

**SIA Stockholm School of Economics in Riga
Annual Report for the Year Ended
31 December 2013**

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Information about the company

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 and their stake	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 Diāna Pauna Raimonds Graudiņš
Financial period	1 January 2013 – 31 December 2013
Auditors	Modrīte Johansone Certified auditor, Licence No. 135 Merhels Revidenti Konsultanti SIA A licensed practice of certified auditors, Licence No. 1 Citadeles iela 12, Rīga LV - 1010, Latvia

Management Report

Lines of business

The Stockholm School of Economics in Riga (henceforth the School, SSE Riga or Company) is an autonomous higher education establishment possessing self-governing rights and 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 programs, a three-year B.Sc. in economics and business and two-year part time Executive MBA program. The B.Sc. program recruits students predominantly from the three Baltic countries. About 100 students from Estonia, Latvia, and Lithuania are admitted to the program each year. The program combines education in economics and business with entrepreneurial experiences. It covers such areas as economics, finance, accounting, management, organisational behaviour and strategy. A range of elective courses is offered in social sciences, humanities and in topics of general interest. The international environment formed by lecturers and students from different countries, with English as the language of instruction, adds to students' academic, professional, social and personal development.

Beginning with the academic year 2010/ 2011 SSE and the Swedish Ministry of Foreign Affairs signed an agreement giving the School the opportunity to recruit additional 20 students per year to the B.Sc. programme from four Eastern Partnership countries (Belarus, Ukraine, Moldova, and Georgia). The agreement entitles the School to get EUR 6 000/ LVL 4 217 per student a year. In addition the Swedish Government Programme provides funding for stipends and accommodation for the admitted students, as well as covers the costs associated with the programme, including student recruitment and finding internship places.

The Executive MBA program also has a strong focus on the Baltic countries, but there are students from other countries, as well. The programme combines a focus on intellectual rigor with serious business training in a format that permits business executives to continue their studies while working. This two-year module-based programme broadens students' existing knowledge in business administration, promote a professional career and provide global cooperation opportunities within the SSE Alumni network. The Executive MBA classes are comprised of around 25-30 students with various academic and professional backgrounds who both can contribute to and benefit from the programme through its unique experience of group synergy.

In addition to the degree programs the School offers executive training through open courses, as well as in-house courses tailor made to the customers' needs. The School also offers lectures open to the general public, in many cases in cooperation with the Latvian Government, the Swedish Embassy, other embassies in Riga, and the private sector.

A close relationship between education and research is also strength of SSE Riga. The School participates in various EU and government-funded research and policy-oriented projects, as well as in the preparation of research reports. The School's research profile covers a wide range of fields. The main subjects include economics, entrepreneurship, creative industries, telecommunications and information technology, economic anthropology, and education. Both faculty and student research is supported.

The School's educational and research activities in the fields of entrepreneurship and telecom are undertaken within the framework of the TeliaSonera Institute, which is a research institute at the School endowed by TeliaSonera. Furthermore, the Institute is responsible for Latvia's participation in the Global Entrepreneurship Monitor. The Institute organizes the annual TeliaSonera Business Day. The School is, through the TeliaSonera Institute, the country host for the Global Entrepreneurship Week.

The School cooperates closely with the Baltic International Centre for Economic Policy Studies (BICEPS) in terms of research and in terms of joint faculty appointments. The School and BICEPS offer a regular academic seminar in economics with invited speakers – the seminar meets 1-3 times a month during the academic year. Together with BICEPS the School publishes: the TeliaSonera Institute Discussion Papers; the SSE Riga/ BICEPS Research Papers; the SSE Riga/ BICEPS Occasional Papers; and the Baltic Journal of Economics – an academic and peer reviewed journal that is published twice a year. The Baltic Journal of Economics is financed through generous donations by the Swedish Anne-Marie and Gustaf Anders Stiftelse för Medieforskning and the Bank of Latvia.

Educational programmes and open activities in journalism (broadly defined) are organized within the School's Centre for Media Studies. The Media Centre and its activities have been made possible through the Swedish foundation Anne-Marie and Gustaf Anders Stiftelse för Medieforskning.

The School operates the Centre for Sustainable Business. The Centre's main benefactor is SEB Bank. The Centre organizes seminars and conferences. It also publishes reports on issues related to sustainable business. Furthermore, the Centre is active in the educational programmes of the School.

The School runs the Entrepreneurship Support Centre, which is open to the School's students as well as to "outsiders". The Centre supports entrepreneurs in the early stages of establishing their business, as well as organizes activities to educate and motivate young people to start their own businesses. In cooperation with Garage48 Foundation and TechHUB Riga the Centre organizes Garage48 events, which are weekend-long intensive development events for working out new web and mobile applications and for bringing new start-ups to life. To further promote entrepreneurial development in Latvia, The School cooperates with the University of Latvia, Riga Technical University, and Riga City Council in Connect Latvia.

The School cooperates with the neighbouring Riga Graduate School of Law (RGSL) in terms of joint use of premises. In addition, the School supports RGSL by having the School's faculty teaching in the RGSL programmes, allowing RGSL B.Sc. students to enrol into courses offered in the School's B.Sc. programme, by allowing RGSL students to use the School's library at the same terms as the School's students, letting RGSL students stay in the School's dormitories, as well as cooperating in other areas.

Short description of the School's activities in the reporting year

The B.Sc. program is the School's main activity, and for the academic year 2013/ 2014 376 students were enrolled in the three-year program. The tuition fee for Year 1 students at the B.Sc. programme was set at EUR 6 000/ LVL 4 217 per year – similarly as for the incoming classes of 2011 and 2012. Students from the Baltic countries are entitled to tuition fee waivers reducing the tuition fee to EUR 3 500/ LVL 2 460 per year. This is made possible through the Key to Success programme sponsored by the three Nordic banks – SEB, Swedbank, and Nordea. In addition the SSE Riga Alumni Association and other donors provide a number of different scholarships, reducing the financial burden for the students.

The Swedish Government continued to support the School through its Scholarship Programme. Moreover, the programme has been extended. First, a decision was made to finance the students admitted in autumn 2013 during the spring semester 2016, which was outside the original agreement between SSE and the Swedish Government. Second, financing has been granted for a new intake of students, who will start studies in autumn 2014.

There is an on-going development of the B.Sc. programme drawing on recruitment of new faculty. Several revised and improved courses have already been implemented or to be implemented during the current academic year. More than two thirds of the B.Sc. programmes are delivered by resident faculty. The remaining part is delivered by faculty from other academic institutions – to a large extent from SSE.

The School has also been committed to improving the quality of information services and study infrastructure provided to the students. Through generous support from donors new online databases are available, such as *Orbis*, which provides detailed financial information about companies, and *Datastream*, which is a professional database for worldwide trading data on stocks, bonds, mutual funds, currency trading, and a host of other financial instruments. The library book collection is renewed regularly, as well. In autumn 2013 digital examination was introduced, and, as part of this project, the wireless network capacity has been upgraded. New video conference equipment was also acquired, financed through the donation from the Centre for Media Studies.

The Executive MBA programme has been running strong, and the number of students has increased. There were in total 62 students enrolled in the programme. Admission procedures have been streamlined in order to make it more in line with the SSE and SSE Russia. In particular this involves personality test as part of the admissions process. New networking initiatives have been introduced, such as EMBA Christmas reception and evening discussions, inviting prominent guests, EMBA students, alumni, and prospective EMBA students.

In June 2013 the B.Sc. programme and the Executive MBA programme were both re-accredited for the period of six years (until June 4, 2019). Accreditation process included evaluation of the academic personnel and study infrastructure. Decisions about accreditation are made by the Council for Higher Education and approved by the Minister of Education of the Republic of Latvia. As an accredited educational institution the School has rights to issue state recognized higher education certificates.

The SSE Riga Executive Education unit has increased its activity level substantially in comparison to the previous year. The expansion reflects increased activities in terms of open, as well as company programmes. The partly EU-funded programmes offered in cooperation with the Latvian Chamber of Commerce and Industry have been re-launched. Major in-house executive

education programmes were offered to clients such as Air Baltic Corporation PLC, Rimi Baltic LLC and Johnson & Johnson AB Latvia branch. The Strategic Management Programme (or “mini MBA”) offered in cooperation with the William Davidson Institute at the University of Michigan saw 15 participants this year (there were 12 last year). The cooperation with the University of Michigan is strengthened and further developed.

During the reporting period SSE Riga has been involved in several EU-financed research projects. Project “BestAgers Lighthouses” focuses on implementation of age management interventions in selected small and medium-sized enterprises and public organisations in different Baltic Sea Region countries (see details at <http://www.best-agers-lighthouses.eu/>). Project “ENTREINT” (Central Balticum Entrepreneurship Interaction) aims to contribute to the Central Baltic regional development and competitiveness through the analysis and development of Entrepreneurship Pedagogy (see details at <http://www.cb-entreint.eu/>). “ENTREINT” project came to an end by the end of 2013. A new project on Education for Sustainable Development will run for three years. The project “University Education for Sustainable Development” is financed through the EU Lifelong Learning Programme (more information about the project is available at <http://www.ncu.org.cy/ue4sd.html>).

Various projects and activities have been organized in cooperation with corporate donors and other partners. In early 2013 SSE Riga organized the annual TeliaSonera Business Day, which generated substantial interest from the Latvian business community. Following this success, a similar event was organized in Brussels. The School’s Entrepreneurship Support Centre organized the second #InnovationRiga Conference. The event took place within the scope of the Global Entrepreneurship Week in collaboration with TechHub Riga, Latvian Guarantee Agency and Embassies of Denmark, Finland, Sweden and the USA in Latvia. It is planned to continue this conference as an annual event.

There has been further cooperation with SEB within the Centre for Sustainable Business Framework. This includes events, such as the first Baltic School Conference on Education for Sustainable Development, conference on Baltic Business Values, and Social Entrepreneurship Forum, as well as research output, including Shadow Economy Index for the Baltic countries, report on Business Culture and Values in the Baltic States, and other publications. A mandatory course in Sustainable Business has been developed for the Year 2 students in the B.Sc. programme.

The School’s Centre for Media Studies has organized a number of activities, including the second Summer School on Investigative Reporting, various workshops and seminars for journalists, as well as research on how Latvian media covered economic crisis. Drawing on visiting faculty coming to the School to lecture at the Centre for Media Studies, an elective course “Introduction to Media” is offered by the Centre to the students of the B.Sc. program. The donation, which is provided to the Centre by Anne-Marie and Gustaf Anders Stiftelse för Medieforskning Foundation, has also been instrumental for developing the library resources and technical infrastructure of the School.

Fundraising and alumni relations

There have been a number of activities to maintain and further develop relationships with corporate donors and other partners, which is crucial for the long-term sustainability of the School. As a result, renewed donation agreement with TeliaSonera has been signed covering the academic year 2013/ 2014. The donation supporting TeliaSonera Institute amounts to EUR 100 000/ LVL 70 280. The Anne-Marie and Gustaf Anders Stiftelse för Medieforskning Foundation, which is the main benefactor of the Centre for Media Studies, has expressed readiness to grant the Centre annual donation of SEK 1 000 000/ LVL 78 100 for the period of 2013 – 2016.

The Swedish Ministry of Foreign Affairs has provided EUR 235 000/ LVL 165 159 grant to SSE Riga for a new educational programme targeted to Eastern Partnership Countries. The program will be run during 2014 and involve 25 journalists and opinion makers. It will be organized through the Centre for Media Studies at SSE Riga.

A new agreement has been reached about the donation from the Stichting af Jochnick Foundation, which will be provided to the Stockholm School of Economics in Riga Foundation (henceforth the Foundation) in 2014. The total donation of SEK 225 000/ LVL 17 573 guarantees a tuition fee waiver for three Baltic students, thereby reducing the tuition fee from EUR 6 000/ LVL 4 217 to EUR 3 500/ LVL 2 460 during their three years of studies. A general purpose donation of SEK 250 000/ LVL 19 525 has been awarded to the Foundation by the Prins Carl Gustafs Stiftelse Foundation, which represents the courtesy of the King of Sweden.

Cooperation with SSE Riga Alumni association is carried out on an ongoing basis. Alumni meetings have been organized in Riga, Vilnius, and Tallinn, including seminar on fundraising and alumni involvement organized by SSE Riga and alumni from Yale University through the Yale Global Alumni Leadership Exchange (YaleGALE). Together with the Alumni association annual SSE Riga HomeComing event was organised, which hosted a special Alumni scholarship awarding ceremony with recipients and donors invited.

The School has also been active in discussions with alumni on how to further develop the fund-raising platform. The resulting campaign was the most successful Alumni Fundraising campaign so far. The campaign was presented as ‘best practice’ at the Annual Meeting of the leading fundraising organisation, Council for the Advancement and Support of Education (CASE).

There is a continued involvement of alumni in the educational processes at SSE Riga, for example, by serving as guest lecturers, thesis supervisors, lecturers and senior teaching assistants. SSE Riga alumni have also played a pivotal role in the admissions process for the B.Sc. programme. They have participated in the grading of the admissions tests, admission interviews, and feedback interviews with first year students in the B.Sc.-programme.

Financial results in the reporting year

The founding bodies of the School recognize that in order to maintain the quality of education and have rights to use the SSE brand name, the School should be managed in financially sustainable manner and the requisite financial resources must be secured for its operations. Therefore the management board of the Foundation has approved a five year operating financial plan, as well as an annual budget.

The five year plan recognizes four main sources of income to support the core activity of the School, i.e. the B.Sc. programme:

- Tuition fees for the B.Sc. programme;
- Other educational activities (e.g. Executive Education and EMBA) and research activities generating a surplus;
- Donations; and
- Alumni contributions.

In particular donations and contributions from alumni are channelled through the Foundation (i.e. the owner of the School). The overall aim is to keep the tuition fee down at a level low enough to ensure sufficient enrolment of high quality students. The surpluses from the activities discussed above are used to provide partial tuition fee waivers to students from the three Baltic countries. During the reporting year operations of the School have been planned and controlled to ensure sufficient working capital and minimize losses, while keeping the studies affordable.

Future perspectives and further development

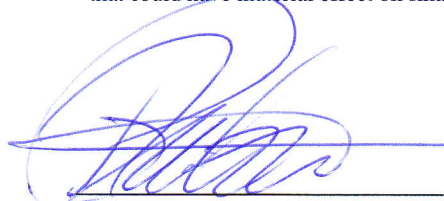
The main challenge ahead of the School in a five-year perspective is to find means for keeping the tuition fee down for the B.Sc. students. Currently, the support from the three banks, Nordea, SEB and Swedbank, plays a pivotal role. In this context, the main challenge is to maintain and further develop the contacts and cooperation with the three banks and other donors. Efforts are also directed to develop other business lines, which generate contribution necessary to cover the common costs of the School.

Another strategic alternative is to decrease the cost per student by increasing the number of students in the B.Sc. programme or by other means. This option is currently being scrutinized considering possibilities to expand the School and decrease common costs, as well as the costs of the faculty.

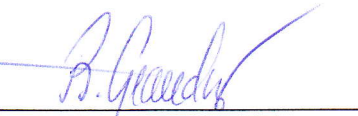
The School's alumni have, through the SSE Riga Alumni Association, shown a strong interest and commitment in terms of supporting the School. Hence, an additional and vital challenge is to maintain and further develop the good relations with the increasing amount of alumni.

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.



Lars Anders Gustav Paalzow
Chairman of the Board



Raimonds Graudiņš
Member of the Board

Riga, 22 April 2014

Income Statement

	Note	2013 LVL	01.07.2012 – 31.12.2012 LVL
Net sales	2	1 805 341	796 423
Other operating income	3	673 032	332 313
		<u>2 478 373</u>	<u>1 128 736</u>
Personnel costs	4	(620 175)	(275 160)
Depreciation and amortization	7; 8	(44 508)	(21 789)
Other operating expenses	5	(1 896 359)	(944 776)
Other interest income and similar income		-	47
Other interest expenses and similar expenses		(1 944)	(1 478)
		<u>(2 562 986)</u>	<u>(1 243 156)</u>
Profit (loss) before taxes		(84 613)	(114 420)
Corporate income tax	6	-	-
Net profit (loss)		<u>(84 613)</u>	<u>(114 420)</u>

The accompanying notes on pages 13 to 21 are an integral part of these financial statements.

The financial statements on pages 8 to 12 were approved by the Board of Directors on 22 April 2014 and were signed on its behalf by:



Lars Anders Gustav Paalzow
Chairman of the Board

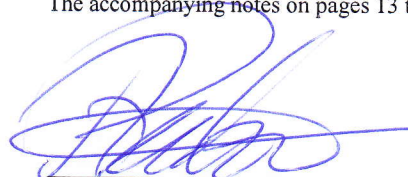


Raimonds Graudiņš
Member of the Board

Balance Sheet

	Note	31.12.2013 LVL	31.12.2012 LVL
Assets			
Long term assets:			
Intangible fixed assets	7	3 324	-
Tangible fixed assets:			
Land and buildings	8	606 083	629 466
Other fixed assets	8	49 587	42 395
		655 670	671 861
Loans	10	-	1 980
		658 994	673 841
Current assets:			
Inventory		1 292	1 704
Debtors:			
Trade receivables	9	131 301	362 549
Receivables from related companies	19	40 000	30 074
Advance payments for services		27 445	42 286
Loans	10	7 261	1 000
Prepaid expenses	11	14 235	7 773
Other debtors	12	1 783	-
Accrued income	13	247 131	277 081
		469 156	720 763
Cash	14	349 381	304 438
		819 829	1 026 905
Total Assets		1 478 823	1 700 746

The accompanying notes on pages 13 to 21 are an integral part of these financial statements.



Lars Anders Gustav Paalzow
Chairman of the Board



Raimonds Graudiņš
Member of the Board

Balance Sheet

	Note	31.12.2013 LVL	31.12.2012 LVL
Equity and Liabilities			
Equity:			
Share capital	15	983 100	983 100
Retained earnings brought forward:			
a) accumulated losses		(372 055)	(257 635)
b) profit (loss) for the current financial year		(84 613)	(114 420)
		526 432	611 045
Provisions:			
Other provisions	16	82 723	94 280
		82 723	94 280
Short term liabilities:			
Advances from customers		19 194	11 358
Payables to suppliers		58 267	49 123
Payables to related companies	19	-	232 152
Tax liabilities and social insurance contributions	17	38 899	15 722
Deferred income	18	737 938	676 104
Accrued expenses		15 370	10 962
		869 668	995 421
Total liabilities and shareholder's equity		1 478 823	1 700 746

The accompanying notes on pages 13 to 21 are an integral part of these financial statements.



Lars Anders Gustav Paalzow
Chairman of the Board



Raimonds Graudiņš
Member of the Board

Statement of Cash Flow

	Note	31.12.2013 LVL	01.07.2012 – 31.12.2012 LVL
Cash flows from operating activities:			
Reconciliation of net (loss) before tax to net cash flow from operating activities			
Net profit (loss) for the financial period before tax		(84 613)	(114 420)
Change in provisions	16	(11 557)	(17 327)
Interest expense		1 944	1 478
Depreciation and amortization charges	7; 8	44 508	21 789
Net cash flow before changes in working capital		(49 718)	(108 480)
Change in inventory		412	1 283
Change in receivables		253 587	(294 873)
Change in liabilities		(125 753)	535 513
Net cash flow from operations before corporate income tax		78 528	133 443
Corporate income tax payments		-	-
		78 528	133 443
Cash flow from investing activities:			
Purchase of tangible fixed assets and intangible fixed assets	7; 8	(31 641)	(6 667)
		(31 641)	(6 667)
Cash flow from financing activities:			
Loans received		240 000	80 000
Loans repaid		(240 000)	(220 000)
Interest expense paid		(1 944)	(1 547)
		(1 944)	(141 547)
Net increase/decrease in cash and cash equivalents		44 943	(14 771)
Cash and cash equivalents at the beginning of the period	14	304 438	319 209
Cash and cash equivalents at the end of the period	14	349 381	304 438

The accompanying notes on pages 13 to 21 are an integral part of these financial statements.



Lars Anders Gustav Paalzow
Chairman of the Board



Raimonds Graudiņš
Member of the Board

Statement of Changes to the Shareholder's Equity

	Share capital LVL	Accumulated losses LVL	Profit (loss) for the year LVL	Total equity LVL
As at 30.06.2012	983 100	(265 198)	7 563	725 465
Transfer to accumulated deficit account	-	7 563	(7563)	-
Loss for the current year	-	-	(114 420)	(114 420)
As at 31.12.2012	983 100	(257 635)	(114 420)	611 045
Transfer to accumulated deficit account	-	(114 420)	114 420	-
Loss for the current year	-	-	(84 613)	(84 613)
As at 31.12.2013	983 100	(372 055)	(84 613)	526 432

The accompanying notes on pages 13 to 21 are an integral part of these financial statements.



Lars Anders Gustav Paalzow
Chairman of the Board



Raimonds Graudis
Member of the Board

Notes to the Financial Statements

1. Summary of significant accounting principles

General principles

The financial statements have been prepared in accordance with the Annual Accounts Law of the Republic of Latvia, Regulations of the Cabinet of Ministers of the Republic of Latvia on Application of the Annual Accounts Law and Regulations on the Content and Preparation of the Cash Flow Statement and the Statement of Changes to the Shareholders' Equity, as well as Latvian Accounting Standards, if they are not in contradiction with the above legal acts.

The accounting and valuation methods used by the School have not been changed since the previous year.

Comparative information

On 25 May 2012 the sole owner of the School decided to change the financial year of the School and align it with the calendar year. This was done in order to match the financial year of the School with the financial year of the owner. Since the current reporting period covers 12 months, the profit and loss statement and cash flow statement for the period from 1 January 2013 – 31 December 2013 are not comparable with the profit and loss statement and cash flow statement for the previous period, which covered 6 months from 1 July 2012 – 31 December 2012.

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.

Fair value 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

All accounting is done in Latvian lats. Transactions in foreign currencies are recorded at the rate set by the Bank of Latvia at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange set by the Bank of Latvia at the balance sheet date. All differences are taken to the profit and loss account.

Recognition of revenues

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. Revenues received during the reporting year, which relate to preceding study period, are accounted as deferred income. Revenues, 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 according to the degree of completion. Towards the end of the year School reconciles the completed volume of work with the contracting entity. Income from projects, which are not completed by the end of the reporting year, is reflected as accrued revenues.

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

Income from operating lease: Income from operating lease contracts is included in the profit and loss account in accordance with the straight-line method over the term of the lease.

Donations: Donations are recognized in profit and loss statement in the period when they are received.

Net sales

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

Notes to the Financial Statements (continued)

Intangible 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

Costs associated with maintaining computer software are expensed as incurred.

Fixed assets

Purchases of individual tangible fixed assets in excess of LVL 200 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 it's 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 debtors

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

Study fees paid by the students that relate to the next study year are accounted as deferred income.

If the School receives special purpose donations, they are used for the specified purpose. Part of special purpose donations, which is received during the reporting period, but is related to the next financial periods, is regarded as deferred income.

Notes to the Financial Statements (continued)

Corporate income tax

Corporate income tax is provided for on profit calculated according to Latvian tax legislation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantially enacted at the balance sheet date. Where an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

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 contract, banks provide information to the School about the actual amounts of overdue loans. Based on this information, the School makes provisions for the total amount of overdue student loans.

Unused vacations: the employee remuneration for the vacation due is calculated based on the number of vacation days unused as at the end of the reporting year, which is multiplied with the average remuneration during the last six months of the reporting year.

Related parties

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

	2013 LVL	01.07.2012– 31.12.2012 LVL
2. Net sales		
<i>By type of activities:</i>		
Revenues from B.Sc. program study fees	984 948	470 597
Revenues from EMBA program study fees	387 623	175 612
Revenues from Executive Education courses	432 770	150 214
	1 805 341	796 423
3. Other operating income		
Income from donations	319 065	99 319
Income from EU funded projects	205 193	171 705
Income from sublease of premises and organisation of conferences	131 225	56 955
Reversal of provisions for guaranteed student loans	9 391	-
Other income	8 158	4 334
	673 032	332 313
4. Personnel costs		
Remuneration for work, fees and compensations	(488 402)	(238 916)
Social insurance contributions	(116 098)	(57 521)
Changes in provision for unused vacations	(15 675)	21 277
	(620 175)	(275 160)

Notes to the Financial Statements (continued)

	2013	01.07.2012– 31.12.2012
	LVL	LVL
5. Other operating expenses		
External educational services	(1 076 762)	(491 930)
Maintenance of premises	(139 222)	(56 067)
Payment of scholarships	(112 275)	(39 885)
Non-recoverable input VAT	(84 576)	(56 390)
Lease and utility payments for the service hotels	(80 051)	(37 983)
Office expenses and similar expenses	(63 316)	(27 386)
Business trips	(53 768)	(19 655)
Representation expenses and similar expenses	(49 489)	(21 836)
Marketing	(42 152)	(24 531)
Procurement of books, periodicals and data bases	(37 763)	(21 715)
Transport expenses	(21 397)	(11 786)
Insurance premiums	(17 832)	(9 357)
Cost of low-value inventory	(15 058)	(17 516)
Professional services	(13 847)	(10 930)
Communication expenses	(12 731)	(5 075)
Membership fees	(12 248)	(5 781)
Foreign exchange loss, net	(10 451)	(12 584)
Provisions for guaranteed student loans	-	(3 949)
Other expenses	(53 421)	(70 420)
	(1 896 359)	(944 776)

6. Corporate income tax

Analysis of deferred tax as at the end of reporting period

The deferred tax is calculated based on the following temporary differences between assets' and liabilities' values for financial reporting and tax purposes:

	31.12.2013	31.12.2012
	LVL	LVL
Gross deferred tax (liabilities):		
Temporary differences between book and tax value of fixed assets	(24 016)	(17 920)
	(24 016)	(17 920)
Gross deferred tax assets:		
Temporary difference in relation to provisions for guaranteed student loans	6 268	10 352
Temporary difference in relation to provisions for unused vacations	6 141	3 790
Temporary difference in relation to provisions for bad debts	3 308	864
Temporary difference in relation to tax losses for the previous years	10 735	394
Temporary difference in relation to tax losses for the current year	10 574	10 341
	37 026	25 741
Less: unrecognized deferred tax assets	(13 010)	(7 821)
Deferred tax (liabilities)/ assets	-	-

Since the management of the School is not confident that the deferred tax asset can be fully recovered in the future, it has not been recognized in these financial statements.

Information about tax losses

At close of the year the School's tax losses amounted to LVL 142 062. These do not have definite expiration period.

Notes to the Financial Statements (continued)

7. Intangible assets

	Other intangible assets LVL
<i>Cost</i>	
31.12.2012	456
Additions	3 479
31.12.2013	3 935
<i>Accumulated amortisation</i>	
31.12.2012	(456)
Amortisation charge	(155)
31.12.2013	(611)
Net book value at 31.12.2012	-
Net book value at 31.12.2013	3 324

8. Fixed assets

	Land, buildings and roof LVL	Other fixed assets LVL	Total LVL
<i>Cost</i>			
31.12.2012	1 009 083	178 725	1 187 808
Additions	-	28 162	28 162
Disposals	-	(5 092)	(5 092)
31.12.2013	1 009 083	201 795	1 210 878
<i>Accumulated depreciation</i>			
31.12.2012	(379 617)	(136 330)	(515 947)
Depreciation	(23 383)	(20 970)	(44 353)
On disposals	-	5 092	5 092
31.12.2013	(403 000)	(152 208)	(555 208)
Net book value at 31.12.2012	629 466	42 395	671 861
Net book value at 31.12.2013	606 083	49 587	655 670

	31.12.2013 LVL	31.12.2012 LVL
<i>Information about fixed assets</i>		
Cadastral value of buildings	182 255	162 003

The building at Strēlnieku iela 4a, which is invested into the share capital of the School, cannot be expropriated, pledged or otherwise encumbered. If the School is dissolved, then the state invested building should 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.

Notes to the Financial Statements (continued)

	31.12.2013 LVL	31.12.2012 LVL
9. Trade debtors		
Trade debtors, gross	135 518	368 312
Specific bad and doubtful debt provisions	(4 217)	(5 763)
	<u>131 301</u>	<u>362 549</u>
10. Loans		
Non-current portion	-	1 980
Current portion	7 261	1 000
	<u>7 261</u>	<u>2 980</u>
From 2008 the School issues loans to the Student Association of the Stockholm School of Economics in Riga. Repayment dates for the loans are set until 31 December 2014. At 31 December 2013 the Student Association has fulfilled its loan obligations in accordance with the schedule.		
11. Prepaid expenses		
Employee health insurance	6 138	6 709
Business trip expenses	2 712	335
Other prepaid expenses	5 385	729
	<u>14 235</u>	<u>7 773</u>
12. Other debtors		
Due from students*	17 842	-
Other debtors	1 783	-
	<u>19 625</u>	<u>-</u>
Provisions for students' debts	(17 842)	-
	<u>1 783</u>	<u>-</u>
* The School has signed agreement with Latvian registered credit institution, acting as guarantor for student loans provided for studies at SSE Riga. During the reporting year the School had to fulfil the guarantee obligations, making payments for students who failed to meet their obligations towards the bank. The School has taken over claims against the students and started the debt collection process.		
13. Accrued income		
Accrued income from EU funded projects	165 632	226 153
Accrued income from grant to be received	64 475	18 753
Accrued income from EMBA program	17 024	32 175
	<u>247 131</u>	<u>277 081</u>
14. Cash		
Cash in bank	347 536	303 287
Cash on hand	1 845	1 151
	<u>349 381</u>	<u>304 438</u>

Notes to the Financial Statements (continued)

15. Share capital

The registered and fully paid share capital is comprised of 100 shares with a nominal value of LVL 9 831 each.

16. Other provisions

	Provisions for guaranteed student loans LVL	Provision for unused vacations LVL	Total LVL
31.12.2012	69 016	25 264	94 280
Provided for/ (released) during the reporting period	(27 233)	15 676	(11 557)
31.12.2013	41 783	40 940	82 723

17. Taxes and social insurance contributions

	(Payable)/ receivable at 31.12.2012 LVL	Calculated during the reporting period LVL	Paid during the reporting period LVL	(Payable)/ receivable at 31.12.2013 LVL
Value added tax	(15 722)	(86 532)	63 355	(38 899)
Personal income tax	-	(98 368)	98 368	-
Social insurance contributions	-	(169 114)	169 114	-
Real estate tax	-	(9 777)	9 777	-
Risk duty	-	(187)	187	-
Total	(15 722)	(363 978)	340 801	(38 899)
Less amount receivable	-			-
Total amount payable	(15 722)			(38 899)

31.12.2013 **31.12.2012**
LVL **LVL**

18. Deferred income

Deferred income for B.Sc. study program	477 054	469 320
EMBA study fees received from the students	172 278	164 087
Deferred income for Executive Education study programs	88 606	42 697
	737 938	676 104

Notes to the Financial Statements (continued)

19. Related party transactions

The following transactions were carried out with related parties during the reporting year:

	2013 LVL	01.07.2012 – 31.12.2012 LVL
Donation received	110 269	2 665
Income from the management of premises	15 602	7 801
	<u>125 871</u>	<u>10 466</u>
Outsourced services	(106 340)	(48 579)
Cost for the lease of premises	(18 554)	(9 277)
Interest expense	(1 944)	(1 478)
Donations granted	-	(56 802)
	<u>(126 838)</u>	<u>(116 136)</u>

At the end of the reporting year the School has following claims and liabilities against the related companies (gross value):

	31.12.2013 LVL	31.12.2012 LVL
Due from related parties	40 000	30 074
	<u>40 000</u>	<u>30 074</u>
Due to the related parties	-	232 152
	<u>-</u>	<u>232 152</u>

20. Information about the personnel

	2013	01.07.2012 – 31.12.2012
Average number of persons employed in the School during the year	64	62

21. Fees to the auditors

	2013	01.07.2012 – 31.12.2012
Remuneration for the audit of the annual report	5 482	4 217
	<u>5 482</u>	<u>4 217</u>

These expenses are included in the profit and loss account under the item 'Other operating expenses', sub-item 'Professional services'.

22. Financial risk management

(a) Currency risk:

The School renders its services in euros (EUR) and Latvian lats (LVL). The purchases are primarily made in LVL, EUR, and Swedish crowns (SEK).

During the period from 1 January 2005 to 31 December 2013 the Bank of Latvia guaranteed that the market exchange rate does not deviate from the official LVL/EUR exchange rate 0.702804 by more than 1%. Starting from 1 January 2014, Latvia has joined the Eurozone, introducing Euro as the only legal currency. Taking into account the currencies that the School deals with, it is subject to currency risk only from transactions in SEK. No actions are taken to minimize this risk.

Notes to the Financial Statements (continued)

(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.

(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.

23. 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 2013 constitutes LVL 681 962 (31.12.2012.: LVL 580 623), provided that the whole amount of the credits will be paid out.

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 year time from their maturity day. These financial statements do not include any possible corrections that might arise as a result of such SRS examinations.

24. Trademark license agreement

On 10 September 2010, the School entered into a termless 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. Royalties for the rights to use the trademarks are set at 2.5% of gross income. SSE has waived its rights to compensation until the financial year, which starts at 1 July 2014. The School regards this agreement as executory agreement; thus royalties for the trademark rights will be recognized starting from 1 July 2014. At the same time, the trademark license agreement gives both parties rights to renegotiate the stipulated amount of royalties.

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Stockholm School of Economics in Riga SIA

Report on the Financial Statements

1. We have audited the financial statements of Stockholm School of Economics in Riga SIA (the Company), as set out on pages 8 to 21, which comprise the balance sheet as at December 31, 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Act of the Republic of Latvia on Annual Reports, 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.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


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

Opinion

6. In our opinion, the financial statements give a true and fair view of the financial position of Stockholm School of Economics in Riga SIA as at December 31, 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Act of the Republic of Latvia On Annual Reports.

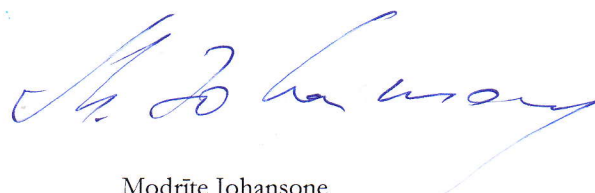
Report on other legal and regulatory requirements

7. We have read the report of the management board set out on pages 4 to 7 and we have not identified material discrepancies between the financial information presented in this report and the financial statements for the year ended December 31, 2013.



Edvards Merhels
Chairman of the Board
Riga, 22 April 2014

Merhels Revidenti Konsultanti SIA
Licensed audit firm, license No. 1



Modrīte Johansone
Certified auditor, certificate No. 135