

# **AS LHV Varahaldus**

## **2006 Annual Report**

(Translation of the Estonian original)

**AS LHV Varahaldus****Annual Report for** 01.01.2006 - 31.12.2006

<b>Business Name</b>	AS LHV Varahaldus
<b>Commercial Registry No.</b>	10572453
<b>Legal address</b>	Tartu mnt. 2, Tallinn 10145
<b>Phone</b>	(372) 6800401
<b>Fax</b>	(372) 6800402
<b>Main activities</b>	Fund management
<b>Management Board</b>	Mihkel Oja Rain Lõhmus Rait Kondor
<b>Supervisory Board</b>	Andres Viisemann Liisi Ruus Kaja Leiger Milton Stefani
<b>Auditor</b>	AS PricewaterhouseCoopers

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## MANAGEMENT REPORT FOR 2006

AS LHV Varahaldus is a fund management company. From April 29, 2005 until December 21, 2006 the business name of the company was AS LHV-Seesam Varahaldus.

In 2006 the main business activity of the company was to provide fund management services to five mandatory pension funds and one supplementary pension fund. All mandatory pension funds managed by AS LHV Varahaldus achieved undeniably the best investment returns in the whole mandatory funded pension market in Estonia.

Among pension funds with progressive investment strategies (up to 50% of the assets are invested in equities) our two funds achieved the first and second place. The NAV of the unit of LHV World Equities Pension Fund rose 13.81% and the NAV of the unit of LHV New Markets Pension Fund rose 11.46%. Competing funds with similar strategies achieved returns in the narrow range of 8.18% and 9.17%.

Progressive pension funds	NAV 31.12.2005	NAV 31.12.2006	Change in the NAV of the unit
<b>LHV Global Equities PF</b>	<b>14.63</b>	<b>16.65</b>	<b>13.81%</b>
<b>LHV New Markets PF</b>	<b>12.22</b>	<b>13.62</b>	<b>11.46%</b>
SEB Ühispank PF Progressive	14.39	15.71	9.17%
Hansa PF K3	14.76	16.07	8.88%
Sampo Pension 50	13.77	14.96	8.64%
Ergo Future PF	14.54	15.73	8.18%

Among pension funds with balanced investment strategies (up to 25% of the assets are invested in equities) the highest return was achieved by our fund, LHV Balanced Strategy Pension Fund, which unit NAV went up 7.45%. Other two competing funds achieved returns between 4.18% and 4.77%.

Balanced pension funds	NAV 31.12.2005	NAV 31.12.2006	Change in the NAV of the unit
<b>LHV Balanced Strategy PF</b>	<b>11.55</b>	<b>12.41</b>	<b>7.45%</b>
Sampo Pension 25	12.38	12.97	4.77%
Hansa PF K2	12.91	13.45	4.18%

Among pension funds with conservative investment strategies (all assets are invested in bonds and money market instruments) our two funds achieved the first and second place. The NAV of the unit of LHV Dynamic Bonds Pension Fund increased 5.1% and the NAV of the unit of LHV Quality Bonds Pension Fund increased 4.59%. Out of four competing funds three funds ended the year with a negative investment result (the worst result being -1.49%) and only one fund achieved a positive, but a modest result 2.09%.

Conservative pension funds	NAV 31.12.2005	NAV 31.12.2006	Change in the NAV of the unit
<b>LHV Dynamic Bonds PF</b>	<b>11.95</b>	<b>12.56</b>	<b>5.10%</b>
<b>LHV Quality Bonds PF</b>	<b>11.33</b>	<b>11.85</b>	<b>4.59%</b>
Sampo Pension Intress	10.99	11.22	2.09%
Ergo Stable PF	11.53	11.49	-0.35%
Hansa PF K1	11.51	11.47	-0.35%
SEB Ühispank PF Conservative	11.41	11.24	-1.49%

In comparison of supplementary pension funds our fund did not manage to take the first place. Our supplementary pension fund invests according to its strategy around 75% of its assets in equities. As the previous year was prosperous to equity markets, our fund was outperformed by more riskier funds, which invest all assets in equities, as well as one fund, which invests on average 60% of its assets in equities. Our fund achieved an investment return of 12.73%.

Supplementary pension funds	NAV 31.12.2005	NAV 31.12.2006	Change in the NAV of the unit
SEB Ühispank PF Active	13.29	16.4	23.40%
Hansa PF V3	17.34	21.23	22.43%
Hansa PF V2	14.14	15.98	13.01%
<b>LHV Supplementary PF</b>	<b>15.24</b>	<b>17.18</b>	<b>12.73%</b>
Sampo Pension Fund	15.75	17.47	10.92%
SEB Ühispank PF Balanced	16.12	17.5	8.56%
Hansa PF V1	17.79	19.03	6.97%

In the end of 2006, the total amount of assets under management was 331 million kroons, out of which 310 million kroons was in mandatory pension funds. Our biggest and most popular fund is still LHV World Equities Pension Fund, which total assets amounted to 204 million kroons.

The fund manager of our pension funds was replaced in the end of previous year and the new fund manager is Andres Viisemann. The new manager is even more committed to achieving the best investment results, and as the change in the manager did not bring along a shift the historically successful investment strategies, we believe that the funds managed by AS LHV Varahaldus keep outperforming competitors also in future.

In 2007 the company plans to broaden its activities by starting to offer fund management services also to equity funds. During the first half of the year the company plans to launch two new investment funds; the first fund will invest in the Central- and Eastern European region according to a specific investment strategy, the second fund will invest globally and will follow the investment strategy of our flagship pension fund – LHV World Equities.

Likewise earlier one of the main goals of the company is to strengthen its position in the mandatory funded pension market by attracting new subscribers and keeping existing clients. The market share of the company was 4.1% by the fund sizes in the end of 2006. Our past outstanding investment results will definitely help to win market share in future.

As of the end of the year the company had 6 employees. During the reporting period the company paid 994 752 kroons in salaries, out of which 344 784 was paid to management board members. Supervisory board members did not receive any remuneration during the reporting period.

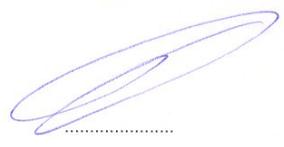
## FINANCIAL STATEMENTS

### Management Board's confirmation of the financial statements

The Management Board confirms the correctness and completeness of AS LHV Varahaldus 2006 financial statements as presented on pages 6-17.

The Management Board confirms that:

- the accounting policies used in preparing the financial statements are in compliance with the generally accepted accounting principles of Estonia;
- the financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company;
- AS LHV Varahaldus is a going concern.

	Name	Date	Signature
<b>Management Board:</b>			
Member of the Board	Mihkel Oja	25.04.2007	
Member of the Board	Rain Lõhmus	25.04.2007	
Member of the Board	Rait Kondor	25.04.2007	

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**Balance sheet***(in Estonian kroons)*

<b>Assets</b>	<b>Note</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
<b>Current assets</b>			
Cash and bank	2	19 157 073	6 417 020
Shares and other securities	3	3 005 716	7 380 570
Derivatives	4	254 152	0
Loans given	7	4 284 848	0
Other receivables	7	522 863	508 636
Accrued income		160 763	105 219
Other prepaid expenses		858 692	317 006
<b>Total current assets</b>		<b>28 244 107</b>	<b>14 728 451</b>
<b>Non-current assets</b>			
Units of managed pension funds	5	27 669 992	25 327 922
Property, plant and equipment	6	32 479	16 770
Intangible assets	6	1 200 455	1 183 699
<b>Total non-current assets</b>		<b>28 902 926</b>	<b>26 528 391</b>
<b>Total assets</b>		<b>57 147 033</b>	<b>41 256 842</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Derivatives	4	197 000	234 900
Supplier payables	7	725 873	311 626
Tax liabilities	8	147 116	101 307
Provisions	9	4 180 000	2 500 000
Accrued expenses		108 971	167 152
<b>Total current liabilities</b>		<b>5 358 960</b>	<b>3 314 985</b>
<b>Equity</b>			
Share capital	10	63 000 000	43 000 000
Share premium		4 100 000	4 100 000
Accumulated losses		-9 158 143	-8 963 872
Net loss for financial year		-6 153 784	-194 271
<b>Total equity</b>		<b>51 788 073</b>	<b>37 941 857</b>
<b>Total liabilities and equity</b>		<b>57 147 033</b>	<b>41 256 842</b>

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**Income statement***(in Estonian kroons)*

	Note	2006	2005
Net sales	11	5 992 386	4 010 661
Other operating income		34 103	97 643
<b>Total operating income</b>		<b>6 026 489</b>	<b>4 108 304</b>
Other operating expenses	12	12 472 035	6 664 421
Personnel expenses			
<i>Wages and salaries</i>		994 752	1 413 263
<i>Social security costs</i>		376 171	463 212
<i>Unemployment insurance expense</i>		3 205	5 692
Total personnel expenses		1 374 128	1 882 167
Depreciation	6	11 420	22 830
Provision expense	9	1 680 000	1 200 000
Other expenses		31 873	41 893
<b>Total operating expenses</b>		<b>15 569 456</b>	<b>9 811 311</b>
<b>Operating loss</b>		<b>-9 542 967</b>	<b>-5 703 007</b>
<b>Financial income</b>			
Profit from revaluation of short-term securities		580 135	3 325 891
Profit from revaluation of units of managed pension funds	5	2 342 069	3 300 040
Other interest and dividend income		91 307	245 392
Foreign exchange gains		0	39 200
Profit from derivatives		568 999	0
<b>Total financial income</b>		<b>3 582 510</b>	<b>6 910 523</b>
<b>Financial expenses</b>			
Loss from derivatives		0	1 401 787
Foreign exchange losses		193 327	0
<b>Total financial expenses</b>		<b>193 327</b>	<b>1 401 787</b>
<b>Total financial income and expenses</b>		<b>3 389 183</b>	<b>5 508 736</b>
<b>Net loss for the financial year</b>		<b>-6 153 784</b>	<b>-194 271</b>

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**Cash flow statement***(in Estonian kroons)*

	Note	2006	2005
<b>Cash flow from operating activities</b>			
Operating loss		-9 542 967	-5 703 007
Adjustments:			
Depreciation	6	11 420	22 830
Loans given	7	-4 284 848	0
Change in other receivables		-69 771	-162 745
Change in prepayments to suppliers		-541 686	9 003
Change in supplier payables		414 247	-682 443
Change of accrued expenses and tax liabilities		-12 372	-105 743
Increase of provision		1 680 000	1 200 000
<b>Total change in working capital</b>		<b>-2 803 010</b>	<b>280 902</b>
<b>Total cash flow from operating activities</b>		<b>-12 345 977</b>	<b>-5 422 105</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	6	-43 886	-21 500
Purchase of short-term financial investments		-8 029 395	-26 330 670
Sales of short-term financial investments		13 261 332	45 621 914
Sales of long-term financial investments	5	0	22 659 000
Purchase of subsidiaries	6	0	-40 608 604
Dividends and interest received		91 307	245 392
<b>Total cash flow from investing activities</b>		<b>5 279 357</b>	<b>1 565 532</b>
<b>Cash flow from financing activities</b>			
Share capital increase	10	20 000 000	0
<b>Total cash flow from financing activities</b>		<b>20 000 000</b>	<b>0</b>
<b>Total cash flow</b>		<b>12 933 380</b>	<b>-3 856 573</b>
Cash and cash equivalents at beginning of the period	2	6 417 020	10 234 393
<b>Change in cash and cash equivalents</b>		<b>12 933 380</b>	<b>-3 856 573</b>
Effect of exchange rate exchanges <sup>1</sup>		-193 327	39 200
<b>Cash and cash equivalents at the end of the period</b>	<b>2</b>	<b>19 157 073</b>	<b>6 417 020</b>

<sup>1</sup> The item includes the effect of exchange rate changes in bank accounts

**Statement of changes in equity***(in Estonian kroons)*

	Share capital	Share premium	Retained earnings	Total
<b>Balance as at 01.01.2005</b>	<b>43 000 000</b>	<b>4 100 000</b>	<b>-8 963 872</b>	<b>38 136 128</b>
Net loss for financial year	0	0	-194 271	-194 271
<b>Balance as at 31.12.2005</b>	<b>43 000 000</b>	<b>4 100 000</b>	<b>-9 158 143</b>	<b>37 941 857</b>
<b>Balance as at 01.01.2006</b>	<b>43 000 000</b>	<b>4 100 000</b>	<b>-9 158 143</b>	<b>37 941 857</b>
Share capital increase	20 000 000	0	0	20 000 000
Net loss for financial year	0	0	-6 153 784	-6 153 784
<b>Balance as at 31.12.2006</b>	<b>63 000 000</b>	<b>4 100 000</b>	<b>-15 311 927</b>	<b>51 788 073</b>

More detailed information on share capital is provided in Note 10.

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## Notes to the Financial Statements

### Lisa 1 Accounting policies and measurement bases adopted in the preparation of the financial statements

#### General principles

The financial statements of AS LHV Varahaldus have been prepared in accordance with the accounting principles generally accepted in Estonia, whose main requirements are prescribed by the Accounting Act of the Republic of Estonia and that are supplemented by the guidelines issued by the Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Estonian kroons.

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits held call with banks as well as those in the investment account at AS Lõhmus, Haavel & Viisemann, as well as term deposits at acquisition with original maturities of three months or less.

#### Shares and other securities

Securities held for the purpose of trading are classified as short-term shares and other securities. Other long-term shares and securities include securities not expected to be sold within the next 12 months.

Short and long-term investments in shares and other equity instruments are subsequently carried at fair value, if their fair value can be measured reliably. Shares and other equity instruments which fair value cannot be measured reliably are recognised at cost (that is acquisition cost less any impairment, when the carrying amount of the investment is not recoverable). The fair value of shares and other securities listed on the stock exchange is their quoted closing price. Fund units are measured at their redemption price. The purchases and sales of financial investments are recognised on the trade date. The changes in fair value of shares and other securities acquired for the purpose of trading are reported as gains or losses in the income statement of the accounting period.

All financial investments in this report are accounted at fair value.

#### Trade receivables and other receivables

All receivables (accrued income and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost. The amortised cost of the short-term receivables normally equals their cost value (less any write-downs); therefore short-term receivables are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently interest income is calculated on the receivable using the effective interest rate method. Receivables held for trading purposes are measured at fair value.

#### Derivative financial instruments

Derivative financial instruments (forward and swap contracts) are reported in the balance sheet at their fair value. Fair value is the market value of derivatives. Gains and losses on derivative financial instruments are reported as income or expense for the period.

#### Property, plant and equipment

Property, plant and equipment are assets used in the operations of the Company with a useful life of over one year and a cost of over 10 000 kroons. Property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Property, plant and equipment is carried in the balance sheet at its cost less any accumulated depreciation and any impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight-line basis. The annual depreciation rate for software is 33%. Depreciation is commenced at the time when the asset can be used for the purpose intended by management and is terminated when the residual value exceeds the

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carrying amount, until the final removal of the asset from use or upon reclassification into "non-current assets held for sale". At each balance sheet date, the validity of depreciation rates, the depreciation method and the residual value is assessed.

### Intangible assets

An intangible asset is initially recognised at cost, comprising of its purchase price and any directly attributable expenditure. After initial recognition, an intangible asset is carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives (goodwill which arose in a business combination) are not subject to amortisation, but an impairment test is carried out at each balance sheet date to review their fair value and if their recoverable amount turns out to be lower than their carrying amount, they are written down to their recoverable amount. The recoverable amount of the asset is the higher of the fair value less costs to sell or its value in use. For the purpose of assessing impairment, the recoverable amount is assessed either for each individual asset or the smallest group of assets for which it is possible to distinguish cash flow. The write-downs of assets are reported as expenses in the accounting period.

### Goodwill

Goodwill is the excess of the cost of a holding acquired in a business combination and the fair value of net assets acquired, reflecting that portion of cost which was paid for such assets of the Company which cannot be identified and accounted for separately. At the date of acquisition, goodwill is recognised at cost as an intangible asset. Goodwill is carried in the balance sheet at its cost less any impairment losses. Goodwill which arose in a business combination is not amortised. Instead, an impairment test is carried out once a year (or more frequently if an event or change in circumstances indicates that the fair value of goodwill may have become impaired). Goodwill is written down to its recoverable amount if it is lower than the carrying amount.

### Finance and operating leases

Leases of property, plant and equipment where all significant risks and rewards of ownership are not transferred to the lessee are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

### Financial liabilities

All financial liabilities (supplier payables, accrued expenses, and other short-term borrowings) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost. Financial liabilities are classified as short-term, when their payment date is within 12 months after the balance sheet date or the Company does not have an unconditional right to postpone the settlement of the liability for later than 12 months after the balance sheet date.

### Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date, which realisation time or amount are not certain, are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. Other possible or existing contingent obligations, for which it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

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

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities -measured at fair value - denominated in foreign currencies as at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses of that period.

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**Revenues and expenses**

Revenue and expenses have been recognised under the accrual basis of accounting. Revenue is recognised when the sold service has been provided and the risks and benefits have been transferred to the buyer and AS LHV Varahaldus has acquired the right for their receivable. Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. The management fees related to activities of investment funds are accounted during the period of providing services. Interest income is recognised taking into account the effective interest rate. Dividends are recognised when the right to receive payment is established.

**Corporate income tax**

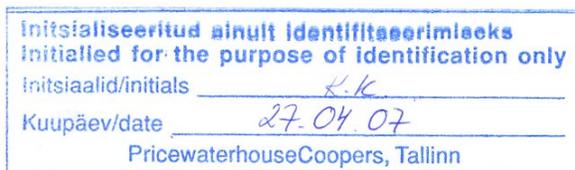
According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax of 22/78 (31.12.2006: 23/77) of net dividend paid. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

**Statutory reserve capital**

Reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

**Note 2 Cash and bank**

	<b>31.12.2006</b>	<b>31.12.2005</b>
Bank account at Hansabank	19 156 703	308 644
Investment account at LHV	370	5 326 046
Term deposit (interest 2,2%, maturity 16.01.2006)	0	782 330
<b>Total cash and bank</b>	<b>19 157 073</b>	<b>6 417 020</b>



**Note 3 Shares and other securities**

Security	Balance as at 31.12.2006			Balance as at 31.12.2005		
	Quantity	Cost	Market value	Quantity	Cost	Market value
Bonds of Fenno	190	2 972 854	3 005 716	0	0	0
Ishares S&P 500 Index® Fund(IVV)	0	0	0	2 990	3 800 982	4 928 154
Ishares Msci Pacific Ex Jpn (EPP)	0	0	0	1 880	1 242 319	2 452 416
<b>Total at fair value</b>		<b>2 972 854</b>	<b>3 005 716</b>		<b>5 043 301</b>	<b>7 380 570</b>

**Note 4 Derivatives**

	Receivable/liability (fair value)	Contingent assets (contract amount)	Commitments (contract amount)
USD/EUR forward	254 152	7 799 920	7 545 768
EUR/USD forward	-197 000	7 602 920	7 799 920
<b>Balance as at 31.12.2006</b>	<b>57 152</b>	<b>15 402 840</b>	<b>15 345 688</b>
EUR/USD forward	-234 900	15 646 600	15 881 500
<b>Balance as at 31.12.2005</b>	<b>-234 900</b>	<b>15 646 600</b>	<b>15 881 500</b>

The contracts have been entered into to hedge the foreign exchange risk derived from securities positions.

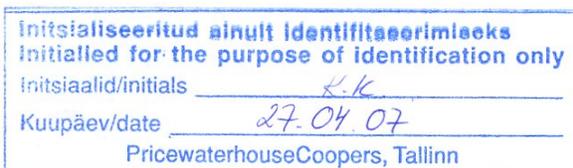
The underlying asset of the purchase forward as at 31.12.2006 is 500 000 EUR. As all the securities nominated in USD were sold during the period of validity of the forward contract, the selling forward deal was made for 500 000 EUR. Both contracts ended at 30.01.2007.

As at 31.12.2005 the underlying amount of forward contract was 1 million EUR, due date 16.01.2006, strike price 1,2026.

**Note 5 Long-term financial investments**

Security	Balance as at 31.12.2006			Balance as at 31.12.2005		
	Quantity	Cost	Market value	Quantity	Cost	Market value
LHV Global Equities	500 000	5 000 000	8 325 000	500 000	5 000 000	7 315 000
LHV Dynamic Bonds	500 000	5 000 000	6 280 000	500 000	5 000 000	5 975 000
LHV New Markets	300 000	3 000 000	4 086 000	300 000	3 000 000	3 666 000
LHV Quality Bonds	300 000	3 000 000	3 555 000	300 000	3 000 000	3 399 000
LHV Balanced Strategy	300 000	3 000 000	3 723 000	300 000	3 000 000	3 465 000
LHV Supplementary Pension Fund	99 010	1 000 001	1 700 992	99 010	1 000 001	1 507 922
<b>Total at fair value</b>		<b>20 000 001</b>	<b>27 669 992</b>		<b>20 000 001</b>	<b>25 327 922</b>

Former AS Seesam Varahaldus had invested 10 million kroons into each of its managed funds. The mandatory holding of a fund manager in the fund during the three-year period after setting up the pension fund is 2% and in subsequent periods, 1% of the units of this pension fund which requires a significantly smaller investment (funds were set up at 01.07.2002). In concordance with the Financial Supervision Authority, at 05.04.2005 the management sold units from each Seesam fund in the amount of 7 million kroons. The total selling price was 22 659 000 kroons.



## Note 6 Property, plant and equipment and intangible assets

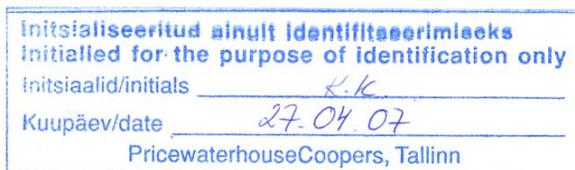
	Property, plant and equipment		Intangible assets	
	Software	Licences	Goodwill	
<b>Balance as at 31.12.2004</b>				
Cost	24 589	0	1 183 699	
Accumulated depreciation	-6 489	0	0	
<b>Carrying value</b>	<b>18 100</b>	<b>0</b>	<b>1 183 699</b>	
<b>Changes occurred in 2005</b>				
Purchase of non-current assets	21 500	0	0	
Depreciation charge	-22 830	0	0	
<b>Balance as at 31.12.2005</b>				
Cost	21 500	0	1 183 699	
Accumulated depreciation	-4 730	0	0	
<b>Carrying value</b>	<b>16 770</b>	<b>0</b>	<b>1 183 699</b>	
<b>Changes occurred in 2006</b>				
Purchase of non-current assets	25 623	18 263	0	
Depreciation charge	-9 914	-1507	0	
<b>Balance as at 31.12.2006</b>				
Cost	47 123	18 263	1 183 699	
Accumulated depreciation	-14 644	-1 507	0	
<b>Carrying value</b>	<b>32 479</b>	<b>16 756</b>	<b>1 183 699</b>	

At 14.10.2004, AS LHV Varahaldus acquired a 100% holding of AS Seesam Varahaldus from AS Seesam Elukindlustus, whose main activity was also fund management. The transaction was a business combination between independent parties. The shares were paid for in 2005 in amount of 40 608 604 kroons. According to merger contract from 03.11.2004, AS LHV Varahaldus and AS Seesam Varahaldus were united from 01.01.2005.

The balance sheet of AS LHV-Seesam Varahaldus under the line intangible assets includes positive goodwill in the amount of 1 183 699 kroons which arose in the acquisition of AS Seesam Varahaldus. As at 31.12.2006, an impairment test was performed. Three former funds of Seesam Varahaldus have been designated as the cash-generating unit of goodwill. Calculation of the value in use is based on the following assumptions:

- In forecasting the cash flows for the years 2006-2010, the Management Board has used the principle of conservatism: neither volume growth of funds nor growth of current expenses have been assumed
- The volume growth of funds exceeds the leaving clients from funds
- Cash flow discount rate used is 10%
- Key assumptions used are based on the past experience.

According to the impairment test the recoverable value exceeds substantially carrying value of goodwill, therefore no impairment has been identified.



**Note 7 Related party transactions**

Related parties are, owners, members of the Management Board and the Supervisory Board, companies related to them as well as pension funds managed by AS LHV Varahaldus.

The owners of AS LHV Varahaldus are:

European Bank for Reconstruction and Development (EBRD)	19,04%
Seesam Elukindlustuse AS	19,00%
LHV Group AS	30,74%
AS Lõhmus Holdings	25,60%
OÜ Viisemann Holdings	5,62%

In 2006 services from AS Lõhmus, Haavel & Viisemann were bought for 740 443 kroons and sold for 7 133 kroons. As at 31.12.2006 there are collateral loans presented in balance sheet in amount of 4 284 848 kroons, that are given to AS Lõhmus, Haavel & Viisemann, with due date in March, 2007. There are no liabilities to related parties as at 31.12.2006. In 2005 services were bought for 305 194 kroons and sold for 45 861 kroons. Liability to AS Lõhmus, Haavel & Viisemann as at 31.12.2005 was 57 888 kroons.

Management fees of pension funds	Revenues 2006	Receivable	
		as at 31.12.2006	as at 31.12.2005
LHV Global Equities	3 132 747	332 824	1 712 430
LHV New Markets	552 247	55 239	439 827
LHV Balances Strategy	464 547	45 324	382 373
LHV Dynamic Bonds	289 702	28 936	216 914
LHV Quality Bonds	174 866	16 799	170 847
LHV Supplementary Pension Fund	171 220	16 638	109 983
	<b>4 785 329</b>	<b>495 760</b>	<b>3 032 374</b>

During the accounting period salaries were paid to management board members in amount of 344 784 kroons (2005: 942 906).

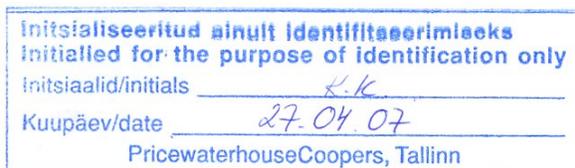
No payments were made to supervisory board members.

**Note 8 Taxes**

	31.12.2006	31.12.2005
Personal income tax withheld	60 332	34 629
Social security tax	81 710	36 578
Unemployment insurance premium	2 181	1 266
Contributions to mandatory funded pension	4 127	2 165
Corporate income tax	-1 234	26 669
<b>Total tax liabilities</b>	<b>147 116</b>	<b>101 307</b>

**Note 9 Provisions**

AS LHV Varahaldus has given DVD-players and gift-cards to clients joining the pension funds, which are handled as expenses related to business. As the discussion with tax authorities is still in progress on the date of compiling this financial statement, whether to recognise these items as purely advertising costs or gifts, there is formed a provision for possible corporate income tax in the amount of 1 300 000 kroons in 2004, 1 200 000 kroons in 2005 and 1 680 000 kroons in 2006.



**Note 10 Share capital**

At the end of 2006 the company's share capital increase was carried out with issue of new shares. 2 000 000 new shares at par value of 10 kroons were issued. In total 20 000 000 kroons was paid in cash. As at 31.12.2006 the company's share capital is 63 000 000 kroons, which consists of 6 300 000 shares; the nominal value of a share is 10 kroons. As at 31.12.2005 share capital was 43 000 000 kroons, which consisted of 4 300 000 shares; the nominal value of a share was 10 kroons.

**Note 11 Net sales**

Activity	2006	2005
Fund management [see also note 7]	4 785 329	3 033 771
Fund issue and redemption fees	1 206 997	976 890
<b>Total</b>	<b>5 992 326</b>	<b>4 010 661</b>

In the financial year, the Company's services were rendered only in Estonia.

**Note 12 Operating expenses**

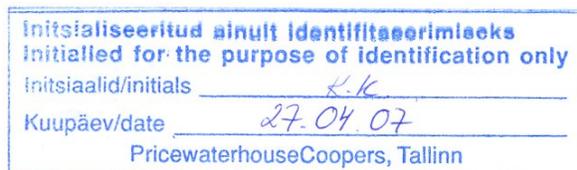
	2006	2005
Marketing expenses	7 344 835	4 029 885
Advertising costs	1 767 364	652 148
Other outsourced services	1 627 257	654 069
Registration fees	406 495	335 094
Transport expenses	350 328	153 255
Supervision and guarantee fees	318 528	445 422
Legal consultations	292 037	99 632
Office expenses	144 686	128 544
Bank services, management and transaction fees	78 694	72 414
Travel and training expenses	65 053	39 816
Communication costs	64 722	33 341
IT expenses	12 036	20 801
<b>Total operating expenses</b>	<b>12 472 035</b>	<b>6 664 421</b>

**Note 13 Operating lease**

The Company leases office space and a passenger car under the operating lease terms. In the financial year, the rent for the office space totalled 110 874 kroons and lease payments for the passenger car totalled 161 808 kroons. In 2005, rent for the office space was 72 216 kroons and the lease payments for the passenger car were 29 739 kroons.

**Note 14 Contingent liabilities**

Tax authorities have the right to review to the Company's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead tax authorities to impose additional taxes on the Company.



**INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)

To the Shareholders of AS LHV Varahaldus

We have audited the accompanying financial statements of AS LHV Varahaldus (the Company) which comprise the balance sheet as of 31 December 2006 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 notes.

**Management Board's Responsibility for the Financial Statements**

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Estonia. 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 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 auditor considers 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.

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 financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

  
Urmas Kaarlep  
AS PricewaterhouseCoopers

  
Relika Mell  
Authorised Auditor

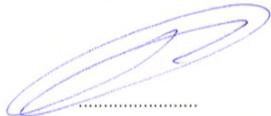
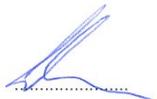
**Proposal for allocation of net loss for financial year**

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to add the loss for 2006 in the amount of 6 153 784 kroons to the accumulated losses of previous years.

## Signatures of the Management Board and the Supervisory Board of AS LHV Varahaldus to the 2006 Annual Report

The Management Board has prepared the management report, financial statements and proposal for allocation of net loss for the year 2006.

The Supervisory Board has reviewed the Annual Report consisting of the management report, the financial statements, proposal for allocation of net loss and auditor's report and approved it for the presentation to the General Meeting of Shareholders.

	Name	Date	Signature
<b>Management Board:</b>			
Member of the Management Board	Mihkel Oja	25.04.2007	
Member of the Management Board	Rain Lõhmus	25.04.2007	
Member of the Management Board	Rait Kondor	25.04.2007	
<b>Supervisory Board:</b>			
Chairman of the Supervisory Board	Andres Viisemann	27.04.2007	
Member of the Supervisory Board	Liisi Ruus	27.04.2007	
Member of the Supervisory Board	Kaja Leiger	27.04.2007	
Member of the Supervisory Board	Milton Stefani	27.04.2007	