



GILD
BANKERS



Consolidated Financial Statements 2007



Legal Information

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Main activity of group:	Investment and private banking; Alternative fund management
Management Board:	Rain Tamm Taavi Lepmets
Supervisory Board:	Joel Aasmäe Heikki Källu Tarmo Jüristo
Auditor:	AS PricewaterhouseCoopers



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Consolidated Financial Statements

Management Board's declaration

The Management Board confirms the correctness and completeness of the 2007 consolidated financial statements of AS GILD Professional Services as presented on pages 4 to 43.

The Management Board confirms that:

- ❖ the consolidated financial statements have been compiled in accordance with International Financial Reporting Standards as adopted in the European Union;
- ❖ the consolidated financial statements present a true and fair view of the Group's financial position, the results of its operations and the cash flows;
- ❖ AS GILD Professional Services Group is a going concern.

	Name	Date	Signature
Management Board:			
Member of the Management Board	Rain Tamm	29.02.08	
Member of the Management Board	Taavi Lepmets	29.02.08	

**Consolidated balance sheet***(In EUR thousands)*

	Note	31.12.2007	31.12.2006
Assets			
Cash and bank	3	5 370	1 264
Loans to clients	4	163	544
Trade receivables	5	762	545
Accrued income and prepaid expenses	6	962	169
Financial assets at fair value through profit or loss	7	276	258
Investments in special purpose entities (recognised as associates)	8	64	64
Investments in joint ventures	10	194	425
Property, plant and equipment and intangible assets	11	150	147
Total assets		7 941	3 415
Liabilities			
Other liabilities		4	34
Accrued expenses	12	555	230
Corporate income tax liabilities	13, 22	2	24
Other tax liabilities	13	384	81
Finance lease liabilities	16	38	36
Deferred income tax liabilities	22	1	2
Total liabilities		984	407
Equity			
Share capital	14, 9	28	26
Share premium	14, 9	1 056	827
Reserves		76	26
Unrealised exchange rate differences		-1	-1
Retained earnings		5 798	2 129
Total equity		6 957	3 008
Total liabilities and equity		7 941	3 415

The notes on pages 9 to 43 are an integral part of these consolidated financial statements.

**Consolidated income statement***(In EUR thousands)*

	Note	2007	2006
Fee and comission income	18	8 718	3 876
Fee and comission expenses	18	-157	-63
Net fee and comission income		8 562	3 813
Interest income	19	82	73
Interest expenses		-4	-
Net interest income		77	73
Net gain/loss from securities	20	18	-1
Other income		71	55
Operating expenses	21	-3 515	-2 249
Impairment of loans and receivables	5	-5	-8
Operating profit		5 208	1 684
Share of profit from joint venture		146	407
Profit before corporate income tax	10	5 354	2 090
Income tax expense		-207	-406
Profit for the year	22	5 147	1 684
Profit attributable to shareholders of the parent company		5 147	1 609
Minority interest		-	75

The notes on pages 9 to 43 are an integral part of these consolidated financial statements.

**Consolidated cash flow statement***(In EUR thousands)*

	Note	2007	2006
Cash flows from operating activities			
Fees and other income received		7 815	3 727
Fees and operating expenses paid		-1 380	-1 171
Cash payments to employees		-1 619	-1 014
Interest received		79	72
Interest paid		-2	-
Change in loans granted	4	381	49
Loans received during de-merger of LHV Group	9	-	129
Income tax on dividends	22	-262	-431
Total cash flows from operating activities		5 012	1 360
Cash flow from investing activities			
Purchase of property, plant and equipment	11,16	-71	-67
Proceeds from sale of property, plant and equipmen		-	18
Purchase of securities		-	-254
Proceeds from sale of securities		-	35
Paid for the acquisition of joint venture	10	-1	-
Paid for the acquisition of minority share in subsidiary	9	-	-440
Assets (cash) received during de-merger of LHV Group	9	-	368
Dividends received from joint venture	10	378	56
Total cash flow from/used in investing activities		306	-284
Cash flow from financing activities			
Finance lease payments made		-15	-16
Repayments of borrowings		-	-5
Issue of share capital		231	-
Dividends paid	14	-1 428	-1 268
Total cash flow used in financing activities		-1 212	-1 289
Total cash flow		4 106	-212
Cash and cash equivalents at beginning of the year	3	1 264	1 476
Cash and cash equivalents at end of the year	3	5 370	1 264
Net (-decrease)/increase in cash and cash equivalents		4 106	-213

The notes on pages 9 to 45 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity***(In EUR thousands)*

	Equity attributable to shareholders of the parent company							Minority interest	Total
	Issued equity		Statutory reserve capital	FX trans-lation reserve	Retained earnings	Total			
	Share capital	Share premium							
Balance as at 31.12.2005 (combined)	494	4	25	-1	1 838	2 359	176	2 535	
Transfer to statutory reserve	-	-	1	-	-1	-	-	-	
Dividends paid	-	-	-	-	-1 268	-1 268	-	-1 268	
Impact of de-merger of LHV Group (reverse acquisition) (Note 9)	-468	823	-	-	-49	307	-	307	
Purchase of minority share (Note 9)	-	-	-	-	-	-	-251	-251	
Net profit for 2006	-	-	-	-	1 609	1 609	75	1 684	
Balance as at 31.12.2006	26	827	26	-1	2 129	3 008	-	3 008	
Transfer to statutory reserve	-	-	50	-	-50	-	-	-	
Dividends paid	-	-	-	-	-1 428	-1 428	-	-1 428	
Increase of share capital	2	229	-	-	-	231	-	231	
Net profit for 2007	-	-	-	-	5 147	5 147	-	5 147	
Balance as at 31.12.2007	28	1 056	76	-1	5 798	6 957	-	6 957	

More detailed information about owners' equity is provided in Note 14.

The notes on pages 9 to 43 are an integral part of these consolidated financial statements.



Notes to the consolidated financial statements

Note 1. Accounting policies and measurements basis used in the preparation of the consolidated financial statements

1.1 Basis for preparation

The consolidated financial statements of AS GILD Professional Services (GILD Bankers and/or Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented and to all the companies in the Group, unless otherwise stated.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The financial year started at 1 January 2007 and ended at 31 December 2007. The financial figures have been presented in thousands of Euros, unless specifically referred otherwise in specific disclosure.

The group has voluntarily prepared these English language consolidated financial statements in accordance with IFRS as adopted by the EU presented in Euros. They do not include the supplementary disclosures required by Estonian Accounting Act. The group has also prepared Estonian and English language consolidated financial statements in accordance with IFRS as adopted by the EU, that include the supplementary disclosures required by Estonian Accounting Act. The statutory consolidated financial statements of AS GILD Professional Services are prepared in Estonian language and Estonian kroons and have been filed at the Estonian Commercial Registry. Statutory consolidated financial statements are also available at AS GILD Professional Services premises and electronically from www.gildbankers.com.

1.1.1 Group reorganisation in 2006

In September 2006 the shareholders of AS LHV Group, the previous parent company of AS GILD Financial Advisory Services approved a division of the group into two separate businesses. Investment services business including its

pension funds remained to operate under previously known brand name Löhmus, Haavel & Viisemann (LHV) while the investment banking and alternative fund management teams formed new group - GILD Bankers. In order to effect the reorganisation a new holding company – AS GILD Professional Services – was set up. Before the reorganisation 11 parties owned AS LHV Group. Out of those 11 parties, 9 became the owners of AS GILD Professional Services.

The following legal entities were included in the newly formed GILD Bankers Group:

- ❖ AS GILD Financial Advisory Services (GILD FAS) (100%) - providing investment banking (CF) and alternative fund management (AF) services in Estonia (former AS LHV Financial Advisory Services)
- ❖ AS GILD Latvia (100%) - providing IB services in Latvia (former AS LHV Latvia)
- ❖ UAB GILD (since Nov 2006 100%, until then 51%) - providing IB services in Lithuania (former UAB Hermis Finansai)
- ❖ AS GILD Property Asset Management (50% co-owned) - providing investment management services to our real estate trust (former OÜ LHV&UUS MAA Property Asset Management)

The transaction could not be treated as a business combination involving entities under common control as the shareholders of the de-merged groups (LHV Group, GILD Holding and GILD Professional Services) were different. The newly formed entity AS GILD Professional Services issued shares to effect the transaction and therefore cannot be considered as the acquirer of the Investment banking and Alternative fund management Business.

Reverse acquisition accounting as prescribed in IFRS 3 has been applied to the transactions between GILD Professional Services and the 'Investment banking and Alternative fund management Businesses' together has been considered as the acquirer of GILD Professional Services.

The presented consolidated financial statements of GILD Bankers therefore represent continuation of combined results of GILD Estonia (GILD FAS), GILD Latvija and GILD Lietuva (UAB GILD) – ‘Investment banking and Alternative fund management Business’. Until the transaction between the new holding entity AS GILD Professional Services and ‘Investment banking and Alternative fund management Business’ was effected (registered) in October 2006, the consolidated financial statements of GILD Bankers present the combined equity and combined results of the ‘Investment banking and Alternative fund management Business’ and the financial statements are referred to as combined accounts until that point.

At the date of the transaction, the following accounting treatment was adopted:

- ❖ The carrying amounts of the assets and liabilities of the ‘Investment banking and Alternative fund management Business’ were carried over to the Group;
The retained earnings, statutory reserve fund and cumulative translation differences of the ‘Investment banking and Alternative Investment Management Business’ were carried over to the Group;
- ❖ The combined share capital and share premium (representing funds contributed by the owners) were increased by the amount of cash and other financial assets held by GILD Professional Services in addition to its ownership interest in the ‘Investment banking and Alternative fund management Business’.
- ❖ The account balances were restated and the new share capital and share premium accounts were set up to reflect the nominal value of share capital of the legal parent company of the group (GILD Professional Services), with the difference adjusting the share premium balance. The amount of EUR 307 thousand represent the new cash and financial assets injected into the Group during the reorganisation. Please see note 9 for more disclosures of the reorganisation.
- ❖ The net profit for the period in which the reorganisation occurred represents the total of the ‘Investment banking and Alternative fund management Business’ profit for the period up to the reorganisation and the Group’s profit for the period after the transaction. Comparative amounts represent results of the ‘Investment banking and Alternative fund management Business’ only.

1.1.2. Critical assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

1.1.3. New standards, amendments and interpretations

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these consolidated financial statements which became mandatory for the Group’s accounting periods beginning on or after 1 January 2007. The overview of these standards and the Group management estimate of the potential impact of applying the new standards and interpretations is given below:

New international Financial Reporting Standards, amendments to existing standards and inter-pretations that are effective in 2007 and are relevant and have significant effect on the financial statements of the Group:

IAS 1 (Amendment) – Presentation of Financial Statements: Capital Disclosures which is effective for the accounting periods starting from 1 January 2007. The standard requires additional disclosures in the financial statements and presents additional requirements for the parent company’s capital and capital management. IAS 1 adoption did not have any impact on measurement or recognition principles. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

IFRS 7 Financial Instruments: Disclosures, which is effective for the accounting periods starting from 1 January 2007. IFRS 7 introduced new requirements for the notes in order to improve the presentation of information about the financial instruments in the financial statements.

This requires presentation of qualitative and quantitative information on the risks arising from financial instruments, containing specific minimum

requirements for credit risk, liquidity risk and market risk (incl. sensitivity analysis of market risk). This replaced standard IAS 30, Disclosures in the Financial Statements and Other Financial Institutions and adds to and replaced some of the requirements in IAS 32 Financial Instruments: Disclosure and Presentation. This standard is effective for all companies preparing their financial statements in accordance with International Financial Reporting Standards. IFRS 7 adoption did not have any impact on measurement or recognition principles. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

The Group's management is of opinion that the amendments to and revisions of the following standards and interpretations that became effective for Group's financial statements in 2007 and have been adopted for the first time in these financial statements did not have a significant effect on the financial statements of the Group:

IFRS 4 – Insurance contracts (effective 1 January 2007)
IFRIC 7 - Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments (effective 1 March 2006)
IFRIC 8 - Share-based Compensations as defined in IFRS 2 (effective 1 May 2006)
IFRIC 9 - Reassessment of Embedded Derivatives (effective 1 June 2006)
IFRIC 10 - Interim Financial Reporting and Impairment (effective 1 November 2006)
IFRIC 11 - IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007)

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 2008:

IAS 1 (Amendment) – Presentation of financial statements (effective from 1 January 2009). The amendments introduced relate mainly to the presentation of changes in equity and are intended to improve the ability of the users of financial statements to analyse and compare the information included in the financial statements. The Group shall apply the amended IAS 1 from January 2009;
IFRS 3 (Amended) – Business combinations (effective from

1 January 2009). The amendments introduced include the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified, a restatement of shares already held in an acquired entity to fair value, with the resulting differences to be recognised in the income statement, and additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred. The Group shall apply the amended IAS 1 from January 2009;

IAS 27 (Amended) – Consolidated and separate financial statements (effective from January 2009). The standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognised in the income statement. The Group shall apply the amended IAS 1 from January 2009;

The following standards, amendments and interpretations to existing standards are not effective and are not relevant for the Group's operations:

IFRS 2 – Share-based Payments (amendment) – effective 1 January 2009
IFRS 8 - Operating Segments – effective 1 January 2009.
IFRIC 12 - Service Concession Arrangements (effective 1 January 2009).
IFRIC 13 – Customer loyalty programmes (effective from July 2008);
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008);
IAS 23 (Amendment) – Borrowing costs (effective from January 2009);
IAS 27 – Consolidated and separate financial statements (effective from 1 January 2009);



1.2 Accounting of entities belonging to the Group

In the consolidated financial statements, the financial information of all subsidiaries under the control of the parent company is combined on a line-by-line basis. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Minority interests in the net income and equity is included within equity in the consolidated balance sheet separately from the equity attributable to the shareholders of the parent company and in a separate item in the consolidated income statement. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency. The weighted average exchange rate is used to translate the income, expenses and cash flows of foreign entities from their foreign currency (functional currency) into euros (unless this average is not a reasonable. Approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Assets and liabilities denominated in foreign currencies are translated into euros using the exchange rates of the Bank of Estonia prevailing at 31 December. The differences arising from translation are reported in the item of translation reserve in equity. When foreign entity is sold (or part of it is sold), such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The 2007 consolidated financial statements include the financial statements of AS GILD Professional Services (legal parent company) and its legal subsidiaries AS GILD Financial Advisory Services (Estonia – shareholding 100%), AS GILD Latvija (Latvia – shareholding 100%) and UAB GILD (Lithuania – shareholding since October 2006 100%, until then 51%; see Note 9), AS GILD Fund Management (Estonia –shareholding 100% through GILD FAS), new GILD Bankers Ukraine (shareholding 100% through GILD FAS; see Note 9).

Old GILD Bankers Ukraine and AS GILD PAM are both 50%

co-owned and considered as joint ventures and accounted for using equity method.

Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets acquired at the date of acquisition, reflecting the part of the acquisition cost that was paid for the assets that are not separately identifiable for the balance sheet purposes. Goodwill acquired from acquisition of a subsidiary is recorded in balance sheet as an intangible asset on a separate line. Goodwill is not amortised, but an annual impairment test is performed for goodwill (Note 1.8).

Transactions with minority interest

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

***Non-consolidation of special purpose entities (recognised as associates)***

GILD PS has two wholly-owned and one 50% co-owned entities (ownership in equity)- special purpose entities (SPE) registered in Estonia - AS GILD Arbitrage, AS GILD Global Opportunity and AS Eastern European Real Estate Trust. All these entities essentially represent companies similar to investment funds. GILD FAS manages these funds and earns a service fee for that. Therefore, although having 100%/50% of the voting rights in equity, GILD FAS does not control these entities and therefore they are not consolidated into these financial statements. All these special purpose companies are engaged in investing the funds of third party investors, which are raised through respective notes issues.

All risks and rewards and the resulting return on investments are to be distributed to investors through the change in the value of the notes. The value of the shareholding of GILD FAS will always remain the same – paid in share capital- and does not depend on the actual operating result of the SPE-s. AS GILD Arbitrage and AS GILD Global Opportunity pay management fees to GILD FAS on the value of issued notes, 3% and 2% per annum, respectively, plus the performance fee of up to 20% on the respective increase in the net asset value above the historically highest level. EE REIT pays management fee to the joint venture of GILD FAS – AS GILD Property Asset Management on the value of issued notes 2% per annum plus the performance fee on the respective increase in net asset value above the historically highest level. All management and success fees charged for the management of the assets in these special purpose entities are on market terms and similar to the fees of other similar investment vehicles in Estonia. Therefore it has been concluded by the management of the Group that the GILD FAS does not control the entities as it does not have the power to govern the financial and operating policies of the entity to benefit from the activities of the fund, but rather GILD FAS as the fund manager receives the cash flows and success fees from management services on market terms. See note 8 for more details.

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost and subsequently adjusted with the changes that have occurred

in the Group's interest in the net assets of associate after the acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

As the Group effectively exercises significant influence over the special purpose entities these have been considered as associates for IFRS reporting purposes. However, as all the changes in net assets belong to the holders of the issued notes according to the terms of issue, the equity method results in no changes in the value of investments. Therefore effectively the investments in special purpose entities are accounted for at the initial cost.

Joint Ventures

A joint venture is based on a joint ownership and management control according to which two parties carry out their jointly controlled economic activities. The Group's interests in jointly controlled entities are accounted for by equity method. Investments in joint ventures are initially recognised at cost and subsequently adjusted with the changes that have occurred in the venturer's interest in the net assets of the jointly controlled entity after the acquisition. The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the income statement, the venturer accounts for its interest in the operating results, financial income and financial expenses in the jointly controlled entity on a separate line "share of profit from joint venture". Dividends received are adjusted against the carrying amount of the investment. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Accounting for reverse acquisitions

In reverse acquisitions the assets and liabilities of the legal subsidiary (subsidiaries) are recognised and measured at their pre-combination carrying amounts. The retained earnings and other equity balances recognised in the consolidated financial statements are the retained

earnings and other equity balances of the legal subsidiary (combined subsidiaries) immediately before the business combination. The amount recognised as issued equity in the consolidated financial statements is determined by adding to the issued equity of the legal subsidiary (subsidiaries) immediately before the business combination the cost of the combination. The amount of share capital reflects the nominal value of registered capital of the legal parent and the balance of issued equity is presented as share premium. The cost of the business combination is determined based on the number of equity instruments the legal subsidiary (subsidiaries) would have had to issue to provide the same percentage ownership interest of the combined entity to the owners of the legal parent as they have in the combined entity as a result of the reverse acquisition. Assets, liabilities and contingent liabilities of the legal parent (ie the acquiree for accounting purposes) are reflected at their fair values at the acquisition date in the consolidated financial statements. Any excess of the cost of the business combination over the acquirer's (the legal subsidiary's) interest in the net fair value of the legal parent's assets, liabilities and contingent liabilities is recognised and subsequently treated as goodwill.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the parent entity operates ('the functional currency'). The functional currency of the Group is Estonian kroon. For the convenience of the users, the information in these consolidated financial statements is presented in euros (EUR). For translating Estonian kroons into EUR the official exchange rate of Eesti Pank (15.6466 Estonian kroons per euro) has been used. Since the exchange rate between Estonian kroon and euro is fixed and has been fixed since introduction of Euro, no foreign exchange differences result from the translation.

(b) Transactions and balances

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia (Central bank) 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

balance sheet date are translated into euros based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Gains and losses on translation of monetary assets and liabilities are recorded in the income statement under the line "net profit/loss from securities". Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss as "net profit/loss from securities", and other changes in the carrying amount are recognised in fair value reserve in equity. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss on line "net profit/loss from securities". Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.4 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and term deposits with original maturities of three months or less, that are available for use without any significant restrictions.

1.5 Financial assets

Classification

The Group classifies its financial assets in the following categories:

- at fair value through profit or loss,
- loans and receivables,
- available for sale and
- held to maturity.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading purposes (i.e. a financial asset acquired or incurred principally for the purpose of selling or repurchasing it in the near term; asset that is a

part of a portfolio of identified financial instruments; or a derivative unless designated as a hedge), and those designated at fair value through profit or loss at initial recognition by the Group. Assets in this category are classified as current assets. Financial assets designated at fair value through profit or loss at inception - securities are classified into this group, if the company has upon initial recognition designated the securities to be recorded as at fair value through profit or loss and as a result the changes in the fair value of these securities are consistently recognized in the profit or loss of the reporting period. Financial assets and financial liabilities are designated at fair value through profit or loss when:

- ❖ doing so significantly reduces measurement inconsistencies;
- ❖ certain investments, such as debt or equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables and loans to clients in the balance sheet. See note 1.6.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the accounting period, the Group has not classified any financial assets as "available-for-sale" investments.

(d) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has a positive intention and ability to hold to maturity. They are included in current assets, except for financial instruments with maturities greater than 12 months after the balance sheet date. During the accounting period, the Group has

not classified any financial assets as "held-to-maturity" investments.

For all long-term financial assets the non-current part is separately disclosed in respective disclosure to these financial statements.

Measurement

Regular purchases and sales of financial assets are recognised on the settlement date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial assets held to maturity are subsequently carried at amortised cost using the effective interest method, considering any allowances for impairment.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise under "net profit/loss from securities".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity under "revaluation reserve". When an available-for-sale financial asset is derecognized the cumulative gain previously recognized in equity on that specific instrument is to the extent reversed from equity and the remaining portion is recognized in income statement under "profit/

loss from securities". Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

For valuation of loans and receivables several risks are prudently considered. The collection of each specific receivable is assessed on an individual basis, taking into consideration all known information on the solvency of the client. The Group assesses whether objective evidence of impairment exists considering such situations as: the clients' financial difficulties, bankruptcy or inability to fulfill their obligations to the Group. For assessment of loan losses, the probability of collecting the loan and interest payments over the coming periods are considered, as well as discounted present value of estimated collections, discounted at the financial asset's original effective interest rate, and anticipated proceeds from the realization of

collateral (if the loan is secured, excluding future credit losses that have not been incurred), which together help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. Any impairment losses are charged to the income statement under "impairment of loans and receivables".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the client's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement under "impairment of loans and receivables".

Irrecoverable receivables are removed from the balance sheet against the related allowance for loan impairment. Impairment testing of trade receivables is described in Note 1.6.

1.6 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, considering allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

1.7 Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the entity with a useful life of over one year. An item of 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. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Property, plant and equipment is carried in the balance sheet at its cost less accumulated depreciation and any accumulated impairment losses. The assets' residual values, depreciation methods and useful lives are revised, and adjusted if appropriate, at each balance sheet date. 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 recognising impairment loss in income statement for the period. Depreciation is calculated under the straight-line basis. The annual depreciation rates for computers, office furniture and fixtures are 33%. Depreciation is calculated starting from the month of acquisition until the carrying value reaches the residual value of the asset. In case the residual value becomes to be greater than the carrying value of the asset, no further depreciation expense is calculated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses /other income in the income statement for the period.

1.8 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance and currently comprise of acquired software licences. An intangible asset is measured initially at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use.

After initial recognition, an intangible asset is carried at its cost less accumulated amortisation and any impairment losses. Amortisation is calculated under the straight-line basis. The amortisation rate of purchased licenses is 33% p.a. At each balance sheet date the appropriateness of amortization rates, methods and residual values are assessed. The Group reviews intangible assets for

impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. (Note 1.9)

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment of goodwill is not reversed.

1.10 Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses, and other liabilities) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost using effective interest rate method. Borrowing costs are included to the effective interest rate calculations. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate. Interest expenses are recorded in the income statement under "Interest expenses".

Financial liabilities are classified as current when they are due within twelve months after the balance sheet or if the Group does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Loans whose due date is within 12 months after the balance sheet date but which as refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue are recognised as current. Loans that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current.

For all long-term financial liabilities the long-term part is separately disclosed in respective disclosure to these financial statements.

Financial liability (or a part of a financial liability) is removed from the balance sheet when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

1.11 Payables to employees

Payables to employees contain the contractual right arising from employment contracts with regard to performance-based pay which is calculated on the basis of the Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is to be paid in the next financial year. In addition to the performance-based pay, this liability also includes accrued social and unemployment taxes calculated on it. Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as of the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment taxes. The liability is included within current liabilities in the balance sheet and as staff costs in the income statement under "operating expenses".

1.12 Provisions and contingent liabilities

Commitments arising from an obligating event occurred before the balance sheet date that have either a legal or contractual basis or that have arisen from the Group's current operating practice and require the surrender of assets, whose realisation is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and whose cost can reliably be estimated but whose timing or amount are not definitely known are recognised as provisions in the balance sheet.

Provisions are recognised based on 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 management is necessary as at the balance sheet date for meeting the obligation or transferring it to the third party. When a provision is settled later than 12 months after the balance sheet date, it is measured at discounted value (at the present value of payments relating to the provisions).

The expense of provisions is included within expenses in the accounting period.

Other potential or existing liabilities whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, are disclosed in the notes to the financial statements as contingent liabilities. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Guarantees and other commitments that in certain circumstances may become obligations, but 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.

1.13 Offsetting

Offsetting between financial assets and liabilities is performed only when there is a legally enforceable right for it and these amounts are designed to be settled simultaneously or on a net basis.

1.14 Revenues

Revenue is measured at the fair value of consideration receivable for the sale of services in the ordinary course of the Group's activities. Revenues are recorded under the accrual basis of accounting. Revenue is recognised when it is possible that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Fees and commissions are usually recognized on an accrual basis when the service has been provided and the Group has the right of claim to the receivable. Investment banking commission and fees are based on service contracts and recognized over the period in which the service is provided. The same principle is applied to asset management fees

related to investment vehicles and custody service fees. Other nonrecurring transaction fees and other income are recognized on accrual basis at the moment of executing the respective transactions. Revenue from rendering nonrecurring services over a longer period of time is recognised by using the stage of completion method assuming that the outcome of the service contract (i.e. contract revenue and costs) can be estimated reliably and the collection of payment for the transaction is probable. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when the stage of completion of the transaction at the balance sheet date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Revenue and profit are recognised in the same accounting period in proportion to the costs incurred in relation to the service contract.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. Interest income is recognized in income statement for all interest-bearing financial instruments carried at amortized cost using the effective interest rate method. Interest income includes also similar income on interest bearing financial instruments classified at fair value through profit or loss (i.e. traded bonds, derivatives, etc).

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When calculating effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future impairment losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When a receivable is impaired, the Group reduces the

carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividends are recognised when the right to receive payment is established.

1.15 Expenses

Expenses are recognised when the Group has committed to expense and/or received the goods or services, if the latter is earlier. Interest expense is recognized in income statement for all interest-bearing financial liabilities carried at amortized cost using the effective interest rate method (see description of method above in Note 1.14). Fee and commission expenses are recognised after the service has been provided and the liability has arisen.

1.16 Investment management and custody services

The Group offers investment management and custody services to the clients. Such assets that have been given to the Group to manage by third parties and that the Group does not own are not recognised in the balance sheet. Fees for services are derived from management and custody of such assets and no associated credit and market risks arise for the Group.

1.17 Finance and operating leases

Leases of property, plant and equipment, where the Group as a lessee has acquired substantially all the risks and rewards of ownership, are classified as finance leases. Other leases are classified as operating leases.

Group as a lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period

(effective interest rate method). Assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

1.18 Taxation and deferred 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, dividends payable out of retained earnings are subject to taxation. The corporate income tax on dividends is reported in the income statement as an income tax expense in the same period when dividends are declared regardless of the period for which they have been declared or when they are actually paid.

Profits earned by enterprises are taxed in Ukraine, Lithuania and Latvia, which are adjusted for permanent and temporary differences stipulated by law.

The deferred income tax liability is recognised for all temporary taxable differences, tax bases of assets and liabilities and their carrying amounts presented in the consolidated financial statements. Deferred income tax is not calculated when it arises from the initial recognition of an asset or a liability in a transaction other than a business combination, which at the time of the transaction does not affect profit (or loss) for accounting or tax purposes.

Deferred income tax is calculated on the basis of tax rates and laws in force at the balance sheet date, which are expected to exist also at the time when the deferred income tax asset or liability will realise. The Group recognises deferred income tax assets only to the extent that the respective temporary difference is reversed in the near future and taxable income arises in the future on account of which the temporary difference can be used.

1.19 Statutory reserve capital

Statutory reserve capital in Estonia and Lithuania is formed to comply with the requirements of the Commercial Code. Statutory reserve capital is formed from annual net profit allocations. During each financial year, at least

one-twentieth of the net profit need to be transferred to statutory reserve capital, until statutory reserve capital reaches one-tenth of share capital. Statutory reserve capital may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve capital are not allowed. In Latvia there are no legal obligations to accumulate certain amounts of annual profit to statutory reserve capital.

Note 2. Significant management decisions and estimates

In accordance with IFRS, several financial figures presented in the financial statements are based on critical accounting estimates and assumptions by the management, which will affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date and the reported amounts of revenues and expenses for the reporting period during the next financial years. Although these estimates have been made to the best of management's knowledge and their judgment of current events and actions, the actual outcome and the results ultimately may not coincide and may significantly differ from those estimates. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in management's estimates are reported in the income statement of the period in which the change occurred.

The area which has required more significant management estimates is primarily the assessment of recoverability of loans and receivables. The Group has assessed the objective evidence indicating impairment on an individual basis for each loan and receivable. All known information on the client has been taken into consideration, such as:

- ❖ violation of contractual terms and untimely collection of payments;
- ❖ major financial difficulties of the client and the probability of a bankruptcy;
- ❖ in case of secured loans, amounts collectible arising from the potential realisation of the security.



Note 3. Cash and bank

	31.12.2007	31.12.2006
Deposits held at call	5 162	1 240
Term deposits (up to 3 months)	193	14
Money market fund units	15	9
Total cash and bank	5 370	1 264

The interest rate on term deposits during 2007 was between 3.07 – 6.3% (2006: 1.9-3.4%). See exposure to currency risk in Note 25.

Note 4. Loans granted

Borrower	Loan balance	Loan balance	Due date	Interest rate
	31.12.2007	31.12.2006		
Loans to related parties (Note 15)	125	192	see note 25	4%-9%
Loans to clients	38	362	see note 25	5%-9%
Allowance for doubtful receivables	-	-10		
Total loans	163	544		

In 2007 and 2006 no loans have been written down, in 2007 one loan in the total amount of EUR 10 thousand was derecognised from balance sheet. Nominal interest for most of the loans granted is equal to their effective interest rates as there have been no significant other fees received at issuance and the market rate of interest for similar loans has not changed significantly during the loan period since granting. Loans granted by currency are presented in Note 25.

Loans granted are with short maturity (3-12 months) and are therefore not exposed to significant fair value interest rate risk (see also Note 25). As at 31.12.2007 there were neither loans past due nor individually impaired. As at 31.12.2006 there were no loans past due and the above mentioned loan of EUR 10 thousand was individually impaired and provided with allowance in full amount. The loan was unsecured.

Note 5. Trade receivables

	Note	31.12.2007	31.12.2006
Receivables from related parties	15	216	260
<i>incl. investment management fee receivables</i>		216	260
<i>incl. other receivables</i>		1	-
Receivables from third parties		596	391
<i>incl. investment banking fee receivables</i>		520	391
<i>incl. other receivables</i>		76	-
Allowance for doubtful receivables		-50	-106
Total trade receivables		762	545

**Classification by credit quality**

	31.12.2007	31.12.2006
Current and not impaired		
<i>incl investment management fee receivables</i>	216	260
<i>incl investment banking fee receivables</i>	433	154
<i>incl other receivables</i>	4	-
Total current and not impaired	653	414
Past due but not impaired		
less than 30 days overdue	36	30
<i>incl investment banking fee receivables</i>	36	30
30-90 days overdue	-	51
<i>incl investment banking fee receivables</i>	-	51
90-180 days overdue	73	50
<i>incl other receivables</i>	73	-
<i>incl investment banking fee receivables</i>	-	50
Total past due but not impaired	109	131
Receivables individually determined to be impaired		
over 360 days overdue	50	106
<i>incl investment banking fee receivables</i>	50	106
Total individually impaired	50	106
Less impairment allowance	-50	-106
Total trade receivables	762	545

Information regarding currencies and maturities is presented in Note 25. In 2007 additional allowance for doubtful third party receivables was recognised in the amount of EUR 5 thousand (2006 – EUR 8 thousand). The receivables and allowance amounting to EUR 61 thousand were derecognised from the balance sheet due to bankruptcy of the client (2006 – EUR 5 thousand). The following table gives an overview of the movements in allowances:

	2007	2006
Allowances at the beginning of the year (<i>third parties</i>)	106	103
New allowances formed (<i>third parties</i>)	5	8
Write-offs (<i>third parties</i>)	-61	-5
Allowances at the end of the year (<i>third parties</i>)	50	106

Note 6. Other receivables and assets

	31.12.2007	31.12.2006
Interest receivables	6	7
Prepayments to suppliers	85	38
Prepaid corporate income tax	32	-
Prepaid other taxes	1	8
Accrued revenues	838	112
Other assets	-	4
Total	962	169

Additional information regarding currencies and maturities is presented in Note 25.

Note 7. Financial assets at fair value through profit or loss at inception

	Note	31.12.2007	31.12.2006
Notes (fund shares) of East Europe Real Estate Investment Trust	8	91	83
Notes (fund shares) of GILD Global Opportunity	8	185	175
Total		276	258

Changes in fair values of other financial assets at fair value through profit or loss are recorded in “net profit/loss from securities”, in the income statement (Note 20). The fair value of the fund shares is based on their current net asset value (see Note 8).

Note 8. Investments in special purpose entities

- ❖ **AS GILD Arbitrage** - established in 2001, Tallinn. Share capital of the company is EUR 26 thousand (400 thousand kroons) which belongs to GILD FAS.
- ❖ **AS GILD Global Opportunity** - established in 2004, Tallinn. Share capital of the company is EUR 26 thousand (400 thousand kroons) which belongs to GILD FAS.
- ❖ **AS Eastern Europe Real Estate Investment Trust (EE REIT)** - established in 2005, Tallinn. Share capital of the company is EUR 26 thousand (400 thousand kroons) of which 50% belongs to GILD FAS and 50% to UUS MAA Real Estate Group

All those companies are set up specifically for offering alternative investment opportunities for investors. The capital is raised through notes issues which value changes according to the value of its investments.

The value of notes issued by those companies equals at any given time the value of net assets of the company, less the value of its share capital. Thus, gains and losses arising from the total value of assets are directly reflected in the value of notes and they are therefore transferred to the note holders similarly to funds. All risks and rewards of the company are to be borne by investors.



AS GILD Arbitrage

AS GILD Arbitrage invests in financial and other instruments traded in the Baltic financial markets, offers project-based financing and makes different private-equity investments. Its geographical reach has expanded significantly compared to previous years. Investments outside the Baltics make up more than 40% of the portfolio already and number of different investments exceeds 40. In the end of December 2007 the terms of GILD Arbitrage risk capital fund were approved by Estonian Financial Supervisory Authority. In February 2008 the present structure of GILD Arbitrage was converted into regulated public fund. Latter proceedings will not have major influence on our investors. The fund's strategy will remain the same, although there will be minor changes in terms of redemption period.

In accordance with the asset management contract entered into between GILD FAS and AS GILD Arbitrage, the latter pays a monthly management fee to the parent company amounting to 0.25% (3% p.a.) on the net asset value of issued notes and performance fee in case the value of notes has increased to the record level in a given month. The performance fee is 20% of this increase over the record level. In 2007 AS GILD Arbitrage paid investment management fees of EUR 742 thousand (2006: EUR 525 thousand) and performance fees of EUR 1 165 thousand (2006: EUR 667 thousand). See also notes 15 and 18.

AS GILD Arbitrage

Balance sheet (In EUR thousands)	31.12.2007	31.12.2006
Cash and bank	5 785	1 065
Loans and other receivables	23 151	12 182
Other short and long-term financial investments	19 064	14 299
Investment property	10 665	4 427
Total assets	58 664	31 972
Accrued expenses and loans received	-16 052	-6 063
Share capital	-26	-26
Minority share and unrealized exchange rate differences	-1 894	-77
Value of notes issued	40 693	25 807

AS GILD Global Opportunity

GILD Global Opportunity invested mostly in international hedge funds. As this strategy couldn't prove to be interesting to our investors and provide high enough return it has been decided to sell the hedge fund investments and to transfer other structured financing projects to GILD Arbitrage. Legally current investors have an option to transfer their investment into GILD Arbitrage, into our real estate fund EEREIT or redeem the notes. Majority of the investors have used first two options.

In accordance with the asset management contract entered into between GILD FAS and AS GILD Global Opportunity, the latter pays a monthly management fee to the parent company amounting to 0.167% (2% p.a.) on the net asset value of issued notes and performance fee in case the value of notes has increased to a record level in a given month. The performance fee is 20% of this increase above the record level. In 2007 AS GILD Global Opportunity paid investment management fees of EUR 172 thousand (2006: EUR 265 thousand) and performance fees of EUR 133 thousand (2006: EUR 414 thousand). See also notes 15 and 18.

**AS GILD Global Opportunity**

Balance sheet (In EUR thousands)	31.12.2007	31.12.2006
Cash and bank	218	412
Shares and other securities	2 275	5 002
Other investments and receivables	2 819	8 293
Total assets	5 311	13 707
Accrued expenses and loans received	-30	-1 038
Share capital	-26	-26
Value of notes issued	5 255	12 643

AS Eastern Europe Real Estate Investment Trust (EE REIT)

EE REIT invests in different real estate property all across Baltic and other East European countries. 68% (2006: 60%) of the capital is invested in established commercial and industrial premises with constant rent revenue, 13% (2006: 20%) of the capital is invested in real estate development projects, including construction of apartment buildings, warehouses and commercial properties, and the remaining 19% (2006: 20%) of the capital is invested in land development projects. Similarly with GILD Arbitrage EEREIT is in the process of reorganisation its structure into regulated real estate fund.

In accordance with the investment advisory contract entered into between AS GILD Property Asset Management (PAM) and EE REIT, the latter pays quarterly management fees to PAM amounting to 0.5% (2% annually) on the NAV of issued notes and performance fees of 20% if the value of notes has increased to a record level in a given quarter. In 2007 EE REIT paid investment management fees to GILD PAM of EUR 560 thousand (2006: EUR 449 thousand) and performance fees of EUR 697 thousand (2006: EUR 1 156 thousand). See also notes 15 and 18.

AS Eastern Europe Real Estate Investment Trust (EE REIT)

Balance sheet (In EUR thousands)	31.12.2007	31.12.2006
Cash and bank	4 753	1 999
Loans and financial investments	3 933	4 483
Receivables and accrued income	312	836
Investment property	53 070	50 781
Total assets	62 068	58 099
Accrued expenses and loans received	-28 162	-28 651
Share capital	-26	-26
Value of notes issued	33 880	29 423



Note 9. Acquisitions

Reverse acquisition

In September 2006 the shareholders of AS LHV Group, the previous parent company of AS GILD Financial Advisory Services, AS GILD Latvija and UAB GILD (former UAB Hermis Finansai) approved a division of the group into two separate businesses. Investment services business including its pension funds remained to operate under previously known brandname Lõhmus, Haavel & Viisemann (LHV) while the investment banking and alternative fund management teams formed new group - GILD Bankers. The transaction could not be treated as a business combination involving entities under common control as the shareholders of the de-merged groups (LHV Group, GILD Holding and GILD Professional Services) were different. The newly formed entity (GILD PS) issued shares to effect the transaction and therefore cannot be considered as the acquirer of the business combination. Instead the transaction is accounted for as reverse acquisition, the acquirers being AS GILD FAS, AS GILD Latvija and UAB GILD in combination and the acquiree being AS GILD Professional Services (see accounting policy in 1.1.1.). In the de-merger process the following assets were given over to AS GILD Professional Services.

Net assets legally acquired by GILD Professional Services during the demerger:

<i>(In EUR thousands)</i>	
Cash less liabilities regarding UAB GILD	178
Loan receivable	129
Subsidiaries at cost	546
<i>AS GILD Financial Advisory Services</i>	256
<i>AS GILD Latvia</i>	229
<i>UAB GILD</i>	62
Total net assets acquired	853
Issued share capital	26
Issued share premium	827
Total issued equity	853

According to reverse acquisition accounting rules the subsidiaries in combination effectively acquired the legal parent company GILD Professional Services. So the acquired assets for the Group for these consolidated financial statements were:

<i>(In EUR thousands)</i>	
Cash less liabilities regarding UAB GILD	178
Loan receivable	129
Total net assets acquired	307
Consideration paid in form of issued equity	307

Fair values of the acquired assets are effectively equal to their carrying amounts, because acquired assets consist of cash (EUR 368 thousand) and short term financial assets and liabilities. No goodwill was recognised in the de-merger and reverse acquisition process.



Acquisition of the Subsidiaries

In December 2007 GILD Group set up a new 100% owned subsidiary in Ukraine. The paid in share capital amounts EUR 14 thousand (equivalent of 100 thousand grivnas). The company is named GILD Bankers Ukraine and will take over the activities and employees from joint venture bearing the same name from the beginning of 2008.

In November 2006 GILD Professional Services acquired 49% minority share in UAB GILD (former UAB Hermis Finansai). The acquisition was agreed to be effective from 30 September 2006. As a result of that transaction GILD Professional Services became a 100% owner of the UAB GILD. As at 31.12.2005 the shareholding of 51% in UAB GILD was owned by LHV Group. This shareholding of 51% was transferred to GILD Professional Services by AS LHV Group during restructuring process (see reverse acquisition note below). Due to legal circumstances, AS LHV Group legally initially had to sell its shareholding of 51% to the existing minority shareholders who then after the legal de-merger sold entire company (i.e. 100% of shareholding) to GILD Professional Services.

The total acquisition consideration was EUR 440 thousand, which consisted of:

Payment of preference dividends decided but not paid out earlier	214
<i>incl. Share of majority 51%</i>	109
<i>incl. Share of minority 49%</i>	105
Payment for the legal transfer of 51%	85
Payment for the net assets of 49%	140
Total	440
Total consideration for equity share acquired	140
Total adjusted equity as at 30 September 2006	286
49% share in equity as at 30 September 2006	140

Total consideration (EUR 251 thousand) for minority share acquired consists equity share acquired (EUR 140 thousand) and share in preference dividends (EUR 105 thousand) plus other transaction costs (EUR 6 thousand).

**Note 10. Investments in joint ventures***(In EUR thousands)*

	GILD PAM	GILD Ukraine	Total
Holding in joint venture's equity and book value as at 01.01.2006	74	-	74
Changes in 2006			
Acquired holding	-	50%	-
Acquisition cost of shareholding obtained	-	1	1
Total profit for the year	1 368	-	1 368
Expected preferred share dividends to third parties	555	-	555
Profit attributable to ordinary shareholders	813	-	813
Profit under equity method	407	-	407
Dividends received	-56	-	-56
Ownership % at end of the year	50%	50%	
Holding in joint venture's equity and book value at end of 2006	425	1	425
Changes in 2007			
Purchase of preference shares	1	-	1
Total profit for the year	100	-	100
Expected preferred share dividends to third parties	16	-	16
Profit attributable to ordinary shareholders	86	-	86
Profit under equity method*	43	-	43
Adjustments to 2006 profit	-4	-	-4
Dividends received (ordinary shareholders)*	-271	-	-271
Ownership % at end of the year	50%	50%	
Holding in joint venture's equity and book value at end of 2007	194	1	194

*In addition to profit under equity method GILD FAS received preference share dividends in amount of EUR 107 thousand.

In May 2006 **GILD Bankers Ukrainian** office was opened in Kiev. In December 2006 a joint venture was established for investment banking business in Ukraine. Initial registered capital amounted to 500 grivnas (EUR 77). In 2008 the activities will be taken over by the new subsidiary bearing the same name. See note 9 for details.

GILD Bankers Ukraine

Balance sheet (In EUR thousands)			Income statement (In EUR thousands)		
Assets	31.12.2007	31.12.2006	Revenue	2007	2006
Cash and bank	6	-	Services sold to GILD	182	15
Receivables and prepayments	2	1	FAS		
Total assets	8	1	Total revenue	182	15
Liabilities and equity			Operating expenses	164	-15
Current liabilities	9	2	Income tax	18	-1
Equity	-1	-1	Profit for the year	0	-1
Total liabilities and equity	8	1			



AS GILD Financial Advisory Services have a joint venture together with real estate group UUS MAA -

AS GILD Property Asset Management (GILD PAM). The joint venture provides investment management services to real estate trust, AS Eastern Europe Real Estate Investment Trust (EE REIT). GILD PAM is located at R vala pst 6, 10143 Tallinn and was established in April 2005. Until January 2007 the company was known as O  LHV&UUS MAA Property Asset Management. In January it was re-organised from osa hing to aktsiaselts. Additional share capital was issued by transfer from retained earnings (bonus issue). In January 2007 GILD FAS also obtained preference shares in amount of EUR 1 thousand. These preference shares carry no guaranteed interest or have voting power. It has been agreed between shareholders that certain amount of profit will be allocated to the holders of preference shares, but the respective decisions will be made each time by the Shareholders' General Meeting.

AS GILD Property Asset Management

Balance sheet (In EUR thousands)			Income statement (In EUR thousands)		
	31.12.2007	31.12.2006		2007	2006
Cash and bank	170	1 172	Asset management fees received	1 341	1 630
Receivables and accrued income	640	363	Total revenue	1 341	1 630
Property, plant and equipment	49	10	Staff costs	-460	-116
Total assets	859	1 545	Administrative expenses	-504	-122
Liabilities and equity			Total expenses	-964	-238
Current liabilities	170	44	Interest income/expense	21	10
Dividends to preferential shareholders	300	652	Profit before tax	398	1 402
Equity	389	849	Tax on dividends	-297	-33
Total liabilities and equity	859	1 545	Profit for the year	101	1 369

**Note 11. Property, plant and equipment and intangible assets**

Property plant and equipment includes computers, office equipment, fixtures and cars. Information on non-current assets acquired under a finance lease is presented in Note 16. No indications regarding impairment of PPE or intangible assets have been identified in 2007 or 2006.

	Property, plant and equipment	Intangible assets	Total
Balance as at 31.12.2006			
Cost	285	20	305
Accumulated depreciation	-147	-11	-158
Net book amount	138	9	147

Changes occurred in 2007

Acquisitions	76	12	88
<i>Incl acquisition at finance lease terms (Note 16)</i>	16	-	16
Disposal (carrying value)	-10	-	-10
Disposal (cost)	-22	-	-22
Disposal (accumulated depreciation)	12	-	12
Depreciation charge	-69	-7	-75

Balance as at 31.12.2007

Cost	339	32	370
Accumulated depreciation	-203	-18	-221
Net book amount	136	14	150

	Property, plant and equipment	Intangible assets	Total
Balance as at 31.12.2005			
Cost	259	21	280
Accumulated depreciation	-88	-12	-100
Net book amount	171	9	180

Changes occurred in 2006

Acquisitions	62	6	67
<i>Incl acquisition at finance lease terms (Note 16)</i>	13	-	13
Disposal (carrying value)	-25	-	-25
Disposal (cost)	-36	-7	-43
Disposal (accumulated depreciation)	11	7	17
Depreciation charge	-70	-5	-75

Balance as at 31.12.2006

Cost	285	20	305
Accumulated depreciation	-147	-11	-158
Net book amount	138	9	147

**Note 12. Accrued expenses**

	Note	31.12.2007	31.12.2006
Supplier payables		74	64
Payables to related parties	15	12	-
Payables to employees		469	166
Total		555	230

Additional information regarding currencies and maturities is presented in Note 25. Payables to employees consist of unpaid salaries for the accounting period, bonus accruals and vacation pay accrual.

Note 13. Tax liabilities

	Note	31.12.2007	31.12.2006
Personal income tax (withheld)		35	22
Social security tax (expense of the employer)		68	36
Unemployment and pension insurance payments (withheld)		5	3
Corporate income tax on fringe benefits and gifts		4	2
Value added tax		272	18
Other tax liabilities		384	81
Corporate income tax liability	22	2	24
Total tax liabilities		386	105

The increase in value added tax liability is caused by the fact that in December 2007 two major investment banking deals were closed. Additional information regarding currencies and maturities is presented in Note 25.

Note 14. Equity

	31.12.2007
Legal registered share capital of the parent company (in EUR)	26 364
Paid in unregistered share capital of the parent company (in EUR)	1 757
Total share capital	28 121
Number of shares (pcs)	44 000
Nominal value of shares (in EUR)	0,64

The GILD Professional Services was set-up during the de-merger process of AS LHV Group. It was registered in the Commercial Registry on 2 November 2006. Registered nominal share capital of the legal parent company was EUR 26 364 (412 500 kroons). In December 2007 2750 shares were issued to new joining partner for the cash consideration of EUR 231 thousand (3 609 thousand kroons) paid in on 27 December 2007. The shares were registered in Commercial Register on 1 February 2008.

In 2007 dividends to ordinary shareholders were paid in amount of EUR 725 thousand (2006: EUR 1 268 thousand). In addition dividends were paid to the preference shareholders of the subsidiary GILD FAS in amount of EUR 701 thousand (2006: EUR 545 thousand).

Upon the payment of dividends, from 1 January 2008, the corporate income tax on dividends amounts to 21/79 (until 31. 12.2007: 22/78) of net dividend paid. In accordance with the Commercial Code, it is possible to pay out that portion of net profit as dividends, which exceeds the amount of the share capital of the parent company and the reserves. With regard to income tax amounts, if income tax on the portion of profits to be paid out has already been paid or withheld in a foreign country, then that portion of dividends is not taxed with corporate income tax. During the de-merger process AS LHV Group also transferred to GILD Professional Services a tax credit on dividends which in 2006 allowed GILD Professional Services to pay out dividends in amount of EUR 723 thousand with no further tax liabilities. This tax credit was used in 2007 when paying out dividends to ordinary shareholders. In 2007 GILD FAS received dividends from joint venture GILD PAM in amount of EUR 378 thousand which also allows to pay out dividends in the same amount with no further tax liabilities arising. In 2007 EUR 110 thousand of this credit was used and further EUR 268 thousand can be paid out from GILD FAS as dividend with no additional income tax arising.

Events after the balance sheet date

According to Group's shareholders decision from 7 March 2008 the amount of dividends to be pay out from profit of 2007 was EUR 2 985 thousand, including dividends to ordinary shareholders in amount of EUR 715 thousand and dividends to preference shareholders in amount of EUR 2 270 thousand.

Note 15. Transactions with related parties

In preparing the financial statements the following entities have been considered as related parties:

- ❖ owners (parent company and owners of the parent company);
- ❖ subsidiaries, associates, joint ventures and special purpose entities;
- ❖ other firms belonging to the same consolidation group (incl. fellow subsidiaries);
- ❖ management and supervisory boards;
- ❖ close relatives of the persons mentioned above and the companies related to them.

Up to the demerger of the former parent company LHV Group in autumn 2006, and acquisition of the GILD FAS by AS GILD Professional Services, the related parties were considered also the other owners of the LHV Group and all the entities that belonged to the consolidation group of LHV Group, now demerged to LHV Group, GILD Bankers Group and GILD Holdings. Transactions with these entities entered into before the demerger have also been disclosed here as transactions with related parties.

Related parties up to the demerger of the LHV Group:

LHV Group – as parent company;

AS GILD Latvija, UAB GILD, AS Löhmus, Haavel & Viisemann, AS GILD Arbitrage, AS GILD Global Opportunity, AS LHV Varahaldus, AS LHV Ilmarise Kinnisvaraportfell, AS GILD Property Asset Management, AS EE REIT, AS New Economy Ventures, AS Nev Media - as group companies and SPE-s.

Related parties after the demerger of the LHV Group:

AS GILD Professional Services – as parent company;

AS GILD Latvija, UAB GILD, AS GILD Arbitrage, AS GILD Global Opportunity, AS GILD Property Asset Management, AS EE REIT, AS New Economy Ventures (in liquidation), AS NEV Media (in liquidation), AS GILD Holdings, GILD Bankers Ukraine (starting from Dec 2006), GILD Fund Management (starting from year 2007) – as group companies and SPE-s.



Movements and balances of loans granted	Note	2007	2006
Group companies and SPE-s		-	32
Shareholders and their related companies		3	239
Total loans granted during the year		3	271
Group companies and SPE-s		-	32
Shareholders and their related companies		134	46
Loan repayments received		134	78
Shareholders and their related companies		61	192
Loans granted as at the year-end	4	61	192

Transactions	Note	2007	2006
Group companies and SPE-s		182	64
Total services purchased		182	64
Group companies and SPE-s		2 507	1 982
<i>incl. asset management services</i>	<i>18</i>	2 214	1 909
<i>incl. securities brokerage and intermediation commissions</i>	<i>18</i>	107	37
<i>incl. financial advisory services</i>	<i>18</i>	171	12
Total services sold		2 507	1 982
Group companies and SPE-s		-	14
Total interest income		14	24
Purchase of notes of SPE-s from parent company		-	254
Total sale or purchase of notes to parent company		-	254

Other balances	Note	31.12.2007	31.12.2006
Group companies and SPE-s		217	260
Receivables as at the year-end	5	217	260
Shareholders and related companies		12	-
Liabilities as at the year-end		12	-
Notes of special purpose entities	7	276	258
Investments as at the year-end		276	258

AS GILD Professional Services belongs to private persons who as partners are actively engaged in the daily management of the Group companies. In 2007, salaries and other compensations paid to the management of AS GILD Professional Services totalled EUR 656 thousand (2006: EUR 589 thousand). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2007 and 31.12.2006 (such as pension liabilities, termination benefits, etc.).

Information on assets of related parties held by the Group as a custodian is presented in Note 17. In 2007 and 2006 no receivables from related parties have been written off.

Note 16. Finance and operating lease

The Group as the lessee

The Group leases passenger cars and office space under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The minimum unilaterally non-cancellable lease payable in the next period amounts to EUR 266 thousand (2006: EUR 262 thousand), the current portion of which amounts to EUR 128 thousand and the non-current portion amounts to EUR 138 thousand. (2006: EUR 101 and 160 thousand).

Operating lease payments made	Note	2007	2006
Office space		125	117
Passenger cars		67	38
Total	21	192	155

Passenger cars acquired under finance lease terms	2007	2006
Cost at beginning of year	67	87
Accumulated depreciation at beginning of the year	-25	-17
Net book value at beginning of year	41	70

Changes occurred during the year	2007	2006
Purchase of fixed assets	16	13
Disposals of fixed assets	-15	-33
Depreciation charge of the disposed assets	9	9
Depreciation charge	-12	-17
Cost at end of year	68	67
Accumulated depreciation at end of the year	-29	-25
Net book value at end of the year	39	41

Present value of minimum amount of finance lease payments	2007	2006
Current portion up to 1 year	11	11
Non-current portion 1-5 years	27	25
Total	38	36

Note 17. Assets under management and in custody

GILD Group manages several investment vehicles (see also Note 8) and other individual investments which at the end of 2007 amounted over EUR 138 million.

Assets under management	31.12.2007	31.12.2006
GILD Arbitrage	58 664	31 972
GILD Global Opportunity	5 311	13 707
EE REIT	62 068	58 010
GILD Holdings and other individual investments	12 415	5 046
Total	138 458	108 735



GILD also provides custody services to its clients, holding securities in its own accounts and on the name of clients. Details of the assets held on behalf of the clients are given in the table below.

Assets in custody	31.12.2007	31.12.2006
Cash balances	574	-
Securities & loans	20 763	14 146
<i>incl. group companies and managed investment vehicles</i>	2 194	717
<i>incl. shareholders and their related companies</i>	490	265
Total	21 336	14 146

Note 18. Net fee and commission income

	2007	2006
Service fee income		
Investment banking services	4 307	1 100
Assets management and similar fees	4 194	1 960
Other commissions received	217	816
Total	8 718	3 876
<i>incl. investment banking services fees from related parties (Note 15)</i>	171	12
<i>incl. securities intermediation commissions from related parties (Note 15)</i>	107	37
<i>incl. asset management fees from related parties (Note 15)</i>	2 214	1 909
	2007	2006
Service fee expenses		
Outsourced financial advisory and other similar services	-136	-60
Other commissions paid	-21	-3
Total	-157	-63
Net fee and commission income	8 562	3 813

2007 fee and commission income includes the total amount of EUR 834 thousand accrued income on the projects which will be closed in 2008 and on projects closed with earn-out terms in 2007. The income is considered to be earned in 2007 as GILD has provided its services and has right to claim the receivable. From EUR 834 thousand EUR 188 thousand was accrued for investment banking services and EUR 646 thousand for investment management services. Accrued income is recognised in the balance sheet under "accrued income and prepaid expenses" in the abovementioned amount.

Note 19. Interest income

	2007	2006
Interest income		
Interest on cash and bank accounts	58	42
Interest on loans and lending of securities	24	31
<i>incl. Interest income from loans to related parties (Note 15)</i>	14	24
Total	82	73

**Note 20. Profit/loss from securities**

	2007	2006
Profit/ loss from securities		
Profit/loss from revaluation of notes	18	4
Profit/loss from foreign exchange rate changes	-	-5
Total profit/loss from securities	18	-1

Note 21. Operating expenses

	Note	2007	2006
Staff costs			
Wages, salaries and bonuses		1 532	804
Social security and other taxes		417	260
Total		1 949	1 064
Administrative expenses		1 296	938
<i>incl. office expenses (excluding rental expenses)</i>		88	76
<i>incl. transportation</i>		69	52
<i>incl. IT expenses and communication</i>		128	91
<i>incl. marketing and legal services purchased</i>		497	408
<i>incl. other expenses (training, membership fees etc.)</i>		516	311
Depreciation and write-offs	11	78	93
Operating lease payments	16	192	155
Total operating expenses		3 515	2 249

In 2006 and 2007 no loans have been written down. In 2007 trade receivables have been written down in an amount of EUR 5 thousand, in 2006 EUR 8 thousand. Substantial growth in Group operational activities, organisational developments and changes has brought along major increase in operating expenses compared to 2006.

Note 22. Corporate income tax**Corporate income tax of companies registered in Estonia**

In accordance with the current legislation, the net profit earned by entities is not taxed with corporate income tax in Estonia. Instead, the dividends paid out of retained earnings are subject to the corporate income tax at the rate of 21/79. Until 31.12.2007, the tax rate was 22/78, until 31.12.2006, the tax rate was 23/77 and until 31.12.2005, the tax rate was 24/76 of the amount paid out as net dividends. Also certain expenses made by the Group are subject to corporate income tax in Estonia at the same rates respectively as referred above.

Corporate income tax of subsidiaries registered in Latvia and Lithuania

The net profit earned by entities, adjusted with the permanent and temporary differences, is taxed in Latvia and Lithuania at tax rates 15% and 18% respectively (2006: 15% and 19%).



2007	Estonia	Latvia	Lithuania	TOTAL
Corporate income tax payable	168	20	21	208
Deferred income tax expense	-	-1	-	-1
Total corporate income tax expense	168	19	21	207

Comparison of actual income tax with the income tax expense calculated on the basis of accounting profit	Estonia	Latvia	Lithuania	TOTAL
Profit/loss before income tax	5 121	139	140	5 401
Tax rate	0%	15%	18%	
Theoretical income tax expense	-	21	25	46
Income tax on dividends (22/78 of net dividends)	168	-	-	168
Non tax deductible expenses and non taxable income	-	1	-26	-25
Temporary differences arising from fixed assets	-	-8	-	-8
Total differences	168	-7	-26	135
Effect of differences on income tax expense	168	-1	-5	162
Income tax expense	168	20	21	208
Tax liability as at 31.12.2006	-	12	12	25
Paid during the year	-168	-30	-65	-262
Tax liability as at 31.12.2007 or (tax prepayment) as at 31.12.2007 (Note 13 and 6)	-	2	-31	-29

Deferred income tax relating to non-current assets	-			
Income tax liability 31.12.2006	-	2	-	2
Income tax liability 31.12.2007	-	1	-	1
Deferred income tax expense	-	1	-	1

2006	Estonia	Latvia	Lithuania	TOTAL
Corporate income tax payable	362	13	31	406
Deferred income tax expense	-	-1	-	-1
Total corporate income tax expense	362	12	31	405

Comparison of actual income tax with the income tax expense calculated on the basis of accounting profit	Estonia	Latvia	Lithuania	Total
Profit/loss before income tax	1 853	89	149	
Tax rate	0%	15%	19%	
Theoretical income tax expense	-	13	28	42
Income tax on dividends (23/77 of net dividends)	362	-	-	-
Non tax deductible expenses and non taxable income	-	-2	16	-
Total differences	362	-2	16	-
Effect of differences on income tax expense	362	-	3	365
Income tax expense	362	13	31	405
Tax liability as at 31.12.2005	-	-	50	50
Paid during the year	-362	-1	-68	-431
Tax liability as at 31.12.2006	-	12	13	25

Deferred income tax relating to non-current assets	-			
Income tax liability 31.12.2005	-	3	-	3
Income tax liability 31.12.2006	-	2	-	2
Deferred income tax expense	-	1	-	1



Note 23. Contingent liabilities

Tax authorities have the right to review the Group's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2004-2007. The Group's management estimates that there are not any circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

Note 24. Fair value of financial assets and liabilities

The Group estimates that the fair values of the financial assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying values presented in the Group's balance sheet as at 31.12.2007 and 31.12.2006. Loans to clients that have been issued with fixed interest rates are sufficiently short-term and issued at the market terms, so that the fair market rate and respectively the fair value of the loan does not differ significantly during the loan term as at the balance sheet date. Also loans received bear fixed interest rates, but similarly to the granted loans, these are of very short maturity and therefore the fair value does not change significantly during the loan term and does not differ significantly from the carrying value as at the balance sheet date. The maturity information has been presented in Note 25.

Note 25. Management of risks

Risk management structure

The Group faces a variety of risks which are inherent to our business including market, liquidity, credit and operational risks. We believe that effective risk management is important for maintaining reliability, stability and profitability and thus to the success of GILD Bankers. Those risks are therefore assessed and monitored regularly to be able to respond to changes accordingly. Segregation of duties, four eye principle and management oversight are key elements of our internal risk management process. Another important element is that our Legal & Compliance, Finance and Middle&back-office functions who also carry out risk management procedures are independent from revenue- generating units.

In order to maintain risks on accepted levels following committees have been established:

Mandate Committee

Mandate Committee reviews and approves new clients and new mandates for providing investment and merchant banking services to ensure business, legal, reputational and regulatory risks are kept within accepted limits.

Investment Committees

Investment Committees review and approve all individual investments and commitments which are to be made by our hedge funds and real estate fund. In addition to reviewing specific transactions quarterly meetings focus on overall review of risk exposures and setting new limits. Investment committee for private banking investments sets out general guidelines and preferences on industries or geographical regions.



Market risk

Our businesses are affected by economic conditions in the markets we operate including inflation, gross domestic product growth, business and investor confidence, conditions in the capital and real estate markets, banks' lending policies, political stability.

The revenue of GILD Group is derived from two main sources. Investment banking fees are earned by providing to our clients advisory services in areas such as mergers & acquisitions (M&A), capital raising and strategic and financial questions. Overall unfavourable conditions in the market, decline in the number of M&A transactions, increasing competition to win deals may have an adverse impact on our fee income.

Asset management fees are earned from hedge-funds AS GILD Arbitrage, AS GILD Global Opportunity and through a joint venture from AS Eastern Europe Real Estate Investment Trust. Asset management fees consist of two parts – fixed fees, whose basis is the volume of managed assets and performance fees which are based on the performance of investments. Thus, changes in interest rates, foreign exchange rates, share prices and real estate prices affect investments of the managed funds and thus performance based fees. General decline in economic conditions may lead for example to non-performing of our investee companies and not finding suitable co-financing for our projects. Our funds have invested also to regions which are not politically as stable as western world. Changes in political conditions may have an adverse impact on the value of those investments. This may have an impact on investor confidence and the amount of redemptions may exceed subscriptions to our fund which will lead to decline in assets under management and thus fees we earn. From the other hand banks' tighter lending policy may lead to more opportunities in mezzanine and equity financing.

Towards the end of 2007 GILD launched its private banking services and has also started with merchant banking activities. Adverse economic conditions in the Baltic States and CEE region may make it more difficult to attract new clients and to find interested parties willing to invest into this region.

GILD is not currently having a trading portfolio, neither do we provide loans to wider public. There are no long or short term borrowings therefore the effect of changes in **interest rates** or **share prices** have a minimum effect on our profit. It is the policy of the shareholders to distribute profit annually unless decided otherwise, which means that free cash is mainly kept in bank deposits, money market funds or other short term debt instruments to ensure high liquidity. Apparently a change in interest rates affects profits however interest income forms only insignificant part in total profits. Usually loans granted to clients are granted at fixed interest rates thus mitigating the cash flow of interest rate against any adverse changes in the market. In 2007 average cash balance amounted EUR 2 million (2006: EUR 1,5 million) and decrease of interest rate by 1% would result loss of income by about EUR 20 thousand (2006: EUR 15 thousand).

In order to hedge currency risk, conservative limits of net foreign currency positions have been set which are monitored by the finance department. The following tables present the risks arising **from open foreign currency positions**. As at balance sheet date Estonian kroon (EEK) and Lithuanian litas (LTL) are pegged to euro. Therefore the only currency risk for the Group lies on devaluation of EEK or LTL and therefore no sensitivity analysis for currency risk has been performed. Financial assets and liabilities denominated in foreign currencies have been presented in EEK equivalent in respective columns.

As at 31.12.2007

Assets	EEK	EUR	LTL	LVL	Total
Cash and bank	2 618	2 672	50	30	5 370
Loans to clients	102	40	21	-	163
Trade receivables	652	71	38	1	762
Other receivables and assets	425	815	110	19	1 370
Financial assets at fair value through profit and loss	-	276	-	-	276
Total assets	3 797	3 875	219	50	7 941

Liabilities	EEK	EUR	LTL	LVL	Total
Other liabilities	1	-	3	-	4
Accrued expenses	417	68	61	9	555
Corporate income tax liability	-	-	-	2	2
Other tax liabilities	377	-	6	2	384
Finance lease liabilities	-	38	-	-	38
Deferred income tax	-	-	-	1	1
Total liabilities	794	106	70	14	984

Open foreign currency positions	3 003	3 769	149	36	
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As at 31.12.2006

Assets	EEK	EUR	LTL	LVL	USD	Total
Cash and bank	367	796	83	17	-	1 264
Loans to clients	458	38	48	-	-	544
Trade receivables	308	203	31	2	-	545
Other receivables and assets	579	-	191	36	-	805
Financial assets at fair value through profit and loss	258	-	-	-	-	258
Total assets	1 969	1 037	353	55	-	3 415

Liabilities	EEK	EUR	LTL	LVL	USD	Total
Other liabilities	27	2	4	-	-	34
Accrued expenses	169	5	44	11	1	230
Corporate income tax liability	-	-	12	12	-	24
Other tax liabilities	81	-	-	-	-	81
Finance lease liabilities	-	36	-	-	-	36
Deferred income tax	-	-	-	2	-	2
Total liabilities	277	43	60	26	1	407

Open foreign currency positions	1 692	994	293	29	-1	
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**Liquidity risk**

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences of due dates of assets and liabilities. We seek to maintain a highly liquid balance sheet and therefore our investments are either short term or sellable or redeemable within short period of time. There is no substantial difference between carrying value and gross undiscounted cash flow from assets and liabilities. The Chief Financial Officer of the Group manages liquidity risk. As the Group does not need any external funding to finance its activities, our liabilities mainly consist of trade payables and some other liabilities which are all relatively short term in maturity.

Carrying values as at 31.12.2007

	up to 3	3-12	1-5	over 5	
Assets	months	month	years	years	Total
Cash and bank	5 162	208	-	-	5 370
Loans granted	-	163	-	-	163
Trade receivables	713	50	-	-	763
Other receivables and assets	864	94	4	-	962
Financial assets at fair value through profit and loss	-	185	-	91	276
Total financial assets	6 739	700	4	91	7 534
Liabilities	months	month	years	years	Total
Other liabilities	-	-	4	1	4
Accrued expenses	491	58	6	-	555
Corporate income tax liability	-	2	-	-	2
Other tax liabilities	383	2	-	-	384
Finance lease liabilities	-	11	27	-	38
Deferred income tax liability	-	-	1	-	1
Total	873	73	37	1	984
Difference between financial assets and liabilities	5 865	627	-33	91	6 549

Carrying values as at 31.12.2007

Assets	up to 3 months	3-12 months	1-5 years	over 5 years	Total
Cash and bank	715	549	-	-	1 264
Loans granted	134	410	-	-	544
Trade receivables	510	31	3	-	545
Other receivables and assets	151	14	4	-	169
Financial assets at fair value through profit and loss	-	-	-	258	258
Total financial assets	1 510	1 004	7	258	2 779

Liabilities	up to 3 months	3-12 months	1-5 years	over 5 years	Total
Finance lease liabilities	-	19	17	-	36
Other payables	31	-	3	-	34
Accrued expenses	193	37	-	-	230
Corporate income tax liability	-	24	-	-	24
Other tax liabilities	81	-	-	-	81
Deferred income tax liability	-	-	2	-	2
Total liabilities	303	82	22	-	407
Difference between financial assets and liabilities	1 206	923	-15	258	2 372

Credit risk

Credit risk is the potential loss which would arise from the counterparty's inability to meet its obligations to the Group. GILD FAS exposure to credit risk arises mainly from provision of services to the clients and their inability to pay our invoices. In order to mitigate credit risk we analyse the operations and financial position both of our customers as well as business partners including retail banks. Group's cash is mainly kept in our home bank Hansapank, however deposits are also held with other different Estonian credit institutions.

The Group is not engaged in lending activities and loans granted outside of the group are rare. In each case details of conditions including any collateral to be required will be reviewed and assessed individually. According to Securities Markets Act in Estonia an investment firm's credit exposure to one party can amount up to 25% of the Group's audited net assets (excluding group companies, short term bank and trade receivables). Detailed analysis of receivables about their impairment is disclosed in Note 5 and of loans granted in Note 4. Following items are exposed to credit risk – cash and bank, trade receivables, loans granted and accrued income.

Our managed hedge funds are more exposed to credit risk and managing this risk within a fund is more important. When making an investment decision the Investment Committee considers also overall exposure to individual counterparty and the collateral of the loans or bonds in order to get sufficient protection to the assets of our investors.



Operational risk

Operational risk is a potential loss caused by insufficient or non-operating processes, employees and information systems or external factors. Involvement of employees in the process of assessing risks and improves overall risk analysis. When completing transactions, transactions limits and competencies systems are used to minimize potential losses. The four eye principle, according to which there should be an approval by at least two employees independent of each other or the unit for carrying out the transaction or procedure, decrease the possibility of human mistakes and errors. The Group's dependency on IT systems can be considered low. The Management Board is responsible for hedging the operational risk, the internal auditor has a directing and controlling function.

Capital risk management

GILD's objective when managing capital is to safeguard the Group's ability to continue as a going concern and meet the regulations set to us by Securities Markets Act or any other laws and regulations in order to provide returns for shareholders and benefits for the other stakeholders.

According to Securities Markets Act in Estonia our net own assets need to be maintained on the level to cover all business risks. Based on Group's current activities the reasonable amount of the net own assets has been considered to be about EUR 1,3 million. There is no need for funding our every-day business activities whereupon the Group has not got any bank loans or other type of long term borrowings.

During the year the Group has complied with all externally imposed capital requirements to which it is subject. In the table below is presented details about calculations of net own assets and capital requirement.

	31.12.2007	31.12.2006
Tier 1 capital	1 565	1 390
Tier 2 capital	-	-
Less deductions	-219	-82
Total net own assets	1 346	1 308
Capital requirement for credit exposures	345	206
Capital requirement for open currency exposures	18	185
Total capital requirement	363	391



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS GILD Professional Services

We have audited the accompanying consolidated financial statements of AS GILD Professional Services and its subsidiaries (the Group) presented in euros which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Urmas Kaarlep
AS PricewaterhouseCoopers



Relika Mell
Authorised Auditor

26 March 2008



Proposal Of The Distribution Of Profit

The Management Board of AS GILD Professional Services proposes to the General Meeting of Shareholders to allocate the net profit of 2007 in the amount of 5 147 thousand EUR as follows:

Distribute as dividends on ordinary shares	715 thousand EUR
Distribute as dividends on preference shares issued by the subsidiary AS GILD Financial Advisory Services	2 270 thousand EUR
Retained earnings	2 162 thousand EUR



Signatures Of The Management Board And The Supervisory Board To The 2007 Annual Report

The Management Board has prepared the management report, the financial statements and the profit allocation proposal for the year 2007.

The Supervisory Board has reviewed the annual report prepared by the Management Board and which consists of the management report, the financial statements, the auditor's report and the profit allocation proposal and approved it.

	<i>Name</i>	<i>Date</i>	<i>Signature</i>
Management Board:			
Member of the Management Board	Rain Tamm	27.03.2008	
Member of the Management Board	Taavi Lepmets	27.03.2008	
Supervisory Board:			
Member of the Supervisory Board	Joel Aasmäe	27.03.2008	
Member of the Supervisory Board	Heikki Källu	27.03.2008	
Member of the Supervisory Board	Tarmo Jüristo	27.03.2008	