b>601,350</b>
Finance income	5	7,745	16,221
Finance costs	5	(11,610)	(1,765)
Finance (costs)/ income, net	5	(3,865)	14,456
<b>Profit before income tax</b>		<b>594,241</b>	<b>615,806</b>
Income tax expense	6	(99,662)	(92,045)
<b>Profit for the year</b>		<b>494,579</b>	<b>523,761</b>

The notes on pages 12 to 30 form an integral part of the consolidated financial statements.

**AS RĪGAS FONDU BIRŽA**  
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**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006**

	Notes	31.12.2006 Ls	31.12.2005 Ls
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	157,422	91,157
Intangible assets	8	79,701	102,936
Available-for-sale financial assets	9	70,148	68,335
Financial assets at fair value through profit or loss	9	–	672,982
Other investments		810	1,409
		<b>308,081</b>	<b>936,819</b>
<b>Current assets</b>			
Trade and other receivables	10	190,062	135,263
Prepaid current income tax		9,232	–
Financial assets at fair value through profit or loss	9	1,414,686	401,169
Term deposits	11	301,802	–
Cash and cash equivalents	12	682,343	847,303
		<b>2,598,125</b>	<b>1,383,735</b>
<b>Total assets</b>		<b>2,906,206</b>	<b>2,320,554</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	13	712,500	712,500
Revaluation reserve of available-for-sale financial assets		2,582	769
Retained earnings		992,109	997,530
<b>Total equity</b>		<b>1,707,191</b>	<b>1,710,799</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	14	7,058	1,475
		<b>7,058</b>	<b>1,475</b>
<b>Current liabilities</b>			
Trade and other payables	16	1,191,957	592,856
Current income tax liabilities		–	15,424
		<b>1,191,957</b>	<b>608,280</b>
<b>Total liabilities</b>		<b>1,199,015</b>	<b>609,755</b>
<b>Total equity and liabilities</b>		<b>2,906,206</b>	<b>2,320,554</b>

These consolidated financial statements have been approved for issue by the Management Board on 27 January 2007.

The notes on pages 12 to 30 form an integral part of the consolidated financial statements.

  
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 Daiga Auziņa-Melalksne  
 Chairman of Management Board

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED  
31 DECEMBER 2006**

	Share capital	Revaluation reserve of available-for-sale financial assets	Retained earnings	Total equity
	Ls	Ls	Ls	Ls
<b>Balance at 1 January 2005</b>	<b>712,500</b>	–	<b>773,769</b>	<b>1,486,269</b>
Dividend relating to 2004	–	–	(300,000)	(300,000)
Fair value gains on available- for-sale financial assets	–	769	–	769
Net profit for the year	–	–	523,761	523,761
<b>Balance at 31 December 2005</b>	<b>712,500</b>	<b>769</b>	<b>997,530</b>	<b>1,710,799</b>
<b>Balance at 1 January 2006</b>	<b>712,500</b>	<b>769</b>	<b>997,530</b>	<b>1,710,799</b>
Dividend relating to 2005	–	–	(500,000)	(500,000)
Fair value gains on available- for-sale financial assets	–	1,813	–	1,813
Net profit for the year	–	–	494,579	494,579
<b>Balance at 31 December 2006</b>	<b>712,500</b>	<b>2,582</b>	<b>992,109</b>	<b>1,707,191</b>

The notes on pages 12 to 30 form an integral part of the consolidated financial statements.

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**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 Ls	2005 Ls
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	1,234,061	638,873
Income tax paid		<u>(118,735)</u>	<u>(71,988)</u>
<b>Net cash generated from operating activities</b>		<b>1,115,326</b>	<b>566,885</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,158	3,274
Purchase of property, plant and equipment and intangible assets		(110,252)	(50,483)
Purchase of financial assets	9	(787,005)	(370,965)
Placement of term deposits	11	(300,000)	–
Proceeds from disposal of financial assets		386,353	81,625
Interest received		<u>35,830</u>	<u>36,027</u>
<b>Net cash used in investing activities</b>		<b>(773,916)</b>	<b>(300,522)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to Company's shareholders		<u>(500,000)</u>	<u>(300,000)</u>
<b>Net cash used in financing activities</b>		<b>(500,000)</b>	<b>(300,000)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>			
		<b>(158,590)</b>	<b>(33,637)</b>
Cash and cash equivalents at beginning of the year		847,303	869,440
Exchange gains / (losses) on cash and cash equivalents		<u>(6,370)</u>	<u>11,500</u>
<b>Cash and cash equivalents at end of the year</b>	12	<b><u>682,343</u></b>	<b><u>847,303</u></b>

The notes on pages 12 to 30 form an integral part of the consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

The main business operations of the OMX Riga Group – AS “Rīgas Fondu birža” (Riga Stock Exchange or RSE) and AS “Latvijas Centrālais Depozitārijs” (Latvian Central Depository or LCD), hereinafter commonly OMX Riga Group companies – are development and maintenance of the infrastructure for the financial instrument (securities).

The main business services of the RSE are organization of the securities market for financial instruments, provision of open and fair trading facilities for the financial instruments listed on the RSE, quotation of the financial instruments (equities, debt securities and other financial instruments) on a regular basis, dissemination of market information, fulfillment of any other functions assigned to a regulated market organizer by the Law on Financial Instruments Market.

The main business services of the LCD are provision of securities custody, clearance and settlement, as well as development and maintenance of different data registers.

The Parent company of the OMX Riga Group is AS “Rīgas Fondu birža” (hereinafter – the Company). 92.98% of shares of AS “Rīgas Fondu birža” are owned by OMX Exchanges Ltd., incorporated in Finland.

The Company is a joint stock company incorporated and domiciled in Latvia. The address of its registered office is Valņu 1, Riga LV-1050, Latvia.

These consolidated financial statements have been approved for issue by the Management on 27 January 2006.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Basis of preparation**

The consolidated financial statements of OMX Riga Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

In 2006 the Group applied 2005 amendments to IAS 39 (effective 1 January 2006). As a result the Group reclassified part of its investments from the financial assets at fair value through profit or loss to available-for-sale financial assets (Note 9). The de-designation was performed retrospectively and it did not result to material restatement to comparative equity as at 1 January or 31 December 2005. In the balance sheet the financial assets at carrying amount of Ls 68’335 previously reported as at fair value through profit or loss were reclassified as available for sale as at 31 December 2005.

Other standards, interpretations and amendments to published standards that became effective in 2006 are not relevant to the operations of the Group. The Group has not early adopted any standards, amendments or interpretations.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(a) Basis of preparation** (continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

*IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendments to IAS 1 and concluded that there will be no material impact on the Group's financial statements. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

Standards and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

*IFRS 8, Operating Segments (effective from 1 January 2009)*

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 Disclosures about Segments of an Enterprise and Related Information. IFRS 8 is not relevant to the Group's operations.

*IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)*

IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, IFRIC 7 is not relevant to the Group's operations;

*IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)*

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 it is not relevant to he Group's operations; and

*IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006)*

IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(a) Basis of preparation** (continued)

*IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)*

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. IFRIC 10 is not relevant to the Group's operations as it does not issue interim financial statements.

*IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)*

IFRIC 11 addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Group's operations.

*IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)*

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Group's operations.

**(b) Consolidation**

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the Group. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. For goodwill recognition see Note (e).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(c) Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Latvian Lats (Ls), which is the Company's functional and presentation currency.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Foreign currency translation** (continued)

*Transactions and balances*

Foreign currency transactions are translated into the functional currency, using the exchange rates set by the Bank of Latvia prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The exchange rates of the principal foreign currencies applied by the Group at the balance sheet dates:

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
1 USD	0.5360	0.5930
1 EUR	0.7028	0.7028

**(d) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives using following rates set by management:

Equipment	20 – 50% per annum
Other fixtures and fittings	10 – 25% per annum

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the net selling price and value in use of the asset.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are credited or charged to the income statement during the period in which they are incurred.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) Intangible assets**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

*Other intangible assets*

Other intangible assets are shown at historic cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (3 – 5 years).

**(f) Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available for sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and 'term deposits' in the balance sheet. See Note (h).

*(b) Financial assets at fair value through profit or loss*

All investments in this category are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, as well as interest and dividend income on those assets, are presented in the income statement within 'other operating (loss)/ income, net', in the period in which they arise.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(f) Financial assets** (continued)

*(c) Available-for-sale financial assets (continued)*

Changes in the fair value of monetary securities classified as available for sale and non-monetary securities classified as available for sale are recognised in equity. The fair values of quoted investments are based on current bid prices.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

**(g) Derivative financial instruments**

The Group does not apply hedge accounting to derivative financial instruments, therefore they are classified in a category Held for trading. Derivative financial instruments (forward foreign exchange contracts) are initially recognised at fair value on the date of a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognized immediately in income statement.

**(h) Trade receivables and term deposits**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement within 'other operating (loss)/ income, net'. Subsequent recoveries of amounts previously written off are credited against 'other operating (loss)/ income, net' in the income statement.

**(i) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(j) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability settled.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiary undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(k) Employee benefits**

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on accrual basis.

The Group pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The Fund is used by the State to finance pension, unemployment and other benefits. The Group is required to pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

**(l) Revenue**

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group.

Sales of services are recognised in the accounting period in which the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

**(m) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(n) Share capital and dividend distribution**

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

**(o) Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(p) Fair values of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where, in the opinion of the management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the consolidated financial statements.

**(q) Critical accounting estimates and judgements**

There are no assets or liabilities exposed to significant risk of material adjustments subject to the outcome of critical accounting estimate or judgement.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**1 REVENUES**

	<b>2006</b>	<b>2005</b>
	<b>Ls</b>	<b>Ls</b>
Income for servicing of securities accounts	632,968	528,327
Income from securities issuers	353,704	352,609
Income from maintenance of registers	200,707	191,162
Income from services related to securities emissions	112,532	109,460
Income from stock exchange members	114,117	101,203
Income from sale of information	97,897	66,869
Income from corporate projects and privatisation	261,868	56,448
Commission income from transactions on stock exchange	158,219	39,997
Income from operations with securities	31,654	32,130
Annual membership fee for Latvian Central depository	18,000	17,000
Other income	8,154	9,306
	<b><u>1,989,820</u></b>	<b><u>1,504,511</u></b>

**2 EMPLOYEE RELATED EXPENSES**

Wages and salaries	328,759	278,363
Social security contributions *	76,107	61,566
Educational expenses	21,081	16,474
Insurance	2,619	1,768
	<b><u>428,566</u></b>	<b><u>358,171</u></b>

\* In accordance with the rulings of the Cabinet of Ministers of Latvia 74% (2005: 75%) of the Social Security contributions are used to fund the state defined contribution pension system.

**3 OTHER EXPENSES**

Rental expenses	75,234	79,133
Transportation expenses	19,819	12,612
Business trips expenses	38,866	42,620
Insurance	23,683	27,210
Representation expenses	28,181	23,473
Communication expenses	12,583	18,049
Audit expenses	12,299	12,367
Office equipment maintenance, stationary	17,408	11,184
Bank services	10,074	8,516
Purchase of information	6,223	6,583
Management fee	53,905	-
Cost of termination of lease agreement **	68,421	-
Undeductable VAT	63,212	33,550
Change in provisions for impairment of receivables	4,886	7,999
Penalties paid	5	10
Other expenses	99,015	95,282
	<b><u>533,814</u></b>	<b><u>378,588</u></b>

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**3 OTHER EXPENSES** (continued)

\*\* According to the rent agreement between the Company and lessee SIA Devon lease payments would be offset by investments made by the lessee in leasehold improvements in the rented premises. The rent agreement was terminated before the expiry date. At the termination date the investment made by SIA Devon in the leasehold improvements exceeded the cumulative rent charge. Supreme Court of Latvia decided that in substance the Company has received advance rent payment from SIA Devon. The verdict was that the Company was obliged to compensate the losses in amount of Ls 67,027 to SIA Devon. Court charges amounted to Ls 1,394.

The average number of employees in 2006 was 25 (2005: 24).

**4 OTHER OPERATING (LOSS)/ INCOME, NET**

	<b>2006</b>	<b>2005</b>
	<b>Ls</b>	<b>Ls</b>
Gain / (loss) on revaluation of financial assets at fair value through profit or loss	(54,950)	33,488
Interest income from financial assets at fair value through profit or loss	37,854	35,329
Other income	2,582	4,804
Gain on disposal of property, plant and equipment	236	995
	<u><b>(14,278)</b></u>	<u><b>74,616</b></u>

**5 FINANCE INCOME / COSTS**

Gain on foreign exchange	5,240	13,265
Loss on foreign exchange	(11,610)	(1,765)
Interest income	2,505	2,956
	<u><b>(3,865)</b></u>	<u><b>14,456</b></u>

**6 INCOME TAX EXPENSE**

Current tax	94,079	96,535
Deferred tax (see Note 14)	5,583	(4,490)
<b>Tax charge</b>	<u><b>99,662</b></u>	<u><b>92,045</b></u>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profits before taxation of the consolidated companies:

<b>Profit before tax</b>	<u><b>594,241</b></u>	<u><b>615,806</b></u>
Theoretically calculated tax at a tax rate of 15%	89,136	92,371
Expenses not deductible for tax purposes	12,254	4,964
Non-taxable income	(1,728)	(5,290)
<b>Tax charge</b>	<u><b>99,662</b></u>	<u><b>92,045</b></u>

Deferred income tax is calculated by using the enacted tax rate – 15%.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**7 PROPERTY, PLANT AND EQUIPMENT**

	Office equipment and furniture Ls	Vehicles Ls	Assets under construction Ls	Total Ls
<b>At 31 December 2004</b>				
Cost	244,454	30,055	–	274,509
Accumulated depreciation	(165,191)	(19,448)	–	(184,639)
<b>Net book amount</b>	<b>79,263</b>	<b>10,607</b>	<b>–</b>	<b>89,870</b>
<b>Year ended 31 December 2005</b>				
Opening net book amount	79,263	10,607	–	89,870
Additions	9,909	13,064	19,915	42,888
Disposals	–	(2,279)	–	(2,279)
Depreciation charge	(34,041)	(5,281)	–	(39,322)
<b>Closing net book amount</b>	<b>55,131</b>	<b>16,111</b>	<b>19,915</b>	<b>91,157</b>
<b>At 31 December 2005</b>				
Cost	254,363	40,840	19,915	315,118
Accumulated depreciation	(199,232)	(24,729)	–	(223,961)
<b>Net book amount</b>	<b>55,131</b>	<b>16,111</b>	<b>19,915</b>	<b>91,157</b>
<b>Year ended 31 December 2006</b>				
Opening net book amount	55,131	16,111	19,915	91,157
Additions	78,911	21,858	–	100,769
Disposals	(1,423)	–	–	(1,423)
Reclassification	19,915	–	(19,915)	–
Depreciation charge	(28,570)	(4,511)	–	(33,081)
<b>Closing net book amount</b>	<b>123,964</b>	<b>33,458</b>	<b>–</b>	<b>157,422</b>
<b>At 31 December 2006</b>				
Cost	351,766	62,698	–	414,464
Accumulated depreciation	(227,802)	(29,240)	–	(257,042)
<b>Net book amount</b>	<b>123,964</b>	<b>33,458</b>	<b>–</b>	<b>157,422</b>

Depreciation expense of Ls 33,081 (2005: Ls 39,322) has been charged in cost of sales.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**8 INTANGIBLE ASSETS**

	<b>Goodwill</b>	<b>Licenses</b>	<b>Total</b>
	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>
<b>At 31 December 2004</b>			
Cost	38,368	185,413	223,781
Accumulated amortisation and impairment	–	(84,344)	(84,344)
<b>Net book amount</b>	<b>38,368</b>	<b>101,069</b>	<b>139,437</b>
<b>Year ended 31 December 2005</b>			
Opening net book amount	38,368	101,069	139,437
Additions	–	7,595	7,595
Disposals	–	–	–
Amortisation charge	–	(44,096)	(44,096)
<b>Closing net book amount</b>	<b>38,368</b>	<b>64,568</b>	<b>102,936</b>
<b>At 31 December 2005</b>			
Cost	38,368	193,008	231,376
Accumulated amortisation and impairment	–	(128,440)	(128,440)
<b>Net book amount</b>	<b>38,368</b>	<b>64,568</b>	<b>102,936</b>
<b>At 31 December 2006</b>			
Opening net book amount	38,368	64,568	102,936
Additions	–	9,479	9,479
Disposals	–	(216)	(216)
Amortisation charge	–	(32,498)	(32,498)
<b>Net book amount</b>	<b>38,368</b>	<b>41,333</b>	<b>79,701</b>
<b>At 31 December 2006</b>			
Cost	38,368	202,271	240,639
Accumulated amortisation and impairment	–	(160,938)	(160,938)
<b>Net book amount</b>	<b>38,368</b>	<b>41,333</b>	<b>79,701</b>

Amortisation charge is included in the 'cost of sales'.

Goodwill relates to a single cash-generating unit (CGU) – the only subsidiary AS “Latvijas Centrālais depozitārijs”. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. The key assumptions used for value-in-use calculations are gross margin, growth rate and discount rate. Management determined budgeted gross margin based on past performance and its expectations for the market development. The growth rates used do not exceed the GDP growth forecasts published by the Bank of Latvia. The discount rate used is pre-tax and reflects risks specific to the CGU. Pre-tax discount rate applied to the cash flow projections is 11%.

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**9 FINANCIAL ASSETS**

	Available-for-sale financial assets	Financial assets at fair value through profit or loss
	Ls	Ls
<b>Year ended 31 December 2005</b>	–	<b>810,574</b>
Additions	67,566	303,399
Disposals	–	(81,625)
Gain on fair value changes and foreign exchange	769	41,803
<b>At 31 December 2005</b>	<b>68,335</b>	<b>1,074,151</b>
Non current portion	68,335	672,982
Current portion	–	401,169
	<b>68,335</b>	<b>1,074,151</b>
<b>Year ended 31 December 2006</b>	<b>68,335</b>	<b>1,074,151</b>
Additions	–	787,005
Disposals	–	(386,353)
Gain/ (loss) on fair value changes and foreign exchange	1,813	(60,117)
<b>At 31 December 2006</b>	<b>70,148</b>	<b>1,414,686</b>
Non current portion	70,148	–
Current portion	–	1,414,686
	<b>70,148</b>	<b>1,414,686</b>

Available-for-sale financial assets include the following:

	31.12.2006	31.12.2005
	Ls	Ls
Listed securities:		
- Investment funds	70,148	68,335
	<b>70,148</b>	<b>68,335</b>

Financial assets at fair value through profit or loss include the following:

Listed securities:		
- Equity securities-Currency-zone countries	607	–
- Investment funds	104,240	306,885
- Debentures with fixed interest of 8.125% and maturity date of 26 January 2006	–	25,949
- Debentures with fixed interest of 4.875% and maturity date of 18 April 2007	636,315	–
- Debentures with fixed interest of 5.625% and maturity date of 08 May 2007	–	52,132
- Debentures with fixed interest of 4% and maturity date of 30 October 2008	63,685	70,169
- Debentures with fixed interest of 5.125% and maturity date of 14 February 2013	560,533	619,016
- Debentures with fixed interest of 5.375% and maturity date of 15 December 2011	49,306	–
	<b>1,414,686</b>	<b>1,074,151</b>

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**9 FINANCIAL ASSETS** (continued)

Financial assets at fair value through profit or loss and available-for-sale financial assets are denominated in the following currencies:

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Financial assets at fair value through profit or loss:		
- Latvian lats	615,284	1,003,982
- Euros	735,717	–
- US dollars	63,685	70,169
Available-for-sale financial assets:		
- Latvian lats	70,148	68,335
	<u><b>1,484,834</b></u>	<u><b>1,142,486</b></u>

On 12 October 2005 LCD resigned the agreement with State Social Insurance Agency on rendering accounts administration services to the state-funded pension scheme participants starting 1 January 2006. In order to comply with the terms of the agreement and meet legal obligations, LCD contracted a guarantee agreement with AS "Hansabanka" and pledged financial assets with a carrying amount of Ls 70,148 as at 31 December 2006 (31.12.2005: Ls 68,335).

All financials assets at fair value through profit or loss are professionally managed by IPAS "Parex Asset Management" under trust agreements (Note 20).

**10 TRADE AND OTHER RECEIVABLES**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Receivables from Latvian Central Depository members	100,988	68,044
Receivables from issuers	32,160	31,160
Receivables from related parties (see Note 20)	18,201	398
Receivables from Riga Stock exchange members	14,135	5,286
Deferred expenses	35,797	30,115
Other receivables	11,583	18,176
	<u>212,864</u>	<u>153,179</u>
Provisions for impairment of receivables	<u>(22,802)</u>	<u>(17,916)</u>
	<u><b>190,062</b></u>	<u><b>135,263</b></u>

**11 TERM DEPOSITS**

Term deposits are deposits within a Latvian commercial bank with original maturities more than three months. The carrying value as at 31 December 2006 includes principal amount Ls 300,000 and accrued interest income Ls 1,802. The bank deposits are unsecured in nature and carry interest at 4.7% and maturity date of 28 February 2007.

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**12 CASH AND CASH EQUIVALENTS**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Cash at bank	678,828	844,075
Cash in hand	3,515	3,228
	<u><b>682,343</b></u>	<u><b>847,303</b></u>

Cash and cash equivalents are denominated in the following currencies:

- Latvian lats	607,705	686,583
- Euros	73,560	157,846
- US dollars	1,078	2,874
	<u><b>682,343</b></u>	<u><b>847,303</b></u>

Cash and cash equivalents are unsecured in nature and bear no interest.

**13 SHARE CAPITAL**

The total authorised number of ordinary shares of the Parent company is 2,850 shares (2005: 2,850) with a par value of Ls 250 per share (2005: Ls 250 per share). All issued shares are fully paid.

**14 DEFERRED INCOME TAX**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	<b>2006</b>	<b>2005</b>
	<b>Ls</b>	<b>Ls</b>
Deferred tax assets:		
- Deferred tax asset to be recovered within 12 months	(4,287)	(1,599)
	<u>(4,287)</u>	<u>(1,599)</u>
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	11,345	2,279
- Deferred tax liability to be recovered within 12 months	-	795
	<u>11,345</u>	<u>3,074</u>
	<u><b>7,058</b></u>	<u><b>1,475</b></u>

The gross movement on the deferred income tax account is as follows:

At beginning of year	1,475	5,965
Income statement charge (Note 6)	5,583	(4,490)
<b>At end of year</b>	<u><b>7,058</b></u>	<u><b>1,475</b></u>

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**14 DEFERRED INCOME TAX** (continued)

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial reporting and tax purposes:

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Temporary difference of property, plant and equipment depreciation	11,345	3,074
Temporary difference on accruals for unused annual leave	(3,994)	(1,098)
Temporary difference on other accruals	(293)	(501)
	<u><b>7,058</b></u>	<u><b>1,475</b></u>

**15 DIVIDENDS PER SHARE**

In 2006 the Company paid dividends in amount of Ls 500,000 (Ls 175.44 per share). In 2005 the Company paid dividends relating to 2004 in amount of Ls 300,000 (Ls 105.26 per share).

**16 TRADE AND OTHER PAYABLES**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Payables to owners of securities *	983,936	494,905
Payables to related parties (see Note 20)	53,905	4,725
Deferred income	70,553	68,771
Accruals for unused annual leave	23,279	7,323
Other accruals	3,350	4,605
Other payables	56,934	12,527
	<u><b>1,191,957</b></u>	<u><b>592,856</b></u>

\* The Group acts as intermediary for dividend payments by Latvian companies to the shareholders. Payables to owners of securities represent those dividends of Latvian companies. They are due generally on demand. Dividends payable to owners of securities carry no interest and are denominated in Latvian lats.

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**17 CASH GENERATED FROM OPERATIONS**

	<b>2006</b>	<b>2005</b>
	<b>Ls</b>	<b>Ls</b>
Net profit	494,579	523,761
<i>Adjustments for:</i>		
Tax	99,662	92,045
Depreciation and amortisation	65,579	83,418
Interest on securities	(37,854)	(35,329)
Accrued interest on term deposits	(1,802)	–
Fair value (gains)/ losses on financial assets at fair value through profit or loss	54,950	(42,731)
Accruals for unused annual leave	15,956	3,019
Other accruals	6,868	4,605
Profit on disposal of property, plant and equipment	(236)	(995)
Foreign exchange losses / (gains)	6,370	(11,500)
<i>Changes in working capital</i>		
- Trade and other receivables increase	(24,083)	(29,728)
- Trade and other payables increase	554,072	52,308
<b>Cash generated from operations</b>	<b><u>1,234,061</u></b>	<b><u>638,873</u></b>

**18 OPERATING LEASE COMMITMENTS – GROUP COMPANY AS LESSEE**

The Group leases a vehicle under cancellable lease agreement and premises under non-cancellable lease agreement.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
No later than 1 year	62,460	56,714
Later than 1 year and no later than 5 years	46,845	109,305
	<b><u>109,305</u></b>	<b><u>166,019</u></b>

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**19 FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: market risk (including Currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Market risk**

**(i) Foreign exchange risk**

The Group is exposed to foreign exchange risk because some of the investments held for trading are denominated and traded in foreign currencies. The Group makes decisions on purchasing forward foreign exchange contracts on case by case bases. There were no derivative contracts outstanding at any balance sheet date presented. Gains or losses during the years presented were not material.

**(ii) Price risk**

The Group is not significantly exposed to equity price risk.

**(iii) Cash flow and fair value interest rate risk**

As the Group has significant investments in debt securities, it is exposed to fair value interest rate risk of changes in market interest rates. Bonds carry fixed interest rates and do not expose the Group to cash flow interest rate risk. The Group analyses its interest rate risk exposure on a dynamic basis and diversifies its portfolio.

**(b) Credit risk**

The group has no significant concentration of credit risk. The financial assets constituting a certain financial risk concentration for the OMX Riga Group are: investments in debt securities; cash; accounts receivable. The Group has set limits for maximum exposure to various types of investments. The OMX Riga Group business policy is that the services are provided to customers with adequate credit history. The accounts receivable are recognized at amortised cost less provisions for impairment. The OMX Riga Group partners in cash transactions are domestic and foreign financial institutions with adequate credit history. The OMX Riga Group policy limits the exposure to each single financial institution.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and ability to realise its investments.

**(d) Fair value**

The carrying value of financial assets/ liabilities (excluding those measured at fair value) is approximate to their fair value.

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**20 RELATED PARTY TRANSACTIONS**

The Group is 92.98% owned by OMX Exchanges Ltd. incorporated in Finland. The ultimate parent company of the Group is OMX AB incorporated in Sweden. The shares of OMX AB are widely held.

All other entities disclosed below are subsidiaries of OMX AB Group.

The following transactions were carried out with related parties:

**(a) Purchase of goods and services**

	<b>2006</b>	<b>2005</b>
	<b>Ls</b>	<b>Ls</b>
OMX Exchanges Ltd. (SAXESS trading system's annual fee, insurance, seminars, stationary)	–	285
Tallinna Börs AS (IT services, business trips)	14,896	7,443
Eesti Väärtpaberikeskus AS (quarterly fees for securities accounts, seminars, other expenses)	3,031	442
Helsinki Stock Exchange Ltd. (trading data)	–	7,614
OMX Technology AB. (SAXESS trading system's service)	45,006	52,580
Stockholm Stock Exchange Ltd. (Federation of European Securities Exchanges' annual fee, management fees)	53,905	9,156
	<u><b>116,838</b></u>	<u><b>77,520</b></u>

**(b) Sales of goods and services**

OMX AB (change of brand)	2,424	–
OMX Exchanges Ltd. (services for trademark introduction)	–	1,957
Tallinna Börs AS (trading data, maintenance services, license, other services)	528	–
Eesti Väärtpaberikeskus AS (quarterly fees for securities accounts, other services)	4,885	4,266
Helsinki Stock Exchange Ltd. (trading data)	73,799	58,094
Vilniaus vertybinių popierių birža AS (other services)	528	4,208
	<u><b>82,164</b></u>	<u><b>68,525</b></u>

**(c) Accounts receivable from related parties**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Ls</b>	<b>Ls</b>
Vilniaus vertybinių popierių birža AS	528	–
OMX AB	2,424	–
Helsinki Stock Exchange Ltd.	14,854	–
Eesti Väärtpaberite Keskskaitooriumi AS	395	398
	<u><b>18,201</b></u>	<u><b>398</b></u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

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**20 RELATED PARTY TRANSACTIONS** (continued)

**(d) Accounts payable to related parties**

Stockholm Stock Exchange Ltd.	53,905	–
OMX Technology AB	–	4,725
	<u>53,905</u>	<u>4,725</u>

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

**(e) Key management compensation**

	2006	2005
	Ls	Ls
Salaries and other short-term benefits	<u>102,707</u>	<u>109,357</u>

**(f) Transactions with professional asset management company**

On 13 October 2006 the Group signed agreements with IPAS “Parex Asset Management” and delegated its financial asset management function. The investments have been structured in a way that high safety of the assets is maintained. As of 31 December 2006 Ls 1,716 thousand have been handed under management. In 2006 the Group paid Ls 488 for investment portfolios management services. The Chairman of the Board of IPAS “Parex Asset Management” is also the Member of the Council of the subsidiary of the Group.

**21 SUBSEQUENT EVENTS**

There are no subsequent events, which would have a significant effect on the financial position of the Group or its operations as of 31 December 2006.