NASDAQ CSD SE

(UNIFIED REGISTRATION NUMBER 40003242879)

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

(23rd financial year)

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
AND CONSOLIDATED ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2018

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General information of parent company

Name of the parent company	Nasdaq CSD
Legal status of the parent company	Societas Europaea
Unified registration number, place and date of registration	40003242879 Riga, 9 January 1995 Re-registered with the Commercial Register: 16 June 2004, under unified registration number 40003242879
Registered office	Vaļņu iela 1, Riga, Latvia, LV-1050
Board Members	Indars Aščuks – Chairman of the Board Raitis Vancāns – Deputy Chairman of the Board, till 15.09.2017 Kristi Sisa – Deputy Chairman of the Board, since 15.09.2017 Andis Staģis – Board Member, till 15.09.2017 Dalia Jasulaityte – Board Member, since 15.09.2017
Council Members	Arminta Saladziene – Chairperson of the Council Teuvo Rossi – Deputy Chairperson of the Council Christina Werner – Council Member till 15.09.2017 Reinis Rubenis – Council Member till 02.05.2017 Uldis Upenieks – Council Member till 15.09.2017 Igors Meļņikovs – Council Member since 02.05.2017 till 15.09.2017 Urmas Kaarlep – Council Member since 15.09.2017 Darius Petrauskas - Council Member since 15.09.2017 Elmārs Prikšāns – Council Member since 15.09.2017 Pall Hardarson - Council Member since 15.09.2017

Branches	Nasdaq CSD SE Estonian branch Tartu mnt. 2, 10145 Tallinn, Estonia Acquired on 27/05/2016	
	Nasdaq CSD SE Lithuanian branch Konstitucijos ave. 29 LT-08105 Vilnius, Lithuania Acquired on 27/05/2016	
Subsidiary	AS Pensionikeskus Tartu mnt. 2, 10145 Tallinn, Estonia Founded on 26/06/2017	
Financial year	1 January – 31 December 2017	
Auditors	Dace Cikmača LR zvērināts revidents Sertifikāts Nr. 175	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV – 1010 License No 17

Consolidated management report

02. August 2018

Business profile

Nasdaq CSD SE (Societas Europaea) is the regional central securities depository in the Baltics, with a business presence in Estonia, Latvia and Lithuania. It provides post-trade infrastructure and a wide range of securities services for Baltic market participants. The core business activity of the Nasdaq CSD group comprises the accounting for and safe custody of publicly issued securities, the settlement of securities and cash as well as the development and maintenance of registers required for the accounting for and safe custody of securities.

The Nasdaq CSD group is powered by modern straight-through processing technology connected to the pan-European TARGET2-Securities platform.

Financial operations of the Nasdaq CSD group during the reporting year

In 2017, the Nasdaq CSD group earned a profit of EUR 1 506 396 (before tax), which is EUR 329 199 more than in 2016. The net turnover for 2017 grew by 43%. Overall, the financial position of the company for the year could be assessed as strong.

Milestone events

In 2017, the Nasdaq CSD group accomplished the reorganization of the three Baltic central securities depositories and implementation of the single Baltic securities accounting and settlement system.

The priorities and milestone events of the Nasdaq CSD group in 2017 were as follows:

1. Reorganization of the former three Baltic central securities depositories into one single Baltic central securities depository – the Nasdaq CSD;
2. Obtaining the license for the Nasdaq CSD under the CSDR;
3. Restructuring of the Nasdaq CSD group internal business organization;
4. Separation of pension operations in Estonia;
5. Legal Entity Identifier (LEI) allocation service implementation;
6. Participation in the post-trade industry working groups

Reorganization of the Baltic central securities depositories into single Nasdaq CSD

A major initiative of the three Baltic central securities depositories came to launch on September 18, 2017, with four major migration events happening over the same weekend, namely, (i) IT re-platforming, (ii) joining the pan-European settlement platform Target2-Securities (T2S), (iii) starting operations under the CSDR license, and (iv) the merger of Baltic depositories into the Nasdaq CSD. The launch weekend activities were executed in accordance with the plan. Depository participants were engaged and actively participated, securing market readiness for the change. Since September 18, 2017 the Baltic markets have been operating using the new IT solution (core system *Depend*) with connection to TARGET2-Securities. The migration program has not been closed as there are still several components to be implemented during Q4 2017 – Q2 2018 as part of the second phase, including the IT core system's maintenance release, implementation of reports and billing calculation solution, transferring any remaining Baltic applications to Stockholm's data centers, and supporting the Icelandic CSD in their core system's changeover initiative.

Licensing of the Nasdaq CSD according to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlements in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR)

Throughout first half of 2017, major efforts were devoted to the drafting of the Nasdaq CSD documents to cover key policies and procedures required under the CSDR, PFMI, and national laws for further approval by Baltic financial market supervisors and overseers.

Multiple working sessions were held with the Baltic College of the Financial Supervisory Authorities and Central Banks during the process of filing CSDR licensing documentation. Official filing of the licensing documentation to the Financial and Capital Market Commission (FCMC) was accomplished on June 7, 2017.

The Board of the FCMC adopted a decision to authorize the Latvian Central Depository on August 22, 2017 (today – Nasdaq CSD SE) to provide services according to the CSDR as of September 18, 2017. According to the decision, the Nasdaq CSD has the rights to also provide depository services in Estonia and Lithuania via the respective branch.

According to this decision of the regulator, the Nasdaq CSD SE, among others, is authorized to provide ancillary services – services related to new issues (including assignment of ISIN and other actions related to the admission of new issues to the securities settlement system).

Restructuring of the Nasdaq CSD group internal business organization

During the merger of three Baltic central securities depositories into the single Nasdaq CSD, the restructuring of the Nasdaq CSD's business organization took place. The following seven units were formed during the restructuring:

- Business development unit;
- Sales and Services unit;
- Operations unit;
- Legal unit;
- Finance unit;
- Risk management unit;
- AMG (Application Management Group).

Three individual dedicated roles in the Nasdaq CSD as required by the CSDR were created:

- Chief Compliance & Internal Control Officer;
- Chief Technology Officer;
- Chief Risk Officer.

The main change on the business side was the separation of business operations and customer service. Depository operations have been centralized to the branch based in Vilnius. Operations now take care of all the transaction traffic in the Nasdaq CSD, reporting, answering participants' questions etc. The customer service provided by Sales and Services will continue advising issuers and participants locally in the local language.

Separation of pension operations in Estonia

According to the agreement with the Government institutions in Estonia, the separation of pension business operations from the Nasdaq CSD into a separate regulated entity was completed. The business transfer was made as of August 1, 2017 since when the new company *Pensionikeskus AS* has been operational.

LEI allocation service implementation

The Nasdaq CSD initiated implementation of the LEI Registration Agent service as a phase I item. The agreement with the already authorized LEI Local Operating unit was signed in November 2017 in order to support LEI issuance for legal entities before the Nasdaq CSD is technically and legally ready to provide the LEI service on its own (phase II). The project team has been focusing on finalizing application forms, launching informative web pages, filing notifications to the FCMC, as well as developing a payment process in order to prepare for the LEI Registration Agent service launch in early 2018.

Participation in the industry working groups

Nasdaq CSD group representatives took part in the global CSDs WFC (World Federation of CSDs) conference in November 2017, which is held every other year. It is an industry event that provides valuable networking opportunities and interesting panel discussions. The Nasdaq CSD group representatives participated in two panels, thus having an opportunity to share some highlights of Nasdaq CSD group consolidation, re-platforming and the licensing case with its peers.

The Nasdaq CSD group hosted the CSDs' Steering group (CSG) meeting of TARGET2-Securities community. CSG is responsible for articulating and coordinating the views of participating CSDs within the TARGET2-Securities Governance. The CSG can give advice and make resolutions on any issue related to TARGET2-Securities and in particular on issues related to the Framework Agreement and its schedules, issues of major interest for TARGET2-Securities (pricing, risk, etc.) and the prioritization of change requests.

The Nasdaq CSD group participated in a European Market Implementation Group (E-MIG) meeting where Central and Eastern European Markets progress reports and MIFID II regulation affecting voluntary corporate actions regarding transactions reporting were discussed.

Risk management

The Nasdaq CSD group has implemented an Enterprise Risk Management Framework adopted by the Nasdaq group.

Enterprise Risk Management is a systematic approach to identify, assess, monitor, manage and report on the risks that may impact on Nasdaq CSD group's strategic objectives. The objective is to prevent any undesired event or action from adversely affecting the Nasdaq CSD group's ability to achieve its business objectives and to ensure that new business opportunities are successfully pursued. Enterprise Risk Management constitutes an integral part of the ongoing business activities carried out by the organization, and is closely linked to strategic planning.

To more clearly identify and report those risks that could potentially threaten the achievement of the business objectives, the Nasdaq CSD group categorizes its risks into four main categories:

Strategic and Business Risk – risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

Financial Risk – risk to the company's financial position or ability to operate due to investment decisions and financial risk management practices in particular as it relates to market, credit, capital, and liquidity risks.

Operational Risk – risks arising from the company's people, processes, and systems and external causes.

Legal and Regulatory Risk – exposure to civil and criminal consequences – including regulatory penalties, fines, forfeiture, and litigation – while conducting business operations.

The Nasdaq CSD group has established Risk Appetite, which is defined as an over-arching statement by the Supervisory Council of the principles governing risk taking and boundaries within which management operates while achieving corporate objectives. In order to monitor and ensure that an organization operates within established Risk Appetite statements, the associated risk-tolerance measures were introduced. Risk tolerance is defined as measurable delegations of risk-taking authority from the Supervisory Council to management that implement the Risk Appetite.

Organization and control of risk management

The Supervisory Council is ultimately responsible for establishing and maintaining effective risk management and an internal control environment within the Nasdaq CSD group. The Supervisory Council provides an oversight with regards to Enterprise Risk Management. The Supervisory Council established the Risk Committee to advise on the Nasdaq CSD group's current and future overall risk tolerance and strategy. The Risk Committee is responsible for ensuring that that the effective risk management framework is embedded in the Nasdaq CSD group.

The Management Board is responsible for ensuring consistency of the risk-related activities of the Nasdaq CSD group with the objectives and strategy established by the Supervisory Council. The Management Board designs and establishes risk management and internal control procedures that promote the objectives of the Nasdaq CSD group. The Management Board is also responsible for regular review and testing of the risk management and internal-control procedures. The Management Board should ensure that sufficient resources are devoted to risk management and internal control.

The Chief Risk Officer is the designated officer in charge of implementing and maintaining the enterprise risk management framework and practices approved by the Supervisory Council.

Management report (cont'd)

Key risks

The risks pertinent to the operations of the Nasdaq CSD group are operational risk, legal risk, general business risk, custody and investment risk. Credit risk is remote to the operations of the Nasdaq CSD group due to its operational model. In particular, it does not provide banking-type ancillary services or securities lending services. Liquidity risk is not considered material for the Nasdaq CSD group.

Business risk

General business risk concerns such risks as irregular or insufficient cash flows and excessive operating expenses, the effect of a substantial decrease in the revenues as a result of decrease of securities issuance and settlement volume and shocks to the entire or large parts of the financial system or industry sectors.

Operational risk

Key operational risks concern inadequate or failed internal processes, human error and systems (e.g. the IT system or information system) or external events (e.g. natural disasters, pandemics, cyber-attacks) which lead to unauthorized access to Nasdaq CSD group systems, disclosure of confidential information, loss of access to Nasdaq CSD group services, failure to ensure integrity of securities issue and safekeeping of securities, failure of the key participants and counterparties (e.g. utility providers, outsourcing service providers, other central securities depositories and other financial market infrastructures) to meet operational requirements and other disruptions resulting in the reduction, deterioration or breakdown of Nasdaq CSD group services.

Legal risk

Key legal risks relate to adverse changes to legislation and the enforceability of Nasdaq CSD group's rules, procedures, and contracts concerning operation of Settlement Systems and other CSD services, especially in the case of a default of a participant. As the Nasdaq CSD group is conducting business in Estonia and Lithuania on a cross-border basis and its participants may hold securities across borders, additional risk relates to fragmentary, unclear or inconsistent conflict-of-law rules in the Baltic countries regarding the applicable law to the activities of the Nasdaq CSD group, its participants and issuers. The Nasdaq CSD group manages legal risks, among others, through monitoring validity and enforceability of its rules and procedures under the applicable law by legal counsels of the respective CSD units and, where needed, procuring legal opinions from the participants and issuers.

Custody and investment risk

Key custody and investment risks relate to loss due to investment in securities, failure of a credit institution or central securities depository with which the Nasdaq CSD group holds its assets and financial losses due to changes in currency in which Nasdaq CSD group deposits are held and securities transactions are settled.

The Nasdaq CSD group manages this risk by only investing its financial resources in cash or in highly liquid financial instruments with minimal market and credit risk. It holds its investment in Baltic securities via its participants. Cash is only held with authorized credit institutions and central banks. The Nasdaq CSD group applies a risk model defined in CSDR technical standards regarding regulatory capital requirements, where the assets held are assigned a risk weight based on the type of asset, maturity and credit rating.

Regulatory capital

The capital sources to cover the capital requirement under Article 47 of the CSDR consist of tangible shareholders equity, i.e. eligible capital instruments, legal reserves and retained earnings adjusted for intangible assets and any deferred tax liabilities.

Nasdaq CSD group's regulatory capital shall be sufficient to:

- ensure that the CSD is adequately protected against operational, legal, custody, investment and business risks so that the CSD can continue to provide services as a going concern;
- ensure an orderly winding-down or restructuring of the CSD's activities over an appropriate time span of at least six months under a range of stress scenarios.

Until new calculations based on audited financial statements of Nasdaq CSD as a consolidated entity for the respective financial year are available, Nasdaq CSD shall calculate the amount of the regulatory capital on the basis of the consolidated financial results derived from audited financial statements of AS "Latvijas Centrālais depozitārijs" ("**Latvian CSD**"), AS Eesti Väärtpaberikeskus ("**Estonian CSD**") and AB "Lietuvos centrinis vertybinių popierių depozitoriumas" ("**Lithuanian CSD**").
The Regulatory capital has been calculated based on consolidated annual report data from 2016 for the Latvian CSD. This data has been used in year 2017 and totals to EUR 4 528 538

Future prospects

The key priority set by the Nasdaq CSD group for 2018 is to complete the second phase of the migration program described above under milestone events as well as explore possibilities for expanding the CSD link network with other European CSDs.

Statement of Board's responsibility

The Board of the Nasdaq CSD group is responsible for the preparation of financial statements on the basis of initial accounting records for the reporting year. The financial statements must give a true and fair view of the financial position of the Nasdaq CSD group at the year end and the results of its operations and cash flows for the reporting year in accordance with the Law of the Republic of Latvia on Annual Reports and Consolidated Annual Reports.

The Board of the Nasdaq CSD group certifies that appropriate accounting policies have been consistently applied and prudent judgments and estimates have been made in the preparation of the financial statements for the year ending 31 December 2017. The Board of the Nasdaq CSD group also confirms that these financial statements have been prepared on a going concern basis.

The Board of the Nasdaq CSD group is responsible for the maintenance of proper accounting records and taking efforts to safeguard the assets of the Nasdaq CSD group and prevent and detect fraud and other irregularities in the Nasdaq CSD group.

Indars Aščuks
Chairman of the Board

Consolidated Statement of profit or loss

	Notes	2017 EUR	2016 EUR
Net turnover	3	7 670 029	5 374 953
Cost of sales	4	(3 189 927)	(2 295 212)
Gross profit		**4 480 102**	**3 079 741**
Administrative expense	5	(3 086 339)	(1 973 724)
Other operating income	6	189 074	341 667
Other operating expense	7	(93 651)	(301 977)
Other interest receivable and similar income	8	29 869	95 577
Impairment of non-current and current financial assets	9	632	(35 340)
Interest payable and similar expense:	10	(13 291)	(28 747)
• related companies		(9 879)	(27 133)
• other parties		(3 412)	(1 614)
Profit before corporate income tax		**1 506 396**	**1 177 197**
Current corporate income tax	11	(256 373)	(170 217)
Profit after corporate income tax		**1 250 023**	**1 006 980**
Income or expense from changes in deferred tax assets or deferred tax liabilities	11	(2 054)	(4 640)
Net profit for the reporting year		**1 247 969**	**1 002 340**

The accompanying notes form an integral part of these financial statements.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

02. August 2018

Consolidated statement of financial position
as at 31 December 2017
ASSETS

	Notes	31/12/2017 EUR	31/12/2016 EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	13	811 496	796 686
Goodwill	15	4 073 173	4 073 173
TOTAL		**4 884 669**	**4 869 859**
Property, plant and equipment			
Other fixtures and fittings, tools and equipment	14	50 886	106 229
TOTAL		**50 886**	**106 229**
Non-current financial assets			
Other securities and investments		1 153	2 402
Other loans and receivables	16	-	270 459
Deferred tax assets	11	21 614	23 668
TOTAL		**22 767**	**296 529**
TOTAL NON-CURRENT ASSETS		**4 958 322**	**5 272 617**
CURRENT ASSETS			
Non-current assets held for sale	17	2 837 829	2 918 296
Receivables			
Trade receivables	18	590 088	558 465
Other receivables	19	29 933	93 513
Loans to shareholders and management	22	1 481 682	773 762
Prepaid expense	20	65 280	107 326
Accrued income	21	291 603	2 708
TOTAL		**2 458 586**	**1 535 774**
Cash	23	10 721 399	4 884 982
TOTAL CURRENT ASSETS		**16 017 814**	**9 339 052**
TOTAL ASSETS		**20 976 136**	**14 611 669**

The accompanying notes form an integral part of these financial statements.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

02. August 2018

Consolidated statement of financial position as at 31 December 2017

EQUITY AND LIABILITIES

	Notes	31/12/2017 EUR	31/12/2016 EUR
EQUITY			
Share capital	24	5 963 000	5 963 000
Retained earnings		3 256 054	2 253 714
Profit for the reporting year		1 247 969	1 002 340
TOTAL EQUITY		**10 467 023**	**9 219 054**
LIABILITIES			
Non-current liabilities			
Other loans	25	7 292	11 738
TOTAL		**7 292**	**11 738**
Current liabilities			
Other loans	25	4 457	4 384
Trade payables	26	5 092 692	4 734 431
Loans from shareholders and management	27	4 728 545	-
Taxes payable	28	131 954	51 704
Deferred income	29	8 337	18 391
Accrued liabilities	30	535 836	571 967
TOTAL		**10 501 821**	**5 380 877**
TOTAL LIABILITIES		**10 509 113**	**5 392 615**
TOTAL EQUITY AND LIABILITIES		**20 976 136**	**14 611 669**

The accompanying notes form an integral part of these financial statements.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

02. August 2018

Consolidated statement of cash flows for the year ended 31 December 2017

	2017 EUR	2016 EUR
Cash flows to/ from operating activities		
Profit before corporate income tax	1 506 396	1 177 197
Adjustments for:		
• depreciaton and impairment of property plant and equipment	42 073	58 362
• amortisation and impairment of intangible assets	130 755	304 307
• change in provisions (except for allowances for doubtful receivables)	(36 131)	131 451
• loss/ (gain) from fluctuations of currency exchange rates	97	16 772
• loss/ (gain) on disposal of property, plant and equipment	617 804	377 804
• other interest receivable and similar income	(29 843)	(94 452)
• impairment of non-current and current financial assets	80 456	35 340
• interest payable and similar expense	11 910	27 589
Profit before adjustments for the effect of changes in current assets and current liabilities	***2 323 517***	***2 034 370***
• (increase) or decrease in receivables	(219 454)	11 700
• increase in trade and other payables	293 786	1 597 711
Operating cash flows, gross	***2 397 849***	***3 643 781***
Corporate income tax paid	(172 228)	(203 528)
Net cash flows to/ from operating activities	**2 225 621**	**3 440 253**
Cash flows to/ from investing activities		
Acquisition of a subsidiary, net of cash acquired	-	(5 012 887)
Loans granted	(755 916)	(1 127 685)
Loans returned	270 459	-
Purchase of property, plant and equipment and intangible assets	(756 326)	(374 539)
Investments in securities	-	(244 996)
Sale or redemption of securities	1 249	152 886
Interest received	88 943	92 467
Net cash flows to/ from investing activities	**(1 151 591)**	**(6 514 754)**
Cash flows to/ from financing activities		
Proceeds from borrowings	5 116 315	7 674 097
Repayment of borrowings	(349 652)	(7 487 568)
Contributions by shareholders to increase the share capital	-	5 699 782
Payment of finance lease liabilities	(4 373)	(4 305)
Net cash flows to/ from financing activities	**4 762 290**	**5 882 006**
Net foreign exchange difference	97	16 772
Net cash flow for the year	5 836 417	2 824 277
Cash and cash equivalents at the beginning of the year	4 884 982	2 060 705
Cash and cash equivalents at the end of the year	**10 721 399**	**4 884 982**

The accompanying notes form an integral part of these financial statements.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

Statement of changes in equity

	Share capital	Retained earnings	**Total**
Balance as at 31 December 2015	**263 218**	**2 253 714**	**2 516 932**
Increase in share capital	5 699 782	-	5 699 782
Profit for the reporting year	-	1 002 340	1 002 340
Balance as at 31 December 2016	**5 963 000**	**3 256 054**	**9 219 054**
Profit for the reporting year	-	1 247 969	1 247 969
Balance as at 31 December 2017	**5 963 000**	**4 504 023**	**10 467 023**

The accompanying notes form an integral part of these financial statements.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

Notes to the consolidated financial statements

1. Corporate information

The registered office of Nasdaq CSD SE (hereinafter also – the Parent) is at Vaļņu iela 1, Riga. The Parent was registered with the Commercial Register under unified registration number 40003242879. The shareholder of the Parent is the stock company Nasdaq Nordic Oy, which owns 100% of the Parent's shares.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of Nasdaq CSD group have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Consolidated Annual Reports.

The consolidated financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is the euro (EUR). The financial statements cover the period 1 January 2017 through 31 December 2017.

The statement of profit or loss has been prepared according to the function of expense method. The statement of cash flows has been prepared under the indirect method.

On 1 January 2016, the new Law on Annual Reports and Consolidated Annual Reports and related Cabinet Regulation No 775 entered into force in the Republic of Latvia, thereby repealing the Law on Annual Reports and related Cabinet Regulations Nos 488 and 481, according to which the financial statements for the year ended 31 December 2015 were prepared.

According to the law of the Republic of Latvia on Annual reports and consolidated annual reports Nasdaq CSD SE is considered as medium company

The new law sets forth additional exemptions for small and medium-sized enterprises with regard to the preparation of financial statements, meanwhile providing that the financial statements must give a true and fair view of a company's financial position and profit or loss, while as regards annual reports of medium-sized and large enterprises, also of cash flows.

Basis of reorganization

On 20 February 2017, Akciju sabiedrība "Latvijas Centrālais depozitārijs", a public limited liability company, data on which is collected and kept by the Commercial Register of Latvia, registry code 40003242879, with its registered office at Vaļņu iela 1, Riga, LV 1050, Latvia was merged with AS Eesti Väärtpaberikeskus, a public limited liability company, data on which is collected and kept by the Commercial Register of Estonia, registry code 10111982, with its registered office at Tartu mnt 2, Tallinn, EE-10145, Estonia together with Akcinė bendrovė "LIETUVOS CENTRINIS VERTYBINIŲ POPIERIŲ DEPOZITORIUMAS", a public limited liability company, data on which is collected and kept by the Register of Legal Entities of Lithuania, registry code 110059343, with its registered office at Konstitucijos pr. 29, Vilnius, LT–08105, Lithuania.

The aim of the Merger was to:

- optimize corporate governance within the group of companies, parties to the Merger Agreement,
- simplify the group structure of companies, parties to the Merger Agreement,
- ensure efficiency of business activities of the companies, parties to the Merger Agreement, and
- enable operation throughout the EU on the basis of a single set of rules and a unified management and reporting system.

The Merger proceedings were carried out in accordance with:

- the Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European Company (SE)
- the Directive 78/855/EEC of the European Parliament and of the Council of 9 October 1978 based on Article 54 (3) (g) of the Treaty concerning mergers of public limited liability companies with its codified version in Directive 2011/35/EU of the European Parliament and of the Council of 5 April 2011 concerning mergers of public limited liability companies (codification), as well as
- the Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies,

applied and transposed to the national legislation of Estonia, Lithuania and Latvia.

The formation of the SE was performed by way of upstream merger whereby subsidiary companies are merged into the parent company which takes the form of the SE. The Companies agreed that all of the assets, rights and liabilities (enterprises) of the merging companies was to be transfer to the receiving company as a going concern. Upon completion of the Merger, the merging companies was dissolved without going into liquidation, and all their assets, rights and liabilities are transferred to the receiving company that shall adopt the form of an SE and continue its business activities under the business name of Nasdaq CSD SE with the registered office and

2. Summary of significant accounting policies (cont'd)

head office at the current registered office of the Receiving Company (i.e. at Vaļņu iela 1, Riga, LV 1050, Latvia). Upon completion of the merger, Nasdaq CSD SE will act in Estonia and Lithuania through its Branches which will be registered during the Merger.

All assets (tangible and intangible), rights and liabilities of the merging companies was on the merger day included into the accounting of the Nasdaq CSD SE retroactively as of 1 January 2017 as stated in merge agreement. The day for which the merger was registered at the authorities was 15 September 2017. The assets, rights and liabilities of the merging companies that was transferred to the Nasdaq CSD was recognized, classified and measured according to the generally accepted accounting principles in Estonia, Latvia and Lithuania. Accounting principles of all countries are similar therefore no adjustments upon merger were raised to align accounting principles. The merger balance sheet and income statement date was 1 January 2017. On the date of the merger agreement, the Companies employed the total of 58 employees, including 20 in Latvia b, 21 in Estonia and 17 in Lithuania.

The legal merger is in substance the redemption of shares in the subsidiary, in exchange for the underlying assets of the subsidiary. The acquired assets and assumed liabilities are recognised at the carrying amounts in the consolidated financial statements as of the date of the legal merger. This includes any associated goodwill, intangible assets, or other purchase price allocation adjustments that were recognised when the subsidiary was originally acquired, less the related amortisation, depreciation, impairment losses, as applicable. Nasdaq has elected the equity-method where the difference between the amounts assigned to the assets and liabilities and the carrying amount of the investment in the merged subsidiary is recognised directly in equity under the heading "Company reorganization reserve".

The procedures of combining and merging fully-owned subsidiaries goes under the taxonomy "common control combinations" where different methods are available although IFRS is known to be used as an analogy for guidance. As it is possible to elect IFRS in this area, Nasdaq CSD SE has chosen to do so to be closer aligned with other group companies operating under the IFRS framework. Furthermore, the prospective view also arguments for using IFRS as framework for this topic as the upcoming changes within the next year will specifically address this area. Using the acquisition method, the assets and the liabilities are recognized at their acquisition date fair value which equals the consolidated numbers from before the merger. Furthermore, the goodwill item of 4 073 173 EUR is carried forward to its fair value which per 31/12/2016 was confirmed via impairment test. As stated in the standard, the acquisition method does not require an entity to restate comparatives and the values are carried over from the consolidation into the newly merged company.

The financial statements include branches that are controlled by the Nasdaq CSD SE. The financial statements comprise the financial statements of Nasdaq CSD SE and its branches (see below):

Entity	Country of residence	Business transactions
Nasdaq CSD SE Estonian branch	Estonia	Depository services
Nasdaq CSD SE Lithuanian branch	Lithuania	Depository services

Effective date of the merger is 1 January 2017. As of that date Nasdaq CSD SE is considered as one entity. The following procedures are applied to account for the branches as one legal entity:

- The financial statements of branches are prepared as at the same reporting date as the legal entity Nasdaq CSD SE (31 December 2017), using consistent accounting policies which are described below.
- The financial statements are summarized on a line by line basis by adding together like items of assets, liabilities and equity as well as income and expenses. The financial statements are presented as financial statements of the single company and provide information as such.
- Unrealized internal profits, intra-group balances, intra-group shareholdings, dividends and other intra-group transactions from the branches are eliminated from financial statements. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred.

Basis of consolidation

The consolidated financial statements include subsidiary that are controlled by the Parent Company. Control is presumed to exist where more than a half of the subsidiary's voting rights are controlled by the Parent Company or it otherwise has the power to exercise control over the operations. Subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases.

2. Summary of significant accounting policies (cont'd)

The consolidated financial statements comprise the financial statements of AS Latvijas Centrālais Depozitārijs (the Parent Company) and its subsidiaries (see below).

Company	Shares (%)	Date of acquisition	Country of residence	Business transactions
AS Eesti Vaartpaberikeskus	100%	26/05/2016	Estonia	Depository services
AB Lietuvos centrinis vertybiniu popieriu depozitoriumas	100%	26/05/2016	Lithuania	Depository services

The following consolidation procedures were applied:

- The financial statements of subsidiaries are prepared as at the same reporting date as the Parent Company (31 December 2016), using consistent accounting policies.
- Purchase method of accounting is used to account for the acquisition of subsidiaries. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. 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 acquired, the difference is recognized directly in the consolidated income statement.
- The financial statements are consolidated in the Group's consolidated financial statements on a line by line basis by adding together like items of assets, liabilities and equity as well as income and expenses. The Group's consolidated financial statements are presented as financial statements of the single company and provide information on the whole Group as a single entity.
- For the purposes of consolidation, unrealized internal profits, intra-group balances, intra-group shareholdings, dividends and other intra-group transactions are eliminated from the Group's consolidated financial statements. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred.

The consolidated financial statements comprise the financial statements of Nasdaq CSD SE (the Parent Company) and its subsidiary (see below).

Company	Shares (%)	Date of acquisition	Country of residence	Business transactions
AS Pensionikeskus	100%	26/06/2017	Estonia	Managing Estonian funded pension (II and III pillar) registers

The following consolidation procedures were applied:

- The financial statements of subsidiaries are prepared as at the same reporting date as the Parent Company (31 December 2017), using consistent accounting policies.
- The financial statements are consolidated in the Group's consolidated financial statements on a line by line basis by adding together like items of assets, liabilities and equity as well as income and expenses. The Group's consolidated financial statements are presented as financial statements of the single company and provide information on the whole Group as a single entity.
- For the purposes of consolidation, unrealized internal profits, intra-group balances, intra-group shareholdings, dividends and other intra-group transactions are eliminated from the Group's consolidated financial statements. Unrealized losses are also eliminated but are considered an impairment indicator of the asset transferred.

Going concern

The financial statements are prepared on the basis that the Group will continue to be a going concern.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2. Summary of significant accounting policies (cont'd)

Based on group policy where it is possible IFRS (International Financial Reporting Standarts) are used. The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment test was performed based on the three year business plan approved by the management and no impairment was identified. The recoverable amount of goodwill is determined based on the value in use calculation which uses cash flow projections based on the three year business plan approved by the management.

The Group's management believes that the major assumptions used in calculating cash flows are consistent with the recent forecasts for the development of Latvian economy and the specifics of the Group.

Foreign currency translation

The functional and presentation currency of the Group is the euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the euro foreign exchange reference rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the euro foreign exchange reference rate published by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the statement of profit or loss.

Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

As of September 2017 Nasdaq CSD group adjusted fixed assets policy to Nasdaq group policy.

Purchased Software - Purchased software, which equals or exceeds USD 50 000 (EUR 41 691) on a per unit basis, is capitalized (Before policy change (EUR 1 000)). The USD 50 000 threshold is applied at the lowest level (i.e., per license). Only the original purchases of software qualify. Subsequent invoices for maintenance costs and license renewal fees should be expensed in the period incurred. License renewal fees and maintenance contracts which exceed USD 100 000 (EUR 83 382) and extend over calendar quarters are not capitalized as fixed assets, but should be deferred and amortized over the period of service covered. (See Finance's Expense Accrual and Prepaid Asset policy for further discussion of deferred expenses.)

Goodwill – see note **"***Basis of reorganization***"**

All Intangible assets which balance value on 31/08/2017 were less than USD 50 000 (EUR 41 691) were disposed. See note No.13 "Intangible assets".

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office furniture	over 5 years
Electronic office equipment	over 5 years
Vehicles	over 5 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money

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and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of profit or loss in the cost of sales caption.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as property, plant and equipment and depreciated over the lease period on a straight-line basis.

Construction in progress is stated at cost. This includes the cost of construction and other direct expense. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Other financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchasing the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit and loss

Given that the Parent Company is a group's subsidiary whose parent company requires to recognize, measure and disclose captions in the financial statements and provide related disclosures in the explanatory notes in accordance with International Accounting Standards, the Parent Company has chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognizes and measures non-current assets held for sale at their fair value pursuant to International Accounting Standards. Financial assets classified as held-for-trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designed as effective hedging instruments. Gains or losses on investments held for trading are recognized in the statement of profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Other non-current investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any differences between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at cost, gains and losses are recognized in the statement of profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which substantially the same; discounted cash flow analysis and option pricing models.

2. Summary of significant accounting policies (cont'd)

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

Loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the statement of profit or loss as interest income/ expense when the liabilities are derecognized through the amortization process.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by a respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term. The commitments undertaken by the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

Revenue is recognized in the period when the services are rendered.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

2. Summary of significant accounting policies (cont'd)

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax for Nasdaq CSD SE in Latvia and Lithuanian branch is applied at the rate of 15% on taxable income generated by the Companies during the taxation period.

Legal entities (except for Nasdaq CSD SE Lithuanian branch) will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Pursuant to the Income Tax Act of the Republic of Estonia, companies are not subjected to income tax on the profit for the financial year in Estonia. Income tax is imposed on dividends, fringe benefits, gifts, costs of entertaining guests, non-operating expenses and transfer price adjustments. The established tax rate is 20/80 on the net dividend paid. Under certain conditions, the dividends received may be redistributed without incurring further income tax expense. Corporate income tax is recorded under liabilities on the payment of dividends and under income tax expense in the income statement at the moment of announcing the dividends, irrespective of the period for which the dividends were announced or when the dividends are actually paid. The income tax payment obligation arises on the 10th day of the month following the dividend payment. Due to the peculiarity of the taxation system, there are no differences between the taxation and carrying values of the assets for companies registered in Estonia and due to that there are no deferred income tax

payables or liabilities. The contingent income tax liability related to the payment of dividends from retained profit is not recorded in the balance sheet. The maximum income tax liability related to the distribution of retained earnings as dividends has been disclosed in the notes to the financial statements.

Deferred tax assets and liabilities

Until 31 December 2017, given that the Company is a group's subsidiary whose parent company requires to recognize, measure and disclose captions in the financial statements and provide related disclosures in the explanatory notes in accordance with International Accounting Standards, the Company had chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognized and measured deferred tax assets and deferred tax liabilities, as well as provided explanatory information under the captions "Deferred tax assets", "Deferred tax liabilities" and "Income or expense from changes in deferred tax assets or deferred tax liabilities" in accordance with IAS 12 “Income Taxes”. Deferred tax was provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities were measured at the tax rates that were expected to apply to the period when the asset was realized or the liability was settled, based on tax rates that had been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax assets which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted. Deferred tax assets and liabilities calculated in Nasdaq CSD SE Lithuanian branch are recognized.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Net turnover

From core business		2017	2016
Handling of securities accounts		1 343 817	1 550 029
Register maintenance		1 555 927	1 213 998
Handling of securities issues and events*		2 221 115	1 413 539
Securities transactions		800 432	553 933
Annual membership fee		1 570 591	467 120
Sale of information		1 078	3 897
Other income		177 069	172 437
	TOTAL:	**7 670 029**	**5 374 953**

* Estonian and Lithuanian depositories were acquired on 26/05/2016

4. Cost of sales

		2017	2016
Wages and salaries		978 513	845 685
IT system maintenance expense		862 545	586 914
Non-deductible input VAT		204 134	114 091
Depreciation and amortization		329 180	191 888
Statutory social insurance contributions		289 847	215 690
Office lease		243 674	172 394
Provisions for contingent liabilities		(3 690)	(22 591)
Annual fee to the Financial and Capital Market Commission		101 376	63 467
Membership fees to international organizations		93 263	24 174
Other operating expense		91 085	103 500
	TOTAL:	**3 189 927**	**2 295 212**

5. Administrative expense

		2017	2016
Wages and salaries*		952 056	516 872
Consultations **		748 775	408 190
Bank charges		218 297	206 217
Intra-group services		348 913	242 344
Business trips		121 430	83 868
Statutory social insurance contributions		301 113	141 074
Transport expense		57 214	48 675
Representation expense		23 738	14 887
Insurance		34 947	24 432
Communication and postal expense		46 932	22 544
Office equipment maintenance, office and stationery expense		14 976	9 527
Annual audit fee		27 190	27 646
Acquisition of information		7 285	5 602
Training expense		14 013	2 560
Other administrative expense		169 460	219 286
	TOTAL:	**3 086 339**	**1 973 724**

* Estonian and Lithuanian depositories were acquired on 26/05/2016

** Legal assistance on Nasdaq CSD merger process

6. Other operating income

		2017	2016
Compensated labor costs		189 074	114 887
Negative Goodwill (See Note 15 “Goodwill”)		-	226 780
	TOTAL:	**189 074**	**341 667**

7. Other operating expense

		2017	2016
Loss on disposal of property, plant and equipment, net		25 079	254 690*
Allowances for doubtful trade receivables		16 110	5 292
Currency exchange loss		97	16 772
Recreation activities of employees		12 173	7 762
Other operating expense		40 192	17 461
	TOTAL:	**93 651**	**301 977**

* At the beginning of 2016 it was decided jointly with market participants and supervisors to replace the initially planned IT solution with Depend (an alternative securities accounting and settlement IT platform), which had been already implemented by the Estonian depository. Part of already implemented system was compensated, part disposed

8. Other interest receivable and similar income

	2017	2016

Interest on investments		29 843	83 911
Other interest income		26	11 666
	TOTAL:	**29 869**	**95 577**

9. Impairment of non-current and current financial assets

		2017	2016
Revaluation of financial assets held for trading		632	(35 340)
	TOTAL:	**632**	**(35 340)**

10. Interest payable and similar expense

		2017	2016
Interest paid		11 532	28 714
Penalties paid		1 759	33
	TOTAL:	**13 291**	**28 747**

11. Current and deferred corporate income tax

	2017	2016
Current corporate income tax charge for the reporting year	(256 373)	(170 217)
Deferred corporate income tax due to changes in temporary differences	3 515	(4 640)
Reversal of deferred tax	(5 569)	-
Corporate income tax charged to the statement of profit or loss:	**(258 427)**	**(174 857)**

Income or expense from changes in deferred tax assets or deferred tax liabilities:

	Balance sheet		Statement of profit or loss	
	31/12/2017	31/12/2016	2017	2016
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	5 156	5 136	(20)	(2 889)
Other				
Gross deferred tax liabilities	**5 156**	**5 136**	**(20)**	**(2 889)**
Deferred corporate income tax assets				
Provisions for staff bonuses	(24 456)	(11 229)	13 227	1 687
Other	(7 883)	(17 575)	(9 692)	5 842
Gross deferred tax assets	**(32 339)**	**(28 804)**	**3 535**	**7 529**
Net deferred tax assets	**(27 183)**	**(23 668)**	**3 515**	**4 640**
Reversal of deferred tax*	**5 569**	**-**	**(5 569)**	**-**
Deferred tax calculated	(3 515)			
Net deferred tax in profit or loss Statement	2 054			
Total	**(21 614)***	**(23 668)**	**(2 054)**	**(4 640)**

	2017	2016
Profit before tax	1 506 396	1 177 197

Tax at the applicable tax rate of 15%	225 959	176 580
Permanent differences:		
Non-operating expense	219 828	12 930
Other	(216 597)	(19 379)
Deferred tax	27 183	4 726
Actual income tax for the reporting year:	**256 373**	**174 857**
Reversal of deferred tax	5 569	-
Deferred tax calculated	(3 515)	-
Deferred tax charged to the statement of profit or loss	2 054	
Corporate income tax charged to the statement of profit or loss:	**258 427**	**174 857**
Effective income tax rate	18 %	15 %

*In 2017, deferred tax assets have been reversed in the statement of profit or loss, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018. Deferred tax calculated in Nasdaq CSD SE Lithuanian branch EUR 21 614 remains in balance. Nasdaq CSD Estonian branch and AS Pensionikeskus did not calculate Corporate income tax.

12. Staff costs and number of employees

		2017	2016
Wages and salaries*		1 930 569	1 225 554
Statutory social insurance contributions		590 960	346 133
	TOTAL:	**2 521 529**	**1 571 687**

* Estonian and Lithuanian depositories were acquired on 26/05/2016

Including key management personnel compensation:

		2017	2016
Board Members			
Wages and salaries		209 222	307 945
Statutory social insurance contributions		52 394	80 285
	TOTAL:	**261 616**	**388 230**

		2017	2016
Independent Council Members			
Wages and salaries		4 000	-
Statutory social insurance contributions		944	-
	TOTAL:	**4 944**	**-**

In year 2016 The Council Members did not receive remuneration for their functions in the Council.

	2017	2016
Average number of Council Members during the reporting year	5	5
Average number of independed Council Members during the reporting year	1	-
Average number of Board Members during the reporting year	4	5
Average number of other employees during the reporting year	46	39
TOTAL:	**56**	**49**

13. Intangible assets

	Concessions, patents, licences, trademarks and similar rights	TOTAL
As at 31 December 2015		
Cost	805 169	805 169
Accumulated amortisation and impairment	(283 703)	(283 703)
Carrying amount as at 31 December	521 466	521 466
Year ended 31 December 2016		
Carrying amount as at 1 January	521 467	521 467
Additions	358 758	358 758
Subsidaries balance at 31/05/2016	598 472	598 472
Disposals	(560 309)	(560 309)
Amortisation charge	(121 702)	(121 702)
Carrying amount as at 31 December	796 686	796 686
As at 31 December 2016		
Cost	1 202 091	1 202 091
Accumulated amortisation and impairment	(405 405)	(405 405)
Carrying amount as at 31 December	796 686	796 686
Year ended 31 December 2017		
Carrying amount as at 1 January	796 686	796 686
Additions	885 218	885 218
Disposals*	(1 319 790)	(1 319 790)
Accumulated amortisation of disposals*	580 137	580 137
Amortisation charge	(130 755)	(130 755)
Carrying amount as at 31 December	811 496	811 496
As at 31 December 2017		
Cost	1 988 972	1 988 972
Accumulated amortisation and impairment	(1 177 476)	(1 177 476)
Carrying amount as at 31 December	811 496	811 496

* Because of policy change all intangible assets with balance value less than 50 000 USD (41 691 EUR) were disposed

14. Property, plant and equipment

	Office equipment, furniture	Vehicles	**TOTAL**
As at 31 December 2015			
Cost	253 915	27 301	281 216
Accumulated depreciation and impairment	(191 392)	(2 275)	(193 667)
Carrying amount as at 31 December	62 523	25 026	87 549
Year ended 31 December 2016			
Carrying amount as at 1 January	62 523	25 026	87 549
Additions	15 781	-	15 781
Subsidaries balance at 31/05/2016	61 362	-	61 362
Cost of disposals	(6 890)	-	(6 890)
Accumulated depreciation of disposals	6 789	-	6 789
Depreciation charge	(52 902)	(5 460)	(58 362)
Impairment charge			-
Carrying amount as at 31 December	86 663	19 566	106 229
As at 31 December 2016			
Cost	324 168	27 301	351 469
Accumulated depreciation and impairment	(237 505)	(7 735)	(245 240)
Carrying amount as at 31 December	86 663	19 566	106 229
Year ended 31 December 2017			
Carrying amount as at 1 January	86 663	19 566	106 229
Additions	9 696	-	9 696
Cost of disposals	(392 496)	-	(392 496)
Accumulated depreciation of disposals	369 531	-	369 531
Depreciation charge	(35 537)	(6 536)	(42 073)
Carrying amount as at 31 December	37 857	13 030	50 887
As at 31 December 2017			
Cost	274 129	27 301	301 430
Accumulated depreciation and impairment	(236 272)	(14 271)	(250 543)
Carrying amount as at 31 December	37 857	13 030	50 887

15. Goodwill

In May 2016, the Parent Company acquired 100% shares in AS Eesti Vaartpaberikeskus (the Estonian Central Depository) and 100% shares in AB Lietuvos centrinis vertybiniu popieriu depozitoriumas (the Lithuanian Central Depository). The core business activity of both these companies comprises the accounting for and safe custody of publicly issued securities, the clearing and settlement for securities trading and the development and maintenance of registers required for the accounting for and safe custody of securities (see note *"Basis of reorganization")*.

On 20 February 2017, "Latvijas Centrālais depozitārijs", a public limited liability company, was merged with AS Eesti Väärtpaberikeskus, a public limited liability company and with Akcinė bendrovė "LIETUVOS CENTRINIS VERTYBINIŲ POPIERIŲ DEPOZITORIUMAS", a public limited liability company. After the merger there were no changes in accounting principles used for goodwill accounting.

In June 2017, the Parent Company founded new subsidiary in Estonia - AS Pensionikeskus. As of 26 June 2017 AS Pensionikeskus acquired part of the Parent company business, price of aqusition was 522 500 EUR. The core business activity of this subsidiary comprises managing the Estonian funded pension (II and III pillar) registers. The procedures of consolidating of fully owned subsidiary goes under the taxonomy "common control combinations" where different methods are available and IFRS is known to be used as an analogy for guidance. For the consolidation of subsidiary Group applies pooling of interest method.

At the acquisition of these subsidiaries a goodwill of EUR 4 073 thousands has been accounted.

Company	% of equity interest	Initial investment EUR	Fair value EUR	Goodwill EUR
AS Eesti Vaartpaberikeskus, Tartu mnt. 2, 10145 Tallinn, Estonia	100	1 822 036	2 048 816	(226 780)
	TOTAL:	**1 822 036**	**2 048 816**	**(226 780)***
AB Lietuvos centrinis vertybiniu popieriu depozitoriumas, Konstitucijos ave. 29, LT-08105 Vilnius, Lithuania	100	5 665 532	1 592 359	4 073 173
AS Pensionikeskus, Tartu mnt. 2, 10145 Tallinn, Estonia	100	522 500	522 500	-
	TOTAL:	**6 188 032**	**2 114 859**	**4 073 173****

*Negative Goodwill (see Note 6 "Other operating income")

** Goodwill shown in Consolidated Balance sheet

The Group performed its annual impairment test of goodwill as at 31 December 2017. Impairment test was performed based on the three year business plan approved by the management and applying a pre-tax discount rate of 10% per annum and no impairment was identified. The value is based on corporate bond rate +5% risk premium due to the fact that CSD business is very stable.

The recoverable amount of goodwill is determined based on the value in use calculation which uses cash flow projections based on the three year business plan approved by the management.

16. Other loans and receivables

On 30 December 2011, the Parent Company entered into a cooperation agreement with the State Social Insurance Agency, whereby the Parent Company would continue providing the services of an operator of accounts of participants of the state-funded pension scheme until 31 December 2016. In order to ensure the fulfilment of contractual obligations, the Parent Company has entered into a guarantee agreement with AS Nordea Banka and pledged cash of EUR 270 459. Guaranty deposit was returned on January 2017.

17. Financial assets

The fair value of available-for-sale and held-for-trading financial assets is determined on the basis of price quotations on the active public securities market.

Held-for-trading financial assets

	31/12/2017	31/12/2016
At the beginning of the reporting year	**2 918 296**	**2 674 753**
Additions	-	429 846
Redemption and coupons received	(88 943)	(234 874)
Changes in fair value and accumulated interest recognized in the statement of profit or loss	8 476	48 571
At the end of the reporting year	**2 837 829**	**2 918 296**

Held-for-trading financial assets comprise the following securities:	31/12/2017	31/12/2016
Government bonds having a fixed yield of 3.500% and maturing on 15 July 2020	671 971	698 871
Latvian government bonds having a fixed yield of 2.625% and maturing on 21 January 2021	333 372	337 558
Government bonds having a fixed yield of 4.500% and maturing on 18 January 2022	299 755	304 826
Government bonds having a fixed yield of 4.850% and maturing on 7 February 2018	262 038	274 729
Government bonds having a fixed yield of 3.875% and maturing on 24 May 2022	250 436	255 573
Government bonds having a fixed yield of 4.200% and maturing on 15 June 2020	56 358	58 153
Government bonds having a fixed yield of 3.375% and maturing on 22 January 2024	244 263	246 514
Government bonds having a fixed yield of 1.75% and maturing on 15 July 2023	276 661	283 478
Government bonds having a fixed yield of 4.850% and maturing on 7 February 2018	188 667	197 805
Government bonds having a fixed yield of 4.200% and maturing on 15 April 2020	112 717	116 307
Government bonds having a fixed yield of 5.300% and maturing on 28 March 2018	30 467	31 963
Latvian government bonds having a fixed yield of 2.625% and maturing on 21 January 2021	111 124	112 519
	2 837 829	**2 918 296**

18. Trade receivables

	31/12/2017	31/12/2016
Trade receivables	635 037	635 781
Allowances for doubtful trade receivables	(44 949)	(77 316)
TOTAL:	**590 088**	**558 465**

The trade receivables are non-interest bearing.

19. Other receivables

	31/12/2017	31/12/2016
Overpayment of taxes (see Note 28 “Taxes payable”)	29 933	87 810
Other receivables	-	5 703
TOTAL:	**29 933**	**93 513**

20. Prepaid expense

	31/12/2017	31/12/2016
Regulatory	-	20 254
IT system support	7 089	14 644
Employee health insurance	12 836	11 933
Rent	7 589	11 284
Vehicle lease	8 014	10 301
Insurance	14 780	12 070
Membership fees	683	8 000
Marketing	-	5 627
Costs of the State Social Insurance Agency project	-	2 651
Other	14 289	10 562
TOTAL:	**65 280**	**107 326**

21. Accrued income

	31/12/2017	31/12/2016
Other accrued income	291 603	2 708
TOTAL:	**291 603***	**2 708**

* Accruals for December revenues. All related invoices issued in January 2018

22. Loans to shareholders and management

	31/12/2017	31/12/2016
Short-term deposit	1 481 682	773 762
TOTAL:	**1 481 682**	**773 762**

23. Cash and cash equivalents

	31/12/2017	31/12/2016
Cash at bank	10 721 399	4 884 982
TOTAL:	**10 721 399***	**4 884 982**

*4 845 000 EUR - Restricted Cash according to Nasdaq CSD SE Regulatory Capital policy

24. Share capital

As of 31.12.2017, the fully paid share capital of the Parent Company is EUR 5 963 000 (EUR 5 963 000 as of 31.12.2016) and consists of 5 963 registered shares. The par value of each share is EUR 1 000.00. No dividends were paid in 2017 and 2016.
In 2016, new 5 593 shares were issued, thereby increasing the par value of the existing shares from EUR 711.40 to EUR 1 000.00 per share; as a result, Company share capital was increased from EUR 263 218 to EUR 5 963 000.00.

The Parent's Board has suggested that the profit for the reporting year should be used for further development of the Group.

25. Other loans

	Date of maturity	Lease amount	Maturing in more than five years	Maturing between one and five years	Maturing in less than one year
Finance lease liabilities	2020/07	11 738	-	7 292	4 457
Total as at 31/12/2017			**-**	**7 292**	**4 457**
Total as at 31/12/2016			**-**	**11 738**	**4 384**

26. Trade payables

	31/12/2017	31/12/2016
Payments to securities owners*	4 872 161	4 671 921
Other	220 531	62 510
TOTAL:	**5 092 692**	**4 734 431**

* Payments to securities owners represent dividends paid and rights to cash held in the Parent Company's initial register.

Assets of the initial register are invested as follows:

	31/12/2017	31/12/2016
Account with the Bank of Latvia	2 564 801	2 364 562
Guarantee deposit with Nordea banka	-	270 459
Investments made in the investment portfolio of CBL Asset Management	2 307 360	2 036 900
TOTAL:	**4 872 161**	**4 671 921**

According to the Financial Instruments Market Law, the central depository must segregate their funds from those belonging to financial instrument owners that are or were registered in the initial register and have not accepted the final share buyout offer at the expiration date of the final share buyout offer. These funds may not be used to meet the claims of creditors of the central depository. This requirement also applies to instances when the central depository is recognized as insolvent according to the statutory procedure.

27. Loans from shareholders and management

	31/12/2017	31/12/2016
Loan from shareholder	4 728 545	-
TOTAL:	**4 728 545**	**-**

Interest rate for the loan is 3 month EURIBOR plus 75bp

28. Taxes payable

	31/12/2017	31/12/2016
Statutory social insurance contributions	(34 880)	(34 949)
Personal income tax	(16 997)	(11 996)
Corporate income tax	(78 154)	(2 645)
Value added tax	29 933	87 810
Unemployment risk duty	(1 923)	(2 114)
TOTAL:	**(102 021)**	**36 106**
Total receivable (disclosed as other receivables)	**29 933**	**87 810**
Total payable	**(131 954)**	**(51 704)**

29. Deferred income

	31/12/2017	31/12/2016
Prepayments for services	-	7 530
Annual fees of issuers	8 337	10 861
TOTAL:	**8 337**	**18 391**

30. Accrued liabilities

	31/12/2017	31/12/2016
Provisions for staff bonuses	194 176	214 654
Provisions for creditor invoices	143 643	258 685
Provisions for contingent liabilities	43 059	5 008
Vacation pay reserve	154 958	93 620
TOTAL:	**535 836**	**571 967**

All accrued liabilities are expected to arise and be covered in 2018.

31. Commitments and contingencies

	Date of maturity	Lease amount	Maturing in more than five years	Maturing between one and five years	Maturing in less than one year
Operating lease liabilities	2019/12	10 776	-	5 388	5 388
Operating lease liabilities	2018/08	4 062	-	-	4 062
Operating lease liabilities	2018/09	4 073	-	-	4 073
Operating lease liabilities	2020/10	13 842	-	8 957	4 886
Total as at 31/12/2017			**-**	**14 345**	**18 409**
Total as at 31/12/2016			**-**	**45 059**	**21 955**

32. Events after balance sheet date

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Indars Aščuks
Chairman of the Board

Jānis Siņēvičs
Accountant

Independent auditors' report

INDEPENDENT AUDITORS' REPORT

To the Shareholder of *NASDAQ CSD SE*

Opinion

We have audited the accompanying consolidated financial statements of NASDAQ CSD SE and its subsidiaries (the Group), set out on pages 10 to 33 of the accompanying annual report, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of financial position of the Group as at December 31, 2017, and of financial performance of the Group and cash flows of the Group for the period then ended in accordance with the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

The other information comprises the Management Report and Statement of Responsibility of the Management Board as set out on pages 5 to 9 of the accompanying annual report, but does not include the financial statements and our auditors report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with local legislation

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne	Dace Cikmača
Chairperson of the board	Latvian Certified Auditor
	Certificate No. 175

Riga, 2 August 2018