

SIA Stockholm School of Economics in Riga

Registration no. 40003162751

Strēlnieku street 4a, Riga, LV-1010, Latvia

Annual Report for the Year Ended 31 December 2018

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Company Information

Name of the Company	Stockholm School of Economics in Riga
Legal status of the Company	Limited liability company
Number, place and date of registration	40003162751 Riga, 13 November 1993
Registered address	Strēlnieku street 4a Riga LV-1010, Latvia
NACE code	85.42 Tertiary higher education
Shareholders	Rīgas Ekonomikas augstskolas – Stockholm School of Economics in Riga Foundation, reg. No. 40008164674 (100%), Strēlnieku street 4a, Riga, LV-1010, Latvia
Members of the Board	Paalzow Lars Anders Gustav, Chairman of the Board Anders Sixten Georg Alex Alexandersson Raimonds Graudiņš
Financial year	1 January 2018 to 31 December 2018
Auditors	Edvards Merhels Certified auditor Licence No. 121 Merhels Revidenti Konsultanti SIA A licensed practice of certified auditors, Licence No. 1 Citadeles iela 12, Riga LV - 1010, Latvia

Management Report

Company's operations in the reporting period

The Stockholm School of Economics in Riga (henceforth the School, SSE Riga or Company) is an autonomous higher education establishment providing academic education. It operates under a trademark license agreement concluded with Stockholm School of Economics (henceforth SSE) on September 10, 2010. There is also a master agreement on education services concluded with SSE on July 1, 2012, specifying the terms for the involvement of SSE faculty in teaching and research activities carried out at the School.

The School offers two degree programmes, a three-year B.Sc. in Economics and Business and two-year part time Executive MBA (EMBA) programme. The Bachelor's degree programme is the main activity of the School. During the reference year 114 new students were admitted to the programme. The total number of students registered in the three year program fluctuated from 411 on January 1, 2018 to 409 on December 31, 2018. The Bachelor's programme students are mostly admitted from the Baltic states, but students from Russia and the Eastern Partnership countries (Belarus, Ukraine, Moldova and Georgia) are enrolled with the support of the Swedish Government Programme. The EMBA programme is also mainly focused on the Baltic states. The two-year modular-based programme broadens students' knowledge in business management, facilitates professional careers, and provides global collaboration opportunities within the SSE alumni network. The EMBA student group consists of 25-30 experienced managers with a variety of academic and professional backgrounds. During the reference year, 24 students were admitted to the programme, and the total amount of registered students was 85.

In addition to the degree programmes, the School offers executive training through open courses, as well as in-house courses tailor made to the customers' needs.

Educational activities in the field of media are organized within the School's Anne-Marie and Gustaf Ander Centre for Media Studies, which has become a hub for journalism professionals to exchange experiences, learn from renowned speakers and provide inspiration for new cooperation and projects. The Media Centre operation and its activities have been made possible thanks to the support by the Swedish foundation Anne-Marie and Gustaf Anders Stiftelse för Medieforskning. The highlights of the activities for the reporting period include educational activities for journalists from the Eastern Partnership countries, the Summer School on Investigative Reporting, and a number of various other projects and events.

The four main sources of revenue to support the core activity of the School, i.e. the Bachelor's programme, consist of:

- tuition fees for the B.Sc. studies;
- other educational activities (incl. Executive Education and EMBA) and research activities providing additional funds;
- donations;
- alumni contributions.

The donations and funds donated by the graduates are handed over to the School through Rīgas Ekonomikas augstskolas – Stockholm School of Economics in Riga Foundation (i.e. Shareholder, hereinafter referred to as the "Foundation"). The main strategic goal is to provide the lowest possible tuition fees in the bachelor programme in order to attract the most talented students. Thus, the support provided by the Foundation and other donors, as well as additional resources from other activities, has so far provided the School with an opportunity for the students from the Baltic states to receive substantial tuition fee waivers.

Financial result of the reporting year

Unlike year 2017, which was finished with a loss of EUR 324 792, in 2018 the School has been able to reduce the loss to EUR 110 190. There are several reasons for this, including the fact that in 2018 the School received a donation for the development of the library, the Foundation granted funding for the tuition fee waivers of the Bachelor's program students from the Baltic states, the research and consulting revenues and foreign financial support for education, research and journalism development increased.

In 2018, the cost structure of the School changed - personnel costs increased due to the increase of the number of lecturers employed by the School, but the amount of the outsourced education services has decreased. The number of projects carried out by the School's Media Centre has increased, which has also led to an increase in the corresponding costs. Comparing to 2017, in 2018, the School has invested more resources into providing textbooks, periodicals, licenses and databases, while reducing administration and business travel expenses, office maintenance costs, marketing and representation as well as other costs.

Future perspectives and further development

The main challenge ahead of the School in a five-year perspective is to attract the resources needed for keeping the Bachelor program tuition fee and the Baltic tuition fee waiver at the current level. In this context, it is crucial to maintain and further develop the contacts and cooperation with the donors. The School is working on a fund raising strategy, reviewing its cooperation with the Alumni Association, as well as promoting more active involvement of the academic staff in research projects. For this purpose the School has registered in the Register of the Scientific Institutions of Latvia in 2018. Other activities that provide additional revenue to cover the overall costs of the School are also encouraged.

Currently the School is actively conducting the student recruitment activities to increase the number of students in the EMBA programme. Since the EMBA programme to a large extent is a fixed cost business, an increase in the number of students would have an immediate impact on the School's financial performance.

Research and Development

The School participates in various European Union (hereinafter EU) and publicly-funded research and policy-oriented projects, as well as runs its own research activities and institutes. The School's research profile covers a wide range of fields. The research is carried out in areas such as economics, sustainability, migration, labor mobility, shadow economy, tax policy, finance, healthcare, entrepreneurship, creative industries and others. Both faculty and student research is supported.

The School operates the Centre for Sustainability. The Centre organizes seminars and conferences as well as publishes reports on issues related to sustainable business. Furthermore, the Centre is active in the educational programmes of the School.

Financial risk management

(a) Currency risk:

The School renders its services in euros (EUR) and Swedish crowns (SEK). The purchases are primarily made in EUR and SEK. Taking into account the currencies that the School deals with, it is subject to currency risk only from transactions in SEK. This risk is minimized by matching sales transactions with purchase transactions in the same currency.

(b) Liquidity risk:

Liquidity risk is the risk that School will not be able to meet its liabilities timely and effectively. As part of prudent liquidity management, the School maintains sufficient cash reserves in its bank accounts. The School controls its liquidity risk also by planning payment terms for the borrowings and trade payables. The School has access to short-term finance from the Foundation.

(c) Credit risk:

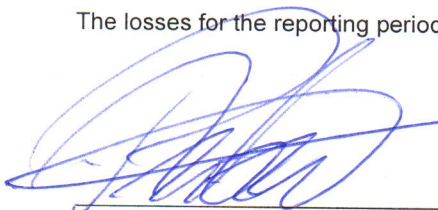
Credit risk is a risk of loss in case the borrower fails or refuses to meet the liabilities against the School. The School is subject to credit risk related to monetary resources and trade debtors. Management exercises continuous control of the credit risk by analysing the payment history of clients and keeping track of the outstanding balances.

Subsequent events

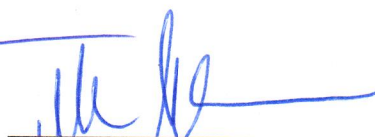
There have been no significant events since the last day of the reporting period and the date of signing these annual accounts that could have material effect on financial position and financial performance of the Company as reported in these accounts.

Board proposals for covering losses

The losses for the reporting period will be covered from the profit of the following periods.



Lars Anders Gustav Paalzow
Chairman of the Board



Anders Sixten Georg Alex
Alexandersson
Member of the Board



Raimonds Graudins
Member of the Board

Riga, 3 April 2019

Income Statement

	Notes	2018 EUR	2017 EUR
Net sales		2 513 454	2 607 707
Other operating income	2	1 738 965	1 458 146
		4 252 419	4 065 853
Personnel costs	3	(1 317 407)	(1 166 768)
Depreciation and amortization	5, 6	(96 023)	(91 020)
Other operating expenses	4	(2 941 723)	(3 130 639)
Other interest expenses and similar expenses		(4 838)	(2 218)
		(4 359 991)	(4 390 645)
Profit/(loss) before corporate income tax		(107 572)	(324 792)
Corporate income tax for the financial year		(2 618)	-
Profit/(loss) for the financial year		(110 190)	(324 792)

The accompanying notes on pages 8 to 13 are an integral part of these financial statements.

Balance sheet

	Notes	31.12.2018 EUR	31.12.2017 EUR
Assets			
Non-current assets			
Intangible fixed assets	5	1	2 337
Tangible fixed assets			
Buildings	6	713 897	743 273
Other fixed assets and inventory	6	99 448	139 499
		813 345	882 772
Current assets			
Debtors			
Trade receivables	7	115 980	123 530
Receivables from related entities		65 445	-
Other debtors	8	42 757	96 163
Prepaid expenses		80 804	66 080
Accrued income	9	242 685	204 903
		547 671	490 676
Cash	10	585 147	522 499
		1 132 818	1 013 175
Total assets		1 946 164	1 898 284
Liabilities and Shareholder's Equity			
Shareholder's equity			
Share capital	11	1 398 800	1 398 800
Reserves			
a) Other reserves		25	25
Retained earnings brought forward			
a) accumulated losses		(946 012)	(621 220)
b) profit/(loss) for the current financial year		(110 190)	(324 792)
		342 623	452 813
Provisions:			
Other provisions	12	28 781	30 557
		28 781	30 557
Current liabilities:			
Advances from customers		420	8 750
Payables to suppliers		102 294	113 844
Payables to related entities		7 563	25 783
Tax liabilities	13	35 719	47 995
Deferred income	14	1 282 769	1 073 452
Other creditors		5 115	-
Accrued expenses		140 880	145 090
		1 574 760	1 414 914
Total liabilities and shareholder's equity		1 946 164	1 898 284

The accompanying notes on pages 8 to 13 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

Overall considerations

These financial statements have been drawn up in accordance with the Act of the Republic of Latvia on Standalone and Consolidated Annual Reports and the Cabinet of Ministers regulations thereof insofar they apply to small entities.

Disclosure of certain income statement items has been changed in comparison to disclosure practices used in 2017 to improve the quality of information. Corresponding information for last year has been modified to be in line with classification criteria used during the reporting period.

Use of estimates and assumptions

The management relies on certain estimates and assumptions when preparing the financial statements, which have impact on specific profit and loss items and the balance sheet as well as on the expected amount of liabilities. Future events may influence assumptions that provide the basis for the estimates. Any changes in the estimates and their impact are reflected in the financial statements at the time they occur.

Significant management judgement and estimation uncertainty

Provisions for guaranteed student loans. At close of each reporting year the School reviews validity of algorithm used to assess provisions for guaranteed student loans. As at 31 December 2018 there were no indications in place triggering revision of existing computation practices for assessment of provisions for guaranteed student loans.

Revenue recognition for research projects. Revenues pertinent to unfinished projects at close of the reporting year are assessed on a project by project basis with reference to amount of expenses incurred thereof by close of the reporting year, total budgeted expenses and contractual provisions.

Useful life of fixed assets. Management reviews the useful lives of depreciable assets at each reporting date. No changes to that end were made as of the year ended on 31 December 2018.

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.

Foreign currencies

The functional and presentation currency of the School is euro (EUR). The transactions in foreign currency are translated into euro applying the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro applying the official exchange rate established by the European Central Bank at the last day of the reporting year. Foreign exchange gains and losses are recognised in the income statement.

Revenue and expense recognition

Tuition fees: Income from the tuition fees in B.Sc. and EMBA program is recognized proportionally to the volume of services provided during the reporting period. Study fees becoming receivable or received during the reporting year, which relate to preceding study period, are accounted as deferred income. Study fees, which relate to the period under review, but where invoices have not yet been raised, are accounted as accrued income.

Revenues from projects: The School has concluded contracts about projects that start and end in different reporting periods. At the end of the year revenues thereof are assessed separately on a project by project basis with reference to amount of expenses incurred during the reporting year.

Other revenues: Revenues from services are recognized at the time when they occur.

Donations: Donations are recognized in profit and loss statement in the period when they are received or during the period, when expenses or losses subject to compensation were incurred.

Expenses: Expenses are recognised based on the time of their occurrence rather than the time of payments.

Net sales

Net sales are comprised of revenues from B.Sc., EMBA, and Executive Education programs carried out during the reporting period.

Intangible fixed assets

The School recognises only the purchased for intangible fixed assets. These are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write down the cost of intangible assets over the estimated useful economic life as follows:

	%
Intangible assets	33.33

Computer software maintenance costs are expensed as incurred.

Tangible fixed assets

Purchases of individual tangible fixed assets exceeding EUR 350 and expected to be in use for more than a year are capitalised.

Tangible fixed assets are stated at their historic cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

	%
Building and its components	2
Roofs of the buildings	10
Furniture	20
Portable computers	50
Other fixed assets and intangible assets	33.33

Maintenance and repair costs are expensed as incurred unless they extend the useful economic life and/ or improve the economic potential of the underlying asset.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement during the period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Loans

Loans are recognised upon disbursement of funds to borrower. They are derecognised when the contractual rights to the cash flows from the loan expire, or when the loan and all substantial risks and rewards are transferred. Loans are recognized at their initial value.

Trade receivables

Receivables are recognized at net amount due, which is calculated as book value less provisions for doubtful trade receivables. Provisions are valued at the amount, which is doubtful to be received. The School recognizes provisions based on an individual assessment of the recoverability of each receivable.

Borrowings

Borrowings are recognised at proceeds received less net of transaction costs incurred. Interest charges and commissions related to the borrowings are recognized as costs, and they are included in the profit and loss once incurred.

Deferred income

Deferred income consists of:

- Study fees paid by the students that relate to the next financial year;
- Fees paid under Executive Education study programs that relate to the next financial year;
- Received financing for education, research and journalism development activities. The funding will be used in next financial year

Corporate income tax

Until 31 December 2017 current tax was payable on taxable profit, which is computed by adjusting profit and loss before tax per financial statements. This principle was applied to compute the current tax for 2017.

According to the new Corporate Income Tax Act of the Republic of Latvia, taking effect on 1 January 2018, legal entities are no longer subject to corporate income tax on profits earned.

Starting from 1 January 2018:

- Corporate income tax is payable on distributed profits (e.g. dividends) and distributed conditional profits (e.g. non-business expenses);
- The tax rate is 20% of the grossed-up amount subject to tax (or 25% of the net amount);
- The corporate income tax charge is recognised as an expense in the period when items subject to tax are incurred. The corporate income tax charge on dividends arises when they are declared.

Provisions

Provisions are recognised when the School has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Guarantees: The School has concluded contracts with banks for guaranteed study loans. According to the contracts, banks provide information to the School about the actual amounts of overdue loans. Based on this information and experience to date, the School makes provisions for the total amount of student loans considered as bad or doubtful by assuming that half of such loans as reported by banks as of the end of the reporting period will not be recovered.

Provisions for costs of lecturers: These provisions are comprised of costs pertinent to activities of lecturers whose amount or timing of settlement are uncertain.

Liabilities

Liabilities are shown on the balance sheet as long-term or short-term ones, depending on the maturity of the debt or the maturity of the liability, whichever occurs later than 12 months after the end of the respective reporting year or within 12 months after the end of the reporting year.

Accrued liabilities

Accrued expenses are comprised of liabilities to suppliers for services and goods received during the reporting period, when purchase invoices have not been received up to the balance sheet date. Further they include accrual for unused annual leave of personnel.

Liability for unused annual leave is estimated with reference to the number of unused holiday days and an employee's average pay during 6 months up to the balance sheet date.

Related parties

Related undertaking is defined as the sole shareholder of the School.

Related parties are defined as SSE, the sole shareholder of the School, Members of the Management Board, their close relatives and companies in which they have a control or significant influence.

	2018 EUR	2017 EUR
2. Other operating income		
Revenue from foreign grants for education, research and journalism development activities	1 275 078	1 133 974
Revenue from research, consulting etc. services	135 176	72 163
Revenue from lease and conference organization	159 341	164 857
Revenue from donations	82 055	70 851
Grant from the Shareholder	51 700	-
Grants from state institutions	8 911	8 870
Other operating income	26 704	7 431
	1 738 965	1 458 146

	2018 EUR	2017 EUR
3. Personnel costs		
Remuneration for work	(1 031 662)	(927 746)
Social insurance contributions	(247 795)	(218 187)
Other personnel costs	(37 950)	(20 835)
	(1 317 407)	(1 166 768)
4. Other operating expenses		
Fees for subcontracting services for education, research and journalism development activities	(1 743 622)	(1 855 356)
Administration and travel expenses	(307 794)	(337 641)
Rent and maintenance of premises	(267 709)	(268 335)
Non-recoverable input VAT	(189 030)	(200 495)
Marketing and representation expenses	(147 735)	(189 351)
ERASMUS scholarships and other student costs	(132 551)	(142 565)
Procurement of books, periodicals, licences and data bases	(153 282)	(136 896)
	(2 941 723)	(3 130 639)
5. Intangible fixed assets		
		Other intangible assets EUR
Cost		
31.12.2017		7 010
Additions		-
Disposals		-
31.12.2018		7 010
Accumulated amortisation		
31.12.2017		(4 673)
Charge for the year		(2 336)
Disposals		-
31.12.2018		(7 009)
Net book value as at 31.12.2017		2 337
Net book value as at 31.12.2018		1

	Buildings and constructions EUR	Other fixed assets EUR	Total EUR
Cost			
31.12.2017	1 435 796	389 669	1 825 465
Additions	-	26 734	26 734
Disposals	-	(5 010)	(5 010)
31.12.2018	1 435 796	411 393	1 847 189
Accumulated depreciation			
31.12.2017	(692 523)	(250 170)	(942 693)
Charge for the year	(29 376)	(64 311)	(93 687)
Disposals	-	2 536	2 536
31.12.2018	(721 899)	(311 945)	(1 033 844)
Net book value as at 31.12.2017	743 273	139 499	882 772
Net book value as at 31.12.2018	713 897	99 448	813 345

The building at Strēlnieku street 4a, Riga, which has been contributed to the School by shareholder, cannot be expropriated, pledged or otherwise encumbered. If the School is dissolved, then the state invested building shall be transferred to the University of Latvia. If the University of Latvia fails to use the building in accordance with the functions stipulated in its Constitution, the building shall be returned to the state without compensation.

	31.12.2018 EUR	31.12.2017 EUR
7. Trade receivables		
Trade receivables, gross	132 230	134 780
Less: specific bad and doubtful debt provisions	(16 250)	(11 250)
	115 980	123 530
8. Other debtors		
Due from students*	45 049	41 939
Overpaid taxes	801	11 315
Other debtors	41 956	84 848
	87 806	138 102
Provisions for students' debts	(45 049)	(41 939)
	42 757	96 163

* The School has signed agreements with Latvian registered credit institutions, acting as guarantor for student loans provided for studies at SSE Riga. During 2018 the School had to fulfil the guarantee obligations in amount of EUR 5 258. The School has taken over claims against the students and initiated the debt collection process. During 2018 the School has collected debts in amount of 1 894 EUR and written-off debts in amount of 254 EUR

9. Accrued income		
Accrued income from EU and government funded projects	190 485	175 703
Accrued income from EMBA program	52 200	29 200
	242 685	204 903
10. Cash		
Cash at bank	583 313	522 367
Cash in hand	1 834	132
	585 147	522 499

Cash at bank inter-alia includes EUR 27 287 which are held in the Treasury of the Republic of Latvia. These funds can be used only for payments under ERASMUS scheme.

11. Share capital

Registered and paid-up share capital consists of 100 ordinary shares with a nominal value of EUR 13 988 each.

12. Other provisions

	Provisions for guaranteed student loans EUR	Provisions for costs of lecturers EUR	Total EUR
31.12.2017	12 157	18 400	30 557
Charge for the year	3 482	-	3 482
Reversal of the charge for the year	(5 258)	-	(5 258)
31.12.2018	10 381	18 400	28 781

13. Tax liabilities

Value added tax	35 184	47 995
Corporate income tax	535	-
	35 719	47 995

	31.12.2018 EUR	31.12.2017 EUR
14. Deferred income		
For B.Sc. study program	746 179	693 262
For foreign grants for education, research and journalism development activities	355 195	147 750
For EMBA study program	154 200	208 450
For Executive Education study programs	27 195	23 990
	1 282 769	1 073 452

15. Personnel information

	2018	2017
Average number of persons employed in the School during the year	54	53

16. Off the balance sheet liabilities

In 2008 the School concluded agreements with Latvian-registered credit institutions for provision of study loans to its students. Students receive the loans in accordance with the schedule set out in the contracts. The total guaranteed amount to the credit institutions as of 31 December 2018 constitutes EUR 1 091 175 (31.12.2017: EUR 1 002 544).

The future minimum lease payments under operating leases of premises as at 31 December 2018 stand at EUR 13 900, exclusive of VAT (31.12.2017: EUR 13 900 exclusive of VAT). They are payable within 1 year.

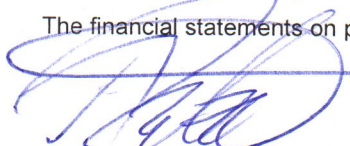
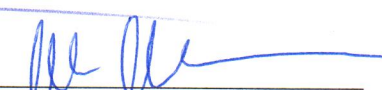
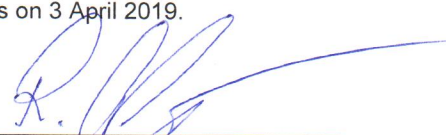
In accordance with the Taxes and Duties Act of the Republic of Latvia, tax authorities are entitled to adjust any tax computation made by companies within 3 years from their maturity day (5 year period apply to transfer pricing examinations). These financial statements do not include any possible corrections that might arise as a result of such SRS examinations.

17. Trademark license agreement

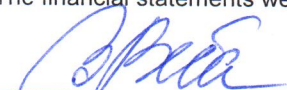
On 10 September 2010, the School entered into an open-ended agreement with SSE about the exclusive rights to use the SSE brand name for Bachelor and Master Study programs provided in the Republic of Latvia. The contract stipulates that royalties for the rights to use the trademarks amounting to 2.5% of gross income should be paid starting with the financial year beginning at 1 July 2017. However, the Founders' Agreement signed on 11 August 2010 specifies that the royalties under the Licence Agreement are payable to SSE only, if SSE Riga has generated sufficient net profit in the particular year. As no such net profit was generated in 2018 and 2017, no royalty fees were calculated in 2018 and 2017.

18. Approval of annual report

The financial statements on pages 6 to 13 were approved by the Board of Directors on 3 April 2019.

		
Lars Anders Gustav Paalzow Chairman of the Board	Anders Sixten Georg Alex Alexandersson Member of the Board	Raimonds Graudiņš Member of the Board

The financial statements were prepared by Ilga Beča, the School's financial controller.



Ilga Beča
Financial controller