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7 December 2017 [shall come into force from 3 January 2018].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*<sup>1</sup> has adopted  
and the President has proclaimed the following law:

# Law on the Annual Financial Statements and Consolidated Financial Statements

## Chapter I General Provisions

### Section 1. Terms Used in this Law

(1) The following terms are used in this Law:

1) **associated undertaking** - an undertaking in which another undertaking has participating interest and over whose operating and financial policies that other undertaking exercises significant influence that is ensured with no less than 20 and no more than 50 percent of stockholders' or members' voting rights;

2) **development costs** - costs which are directly eligible to development measures or which may be justifiably related to these measures;

3) **balance sheet date** - last day of the reporting year;

4) **balance sheet value** - the amount by which assets or liabilities are indicated in the balance sheet;

5) **relevant information** - such information regarding which there is the basis to consider that non-disclosure or incorrect provision thereof in financial statements could change or influence a decision taken by a person on the basis of such financial statements. The relevance of information to be disclosed in an individual financial statement item shall be evaluated in relation to other similar items of such financial statements;

6) **financial assets**:

a) cash,

b) capital security of another undertaking,

c) the right laid down in the agreement to receive cash or another financial asset from another person or mutually exchange financial assets or financial commitments with another person under circumstances which are potentially favourable for the undertaking,

d) financial instrument regarding which the undertaking will settle accounts (or may settle accounts) with its own capital securities, if it is not a derivative and the undertaking has (or may have) an obligation to receive a variable number of its own securities or if it is a derivative and the undertaking will settle accounts (or may settle accounts) otherwise than by exchanging a fixed amount of cash or other financial asset against a fixed number of its own capital securities. By applying this term, the undertaking shall not include the financial instruments in its own capital securities, which are an agreement regarding receipt of the undertaking's own capital securities or delivery thereof in the future;

7) **financial commitments**:

a) the obligation laid down in the agreement to transfer cash or other financial asset to another person or mutually exchange financial assets or financial commitments with another person under circumstances which are potentially favourable for the undertaking,

b) financial instrument regarding which the undertaking will settle accounts or may settle accounts with its own capital securities, if it is not a derivative and the undertaking has (or may have) an obligation to deliver a variable number of its own securities or if it is a derivative and the undertaking will settle accounts (or may settle accounts) otherwise than by exchanging a fixed amount of cash or other financial asset against a fixed number of its own capital securities. By applying this term, the undertaking shall not include the financial instruments in its own capital securities, which are an agreement regarding receipt of the undertaking's own capital securities or delivery thereof in the future;

8) **accounting policy** - principles, methods, and regulations for accounting of the relevant economic transactions, facts, and events and assessment and indication of items of the financial statement (in the financial statement) (for example, methods for assessment of fixed assets or calculation of depreciation, methods for assessment of debts of debtors or balances of stocks, principles for accounting and indication of loan interest and fine, conditions and methods for establishment of reserves which are used for indication of profit or loss, or cash flow in the financial statement);

9) **parent undertaking of a group of companies** - a commercial company or cooperative society registered in the Republic of Latvia, a European economic interest grouping registered in the Republic of Latvia, a European cooperative society, or a European commercial company which controls one or several subsidiary undertakings thereof in accordance with the procedures laid down in this Law;

10) **subsidiary undertaking of a group of companies** - a commercial company or cooperative society registered in the Republic of Latvia, a European economic interest grouping registered in the Republic of Latvia, a European cooperative society, or a European commercial company, or a commercial company registered in another country which is controlled by a parent undertaking thereof in accordance with the procedures laid down in this Law. Any subsidiary undertaking of a subsidiary undertaking of a group of companies shall be considered a subsidiary undertaking of the parent undertaking of that group of companies;

11) **group of companies** - an aggregate of undertakings which includes a parent undertaking of a group of companies and all subsidiary undertakings thereof;

12) **consolidation** - the unification of the annual statements of companies within a group of companies in accordance with the procedures laid down in this Law;

13) **consolidated annual statement** - the annual statement of a group of companies which has been prepared in accordance with the procedures laid down in this Law as if it was the annual statement of a single separate undertaking and which provides information on the whole group of companies as a single undertaking;

14) **minority stockholders** - stockholders or members of a subsidiary undertaking of a group of companies, which are neither stockholders nor members or members of the parent undertaking of the group of companies (hereinafter - stockholders or members), nor other subsidiary undertakings involved in the consolidation;

15) **intangible investments** - intangible properties other than financial assets and complying with both the following classification criteria:

a) they can be separated or divided from an undertaking and sold, transferred, licenced, rented out or exchanged (individually or together with another liability or asset) or they have arisen from an agreement or other rights regardless of whether such rights are transferrable or separable from the undertaking or from other rights and obligations,

b) an undertaking intends to use them for more than one year and expects that economic benefits will be received from holding of such properties;

16) **event after the balance sheet date** - a favourable event (for example, profit arisen or expected, increase in assets value or reduction in the amount of liabilities) or unfavourable event (for example, costs or loss arisen or expected, reduction in assets value or increase in the amount of liabilities) during the time period between the balance sheet date and the date of signing the annual statement;

17) **fixed assets** - movable or immovable tangible properties complying with all of the following classification criteria:

a) they are held by the undertaking as the owner or lessee in accordance with a financial lease in order to use them for the production of goods, provision of services, renting out or for administrative purpose (for the administrative needs or other needs of the undertaking, for example, for the maintenance of operation of other fixed assets, ensuring meeting the labour safety or environmental protection requirements significant for the principal activity of the undertaking);

b) the undertaking intends to use them for more than one year and expects that economic benefits will be received from holding of such properties;

c) they are not purchased and are not held for sale;

d) their useful life is longer than one standard operation cycle;

18) **fair value** - the amount which would be received upon selling an asset, or would be paid by fulfilling liabilities in a standard transaction between market participants on the date of assessment of the abovementioned asset or liability;

19) **research costs** - the costs which are directly applicable to research measures, as well as such costs which have arisen in the project development stage of creation of a particular intangible investment object, if the undertaking cannot separate the research stage of such project from its development stage;

20) **acquisition price** - the amount to be paid in money or its equivalents, or the fair value of consideration transferred for acquisition of the goods or service at the time when the asset was acquired;

21) **management**:

a) in a capital company, as well as in a cooperative company - the board of directors and the council (if the council has been established),

b) in a partnership - all members of such undertaking or such members of the undertaking who have a special authorisation to represent the undertaking,

c) in an individual undertaking, farming or fishing enterprise - the owner of the undertaking or enterprise accordingly;

22) **adjustments of reduction in the value** - adjustments which are made in order to indicate reduction in the value of assets on the balance sheet date regardless of whether this reduction in the value is final or not. Adjustments of reduction in the value shall also mean calculation of the annual depreciation of fixed asset and annual write-off of intangible investments.

(2) The terms "financial instruments", "capital securities", and "transferable securities" used in this Law conform the terms used in the Financial Instrument Market Law.

(3) The term "related parties" used in this Law conforms to the term used in IAS 24 "Related party disclosures" referred to in Annex to Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

*[7 December 2017]*

## **Section 2. Scope of Application of this Law**

This Law prescribes:

1) the content of the annual statement, the procedures for preparation, audit (revision), approval, submission, and publication thereof, as well as the amount of information to be disclosed in the annual statement, reliefs and exemptions in distribution according to categories of companies;

2) the companies to be involved in the consolidation, reliefs and exemptions for parent undertakings of the group of companies, as well as the procedures for preparation, audit (revision), approval, submission, and publication of the consolidated annual statement;

3) the person responsible for preparation, audit (revision), and submission of the annual statement and consolidated annual statement.

## **Section 3. Subjects of the Law**

(1) This Law shall apply to:

1) commercial companies, cooperative companies registered in the Republic of Latvia, European economic interest groupings, European cooperative societies, and European commercial companies registered in the Republic of Latvia;

2) individual undertakings, farming and fishing enterprises whose turnover (revenue) from the economic transactions during the previous reporting year exceeds EUR 300 000.

(2) This Law shall be applied to annual statements of the persons referred to in Paragraph one of this Section

(hereinafter also - the undertaking) and consolidated annual statements of the undertakings referred to in Paragraph one, Clause 1 of this Section.

(3) Individual undertakings, farming and fishing enterprises may prepare an annual statement taking into account the provisions of this Law also if their turnover (revenue) from economic transactions in the previous reporting year does not exceed EUR 300 000.

(4) This Law shall not apply to credit institutions, savings and loan societies, insurance companies, re-insurance companies, private pension funds, investment companies, investment management companies, as well as alternative investment funds founded as commercial companies.

(5) A development financial institution and a commercial company, which in accordance with the Financial Instrument Market Law prepare an annual statement and consolidated annual statement in conformity with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (hereinafter - the international accounting standards):

1) by way of derogation from the principles and regulations to be applied for the assessment of annual statement and financial statement items laid down in this Law, the annual statement items shall be assessed in accordance with the international accounting standards;

2) by way of derogation from the provisions of this Law for the preparation of a balance sheet, profit or loss account, cash flow statement, and statement of changes in equity, individual financial statement items need not be indicated if they are not significant or their non-indication makes the financial statement more transparent, as well as additional items may be included, however, in any case the information indicated in the items must conform to the international accounting standards;

3) in addition to the provisions for the preparation of annex to the financial statement laid down in this Law, explanatory information shall be provided in accordance with the international accounting standards;

4) by way of derogation from the provisions of this Law, the consolidated annual statement shall be prepared in conformity with the international accounting standards. In such case the provisions of Clauses 1, 2, and 3 of this Paragraph shall be applied for the assessment of the consolidated annual statement items and consolidated financial statement items, components of the consolidated financial statement and for the provision of explanatory information in the consolidated financial statement accordingly.

(6) A development financial institution and the commercial company, the transferable securities of which are included in the regulated market of the Republic of Latvia or another European Union Member State (hereinafter - the regulated market), shall apply the requirements of this Law binding on a large undertaking.

(7) A capital company, which in conformity with the provisions of this Law is a large undertaking, may prepare an annual statement in accordance with the international accounting standards. In such case the capital company shall apply the provisions of Paragraph five, Clauses 1, 2, and 3 of this Section to the assessment of financial statement items, components of the financial statement and provision of the explanatory information in the financial statement accordingly.

*[7 December 2017 / See Paragraph 7 of Transitional Provisions]*

#### **Section 4. Language and Value Measurement**

(1) An annual statement and a consolidated annual statement shall be prepared in the Latvian language.

(2) The currency unit euro shall be used in the annual statement and consolidated annual statement and the numbers shall be rounded up to whole numbers (euros).

(3) By derogation from that abovementioned in Paragraph two of this Section regarding rounding up of numbers, it shall be permitted to round up the numbers to thousands (euro) in the consolidated annual statement.

## **Chapter II Division of Undertakings and Groups of Companies**

#### **Section 5. Categories of Undertakings**

(1) In applying this Law, undertakings shall be divided in the following categories depending on the limit values of criteria laid down below:

- 1) a micro-entity;
- 2) a small undertaking;

3) a medium-sized undertaking;

4) a large undertaking.

(2) A micro-entity is a small undertaking which on the balance sheet date does not exceed at least two of three limit values of the criteria referred to in this Paragraph:

1) balance sheet total - EUR 350 000;

2) net turnover - EUR 700 000;

3) average number of employees during the reporting year - 10.

(3) A small undertaking is such undertaking which on the balance sheet date does not exceed at least two of three limit values of the criteria referred to in this Paragraph:

1) balance sheet total - EUR 4 000 000;

2) net turnover - EUR 8 000 000;

3) average number of employees during the reporting year - 50.

(4) A medium-sized undertaking is such undertaking which is not a small undertaking and which on the balance sheet date does not exceed at least two of three limit values of the criteria referred to in this Paragraph:

1) balance sheet total - EUR 20 000 000;

2) net turnover - EUR 40 000 000;

3) average number of employees during the reporting year - 250.

(5) A large undertaking is such undertaking which on the balance sheet date exceeds at least two of three limit values of the criteria referred to in Paragraph four of this Section.

(6) If the undertaking on the balance sheet date does not exceed two limit values of the criteria referred to in Paragraph two, three, or four of this Section two years in succession (in both, current and previous reporting year), it shall obtain the right to provide the minimum information in its annual statement that has been laid down in this Law for the relevant category of undertakings whose indicators it does not exceed and also shall obtain the right to apply the reliefs or exemptions laid down in this Law which are provided for the relevant category of undertakings. The undertaking shall lose this right, if in subsequent reporting years it exceeds the referred to limit values and this reoccurs two reporting years in succession. If the indicators of the economic activity of the undertaking fluctuate on a year-by-year basis and every year it conforms to a different category of undertakings, the relevant undertaking, in preparing the annual statement, shall comply with the provisions stipulated for a higher category of undertakings (if compared with the category to which it conforms in the current reporting year with that to which it conformed in the previous reporting year).

(7) A newly established undertaking and an individual undertaking, farming and fishing enterprise that becomes the subject of this Law in the reporting year, if on the balance sheet date it does not exceed two limit values of the criteria referred to in Paragraph two, three, or four of this Section, is entitled to provide the minimum information in its first annual statement that has been laid down in this Law for the relevant category of undertakings whose indicators it does not exceed and also is entitled to apply the reliefs or exemptions laid down in this Law which are provided for the relevant category of undertakings.

*[7 December 2017]*

## **Section 6. Categories of Groups of Companies**

(1) In applying this Law, groups of companies shall be divided in the following categories depending on limit values of the criteria laid down below:

1) a small group of companies;

2) a medium-sized group of companies;

3) a large group of companies.

(2) A small group of companies is such group of companies, whose undertakings (as an aggregate) to be involved in the consolidation according to annual statements of the undertakings to be involved in the consolidation do not exceed upon consolidation at least two of three limit values of the criteria referred to in this Paragraph on the balance sheet date of the parent undertaking of the group of companies:

- 1) balance sheet total - EUR 4 000 000;
- 2) net turnover total - EUR 8 000 000;
- 3) average number of employees during the reporting year - 50.

(3) A medium-sized group of companies is such group of companies, which is not a small group of companies and whose undertakings (as an aggregate) to be involved in the consolidation according to annual statements of the undertakings to be involved in the consolidation do not exceed upon consolidation at least two of three limit values of the criteria referred to in this Paragraph on the balance sheet date of the parent undertaking of the group of companies:

- 1) balance sheet total - EUR 20 000 000;
- 2) net turnover total - EUR 40 000 000;
- 3) average number of employees during the reporting year - 250.

(4) A large group of companies is such group of companies, whose undertakings (as an aggregate) to be involved in the consolidation according to annual statements of the undertakings to be involved in the consolidation exceed upon consolidation at least two of three limit values of the criteria referred to in Paragraph three of this Section on the balance sheet date of the parent undertaking of the group of companies.

(5) If a group of companies on the balance sheet date of the parent undertaking thereof exceeds upon consolidation two of the limit values of criteria referred to in Paragraph two or three of this Section two years in succession (in both, current and previous reporting year), the parent undertaking of the group of companies shall lose the right to apply the reliefs or exemptions laid down in this Law, which are provided for the relevant category of groups of companies. If a group of companies on the balance sheet date of the parent undertaking thereof does not exceed upon consolidation two of the limit values of the criteria referred to in Paragraph two or three of this Section two years in succession (in both, current and previous reporting year), the parent undertaking of the group of companies shall acquire the right to apply the reliefs or exemptions laid down in this Law which are provided for the relevant category of the groups of companies.

(6) A (new) parent undertaking of the group of companies that has been established in the reporting year is entitled to apply the reliefs or exemptions for the relevant category of group of companies laid down in this Law in the first reporting year, if the undertakings (as an aggregate) to be involved in the consolidation according to annual statements of all aforementioned undertakings do not exceed upon consolidation at least two of three limit values of the criteria referred to in Paragraph two or three of this Section for the relevant group of companies on the balance sheet date of the parent undertaking of the group of companies.

*[7 December 2017]*

### **Section 7. Special Provisions Regarding Criteria**

(1) The criterion "Balance sheet total" is the total of all items of the asset of the balance sheet scheme indicated in Annex 1 to this Law.

(2) The criterion "Net turnover" is the revenue amount indicated in the item "Net turnover" of the profit or loss account scheme indicated in Annex 2 or 3 to this Law.

(3) In exceptional case, if there is no amount in the item "Net turnover" of the profit or loss account of the undertaking or it is insignificant, but the revenue amount included in other items of the profit or loss account is significant, the criterion "Revenue total" shall be used instead of the criterion "Net turnover", which is calculated by taking into account also those revenue amount indicated in all other items of the profit or loss account.

(4) The average number of employees shall be calculated by counting the employees employed in the undertaking (for a group of companies - in the companies to be involved in the consolidation) on the last date of each month of the reporting year and dividing the sum by the number of months in the reporting year.

(5) In order to determine a category of the group of companies when exclusion referred to in Section 73, Paragraph one, Clauses 3 and 4 of this Law is not carried out, limit values of the criteria referred to in Section 6, Paragraphs two and three of this Law "Balance sheet total" and "Net turnover" shall be increased by 20 per cent.

## **Chapter III Annual Statement and Financial Statement**

### **Section 8. Obligation to Prepare an Annual Statement and Content of the Annual Statement**

(1) An undertaking has an obligation to prepare an annual statement regarding each reporting year within the

meaning of the law On Accounting.

(2) The annual statement, as a unified whole, shall consist of a financial statement and a management report.

#### **Section 9. Content of a Financial Statement**

(1) A financial statement for a small undertaking shall consist at least from a balance sheet, a profit or loss account, and an annex to the financial statement.

(2) A financial statement for a medium-sized and large undertaking shall consist of a balance sheet, a profit or loss account, a cash flow statement, a statement of changes in equity, and an annex to the financial statement.

(3) A balance sheet is a part of the financial statement in which the balance of undertaking funds and sources thereof (assets and liabilities) on the balance sheet date shall be indicated. Funds shall be indicated in assets of the balance sheet, but sources thereof - in liabilities of the balance sheet. Total assets of the balance sheet shall be equal to total liabilities of the balance sheet.

(4) A profit or loss account is a part of the financial statement in which revenue and costs of the undertaking, as well as profit gained or losses arisen during the reporting year, are indicated.

(5) Annex to a financial statement is a part of the financial statement where the undertaking provides explanations, comparisons, details, and substantiations in relation to the information indicated in other parts of the financial statement, as well as additional information which is necessary for the provision of true and clear view within the meaning of Section 13, Paragraph two of this Law.

#### **Section 10. Schemes for Parts of a Financial Statement and Change Thereof**

(1) A balance sheet shall be prepared on the basis of the scheme laid down in Annex 1 to this Law.

(2) A profit or loss account shall be prepared on the basis of the scheme laid down in Annex 2 or 3 to this Law.

(3) A cash flow statement shall be prepared on the basis of the scheme laid down in Annex 4 or 5 to this Law.

(4) A statement of changes in equity shall be prepared on the basis of the scheme laid down in Annex 6 to this Law.

(5) A scheme used for preparation of a profit or loss calculation, as well as for a cash flow statement, may not be changed in comparison to the previous reporting year (the relevant part of the financial statement shall be prepared according to the same scheme for two reporting years in succession).

(6) In exceptional cases the requirements of Paragraph five of this Section may be not applied, if the change of the scheme for a relevant part of the financial statement is provision of true and fair view in conformity with the provisions of Section 13, Paragraph two of this Law. Indication shall be given regarding the change of the scheme for a relevant part of the financial statement in annex to the financial statement and a reason for such change shall be explained.

#### **Section 11. General Conditions for Indication of Items for Parts of a Financial Statement**

(1) The balance sheet items laid down in Annex 1 to this Law, the items for scheme of a profit or loss account laid down in Annexes 2 and 3, the cash flow statement items laid down in Annexes 4 and 5, and the items of a statement of changes in equity laid down in Annex 6 (hereinafter in this Chapter - items), in preparing the relevant part of the financial statement, shall be indicated each separately in the order laid down for the relevant scheme.

(2) Companies, in preparing the relevant part of the financial statement, within the framework of the relevant scheme are allowed to join those items in schemes which are designated with Arabic figures, if their amounts are insignificant for the provision of true and fair view in conformity with the provisions of Section 13, Paragraph two of this Law or if such joining provides greater clarity. Details on joined items shall be provided in Annex to the financial statement.

(3) When preparing the relevant part of the financial statement, an undertaking which prepares the financial statement in accordance with international accounting standards is entitled, within the framework of the relevant scheme, to subdivide those items which are designated with Arabic figures or to add a new item accordingly designated with an Arabic figure or a letter, if the indication of such item in the relevant part of the financial statement is stipulated by a certain requirement laid down in international accounting standards or it is necessary for the provision of a true and fair view and if the content of the referred to item is not covered in any of the relevant scheme items. When preparing the relevant part of the financial statement, an undertaking which prepares the financial statement in accordance with the provisions laid down in this Law, is allowed, within the framework of the relevant scheme, to subdivide those items which are designated with Arabic figures or to add a new item accordingly designated with an Arabic figure or a letter, if it is necessary for the provision of a true and fair view and if the content of the referred to item is not covered in any of the relevant scheme items.

## **Section 12. Figures of the Previous Reporting Year**

(1) In preparing a balance sheet, a profit or loss account, a cash flow statement, and a statement of changes in equity, the respective figures for the current year and also from the previous reporting year shall be indicated for each item.

(2) If in the reporting year significant mistakes from the previous years are discovered or the accounting policy has been changed, the relevant figure of the previous reporting year shall be adjusted.

(3) For each case where the figures have not been mutually comparable or the adjustment of figures of the previous reporting years has been performed, an explanation shall be provided in the annex to the financial statement.

(4) An item, in which there is no figure, shall be indicated only if there was a relevant item with a figure in the previous financial year.

## **Chapter IV General Conditions for Preparing a Financial Statement**

### **Section 13. True and Fair View**

(1) A financial statement shall be prepared understandably and in conformity with the Law On Accounting, this Law and other laws and regulations governing accounting and annual statements.

(2) A financial statement must provide true and fair view regarding the funds (assets) of an undertaking, liabilities, financial position and profit or losses thereof, but an annual statement of a medium-sized undertaking and large undertaking - also regarding cash flow.

(3) If the information included in the financial statement prepared in accordance with this Law does not provide a sufficiently true and fair view of the undertaking, additional information shall be provided in annex to the financial statement.

(4) In the exceptional cases referred to in Paragraph five of this Section the undertaking has the right to derogate from the principles and provisions for recognition, assessment, and indication of the items of the financial statement laid down in this Law, if the application thereof does not provide true and fair view within the meaning of Paragraph two of this Section. Every such derogation shall be explained in annex to the financial statement, indicating the reason for and the effect of the abovementioned derogation on the funds (assets), liabilities, financial position, and profit or loss of the undertaking. The particular norm of this Law shall be indicated in annex to the financial statement, from the application of which the undertaking has derogated, and the requirement of the relevant law or regulation or international accounting standard which the undertaking has applied.

(5) The exceptional cases referred to in Paragraph four of this Section are as follows:

1) the undertaking fails to comply with the principle for continuing the activity laid down in Section 14, Paragraph one, Clause 1 of this Law and due to this reason the general principle laid down in Section 14, Paragraph one, Clause 10 of this Law regarding assessment of financial statement items in conformity with the purchase costs or production cost price cannot be applied;

2) due to justified reasons (for example, if an undertaking, the transferable securities of which are included in the regulated market, is a parent undertaking of the group of companies and draws up a consolidated annual statement in accordance with the requirements of the international accounting standards or if an undertaking is a subsidiary undertaking of such group of companies the requirement of the parent undertaking of which is to use the international accounting standards for the recognition, assessment, indication of items in the financial statement and for the provision of explanatory information) the undertaking recognises, assesses, indicates investment properties, biological assets, long-term investments held for sale, deferred tax assets, deferred tax liabilities, or other items of assets or liabilities of the balance sheet in the financial statement and provides explanatory information regarding these items in accordance with the international accounting standards.

(6) For the purpose of application of this Law:

1) investment properties are immovable property objects - parcels of land, buildings, engineering structures, groups of premises, and undivided shares of the abovementioned objects, which an undertaking holds as an owner or as a lessee according to a financial lease in order to acquire a lease (rent) payment or to await a rise in prices (increase in value), but not in order to use for the manufacture of goods, provision of services, administrative purposes (for the administrative needs of the undertaking) or to sell in the course of regular economic activity;

2) biological assets are draft or productive animals or plants, which the undertaking holds in order to acquire agricultural products for sale or additional biological assets;



3) long-term investments held for sale are objects of fixed assets or intangible investments, the balance sheet value of which will be recovered from a sale transaction, not from further use thereof;

4) deferred tax assets are amounts of enterprise income tax, which are to be recovered during the next reporting years and which refer to temporary differences to be deducted between the value of a balance sheet asset or liability items in the financial statement and the value of such item for the needs of calculation of the enterprise income tax;

5) deferred tax liabilities are such amounts of enterprise income tax which are to be paid during the next reporting years and which refer to those temporary differences between the value of a balance sheet asset or liability items in the financial statement and the value of such item for the needs of calculation of the enterprise income tax which are subject to such tax.

(7) Paragraphs four, five, and six of this Section shall not apply to a micro-entity which has chosen to use any of the relief arrangements and exemptions laid down in Chapter XII of this Law for preparation of a financial statement, except the case referred to in Paragraph five, Clause 1 of this Section when a micro-entity does not comply anymore with the principle for continuing the activity laid down in Section 14, Paragraph one, Clause 1 of this Law.

#### **Section 14. General Principles for Preparation of a Financial Statement**

(1) A financial statement shall be prepared in conformity with the following general principles:

1) it shall be assumed that an undertaking will be operating also in the future (principle for continuing the activity);

2) the same accounting policy and assessment methods used in the previous reporting year shall be used;

3) items shall be recognised and assessed in the financial statement by using the principle of precaution, by especially taking into account the following conditions:

a) only profit made prior to the balance sheet date shall be included in the financial statement,

b) all liabilities, as well as foreseeable amounts at risk and losses that have arisen during the reporting year or previous years, even if they have become known during the time period between the balance sheet date and the date when the annual statements are signed by the person or administration institution referred to in Section 95 of this Law, shall be taken into account,

c) all decrease in value and depreciation amounts of assets shall be calculated and taken into account regardless of whether the reporting year has closed with a profit or a loss;

4) amounts in the balance sheet and the profit or loss account shall be indicated according to the accumulation principle, namely, revenue and expenses shall be indicated by taking into account the time of incurring thereof, not the time of receipt or spending of money. Revenue and expenses related to the reporting year shall be indicated regardless of the date of payment or receipt of invoice;

5) costs shall be coordinated with revenue for the respective financial periods;

6) except for the case referred to in Section 12, Paragraph two of this Law, the amounts indicated in the relevant balance sheet items at the beginning of each reporting year (opening balances) shall comply with the amount indicated in the same balance sheet items at the end of the reporting year (closing balances);

7) asset and liability items of the balance sheet shall be assessed separately;

8) except the case referred to in Paragraph three of this Section, any set-off between asset and liability items of the balance sheet or revenue or expense items of the profit or loss account is prohibited;

9) the amounts in the profit or loss account items shall be indicated by taking into account the content and essence of economic transactions, not only their legal form;

10) the balance sheet and profit or loss account items shall be assessed in conformity with purchase costs or production cost price. Purchase costs are purchase price for goods or service (deducting the discounts received) to which additional expenses related to the purchase are added. Production cost price is purchase costs for raw materials, basic materials, and ancillaries and other expenses which are closely related to the production of the relevant object. The production cost price may also include parts of costs, which are indirectly related to the production of the object, if these costs are applicable to the same time period.

(2) A relevant financial information, which significantly affects assessment of users of the annual statement or taking of decisions, shall be indicated in specific items of a balance sheet and profit or loss account, but in respect of a medium-sized and large undertaking - also in specific items of a cash flow statement and of a statement of changes in equity. Insignificant amounts, which do not significantly affect the assessment of users of the annual statement or taking of decisions, shall be indicated in the abovementioned parts of the financial statement in the relevant items joining similar financial information, but details of these amounts shall be provided in annex to the financial statement.

(3) By derogation from the requirements of Paragraph one, Clause 8 of this Section, if derived or liquidated long-term investment object is excluded, the revenue and costs related to exclusion of the abovementioned object shall be mutually accounted. In such case the net value shall be indicated in the profit or loss account - profit or loss from alienation of a long-term investment object, which is calculated as the difference between the balance sheet value of the excluded object and revenue and expenses for alienation or liquidation thereof provided that gross amounts are indicated in annex to the financial statement. An undertaking is entitled to specify in the profit or loss account also the net value of the profit gained or loss incurred due to fluctuations in foreign currency exchange rates calculated as the difference between revenue and expenses incurred in the reporting year due to fluctuations in foreign currency exchange rates.

*[7 December 2017]*

### **Section 15. Competence of the Cabinet in the Field of Annual Statements**

(1) In order to ensure a unified understanding regarding items of a financial statement, the Cabinet shall issue regulations for the application of the Law, which shall provide for the following:

1) the procedures for assessment and indicating of financial support (financial assistance) received from the State, local governments, foreign countries, European Union, other international organisations and institutions, donations and gifts of money or kind in the financial statement;

2) the procedures by which events as of the balance sheet date, change of the accounting policy, changes in accounting estimates and corrections of mistakes shall be indicated in the financial statement;

3) the procedures by which revenue from the sale of goods and provision of services, transfer of undertaking's assets for the use to other persons, acquiring revenue from interest, royalties and dividends, shall be accounted and assessed;

4) the methods for accounting and assessment of fixed assets, and the procedures for indicating expenses related thereto and changes in value in the financial statement;

5) the methods for accounting and assessment of draft or productive animals or plants, and the procedures for indicating expenses related thereto and changes in value in the financial statement;

6) the conditions and methods for assessment of the reserves, debts of debtors, accumulated revenue, accumulated liabilities, contingent liabilities and contingent assets;

7) the procedures by which an undertaking, which is a performer of works or a performer of work of another long-term contract, shall account and assess the revenue and expenses related to the construction contract or another long-term contract;

8) indication of intangible properties created during research and development measures, which fail to comply with the classification conditions for intangible investments, in the financial statement, providing specific examples;

9) the methods for accounting and assessment of stocks, and the procedures for indicating expenses related thereto and changes in value in the financial statement;

10) the procedures for assessment and indicating of financial lease and operating lease transactions in the financial statement;

11) the procedures for indicating equity items by individual undertakings, farming and fishing enterprises in the financial statement;

12) the procedures for preparation of a financial statement by an undertaking, which fails to comply with the principle for continuing the activity laid down in Section 14, Paragraph one, Clause 1 of this Law;

13) the procedures for preparation of a financial statement regarding a time period which is less than a reporting year (interim period statement).

(2) The Cabinet shall issue regulations regarding re-classification of investment properties, biological assets, or long-term investments held for sale and further indication thereof in the balance sheet in case when an undertaking discontinues assessment of the relevant property objects on the basis of fair value thereof.

(3) The Cabinet shall issue regulations regarding the electronic true copy form of financial statements or consolidated financial statements (if any) prepared by undertakings for inclusion in the Electronic Declaration System of the State Revenue Service and also shall determine cases where financial statements or consolidated financial statements (if any) or any part thereof are submitted in the form of an electronic copy.

*[7 December 2017]*

## Chapter V Balance Sheet

### **Section 16. General Conditions for Indicating Amounts of Balance Sheet Asset Objects, Debts of Debtors, and Liabilities of Creditors**

(1) Long-term investments are assets which are intended for long use (more than 12 months after the end of the relevant reporting year) or invested in a long-term property. Other assets are current assets.

(2) A specific asset object shall be indicated in the composition of long-term investments or current assets in the balance sheet depending on the purpose for which it is intended.

(3) Amounts receivable within one year, and amounts receivable later than within one year, after the balance sheet date, shall be indicated separately for each item of liabilities of debtors in the balance sheet.

(4) Particular amounts of liabilities shall be indicated in the composition of long-term creditors and short-term creditors in the balance sheet depending on the due date for payment of a debt or covering of liabilities. Composition of long-term creditors shall include those amounts of liabilities, the payment of which is due more than 12 months after the end of the respective reporting year, and which are created in order to finance long-term investments and current assets or in order to cover obligations, and which are not to be included in composition of short-term creditors. Composition of short-term creditors shall include amounts that are payable within the nearest 12 months after the end of the reporting year, and other liabilities, which arise in the regular cycle of activity of the undertaking.

(5) If any object of assets or any liabilities refer to several balance sheet scheme items, belonging thereof to other items shall be indicated under the item where it is included, or in annex to the financial statement.

### **Section 17. Next Period Costs and Revenue**

(1) Payments made before the balance sheet date but referring to the next reporting years shall be indicated in the item "Next period costs".

(2) Payments received before the balance sheet date but referring to the next reporting years or further reporting years shall be indicated in the balance sheet item "Next period revenue".

### **Section 18. Own Stocks or Shares and Participation in Other Undertakings**

(1) An undertaking shall indicate the acquired own stocks or shares in the balance sheet item "Own stocks and shares", but participation in the subsidiary undertakings of a group of companies or the parent undertaking of a group of companies, or in other subsidiary undertakings of such a group of companies, or in the equity capital of a subsidiary undertaking of the subsidiary undertaking of such group of companies shall indicate in the balance sheet item "Participation in the capital of affiliated undertakings".

(2) The undertaking shall indicate the acquired participation in the equity capital of the associated undertaking in the balance sheet item "Participation in the capital of associated undertakings", but other participation in the equity capital of another undertaking shall be indicated in the balance sheet item "Other securities and investments".

(3) Participation of an undertaking in the capital of another undertaking (hereinafter - the participation of capital) is the right of such undertaking to a capital share of another undertaking (regardless of whether such right is or not certified with a participation certificate). The purpose of a capital participation is to promote activity of the undertaking by creating a continued link with another undertaking. The participation of capital in the capital of another undertaking is as follows:

1) participation in the capital of an affiliated undertaking, if the undertaking has acquired for more than 50 per cent of stocks or capital shares (for a co-operative company - co-operative share) of another undertaking;

2) participation in the capital of an associated undertaking, if the undertaking has acquired not less than 20 per cent but not more than 50 per cent of stocks or capital shares (for a co-operative company - co-operative share) of another undertaking.

### **Section 19. Immovable Property Objects and Share Premium Account**

(1) An undertaking shall indicate the acquired immovable property objects (land parcels, buildings, engineering structures, groups of premises, and undivided shares of the abovementioned objects) in the balance sheet item "Land parcels, buildings and engineering structures".

(2) If stocks or shares of new issue have been sold for a larger amount than the nominal value, the difference shall be indicated in the item "Share premium account" of the balance sheet liability section "Equity". If stocks or shares of new issue have been sold for an amount below the nominal value, the difference shall be indicated in the same item as a negative number.

## **Section 20. Profit or Loss Sum**

In the balance sheet item "Profit or loss for the reporting year", the amount shall be indicated, which corresponds to the amount indicated in the profit or loss item "Profit or loss of the reporting year". The profit distribution or coverage of losses of an undertaking shall be indicated in the accounts for the following year, correspondingly decreasing the amount indicated at the beginning of the reporting year in the item "Retained profits for the previous year".

## **Section 21. Items Expressed in Foreign Currencies**

Balances of foreign currency (for example, cash in the undertaking's cashier, non-cash in current accounts or sight deposit accounts), balances of fixed-term deposits of foreign currency and balances of advances, loans, or borrowings expressed in foreign currencies, as well as other balances of debtors or creditors which are receivable or payable in foreign currencies, shall be indicated in the balance sheet by re-calculating them in euro according to the foreign currency rate to be used in the accounting which is in effect on the balance sheet date (at the end of the day).

## **Section 22. Long-term Investments in Fixed Assets of a Public Partner**

If during the term of validity of a public and private partnership agreement an undertaking carries out long-term investments in fixed assets of a public partner, which are transferred to it with the abovementioned agreement, such undertaking shall indicate the amount of expenses related to the establishment of the abovementioned long-term investments in the balance sheet item "Long-term investments in fixed assets of a public partner".

## **Section 23. Adjustments of Reduction in the Value of Long-term Investment Objects**

(1) Acquisition costs of a long-term investment object with limited useful life or production cost price (hereinafter - the initial value), or the value (if any) determined in revaluation shall be gradually reduced for this object during the intended useful life, by deducting therefrom adjustments of reduction in the value which are calculated in order to carry out a gradual write-off of the value of such object (for an object of fixed assets - annual calculation of depreciation, for an intangible investment object - annual write-off of the value) during the intended useful life.

(2) Useful life for a land parcel is not limited, therefore its initial value may not be subjected to the adjustments of reduction in the value referred to in Paragraph one of this Section.

(3) If the balance value of a long-term investment object is lower than its value calculated in accordance with the conditions of Section 14, Paragraph one, Clause 10 of this Law and Paragraph one of this Section, and it is expected that reduction in the value will be continuous, adjustment of reduction in the value shall be applied to the relevant object, assessing it in conformity with the lowest value on the balance sheet date regardless of whether the useful life of such long-term investment object is or is not limited.

(4) Adjustments of reduction in the value of long-term investments referred to in Paragraph three of this Section shall be included in a profit or loss account and explained separately in annex to the financial statement, if they are not separately indicated in the profit or loss account.

(5) Adjustments of reduction in the value of long-term investments referred to in Paragraph three of this Section may be discontinued, if reduction in the value ceases to have a justification. This provision shall not apply to the adjustments of reduction in the value, which are applied to intangible value, namely, these adjustments of reduction in the value are not revocable.

## **Section 24. Adjustments of Reduction in the Value of Current Assets**

The value of current assets shall be adjusted in order for them to be assessed in conformity with acquisition costs or production cost price on the balance sheet date, or the lowest market prices on this date whichever of these indicators is lower, or in special cases - with other lowest value (for example, debts of debtors, receipt of which is doubted, shall be assessed according to the net value, damaged or outdated stock units and stock units for which production completion or sale costs significantly increase, shall be assessed according to the net sales value). Adjustments of reduction in the value of current assets referred to in this Section may be discontinued, if reduction in the value ceases to have a justification.

## **Section 25. Assessment of Stocks**

(1) The acquisition costs or production cost price of stocks may be determined as the weighted average price or by using the "First in - first out" method (FIFO).

(2) The "First in - first out" method (FIFO) is a method for determination of utilisation of stocks and value of balances, which is based on the assumption that stock units which have been purchased or produced first are sold or utilised first. Therefore those stock units which are in balance at the end of the financial period are those which have been purchased or produced the last.

(3) The weighted average price method is a method for determination of utilisation of stocks and value of balances,

by the application of which the costs for a stock unit are determined on the basis of weighted average costs of similar stock units at the beginning of the financial period and costs of similar stock units purchased or produced during the financial period.

(4) An undertaking shall use the same method for determination of utilisation and balance value of stocks for all stocks of similar type and use.

#### **Section 26. Assessment of Replaceable Transferable Securities**

The value of replaceable transferable securities included in long-term financial investments may be determined as the weighted average price or by using the "First in - first out" method (FIFO).

#### **Section 27. Difference between the Loan Amount to be Repaid and Received**

(1) If the loan amount to be repaid is larger than the amount received, the difference shall be indicated in annex to the financial statement.

(2) The difference referred to in Paragraph one of this Section shall be included in expenses gradually, by dividing into years, not later than by the due date for repayment of the debt, increasing the amount of liabilities accordingly until it reaches the loan amount to be repaid.

#### **Section 28. Inclusion of Loan Interest**

The loan interest received for the establishment of long-term investments or current assets, insofar as it refers to the establishment time period, may be included in production cost price of the relevant newly established objects. An undertaking shall provide data in annex to the financial statement regarding the cases of application of this provision, indicating the amount of interest included in the production cost price.

#### **Section 29. Establishment of Intangible Investments Items**

(1) Expenses for establishment of an undertaking and research expenses may not be included in the balance sheet (capitalised). They shall be written off in expenses of the reporting year when they have incurred.

(2) Only rights acquired in exchange for consideration may be indicated in the item "Concessions, patents, licenses, trademarks, and similar rights".

(3) Expenses related to the acquisition of an undertaking may be indicated in the item "Intangible value", if they cannot be referred to other items of the balance sheet asset, moreover, only in such amount in which intangible value was acquired for consideration.

#### **Section 30. Capitalisation of Development Costs and Limitation of Profit Distribution**

Development costs may be included in the balance sheet (capitalised) provided that while the initial value of the object of development costs is not completely written-off, profit distribution shall not take place unless reserves available for distribution and undistributed profit amount of previous years is at least equivalent to the amount of the initial value of development costs not written off.

#### **Section 31. Write-off of Value of Intangible Investment Items**

(1) The initial value of the object of intangible investments shall be written off by carrying out adjustments of reduction in the value referred to in Section 23, Paragraph one of this Law - annual write-off of the value of intangible investments during useful life of such object.

(2) In exceptional case, if it is not possible to credibly estimate the useful life of the object of intangible value or development costs, their initial value shall be written off gradually, dividing by years during the time period which does not exceed 10 years. Each such exceptional case shall be explained in annex to the financial statement, indicating duration of the time period in which it is intended to write off the initial value of the relevant item.

#### **Section 32. Creation of Reserves and Assessment Thereof**

(1) Reserves are intended in order to cover liabilities, the essence of which is clearly determined and which may be foreseen or are known or will definitely occur on the balance sheet date, however, the extent of the amount necessary for covering of such liabilities or the date of occurrence of such liabilities may change.

(2) An undertaking may establish reserves in order to cover expenses, if the essence of such expenses is clearly determined and occurrence thereof may be foreseen or is known or will definitely occur on the balance sheet date, however, the extent of the amount necessary for covering of such expenses or the date of occurrence of such expenses may change.

(3) Reserves shall be assessed according to the most accurate accounting estimate regarding the amount which is necessary on the balance sheet date in order to cover the liabilities referred to in Paragraph one of this Section or the

expenses referred to in Paragraph two of this Section which may arise.

(4) Reserves may not be used for adjustment of the value of assets.

## **Chapter VI**

### **Alternative Possibilities for Assessment of Balance Items**

#### **Section 33. Revaluation of Fixed Assets and Establishment of Reserve**

(1) By derogation from Section 14, Paragraph one, Clause 10 of this Law, a fixed assets object, the value of which is significantly higher than the costs of its acquisition or production cost price or assessment on the balance sheet of the previous year, may be revalued according to its higher value, if it may be assumed that the value increase will be long-term.

(2) A difference arisen as a result of such revaluation between assessment, which was carried out on the basis of acquisition costs or production cost price, and assessment which was carried out on the basis of revaluation, if such difference is positive (hereinafter - increase in value), shall be included in the relevant assets item of the balance sheet where revalued object of fixed assets is indicated and in the liabilities item of the balance sheet "Revaluation reserve of long-term investments" under the section "Equity". However the sum, in the amount of which increase in the value arisen as a result of revaluation completely or partly compensates adjustments of reduction in the value of the same object of fixed assets, which in previous reporting years were included in the profit or loss account as costs, shall not be included in the revaluation reserve of long-term investments. This sum shall be included in the profit or loss account as revenue in the reporting year in which increase in the value of the object of fixed assets was determined.

(3) Annual depreciation of the object of revalued fixed assets shall be calculated in the current reporting year on the basis of the value of such object in the relevant reporting year and included as the same amounts in the profit or loss account as costs.

#### **Section 34. Conditions for Reduction of Revaluation Reserve of Long-term Investments**

(1) Revaluation reserve of long-term investments shall be reduced, if the revalued object of fixed assets is alienated, liquidated or there is no longer basis for increase in the value thereof. An undertaking is entitled to reduce the revaluation reserve also if it calculates the annual depreciation of the object of revalued fixed assets. Reduction of revaluation reserve shall be included in the profit or loss account as revenue in the reporting year in which such reduction is carried out.

(2) Revaluation reserve of long-term investments shall only be reduced in the cases specified in Paragraph one of this Section. Revaluation reserve of long-term investments may not be disbursed, divided in dividends or used for covering of losses, increase of the equity, establishment of other reserves, or for other purposes.

*[7 December 2017]*

#### **Section 35. Assessment of Financial Instruments in Fair Value**

(1) By derogation from the assessment provisions provided for in Section 14, Paragraph one, Clause 10 of this Law, financial instruments (also derivative financial instruments) may be assessed in fair value, if the conditions included in Paragraphs two, three, and four of this Section are observed.

(2) Within the meaning of this Law contracts, for which the basic assets are goods and according to which both parties have the right to settle in cash or with some other financial instrument, are derivative financial instruments, except the case where all of the following conditions are in effect:

1) the contract has been entered into according to the planned needs of procurement, sale, or utilisation of goods, raw materials, basic materials, and ancillary materials by the undertaking and still conforms thereto;

2) the contract already initially was intended for the needs referred to in Clause 1 of this Paragraph;

3) the settlement of the contractual obligations is intended with the supply of goods.

(3) Assessment of the fair value shall be applied only to such financial commitments, which are an integral part of the trade portfolio or which have arisen from derivative financial instruments. Trade portfolio is the aggregate of financial instrument items held in the name of the undertaking and for the benefit of the undertaking (also contracts whose basic assets are goods), which the undertaking holds for trade or acquires in order to obtain a profit in the near future from the actual or expected purchase and sale price difference or other price or interest rate changes, as well as items which are acquired by the undertaking in order to limit the trade portfolio item risks.

(4) In addition to that laid down in Paragraph one of this Section, any financial asset or financial commitment item may be assessed in fair value, which is qualified as a risk insured item, or also a specified part of such item, if it is

necessary according to the accepted risk limitation accounting system of the undertaking. A risk limitation accounting system is the indicating of one or several risk limitation instruments (derivative financial instruments, other financial assets or financial commitments) for the purpose of risk limitation accounting so that the change in the fair value of such instruments would completely or partially compensate the change in the fair value or cash flow of the risk insured item.

### **Section 36. Financial Assets which are not Subject to Measurement Basis of Fair Value**

(1) The following financial assets shall not be subject to measurement basis of fair value:

1) investments held to the end of term, which are not derivative financial instruments;

2) loans and debtor debts, which are not held for trade;

3) participation in equity of subsidiary undertakings of the group of companies, associated undertakings and jointly controlled undertakings, capital securities issued by the undertaking, as well as other financial instruments which, in conformity with the international accounting standards, are not subject to measurement basis of fair value.

(2) Investments held until the end of the term are non-derivative financial assets with fixed or determinable payment schedule and fixed term in respect of which the undertaking has commitments and possibilities to hold them until the end of the term, except for such financial assets:

1) which have been initially classified by the undertaking for measurement basis of fair value with inclusion of changes in the value in profit or loss;

2) which are accounted by the undertaking as available for sale;

3) which are loans and debts of debtors.

(3) Loans and debts of debtors are non-derivative financial assets with fixed or determinable payment schedule which are not quoted in the active public securities market, except for such financial assets:

1) which are intended to be sold by the undertaking immediately or in the nearest future and which are included in such category of financial assets, which are intended for trade, as well as those which have been initially classified by the undertaking for measurement basis of fair value with inclusion of changes in the value in profit or loss;

2) which are accounted by the undertaking as available for sale;

3) the significant part of initial investments of which cannot possibly be recovered by the owner due to different reasons, except cases when decline in credit situation has occurred, and which therefore are to be classified as financial assets available for sale.

(4) Financial assets shall not be classified as investments held until the end of the term, if the undertaking has sold or re-classified more than non-significant part of financial assets during the reporting year or two previous reporting years, which were classified as investments held until the end of the term, in comparison to the total sum of investments held until the end of the term, except such sold or re-classified investments which:

1) are so close to the end of the term or date of deleting of the financial asset (for example, almost three months before the end of the term), that changes to the market interest rate do not significantly influence the fair value of the financial instrument;

2) are incurred after the undertaking has collected the part of initial principal amount of the item of all significant assets, using a payment schedule or prepayment;

3) are referred to a separate case which is outside the limits of control possibilities of the undertaking, which does not repeat and which could not have been foreseen in the undertaking.

### **Section 37. Value Determination Methods of Financial Instruments**

(1) The measurement basis of fair value of financial instruments in the cases referred to in Section 35 of this Law must be credible. A measurement basis is credible if the fair value of the financial instrument is determined using one of the following methods:

1) for financial instruments, for which price quotations have been published in the active public securities market - on the basis of the market price. If the financial instrument does not have the abovementioned market price, but such price is for its separate components or similar financial instruments, such instrument market price may be established, taking into account the market price of its components or similar financial instruments;

2) for financial instruments, for which it is not possible to specify the market price - on the basis of the value, calculated using generally known and applicable assessment models and methods, if the calculated value acceptably reflects the possible market price of such instruments.

(2) Financial instruments, the fair value of which cannot be credibly determined with the methods referred to in Paragraph one of this Section, shall be assessed in accordance with the procedures laid down in Section 14, Paragraph one, Clause 10 of this Law, insofar as such assessment is possible.

### **Section 38. Changes in the Fair Value of Financial Instruments**

(1) Changes in the fair value of a financial instrument, which have occurred in performing assessment in accordance with the methods laid down in Section 37, Paragraph one of this Law, shall be included in the profit or loss account, except the following cases:

1) the financial instrument is qualified as a risk limitation instrument, and according to the risk limitation accounting system accepted by the undertaking it is intended that some or all of the changes in the value of such instrument need not be reflected in the profit or loss account;

2) the changes in the value of the financial instrument depend on the changes in the exchange rate associated with the long-term cash investment of the undertaking in the equity of an undertaking under foreign jurisdiction. In both of the abovementioned cases, the changes in the fair value of the financial instruments shall be indicated in the balance sheet item "Fair value reserve of financial instruments".

(2) The undertaking shall indicate changes in the fair value of financial assets available for sale if such assets are not derivative financial instruments, in the balance sheet item "Fair value reserve of financial instruments".

(3) Within the meaning of this Chapter financial assets available for sale are such non-derivative assets which are accounted as available for sale or which are not classified as loans and debts of debtors, investments held until the end of term or such financial assets, which have been classified by the undertaking for measurement basis of fair value with inclusion of changes in the value in profit or loss.

### **Section 39. Conditions for Reducing the Fair Value Reserve of Financial Instruments**

(1) The fair value reserve of financial instruments, which is shown in the balance sheet item "Fair value reserve of financial instruments", shall be decreased by including it in a profit or loss account for the same reporting year in which the relevant financial instrument is sold, extinguished or alienated in some other way or also in which the value of the financial asset has reduced.

(2) The fair value reserve of financial instruments shall only be decreased in the cases laid down in Paragraph one of this Section. The fair value reserve of financial instruments may not be disbursed, divided in dividends or used for covering of losses, increase of equity, establishment of other reserves or for other purposes.

### **Section 40. Application of International Accounting Standards to Assessment of Financial Instruments**

By derogation from the provisions provided for in Sections 35, 36, 37, 38, and 39 of this Law, the relevant financial instruments may be recognised, assessed, indicated in the financial statement and explanatory information may be provided thereon according to international accounting standards.

## **Chapter VII Profit or Loss Account**

### **Section 41. Net Turnover and Other Revenue from Economic Activity**

(1) Net turnover is revenue from the sale of produce or goods and provision of services, from which trade discounts and other allocated discounts, as well as value added tax and other taxes directly related to turnover, have been deducted.

(2) Different other revenue (for example, profit gained from alienation of long-term investment objects or from fluctuations in currency exchange rates, revenue from insurance compensations received, from financial assistance or financial aid received), other than indicated in the item "Net turnover" or in other relevant revenue items and which have arisen as a result of economic activity or arising therefrom, shall be indicated in the item "Other revenue from economic activity".

### **Section 42. Selling and Administrative Costs**

(1) The relevant part from staff costs, material costs, adjustments of reduction in the value of fixed assets and intangible investments and other costs of economic activity, which refer to the reporting year, shall be included in the items "Selling costs" and "Administrative costs".

(2) The part from the costs indicated in Paragraph one of this Section, which have arisen during the course of sale, transportation, or storage of produce or goods, or which are necessary to promote the sale of goods and services, shall be indicated in the item "Selling costs".



(3) The part of costs indicated in Paragraph one of this Section, which have arisen during the financial period in the course of management, control, and administration of the undertaking, shall be indicated in the item "Administrative costs".

#### **Section 43. Other Items of Revenue and Expenses**

(1) Revenue from transfer of assets of the undertaking for use to other persons shall be indicated in the following items of profit or loss account:

1) revenue from long-term financial investments in equity of other undertakings (hereinafter - dividends) shall be indicated in the item "Revenue from participation", separately indicating those dividends which are received from participation in the capital of related undertakings, and those dividends which are received from participation in the associated undertakings and other undertakings;

2) revenue from long-term deposits, loans, securities, and other long-term debtors (hereinafter - interest from long-term financial investments) shall be indicated in the item "Revenue from other securities and loans which formed long-term financial investments", separately indicating the interest received from related undertakings and the interest received from associated undertakings and other undertakings;

3) revenue from short-term loans and claims (for example, interest), as well as royalties (for example, regarding transfer of patents, trademarks, copyrights and the rights of use of computer software) shall be indicated in the item "Other revenue from interest and similar revenue", separately indicating revenue received from related undertakings and revenue received from other persons.

(2) Acquisition costs of the goods sold for obtaining of net turnover and production cost price of services provided shall be indicated in the item "Production cost price of produce sold, purchase costs for goods sold or services provided".

(3) Costs of economic activity other than indicated in other items of profit or loss account and which have arisen as a result of economic activity or are related thereto, or directly arise therefrom (for example, losses caused by alienation of long-term investment objects or fluctuations in currency exchange rate) shall be included in the item "Other costs of economic activity".

(4) The amounts to be indicated in the item "Changes in stocks of finished goods and unfinished products", if the undertaking prepares a profit or loss account according to the scheme indicated in Annex 2 to this Law, and in the items "Production cost price of produce sold, purchase costs for goods sold or services provided", "Selling costs" and "Administrative costs", if the undertaking prepares a profit or loss account according to the scheme indicated in Annex 3 to this Law, shall be determined according to cost price calculations corresponding to peculiarities of the undertaking, in which the relevant part of material costs, staff costs, adjustments of decrease in the value of fixed assets, intangible investments, and current assets and other costs shall be included.

#### **Section 44. Extraordinary Dividends**

(1) If an undertaking has calculated extraordinary dividends in the reporting year within the meaning of the Commercial Law, then the calculated amount of extraordinary dividends shall be indicated in the items of the profit or loss calculation in accordance with Paragraph two or three of this Section at the end of the reporting year.

(2) If the profit amount indicated in the item "Profit or loss after calculation of the enterprise income tax" is equal with or exceeds the amount of extraordinary dividends calculated in the reporting year, then the abovementioned amount shall be indicated in the item "Extraordinary dividends".

(3) If the profit amount indicated in the item "Profit or loss after calculation of the enterprise income tax" is less than the amount of extraordinary dividends calculated in the reporting year, as well as if the losses are indicated in this item, the part of extraordinary dividends excess over the abovementioned profit amount, but in the case of losses - the entire amount of calculated extraordinary dividends shall be indicated in the item "Other costs of economic activity".

## **Chapter VIII Cash Flow Statement**

#### **Section 45. Content of a Cash Flow Statement**

(1) A cash flow statement is a component of financial statements, in the items of which cash flows arisen from the principal activity, investment activity and from financing activity of the undertaking, as well as increase or decrease of cash and its equivalents, and balances, is indicated separately.

(2) Cash flow of principal activity is cash revenue, payments, and expenses other than arisen from investment

activity or financing activity.

(3) Investment activity cash flow is such cash flow, which arises in relation to acquisition and alienation of long-term investments (for example, fixed assets, investment properties, intangible investments, long-term financial investments) and investments other than cash equivalents.

(4) Financing activity cash flow is such cash flow, which causes changes in the amount and composition of equity and borrowings of the undertaking.

(5) Money is cash in the cashier of the undertaking and non-cash payments in current accounts and sight deposit accounts.

(6) Money equivalents are short-term investments, which may be turned into money within a short period of time and there is a small chance that their value will significantly change (for example, such short-term investments, the remaining time period of which until deleting and repurchase thereof is three months or less counting from the date of acquisition).

#### **Section 46. General Conditions for Preparing a Cash Flow Statement**

(1) If the scheme indicated in Annex 4 to this Law is used for the preparation of a cash flow statement, the principal activity cash flow shall be determined by applying direct method. By this method information regarding cash flow in division by items included in the scheme shall be acquired directly from the accounting register data of the undertaking, analysing cash and non-cash operations or adjusting amounts included in the item "Net turnover", in the item "Production cost price of produce sold, purchase costs for goods sold or services provided" and in other items regarding amounts of revenue and expenses other than related to the cash flow (for example, changes in balances of stocks and debts of debtors and creditors related to the principal activity in the reporting year, balances of other items, which are related to cash flow of investment activity or financing activity).

(2) If the scheme indicated in Annex 5 to this Law is used for the preparation of a cash flow statement, the principal activity cash flow shall be determined by applying indirect method. By this method the amounts, which are to be indicated in the items of the cash flow statement, shall be calculated by adjusting the amount indicated in the item "Profit or loss before the enterprise income tax" of the profit or loss account accordingly. If cash revenue, payments or expenses in foreign currencies have occurred in the reporting year, such influence shall be indicated separately from the cash flow of the principal activity, cash flow of the investment activity, and cash flow of the financing activity in a separate cash flow item "Result of fluctuations in foreign currency exchange rates".

(3) Cash flows of the principal activity, cash flows of the investment activity, and cash flow of the financing activity in division by items included in schemes shall be indicated in gross amounts (except in the cases referred to in Paragraph two of this Section).

(4) The difference of received and performed cash payments shall be indicated in a cash flow statement of the principal activity, if:

1) cash payment is received and performed on behalf of another person and it is rather related to activity of that other person than to the activity of the undertaking (for example, to perform collection of rent payment and settle accounts with the owner on behalf of the owner);

2) payment received or performed refers to asset or liability items of the balance sheet characterised by fast circulation, large amounts, and short time period for deleting or payment (for example, acquisition and sale of securities, receipt and repayment of such borrowings the repayment time period of which does not exceed three months).

(5) The total amount of the interest paid during the reporting year shall be indicated in the cash flow statement regardless of whether such amount is included in the profit or loss account (as expenses) or in the balance sheet (in the assets value). The interest paid shall be indicated as cash flow of the principal activity or as cash flow of the financing activity. The interest received shall be indicated as cash flow of the principal activity or as cash flow of the investment activity.

(6) The dividends disbursed shall be indicated as cash flow of the principal activity or as cash flow of the financing activity. The dividends received shall be indicated as cash flow of the principal activity or as cash flow of the investment activity.

#### **Section 47. Special Conditions for Certain Items of the Cash Flow Statement**

(1) The difference between cash revenue and payments (expenses) of the principal activity before expenses for interest payments, enterprise income tax payments, and extraordinary items shall be indicated in the item "Gross cash flow of the principal activity". Excess of cash revenue over cash payments and expenses shall be indicated as a positive figure, but excess of cash payments and expenses over revenue shall be indicated as a negative figure.

(2) Excess of cash revenue from the principal activity, investment activity, or financing activity over cash

payments and expenses, which refer to such direction of the activity, shall be indicated as a positive figure or excess of payments and expenses over revenue, which refers to such direction of the activity, as a negative figure in the items "Net cash flow of the principal activity", "Net cash flow of the investment activity", and "Net cash flow of the financing activity" accordingly.

#### **Section 48. Cash Flow in Foreign Currency**

If cash flow is in foreign currency, it shall be re-calculated from the relevant foreign currency in euros according to the foreign currency rate to be used in accounting, which is in effect at the beginning of the day of receiving or making the payment.

## **Chapter IX Statement of Changes in Equity**

#### **Section 49. Content of the Statement of Changes in Equity**

(1) The statement of changes in equity is a component of the financial statement, which provides data on the equity of an undertaking and changes in the amounts of its components under influence of specific economic transactions during the reporting year, as well as on total profit or loss during this period of time, including amounts included or written off directly from equity.

(2) The following shall be indicated regarding the balance sheet section "Equity" and regarding each its item in the statement of changes in equity:

1) the figures indicated in the balance sheet of the previous reporting year - balance value of the balance sheet section "Equity" and of each item of the section in the balance sheet date of the previous year (hereinafter - balance value);

2) adjustment of the balance value referred to in Clause 1 of this Paragraph, if any is made during the reporting year in relation to changes in the accounting policy or correction of a mistake in respect of previous years;

3) changes to the balance value referred to in Clause 1 of this Paragraph in the reporting year in division by the relevant types of economic transactions, facts, or events;

4) the figures indicated in the balance sheet of the reporting year - total of the balance sheet section "Equity" and balance value of each item thereof on the balance sheet date.

#### **Section 50. Changes in Value of Balances of Equity Items**

Changes in value of balances of equity items may arise from the following economic transactions, facts or events:

1) involvement of additional capital or increase or decrease of equity [increase or decrease in share premium account of stock or share capital (equity) and stocks (shares)];

2) revaluation of fixed assets (increase or decrease in the balance of long-term investment revaluation reserve);

3) changes in fair value, change of classification, sale, deletion, or alienation in another way of individual financial instruments or financial assets (increase or decrease in balance of fair value reserve of financial instruments);

4) establishment of reserves from profit of the previous years and reserves (if any) of another type, change of classification, or liquidation thereof, increase, decrease, or use of amounts of balances transferred into reserves;

5) inclusion of profit or loss of the reporting year in the balance sheet and changes in the amount of balance of retained profit of the previous years, including changes in relation to distribution of profit in dividends, utilisation for covering of losses of the previous years, increase in fixed capital, establishment of reserves, or for other purposes.

## **Chapter X Annex to the Financial Statement**

#### **Section 51. General Conditions for Preparing Annex to the Financial Statement**

The information laid down in this Chapter for the relevant category of undertakings shall be provided for in annex to the financial statement. If the case referred to in Section 10, 11, 12, 13, 14, 23, 27, or 28 of this Law applies to a particular undertaking, the relevant additional information (explanation, details, or justification) shall be provided for in annex to the financial statement. Information shall be provided in such order, in which the items are indicated in the relevant parts of the financial statement.

## Section 52. Content of Annex to the Financial Statement for All Categories of Undertakings

(1) All undertakings, regardless of the category of undertakings they belong to, shall provide at least the following information in annex to the financial statement in addition to the information laid down in this Law:

1) information regarding the accounting policy adopted and its conformity with the assumption that the undertaking will operate also in the future, as well as regarding any significant changes in the accounting policy adopted and influence of such changes on the financial statement;

2) the sum total of financial liabilities, guarantees provided, or other possible liabilities not included in the balance sheet. If the undertaking has entered into lease or rent agreements, which are significant for its operations, the liabilities provided for under these agreements must be specially indicated. If the undertaking's assets are pledged or encumbered with another security of liability, information thereof shall be provided and the type of each security provided shall be indicated. All liabilities referring to pensions and related or associated undertakings shall be indicated separately;

3) the amounts of advances, loans, or guarantees issued to the management in the division by individual position groups (members of the council and board of directors), indicating the interest rate, the most important terms and amounts repaid, written-off and repayable;

4) information regarding revenue and expenses items, which occurred as a result of events or transactions clearly different from the usual activities of the undertaking and not expected to be frequently or periodically repeated, their amounts and type. Usual activities of an undertaking are any activities, which the undertaking performs within the framework of its economic activities, as well as activities, which promote economic activities of the undertaking, or have developed in relation to such activities or are directly arising from them;

5) in respect of each item of long-term creditors - the total amount of debts of creditors, the due date of which exceeds five years after the balance sheet date, as well as the total amount of debts of creditors which is covered by security, indicating the type and form of the security;

6) the average number of employees in the reporting year;

7) the following data shall be indicated in respect of each item of long-term investments:

a) acquisition costs or production cost price or - in the relevant case - fair value or value determined in revaluation at the beginning and end of the reporting year,

b) increases in value, including improvements during the reporting year,

c) alienation or liquidation during the reporting year,

d) any transfers to another item during the reporting year,

e) total amount of adjustments of reduction in the value calculated from the day of acquisition of a long-term investment object or putting into service (hereinafter - the accrued adjustments of reduction in the value) at the beginning and end of the reporting year,

f) the adjustments of reduction in the value calculated during the reporting year,

g) changes in the total amount of adjustments of reduction in the value in relation to alienation, liquidation, or movement of long-term investment objects to another item during the reporting year,

h) amount of the interest of borrowings included in the production cost price of long-term investment objects during the reporting year;

8) information regarding significant events after the balance sheet date, which are not included in the balance sheet or profit or loss account.

(2) If fixed assets are assessed as amounts to be revalued by applying the possibility provided for in Section 33 of this Law, the table shall be included in annex to the financial statement in which:

1) changes in the item "Long-term investment revaluation reserve" are indicated in the reporting year, explaining the procedures for imposing taxes applicable to the fixed assets to be revalued;

2) information regarding the value to be indicated in the balance sheet, if the relevant item would not have been revalued, is provided in division by items of revalued fixed assets indicated in the balance sheet.

(3) If financial instruments are assessed in fair value, applying the possibility provided for in Section 35 of this Law, the following shall also be included in annex to the financial statement:

1) the most important assumptions on the basis of which the assessment model and method used was chosen, if

the fair value of such instruments was determined in accordance with Section 37, Paragraph one, Clause 2 of this Law;

2) in division by categories of financial instruments in conformity with the division laid down in the international accounting standards:

a) fair value of financial instruments,

b) changes in fair value of financial instruments, which are included in the profit or loss account,

c) changes in the fair value of financial instruments, which are included in the balance sheet item "Fair value reserve of financial instruments";

3) in the subdivision by groups of derivative financial instruments - an explanation regarding such instruments, indicating total amounts, as well as information regarding essential provisions and conditions, which may influence in the future the expected amount of cash flow, the time of creation, and certainty;

4) a table, which reflects changes in the balance sheet item "Fair value reserve of financial instruments" in the reporting year.

### **Section 53. Additional Information for Medium-sized and Large Undertakings in Annex to the Financial Statement**

(1) Medium-sized and large undertakings shall also provide the additional information laid down in this Section in annex to the financial statement. It is as follows:

1) if the option to apply the assessment of fair value to financial instruments provided for in Section 35, Paragraph one of this Law has not been used - an explanation of the amount of derivative financial instruments and nature by breakdown in groups of such instruments, indicating the fair value if it can be determined with one of the methods referred to in Section 37 of this Law;

2) if the reduction in the value provided for in Section 23, Paragraph three of this Law has not been carried out to long-term financial investments, the fair value of which is less than the balance sheet value - information on the balance sheet and fair value of individual assets or asset groups, explaining why reduction of value is not being applied and indicating the facts, which certify that the reduction in value is short-term and has occurred due to transitional circumstances;

3) the total remuneration allocated to the management for performance of their functions according to individual groups of positions (members of the council and board of directors). The same shall apply to pensions and similar obligations to former members of administrative institutions;

4) the average number of employees in the reporting year in division by categories (members of the council, members of the board of directors, other employees). If the profit or loss account is not drawn up on the basis of the scheme specified in Annex 2 to this Law, staff expenses shall be detailed in the way laid down in the item 6 of the abovementioned scheme;

5) balances of deferred tax assets and liabilities (if any) at the beginning and end of the reporting year and changes to such balances;

6) information regarding subsidiary undertakings and associated undertakings of the group of companies:

a) name, legal address and participatory share expressed as percentage in the fixed capital of the relevant undertaking,

b) the amount of equity and of profit or loss according to the last approved annual statement of each such undertaking. Information regarding amount of equity and profit or loss of the associated undertaking need not to be provided, if the relevant undertaking does not make its annual statement available to the public and it is not a subsidiary undertaking of another undertaking;

7) the number and nominal value, if any has been determined, of stocks or shares subscribed during the reporting year. If the nominal value has not been determined, the accounted value of such stocks or shares shall be indicated;

8) if fixed capital consists of several types of stocks or shares (for a co-operative company - co-operative shares), the number and nominal value of stocks or shares (for a co-operative company - co-operative shares) of each type. If the nominal value has not been determined, the accounted value of such stocks or shares shall be indicated;

9) existence of any participatory certificate, guarantee traded on a regulated market, options or similar financial instrument, indicating the number and rights granted thereby;

10) for a partnership - also the name, legal address, and type of each commercial company the participant in which is such partnership;

11) if the undertaking is a subsidiary undertaking of other commercial company:

a) the name and legal address of the largest commercial company, which shall prepare a consolidated annual statement as a parent undertaking of the group of companies, including such undertaking as its subsidiary undertaking therein,

b) the name and legal address of the smallest commercial company, which shall prepare a consolidated annual statement as a parent undertaking of the group of companies, including such undertaking as its subsidiary undertaking therein, and itself being included as a subsidiary undertaking of the group of companies in the consolidated annual statement drawn up by the largest commercial company referred to in Sub-paragraph "a",

c) the place [the Enterprise Register of the Republic of Latvia (hereinafter - the Enterprise Register) or a relevant register institution of another European Union Member State, or a relevant parent undertaking of the group of companies], where copies of the consolidated annual statements referred to in Sub-paragraphs "a" and "b" of this Clause may be received, provided that such statements are available;

12) proposal for distribution of profit or covering of losses, but in the relevant case - information regarding distribution of profit (also for extraordinary dividends, if any have been) or covering of losses;

13) information regarding each agreement not included in the balance sheet, indicating the type, purpose, and financial influence thereof, if the risks or benefits related to such agreement are significant and if the information regarding such risks and benefits is necessary in order to assess the financial position of the undertaking (for example, establishment or use of an undertaking founded for special purposes, offshore activities in order to solve economic, legal, tax, or accounting issues, agreement regarding risk or benefit sharing, combined repurchase and sale transactions, debt factoring, consignment stock agreements, attraction of contract work, outsourcing);

14) information regarding transactions of the undertaking with related parties, if such transactions are significant and do not conform to normal market conditions, indicating the amount of such transactions, the type of relationship of the related parties and other information regarding such transactions, which is necessary in order to understand the financial status of the undertaking. Information regarding individual transactions with related parties may be joined in groups on the basis of the type of such transactions, except cases where it is necessary to provide information separately in order to assess the impact of related party transactions on the financial status of the undertaking;

15) information regarding balances of cash and its equivalents (in the cash flow statement) at the beginning and end of the reporting year;

16) changes in value of balances of equity in relation to changes in the accounting policy or correction of a mistake made in previous years.

(2) With derogation from the requirements for provision of information laid down in Paragraph one, Clause 14 of this Section, medium-sized undertakings are allowed to indicate only such information regarding transactions of the undertaking with related parties, which applies to transactions carried out with stockholders or shareholders, subsidiary undertakings and associated undertakings of the same undertaking, as well as with the management (members of the council and board of directors) of the same undertaking.

(3) The information laid down in Paragraph one, Clause 6 of this Section need not be provided, if it could seriously harm the interests of the respective undertaking by indicating in annex to the financial statement that such information is not provided due to the abovementioned reason.

(4) An undertaking, which is a parent undertaking of the group of companies itself, need not to provide the information referred to in Paragraph one, Clause 6 of this Section in annex to the financial statement in the following two cases:

1) if the information laid down in Paragraph one, Clause 6 of this Section regarding subsidiary undertakings of the group of companies and associated undertakings is provided in annex to the consolidated financial statement, which has been prepared by the same parent undertaking of the group of companies or another, larger parent undertaking of the group of companies, which has included abovementioned subsidiary undertakings and associated undertakings of the group of companies in its consolidated financial statement;

2) if a parent undertaking of the group of companies has applied equity method for assessment of subsidiary undertakings and associated undertakings of the group of companies in its financial statement or consolidated financial statement.

*[7 December 2017]*

#### **Section 54. Additional Information Only for Large Undertakings in Annex to the Financial Statement**

(1) Large undertakings shall also provide the following information in annex to the financial statement in addition to the information laid down in Sections 52 and 53 of this Law:

1) net turnover in division by types of economic activity in conformity with statistical classification of economic activities laid down in Regulation (EC) No 1893/2006 of the European Parliament and of the Council establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains (Text with EEA relevance), and by geographical markets, if the types of economic activities and geographical markets of the undertaking differ significantly;

2) sum total of remuneration calculated for a sworn auditor of an undertaking or for a commercial company of sworn auditors (hereinafter - the sworn auditor) in the reporting year in division by each of the following types of services provided by the sworn auditor:

- a) mandatory audit (review) of annual statement,
- b) carrying out of other audit tasks,
- c) consultation regarding tax issues,
- d) carrying out of other tasks of a specialist.

(2) The information laid down in Paragraph one, Clause 1 of this Section need not be provided if it could seriously harm the interests of the respective undertaking, indicating in the annex to the financial statement that such information is not provided for the abovementioned reason.

## **Chapter XI Management Report**

### **Section 55. Contents of a Management Report**

(1) Clear information regarding the development, financial results of the performance, and financial status of the undertaking, as well as information regarding substantial risks and unclear circumstances faced by the undertaking shall be provided in the management report. Such information shall be justified by clear and comprehensive analysis of the development, financial results of the performance, and financial status of the undertaking according to the scope and complexity of operation of the relevant undertaking.

(2) Insofar as it is necessary in order to understand the development of the undertaking, financial results of activities, or financial position thereof, the following shall be included in the analysis referred to in Paragraph one of this Section:

1) the indicators of financial results;

2) insofar as it is important also the main non-financial indicators characterising the undertaking and the relevant sector, as well as information regarding the influence of environmental protection requirements and information regarding the employees or other information;

3) in the relevant case - references to the sums indicated in the financial statement and additional explanations regarding them.

(3) The following information must also be provided in the management report:

1) regarding development of the undertaking;

2) measures in the field of research and development;

3) the undertaking's aggregate own stock or share, including regarding:

a) the reason for acquiring own stock or shares in the reporting year,

b) number of own stocks or shares repurchased or sold in the reporting year and sum total of nominal value thereof, or, if nominal value is not determined - sum total of accounting value of such stocks or shares, as well as proportion expressed as percentage in fixed capital, repurchase or sale sum total,

c) number of stocks or shares acquired and held by the undertaking and sum total of nominal value thereof, or, if nominal value is not determined - sum total of accounting value of such stocks or shares, as well as proportion expressed as percentage in fixed capital at the end of the reporting year;

4) affiliates and representations of the undertaking abroad (number in division by countries);

5) use of financial instruments, if it is significant for the assessment of assets, liabilities, financial position, and profit or loss of the undertaking;

a) objectives and policy of the financial risk management, approved risk management policy in respect to each type of significant foreseeable future transaction to which risk limitation accounting is applied,

b) subordination of the undertaking to market risk, credit risk, liquidity risk, and cash flow risk.

(4) Small undertakings and medium-sized undertakings are allowed not to submit the information referred to in Paragraph two, Clause 2 of this Section.

## **Chapter XII**

### **Reliefs and Exemptions for Micro-entities**

#### **Section 56. Permission not to Prepare a Management Report**

A micro-entity needs not prepare a management report if it provides the information referred to in Section 55, Paragraph three, Clause 3 of this Law regarding aggregate of its stocks or shares in annex to the financial statement.

#### **Section 57. Permission to Prepare a Shortened Annex to the Financial Statement**

A micro-entity may prepare a shortened annex to the financial statement. It is permitted not to provide the information referred to in Section 52, Clauses 4, 7, and 8 of this Law in the shortened annex to the financial statement.

#### **Section 58. Exemption from Preparing an Annex to the Financial Statement**

(1) If a micro-entity does not exceed two of limit values indicated in Paragraph two of this Section on the balance sheet date, by derogation from the requirements laid down in Section 9, Paragraph one of this Law, it is permitted not to draw up an annex to the financial statement. In such case the information referred to in Section 52, Paragraph one, Clauses 2 and 3 and Section 55, Paragraph three, Clause 3 of this Law shall be provided in the end of the balance sheet in the form of notes with figures, text, or tables (hereinafter - notes to the balance sheet), as well as information regarding the average number of employees in the reporting year.

(2) The limit values referred to in Paragraph one of this Section shall be as follows:

- 1) balance sheet total - EUR 50 000;
- 2) net turnover - EUR 100 000;
- 3) average number of employees during the reporting year - 5.

(3) A micro-entity which does not draw up an annex to the financial statement and in the reporting year:

- 1) has changed the layout of the profit or loss account, in addition shall explain the reason for such change (Section 10, Paragraph six);
- 2) has combined insignificant amounts, which apply to several balance sheet items, in one balance sheet item, in addition shall provide details of such total amount (Section 11, Paragraph two);
- 3) has detected mistakes of the previous reporting years or changed the accounting policy and accordingly adjusted the data of the previous reporting years, in addition shall provide an explanation regarding each case (Section 12, Paragraph three);
- 4) has included interest of received borrowings in the production cost price of the newly established object, in addition shall provide information regarding the amount of interest included in the cost price (Section 28).

#### **Section 59. Prohibition to Use Possibility to Assess Financial Instruments in Fair Value**

The possibility referred to in Chapter VI of this Law to assess financial instruments in fair value thereof shall not apply to such micro-entity which uses at least one of the reliefs or exemptions referred to in Section 56, 57, or 58 of this Law.

#### **Section 60. Prohibition to Apply Reliefs and Exemptions to a Certain Type of Undertakings**

The reliefs and exemptions provided for in Sections 56, 57, and 58 of this Law shall not apply to a micro-entity:

- 1) the only task of which is to invest its funds in different securities, immovable property, or other assets with the only purpose to divide investment risk and to ensure profit for its stockholders or members from the management of their funds;
- 2) which is related with the micro-entity referred to in Clause 1 of this Section by participation in capital (hereinafter in this Clause - related micro-entity), if the only purpose of such related micro-entity is to purchase completely paid



stocks or shares issued by the micro-entity referred to in Clause 1;

3) the only purpose of which is to acquire participation (stocks or shares) in other undertakings, to manage such participation and gain profit from it, without involving in the management of the abovementioned other undertakings neither directly nor indirectly, but also without prejudice to the rights of stockholder or member.

## **Chapter XIII**

### **Consolidated Annual Statement and Undertakings to be Involved in Consolidation**

#### **Section 61. Obligation to Prepare a Consolidated Annual Statement**

A commercial company and co-operative company registered in the Republic of Latvia, a European economic interest group registered in the Republic of Latvia, a European co-operative society, and a European commercial company, if the abovementioned person is a parent undertaking of the group of companies, have an obligation to prepare a consolidated annual statement for each reporting year within the meaning of the Law On Accounting, if such parent undertaking is directly or indirectly (with participation of one or several subsidiary undertakings of such group of companies) has acquired control in conformity with at least one of the following conditions:

1) it has the majority of stockholders' or members' voting rights (more than 50 per cent of the voting rights) based on the participatory capital in the relevant subsidiary undertaking (regardless of the amount of this participatory share);

2) it has the right to appoint or remove the majority of members (more than 50 per cent of members) of the supervisory or executive bodies of the subsidiary undertaking based on the participatory capital in the relevant subsidiary undertaking (regardless of the amount of this participatory share);

3) it has the right to exercise the prevailing influence in the subsidiary undertaking of the group of companies on the basis of a contract entered into together with other stockholders or members of the subsidiary undertaking or according to the articles of association of this undertaking (regardless of whether the parent undertaking does or does not have participatory capital shares in this undertaking);

4) majority of members of the supervisory or executive body of the subsidiary undertaking of the group of companies who have been in the relevant positions in the current reporting year, previous reporting year and until preparation of the consolidated financial statement have been appointed only as a result of use of voting rights of the parent undertaking of the group of companies;

5) it unilaterally controls majority voting rights of stockholders or members in the abovementioned subsidiary undertaking of the group of companies on the basis of the contract entered into with other stockholders or members of this subsidiary undertaking.

#### **Section 62. Calculating the Number of Voting Rights and Members of a Supervisory Body and Executive Body**

The number of voting rights referred to in Section 61 of this Law, members of a supervisory body and executive body shall be calculated as follows:

1) the number of voting rights and members of the supervisory body and executive body of the parent undertaking of a group of companies shall be added respectively to the number of voting rights and members of the supervisory body and executive body of other subsidiary undertakings of the group of companies or persons who are acting in their own name, but for the benefit of the parent undertaking of the group of companies or subsidiary undertakings of this group;

2) the voting rights with regard to stock or shares shall reduce the total number of voting rights of the stockholders or members of the subsidiary undertaking of the group of companies:

a) held by minority stockholders and used for the benefit of the minority stockholders themselves,

b) held by way of security for obligations, to the extent that the voting rights are exercised for the benefit of the person for whom the security for obligations is provided or according to the conditions of the person granting the loan,

c) held by the relevant subsidiary undertaking itself or its subsidiary undertaking, or by a person acting in his or her own name but for the benefit of the relevant subsidiary undertaking or its subsidiary undertaking.

#### **Section 63. Undertakings to be Included in Consolidation**

(1) In preparing a consolidated annual statement, the parent undertaking of the group of companies and all of its subsidiary undertakings regardless of whether legal address of such subsidiary undertakings is in the Republic of Latvia or abroad, except those subsidiary undertakings which in accordance with Section 68 of this Law are not

included in consolidation, shall be included in consolidation.

(2) A subsidiary undertaking of the group of companies shall be included in consolidation, starting from the day on which the parent undertaking of the group of companies has acquired control over such subsidiary undertaking.

(3) A subsidiary undertaking of the group of companies shall be excluded from consolidation, starting from the day on which control of the parent undertaking of the group of companies over such subsidiary undertaking expires.

#### **Section 64. Exemption from an Obligation to Prepare a Consolidated Annual Statement for a Parent Undertaking of Small Group of Companies**

(1) A parent undertaking of the group of companies referred to in Section 61 of this Law is exempted from the obligation to prepare a consolidated annual statement, if it is the parent undertaking of a small group of companies (Sections 6 and 7).

(2) The exemption provided for in Paragraph one of this Section shall not be applied if the transferable securities of the parent undertaking of the group of companies or of one of its subsidiary undertakings have been included in the regulated market.

#### **Section 65. Exemption from an Obligation to Prepare a Consolidated Annual Statement for a Parent Undertaking of the Group of Companies which is a Subsidiary Undertaking of Another Group of Companies**

(1) The parent undertaking of a group of companies referred to in Section 61 of this Law, which concurrently is a subsidiary undertaking of another group of companies, shall be exempted from the obligation to prepare a consolidated annual statement if the parent undertaking of the group of companies of such undertaking (exempted from preparation of the consolidated annual statement) is such undertaking registered in Latvia or in another European Union Member State, which conforms to at least one of the following conditions:

1) it owns all (100 per cent) of the stocks or shares in the undertaking, which in accordance with the procedures provided for in this Section is exempted from the obligation of preparing a consolidated annual statement. When determining participation of capital in such undertaking, the stocks or shares which are owned by members of the supervisory body or executive body of such undertaking according to the obligation laid down in laws and regulations or in documents establishing the undertaking or in the articles of association thereof;

2) it owns at least 90 per cent of the stocks or shares in an undertaking, which in accordance with the procedures provided for in this Section is exempted from the obligation of preparing a consolidated annual statement, and the remaining stockholders or members (minority stockholders) of this undertaking have agreed (are informed and do not oppose) to the application of the abovementioned exemption.

(2) The exemption provided for in this Section shall be applied in accordance with the following conditions:

1) the parent undertaking of the group of companies, exempted from the obligation to prepare a consolidated annual statement, and all of its subsidiary undertakings are included in the consolidated annual statement of such parent undertaking of the group of companies, which is the undertaking registered in Latvia or in another European Union Member State, and such consolidated annual statement has been prepared according the requirements of that country in which the undertaking has been registered, or with the international accounting standards;

2) a true copy of the consolidated annual statement referred to in Clause 1 of this Paragraph together with a true copy of a report by a sworn auditor or a true copy of a report of such person who is responsible for the audit of the consolidated annual statement in another European Union Member State, and translation of these documents into Latvian (if documents are submitted by an undertaking registered in another European Union Member State and they have not been prepared in Latvian) shall be submitted to the Enterprise Register in accordance with the procedures laid down in Section 98, Paragraph one of this Law;

3) a true copy of the consolidated annual statement referred to in Clause 1 of this Paragraph together with a true copy of a report by a sworn auditor or a true copy of a report of such person who is responsible for the audit of the consolidated annual statement in another European Union Member State (if the abovementioned documents have been prepared in Latvian), or translation of these documents into Latvian (if documents are submitted by an undertaking registered in another European Union Member State and they have not been not prepared in Latvian) have been published in the official gazette *Latvijas Vēstnesis* [the official Gazette of the Government of Latvia];

4) the annex to the financial statement of an undertaking which is exempted from the obligation to prepare a consolidated annual statement shall contain the identification data for the parent undertaking of the group of companies (name, legal address, and registration number in the Enterprise Register or in the relevant register authority of another European Union Member State ) and information regarding the undertaking being exempted from the obligation to prepare the consolidated annual statement.

(3) The exemption provided for in this Section shall not be applied if the transferable securities of the parent undertaking of the group of companies or of one of its subsidiary undertakings have been included in the regulated market.

**Section 66. Exemption from an Obligation to Prepare a Consolidated Annual Statement for a Parent Undertaking of the Group of Companies Having Only such Subsidiary Undertakings Information on which is not Significant**

The parent undertaking of the group of companies referred to in Section 61 of this Section is exempted from the obligation to prepare a consolidated annual statement, if it has only such subsidiary undertakings information on which (by assessing each subsidiary undertaking separately and all subsidiary undertakings as an aggregate) is not significant.

**Section 67. Exemption from an Obligation to Prepare a Consolidated Annual Statement for a Parent Undertaking of the Group of Companies Having Only such Subsidiary Undertakings which are not to be Included in Consolidation**

The parent undertaking of the group of companies referred to in Section 61 of this Section is exempted from the obligation to prepare a consolidated annual statement, if it has only such subsidiary undertakings which are not to be included in consolidation on the basis of the circumstances referred to in Section 68 of this Law.

**Section 68. Non-inclusion of a Subsidiary Undertaking of the Group of Companies in Consolidation**

A subsidiary undertaking of the group of companies shall not be included in consolidation if at least one of the following circumstances exists:

- 1) strict long-term restrictions substantially hinder the ability of the parent undertaking of the group of companies to exercise its rights over the assets and management of the subsidiary undertaking of the group of companies;
- 2) the information necessary for the preparation of the consolidated annual statements can be obtained only by being late regarding the time periods specified in Section 97 of this Law and with excessively large costs;
- 3) stocks or shares of the subsidiary undertaking of the group of companies are held in the ownership of its parent undertaking only for the purpose of selling them later;
- 4) information regarding the subsidiary undertaking of the group of companies is not of significance for implementation of the requirements of Section 69, Paragraph three of this Law. If there are several such subsidiary undertakings within the same group of companies, and they are significant as a whole, and, if they were excluded from consolidation, a true and fair view of the results and financial position of the group of companies would not be provided, they may not be excluded from consolidation.

## **Chapter XIV**

### **Conditions for Preparation of a Consolidated Annual Statement**

**Section 69. Composition of a Consolidated Annual Statement and General Provisions for Preparation Thereof**

(1) The consolidated annual statement, as a unified whole, shall consist of a consolidated financial statement and a consolidated management report. The consolidated financial statement shall consist of the consolidated balance sheet, consolidated profit or loss calculation, consolidated cash flow statement, consolidated statement of changes in equity and annex to the consolidated financial statement (hereinafter - components of the consolidated financial statement).

(2) The consolidated annual statement shall be prepared clearly and in accordance with the Law On Accounting, this Law, and other laws and regulations.

(3) The consolidated annual statement shall provide a true and fair view of the funds (assets), liabilities, financial position, profit or loss, and cash flow of the group of companies.

(4) If the information included in the consolidated annual statement, which has been drawn up in accordance with this Law, does not provide a sufficiently true and fair view of the group of companies, additional information shall be provided in annex to the consolidated financial statement.

(5) In exceptional cases, in order to provide a true and fair view of the group of companies within the meaning of Paragraph three of this Section, there may be a derogation from the requirements of Sections 71, 72, 74, 76, 77, 78, 79, 81, 86, and 87 of this Law. Each such case of derogation shall be explained in annex to the consolidated financial statement, indicating the norm of this Law from the application of which the parent undertaking of the group of companies has derogated, the reason for such derogation and influence on the assets, liabilities, financial position, profit or loss, or cash flow of the group of companies.

**Section 70. Permission to Prepare a Consolidated Annual Statement According to the International Accounting Standards**

On the basis of Article 5 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, the parent undertaking of a group of companies may prepare a consolidated annual statement according to the international accounting standards. In the case referred to in this Section the provisions of Section 3, Paragraph five, Clauses 1, 2, and 3 of this Law accordingly shall be applied for the assessment of the items of the consolidated annual statement and consolidated financial statement, component parts of the consolidated financial statement and for the provision of explanatory information in the consolidated financial statement by the parent undertaking of the group of companies.

#### **Section 71. Schemes for Component Parts of the Consolidated Financial Statement**

(1) A consolidated balance sheet shall be prepared in accordance with the scheme indicated in Annex 1 to this Law.

(2) One of the schemes indicated in Annex 2 or 3 to this Law may be chosen for the preparation of the consolidated profit or loss calculation.

(3) A consolidated cash flow statement shall be prepared in accordance with the scheme indicated in Annex 4 or 5 to this Law.

(4) A consolidated statement of changes in equity shall be prepared in accordance with the scheme indicated in Annex 6 to this Law.

(5) The provisions of Sections 10, 11, 12, 14, and 15, and also of Chapters V, VI, VII, VIII, and IX of this Law shall be applied accordingly to the component parts of the consolidated financial statement, taking into account significant adjustments arising from peculiarities of the consolidated financial statement.

#### **Section 72. Procedures for Joining of Amounts Indicated in Financial Statement Items of the Undertakings Included in Consolidation**

(1) A consolidated financial statement shall be prepared by joining the amounts indicated in the relevant items of the financial statement of a parent undertaking of the group of companies and subsidiary undertakings included in consolidation (hereinafter also - the undertakings included in consolidation) in accordance with the procedures indicated in this Section. In order to prepare the consolidated financial statement as the financial statement of a single undertaking, the consolidation procedures indicated in Section 73 of this Law shall be observed.

(2) The asset and liability items of the balance sheets of the undertakings included in consolidation shall be incorporated in full in the consolidated balance sheet.

(3) The profit or loss account items of the undertakings included in consolidation shall be incorporated in full in the consolidated profit or loss account.

(4) The cash flow statement items of the undertakings included in consolidation shall be incorporated in full in the consolidated cash flow statement, if it is prepared by applying the direct method. If the consolidated cash flow statement is prepared by applying the indirect method, then the amounts to be included in this statement shall be calculated by increasing or reducing the amounts accordingly, which are indicated in the consolidated profit or loss calculation items. Information included in the consolidated balance sheet, as well as information acquired additionally regarding cash flows of the undertakings included in consolidation in the reporting year shall be used for calculations (Section 46).

(5) The amounts to be included in the items of the consolidated statement of changes in equity of the undertakings included in consolidation shall be determined on the basis of the amounts indicated in the consolidated balances sheet equity items and additionally acquired information regarding changes of equity and components thereof of the undertakings included in consolidation in the reporting year.

#### **Section 73. Consolidation Procedures**

(1) Consolidation procedures are as follows:

1) such financial statements of subsidiary undertakings included in consolidation are adjusted, in which different principles for preparation of the financial statement and assessment methods other than in the financial statement of the parent undertaking (conditions of Section 74 are applied) have been used;

2) the financial statements of subsidiary undertakings of the group of companies, which are registered in foreign countries, are re-calculated in euros (conditions of Section 75 are applied);

3) the balance sheet value of the investment by the parent undertaking of the group of companies and the corresponding value of the participatory share in the equity of the subsidiary undertaking (consolidation of equity) is mutually excluded (conditions of Section 76 are applied);

4) the following amounts recorded for mutual transactions of the undertakings included in consolidation are

completely excluded:

- a) amounts of balances of mutual settlement of accounts (conditions of Section 77 are applied),
  - b) amounts of revenue or costs (conditions of Section 78 are applied),
  - c) amounts of increase or decrease in balance sheet value of funds (assets) (conditions of Section 79 are applied);
- 5) the minority member participatory share in equity and profit or losses of reporting year of the subsidiary undertakings involved in consolidation are identified (conditions of Section 80 are applied).

(2) The consolidated financial statement shall be supported by calculations and tables, in preparation of which the requirements laid down in the law On Accounting regarding source documents and accounting registers are observed. The storage period of the abovementioned documents - calculations and tables - shall be 10 years.

#### **Section 74. Adjustment of the Financial Statement of a Subsidiary Undertaking Included in Consolidation, if Different Accounting Principles and Other Assessment Methods are Used**

(1) If different principles for preparation of the financial statement and assessment methods other than in the financial statement of the parent undertaking are used for the financial statement of a subsidiary undertaking of the group of companies included in consolidation, the parent undertaking of the group of companies, in preparing a consolidated annual statement, shall adjust the relevant items of the financial statement. The values of the relevant balance sheet items of a subsidiary undertaking of a group of companies shall be increased or reduced and the relevant profit or loss account items shall be calculated accordingly in the amount of the calculated adjustments.

(2) In exceptional cases, when it is actually impossible to calculate the amount of adjustments, it is allowed to derogate from the requirements of Paragraph one of this Section. Information shall be provided regarding each case of derogation, explaining the reason.

#### **Section 75. Conversion into Euros of the Financial Statement of a Subsidiary Undertaking of the Group of Companies Registered in a Foreign Country**

(1) For a subsidiary undertaking of a group of companies registered abroad to be included in the consolidated financial statement, the annual statement of the subsidiary undertaking, which has been prepared in a foreign currency, shall be recalculated into euros. In effecting the recalculation the following conditions shall be observed:

- 1) the assets and liabilities (funds, liabilities, and equity) shall be recalculated in euros according to the foreign currency exchange rate used in accounting, which is in effect on the balance sheet date (at the end of the day);
- 2) the revenue and expenses (costs) shall be recalculated in euros according to the foreign currency exchange rate used in accounting, which is in effect at the beginning of the economic transaction day.

(2) For the purpose of recalculation in euros of the revenue and expenses (costs) referred to in Paragraph one, Clause 2 of this Section, it is permitted to use the average exchange rate of the week, month, or reporting year of the particular foreign country, which has been calculated by adding up the relevant foreign currency exchange rates in effect at the beginning of all the calendar days in the relevant time period, used in the accounting, and dividing the sum total obtained by the number of calendar days in the relevant time period.

(3) If the recalculation laid down in this Section results in differences in the value of balance sheet or profit or loss account items, these differences shall be directly indicated in the consolidated reserves. The positive or negative differences included in the abovementioned reserves in the consolidated balance sheet shall be indicated in a separate item "Foreign exchange conversion reserve" or as part of the aggregate amount of consolidated reserves, including the division of these reserves in annex to the consolidated financial statement.

#### **Section 76. Consolidation of Equity**

(1) The consolidation of equity referred to in Section 73, Paragraph one, Clause 3 of this Law shall be performed on the basis of the balance value of the stocks and shares of the subsidiary undertakings involved in consolidation on the date which conforms to one of the following conditions:

- 1) it is the date on which the subsidiary undertaking was included in consolidation for the first time;
- 2) it is the date of acquisition (purchase) of the stock or shares of the subsidiary undertaking;
- 3) it is the date as of which the undertaking has become a subsidiary undertaking of the group of companies, if the acquisition (purchase) of the stock or shares of this undertaking took place on different dates. The assessment date shall be indicated in annex to the consolidated financial statement.

(2) The difference arising as a result of consolidation of equity shall be attributed to the value of the consolidated balance sheet item, increasing or reducing it accordingly if the value of these items is greater or less than the accounting value initially indicated in the balance sheet of the subsidiary undertaking included in consolidation. If the

abovementioned difference cannot be attributed fully to the items of the consolidated balance sheet, any remaining positive amount shall be indicated in the item "Intangible value" on the asset side of the balance sheet. The remaining negative difference shall be immediately included in the consolidated profit or loss account.

(3) Information shall be provided in annex to the consolidated financial statement on the methods used, the amounts included in the item "Intangible value", and the changes in these amounts as compared to the previous reporting year.

(4) The procedures laid down in this Section are not applicable to stock or shares of the parent undertaking of a group of companies owned either by the parent undertaking itself or by a subsidiary undertaking included in consolidation. In the consolidated balance sheet such stock and shares shall be indicated under the item "Own stock and shares".

#### **Section 77. Exclusion of Amounts of Balances of the Mutual Settlement of Accounts**

The amounts of balances of the mutual settlement of accounts (also regarding dividends), which are included in the items of debts of debtors and creditors and in the reserve items, recorded as a result of mutual transactions of the undertakings included in consolidation shall be excluded from the consolidated balance sheet items.

#### **Section 78. Exclusion of Revenue and Expenses**

The revenue resulting from mutual transactions between the undertakings included in consolidation and costs related to this revenue, the dividends calculated in these undertakings and attributable to the undertakings included in consolidation, interest revenue and payments, as well as similar expenses shall be excluded from the items of the consolidated profit or loss account.

#### **Section 79. Exclusion of the Amounts of Increase or Decrease in Value of Funds (Assets)**

The following amounts, which have been recorded regarding mutual transactions between undertakings included in consolidation, shall be excluded from the consolidated balance sheet items:

1) the amounts of revenue and expenses attributable to other reporting years, which are included under the items of the next period revenue or next period costs;

2) the amounts of increase or reduction in the value of fixed assets, inventories and other assets, which are included under the respective balance sheet asset items and profit or loss account items, unless such amounts of reduction are irrecoverable.

#### **Section 80. Participatory Share of Minority Stockholders**

(1) The relevant share of equity of subsidiary undertakings involved in consolidation in the amount corresponding to the stock and shares held by minority stockholders shall be indicated under the consolidated balance sheet item "Participatory share of minority stockholders".

(2) The profit or loss for the reporting year of subsidiary undertakings included in consolidation, which are related to the stock and shares held by minority stockholders, shall be indicated in the consolidated profit or loss account under the item "Share of profit or loss of minority stockholders".

#### **Section 81. Amounts of Deferred Tax Liabilities and Deferred Tax Assets**

Amounts of deferred tax liabilities or deferred tax assets shall be included in the consolidated balance sheet, if it is expected that an undertaking included in consolidation will cover or recover them accordingly in the next reporting years.

#### **Section 82. Balance Sheet Date of the Consolidated Annual Statement**

(1) The date of the consolidated annual statement, the annual statement of the parent undertaking of a group of companies and the balance sheets of the annual statements of the subsidiary undertakings included in consolidation shall be the same, and it is the day on which the annual statement of the parent undertaking was prepared.

(2) If the date of the balance sheet of the annual statement of a subsidiary undertaking of a group of companies included in consolidation differs from the date of the balance sheet of the annual statement of the parent undertaking by three months or more, such subsidiary undertaking shall be included in consolidation on the basis of financial statements prepared (non-audited) for consolidation purposes, the date of the balance sheet of which conforms to the balance sheet date of the consolidated annual statement.

#### **Section 83. Inclusion of Revenue and Costs of a Subsidiary Undertaking of the Group of Companies in the Consolidated Profit or Loss Account**

Revenue and costs of a subsidiary undertaking of the group of companies shall be included in the consolidated profit or loss account starting from the date on which such undertaking has become as a subsidiary undertaking of the

group of companies and until the date on which the control of the parent undertaking of the group of companies over such subsidiary undertaking ends.

#### **Section 84. Exclusion of Balance Sheet Items of a Subsidiary Undertaking of the Group of Companies and Participatory Share of Minority Stockholders from the Consolidated Balance Sheet**

(1) If a parent undertaking of the group of companies loses control over a subsidiary undertaking of the group of companies included in consolidation, the following shall be excluded from the consolidated balance sheet:

- 1) asset and liability items of such subsidiary undertaking;
- 2) participatory share of the relevant minority stockholders.

(2) The items referred to in Paragraph one of this Section shall be assessed in conformity with the value of these items on the date on which the control of the parent undertaking of the group of companies over the subsidiary undertaking included in consolidation ends.

#### **Section 85. Changes in the Composition of the Undertakings Involved in Consolidation**

(1) If significant changes have taken place in the composition of the undertakings involved in consolidation over the course of the reporting year, information, which allows to compare these accounts with the consolidated financial accounts of the previous years, shall be included in the consolidated financial accounts.

(2) In order to meet the requirements referred to in Paragraph one of this Section, the relevant balances of items indicated in the consolidated balance sheet may be adjusted accordingly at the beginning of the reporting year (relevant figures of the previous reporting year) and prepare an adjusted consolidated profit or loss account.

#### **Section 86. Inclusion of a Jointly Controlled Undertaking in the Consolidated Financial Account**

(1) If an undertaking included in consolidation and one or several undertakings not included in such consolidation manage jointly another undertaking, such jointly controlled undertaking shall be included in consolidation, applying the same capital method. Equity method is an accounting method using which participation in the fixed capital of another undertaking initially - on the day of acquisition (purchase) - is assessed and recorded according to the costs of acquisition, but the value of the abovementioned participation is adjusted after this date at the end of each reporting year increasing or decreasing it depending on the increase or decrease of the total amount of equity of another undertaking during the relevant period of time.

(2) Participation evaluated on the basis of the equity method in a jointly controlled undertaking, if influence on such undertaking is significant which is ensured with not less than 20 and not more than 50 per cent of the voting rights in such undertaking, shall be indicated in the consolidated balance sheet item "Participation in the capital of associated undertakings", and the requirements of Section 87 of this Law shall be applied. If influence on the jointly controlled undertaking is not significant, the participation in the jointly controlled undertaking shall be indicated in the consolidated balance sheet item "Other securities and investments".

(3) By derogation from that referred to in Paragraphs one and two of this Section, assets, liabilities, equity, revenue, and expenses (costs) of a jointly controlled undertaking may be included in the consolidated financial statement in proportion to the participatory share of the capital of undertakings included in consolidation in such undertaking.

(4) A jointly controlled undertaking may be included in consolidation, using the method indicated in Paragraph one, two, or three of this Section only if the requirements of Section 71, Paragraph five, Sections 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, and 85 of this Law are observed accordingly.

#### **Section 87. Inclusion of Associated Undertaking in the Consolidated Financial Account**

(1) If an undertaking included in consolidation has an associated undertaking, it shall be indicated in the consolidated balance sheet item "Participation in the capital of associated undertakings".

(2) Initially, upon including participation in the capital of an associated undertaking in the consolidated balance sheet, it shall be assessed as the amount consisting of the acquisition value of the stock or shares of the associated undertaking and the increase or decrease in the value of the participatory share during the period of time from the day of acquisition or from the day on which this undertaking has become an associated undertaking, if stock or participatory shares have been acquired (purchased) on different dates, up to the date of the consolidated annual statements. The abovementioned increase or decrease in value shall be calculated according to the annual statement data of the associated undertaking, on the basis of the proportion (in percentage) of the capital invested in the equity of the associated undertaking (equity method).

(3) The difference between the acquisition value of the stock or shares of the associated undertaking, calculated in accordance with the assessment provisions provided for in the Section 14, Paragraph one, Clause 10 of this Law, and the amount which corresponds to the proportion (in percentage terms) of the capital invested in the equity of the

associated undertaking on the day of acquisition, shall be indicated in annex to the consolidated financial statement. The abovementioned difference shall be calculated according to the situation as on the date on which the equity method is applied for the first time. It shall also be indicated in annex to the consolidated financial statement whether, by initially including participation in the capital of an associated undertaking in the consolidated balance sheet, it is indicated in the acquisition value or in the amount which conforms to the proportion thereof in the equity of the associated undertaking.

(4) The annual statement of the associated undertaking, where possible, shall be prepared in conformity with the accounting methods used in the consolidated financial statement. If the associated undertaking is registered in a foreign country, its annual statement prepared in a foreign currency shall be recalculated in euros, applying the provisions of Section 75 of this Law accordingly. If different principles and other assessment methods than in the consolidated financial statement are used in the financial statement of the associated undertaking for preparation of the financial statement, the parent undertaking of the group of companies may adjust the corresponding financial statement items of the associated undertaking accordingly in order to calculate the difference referred to in Paragraph three of this Section. If such adjustment is not performed, information regarding such fact shall be provided in annex to the consolidated financial statement.

(5) In the reporting years following the initial inclusion of the participatory capital in the associated undertaking in the consolidated balance sheet, the amount indicated under the item "Participation in the capital of associated undertakings" shall be adjusted by increasing or reducing it according to the increase or reduction in the equity of the associated undertaking during the relevant period of time.

(6) At the end of each reporting year the amount indicated under the item "Participation in the capital of associated undertakings" shall also be reduced by the amount of the dividends calculated for the associated undertaking, which is related to such participation.

(7) If the difference referred to in Paragraph five of this Section is positive, it shall be included in the amount indicated under the item "Participation in the capital of associated undertakings" of the consolidated balance sheet. If such difference cannot be attributed fully to the abovementioned balance sheet item, any remaining positive amount shall be indicated in the item "Intangible value". The negative difference formed shall be immediately included in the consolidated profit or loss account.

(8) The amount of the profit or loss of the associated undertaking during the reporting year, which is related to stock or shares held by the undertakings included in the consolidation, shall be indicated in a separate consolidated profit or loss account item, conforming to one of the following conditions:

1) under the item "Revenue from participation in the capital of associated undertakings" - if it is part of the profit of the associated undertaking;

2) under the item "Reduction in the value of participation in associated undertakings" - if it is part of the loss of the associated undertaking.

(9) The participatory capital in the assessment reserve and other reserves of long-term investments of the associated undertaking, which have been created in relation to changes in the assets value, shall be indicated in the consolidated balance sheet, including directly into equity.

(10) The exclusion provided for in Section 73, Paragraph one, Clause 4 of this Law shall be effected only to the extent as justified by source documents or facts concerning which it is possible to obtain source documents.

(11) If the associated undertaking prepares a consolidated financial statement, the procedures laid down in this Section shall be applied to equity items indicated in such consolidated financial statement.

(12) The associated undertaking has a duty to provide those undertakings, which exercise significant influence over it, with a true copy of the annual statement approved at the general meeting of stockholders or members of the associated undertaking. If the associated undertaking prepares the consolidated annual statement, the provision referred to in this Paragraph of Section shall also apply to the consolidated annual statement.

(13) The procedures laid down in this Section shall not be applied, if information on participation in the capital and profit or loss of the associated undertaking is immaterial in order to meet the requirements laid down in Section 69, Paragraph three of this Law.

#### **Section 88. Content of Annex to the Consolidated Financial Statement and Procedures for Preparation Thereof**

(1) The information laid down in Chapter X of this Law and in this Chapter shall be provided in annex to the consolidated financial statement. The abovementioned information shall be provided in a way to facilitate for users of the consolidated annual statement the assessment of the financial position of the undertakings included in the consolidation as a whole. In preparing such information, significant adjustments arising from peculiarities of the consolidated annual statement in comparison to financial statements of the undertakings included in consolidation shall be taken into account, including:



1) in providing information regarding transactions of the parent undertaking of the group of companies or other undertakings included in consolidation with related parties (Section 53, Paragraph one, Clause 14), mutual transactions of the undertakings included in consolidation, which are excluded as a result of consolidation procedures, shall not be included therein;

2) in providing information regarding the average number of employees of the undertakings included in consolidation in the reporting year (Section 52, Paragraph one, Clause 6), the average number of employees in jointly controlled undertakings shall be indicated separately;

3) in providing information regarding the amounts of the advance payments, loans, or guarantee liabilities issued to the management (Section 52, Paragraph one, Clause 3) and the sum total of remuneration granted to the management for the performance of functions (Section 53, Paragraph one, Clause 3), only the total amount of remuneration granted and amount of advance payments, loans, or guarantee liabilities issued to members of the supervisory body and executive body of the parent undertaking of the group of companies for the performance of their functions in the parent undertaking and its subsidiary undertakings shall be disclosed in division by separate position groups (members of the council and board of directors). The same applies to pensions and similar liabilities with respect to the former members of the supervisory body and executive body of the parent undertaking of the group of companies.

(2) In addition to the information referred to in Paragraph one of this Section the following information shall be provided in annex to the consolidated financial statement:

1) the name and legal address of the undertakings involved in consolidation, as well as the capital shares (in percentage) in such undertakings (except the parent undertaking of the group of companies), held by undertakings or persons involved in consolidation, which are acting in their own name but for the benefit of the undertakings involved in consolidation, moreover, it shall also be indicated which of the conditions of Section 61 of this Law justifies the inclusion of the undertaking in consolidation. The information referred to in this Clause shall also be provided in respect of those subsidiary undertakings of the group of companies, which have not been included in consolidation in accordance with Section 66 or 68 of this Law, together with the basis for non-inclusion;

2) the name and legal address of associated undertakings, as well as the proportion of their capital (in percentage), held by the undertakings involved in consolidation or by persons acting in their own name but for the benefit of undertakings involved in consolidation;

3) the name and legal address of jointly controlled undertakings together with the justification for the joint control of such undertakings, as well as capital shares of such undertakings (in percentage), held by the undertakings involved in consolidation or by persons acting in their own name but for the benefit of undertakings involved in consolidation;

4) the name and legal address of the remaining undertakings, which are not referred to in Paragraph two, Clauses 1, 2, and 3 of this Section, and in which the undertakings involved in consolidation, either themselves or through persons acting in their own name but for the benefit of those undertakings, hold capital shares, and the amount of participatory capital share, the amount of equity, and the profit or loss of the relevant undertaking for the last reporting year for which the annual statements of the undertaking have been approved. Information which refers to the equity and profit or loss need not to be submitted if the relevant undertaking does not publish its annual statement.

(3) The information laid down in Paragraph two, Clause 1 of this Section on which of the provisions of Section 61 of this Law justifies involvement of the undertaking in consolidation need not to be provided if consolidation is implemented on the basis of Section 61, Clause 1 of this Law and if a participatory capital share and voting right share of the stockholders or members are equal (the procedures for calculating voting rights laid down in Section 62 of this Law shall be applied).

#### **Section 89. Consolidated Management Report**

(1) At least the information laid down in Chapter XI of this Law shall be provided in the consolidated management report on undertakings included in consolidation as a whole.

(2) In the consolidated management report the information shall be provided in a way to facilitate for users of the consolidated annual statement the assessment of the undertakings included in consolidation as a whole. In preparing such information, significant adjustments arising from peculiarities of the consolidated management report in comparison to management reports of the undertakings included in consolidation shall be taken into account. Also, in disclosing the information regarding the undertaking's own stock or shares as a whole (Section 55, Paragraph three, Clause 3), the stock or shares of the parent undertaking of a group of companies, held by this parent undertaking itself or by its subsidiary undertakings, or by persons acting in their own names but for the benefit of the undertakings of the group of companies (the number of stock or shares and their nominal value shall be indicated as well) shall be indicated.

#### **Section 90. Joining of a Consolidated Management Report with a Management Report**

A parent undertaking of the group of companies may prepare a management report and a consolidated management report as one document providing both, the information laid down in Section 55 of this Law regarding the

parent undertaking of the group of companies and the information laid down in Section 89 of this Law regarding undertakings included in consolidation as a whole.

## **Chapter XV**

### **Audit (Review) or Limited Review of the Annual Statement and Consolidated Annual Statement**

#### **Section 91. Audit (Review) of the Annual Statement and Consolidated Annual Statement**

(1) The annual statement prepared by the undertaking referred to in Section 3, Paragraph one, Clause 1 of this Law, if it is a medium-sized undertaking or large undertaking or if its transferable securities are included in the regulated market, as well as the consolidated annual statement prepared by the parent undertaking of the group of companies shall be audited (reviewed) and a report on the results of the audit (review) carried out shall be provided by a sworn auditor (several sworn auditors) or a commercial company of sworn auditors (hereinafter - the sworn auditor) in accordance with the law On Sworn Auditors.

(2) The annual statement prepared by a small undertaking referred to in Section 3, Paragraph one, Clause 1 of this Law shall be audited (reviewed) and an auditor's report shall be provided by a sworn auditor regarding the results of the audit (review) carried out only in the following cases:

1) if the indicators of such undertaking for two years in succession (in the current and previous reporting year), but for a newly established undertaking - on the balance sheet date of the first reporting year, exceed two of three limit values of the criteria referred to in this Clause:

- a) the balance sheet total - EUR 800 000;
- b) the net turnover - EUR 1 600 000;
- c) the average number of employees in the reporting year - 50;

2) if such undertaking is a parent undertaking of the group of companies - regardless of whether the exemption from the obligation to prepare the consolidated annual statement referred to in Section 64, 65, 66, or 67 of this Law applies or does not apply thereto;

3) if such undertaking is a capital company of a public person, subsidiary undertaking thereof or a public-private capital company within the meaning of the Law On Management of Capital Shares and Capital Companies of a Public Person;

4) if such undertaking, in applying Section 13, Paragraph five, Clause 2 of this Law, has recognised the relevant items of the financial statement, assessed and indicated in the financial statement according to the international accounting standards.

(3) Audit (review) of the annual statement or consolidated annual statement shall also include accounting revision in order to ascertain whether it conforms to the requirements of the laws and regulations governing accounting. It shall also be ascertained in audit (review) of the annual statement or consolidated annual statement whether the requirements of the laws and regulations governing the preparation of the annual statement and consolidated annual statement have been conformed to.

#### **Section 92. Limited Review of the Annual Statement**

(1) Limited review of the annual statement is a review task to be carried out in accordance with the law On Sworn Auditors in respect of the data indicated in the financial statement and information included, including the conformity of the enterprise income tax amounts.

(2) Limited review of the annual statement of a small undertaking referred to in Section 3, Paragraph one, Clause 1 of this Law shall be carried out and a review report of an auditor shall be provided by a sworn auditor in accordance with the law On Sworn Auditors, if such small undertaking conforms to the following conditions:

1) the conditions of Section 91, Paragraph two of this Law do not apply to such small undertaking, in accordance with which the annual statement is subject to an audit (review) of a sworn auditor;

2) the indicators of such small undertaking on the balance sheet date for two years in succession exceed two of the following limit values:

- a) the balance sheet total - EUR 400 000;
- b) the net turnover - EUR 800 000;

c) the average number of employees in the reporting year - 25.

(3) The small undertaking referred to in Paragraph two of this Section is entitled to select for the review of its annual statement either limited review or audit (review) by a sworn auditor laid down in Section 91 of this Law, in order to obtain a report of the sworn auditor on results of the audit (review) carried out.

### **Section 93. Provision of Information to a Sworn Auditor**

(1) The management of the undertaking referred to in Sections 91 and 92 of this Law shall submit an annual statement and consolidated annual statement (if any should be prepared) signed in accordance with the requirements of Section 95 of this Law to the sworn auditor.

(2) If the undertaking referred to in Sections 91 and 92 of this Law makes a correction in the annual statement or consolidated annual statement after submission thereof to the sworn auditor, however, before the date when the sworn auditor signs the auditor's report or auditor's review report, the management of such undertaking shall immediately notify the sworn auditor of such fact and submit an adjusted and correspondingly signed annual statement or consolidated account to him or her.

## **Chapter XVI**

### **Preparation, Signing, Approval, Submission, and Publishing of the Annual Statement and Consolidated Annual Statement**

#### **Section 94. Preparation of the Annual Statement and Consolidated Annual Statement**

(1) The annual statement (financial statement and management report) may be prepared as one document, as an aggregate of two documents consisting of a financial statement and management report, or as an aggregate of several documents consisting of separate component parts of the financial statement and management report. General information regarding the undertaking as the author of the document shall be indicated at the beginning of each document, data and signature - at the end of the document for the annual statement to have legal force. The procedures laid down in the Law on Legal Force of Documents shall be applied to the annual statement, but, in case the annual statement is prepared as an electronic document, the Electronic Documents Law shall also be applied thereto.

(2) General information regarding an undertaking is as follows:

1) the name (firm name) of the undertaking, type and legal address thereof, as well as registration number in the journal of the Enterprise Register or other registers conducted by the Enterprise Register;

2) for an individual undertaking, farming and fishing enterprise - also the given name, surname, personal identity number of the owner and the address indicated by the person or, if address has not been indicated, the address of the declared place of residence;

3) for a general partnership and limited partnership (hereinafter - the partnership) - also the given name, surname, personal identity number of members with personal liability and limited partners and address indicated by the person, or, if address has not been indicated, the address of the declared place of residence, but for a legal person - the name, registration number, and legal address;

4) for a joint stock company and limited liability company (hereinafter - the capital company), as well as cooperative company - also the given name, surname and position of members of the board of directors and members of the council (if the council has been established). This information shall also be provided regarding those persons who have been removed from such positions during the reporting year and up to the date of approval of the annual statement.

(3) The provisions of Paragraph one of this Section shall be applied to the consolidated annual statement accordingly. The following shall be indicated in general information regarding the parent undertaking of the group of companies:

1) the name (firm name), type, and legal address, as well as registration number in the Commercial Register or Enterprise Register;

2) the information specified in Paragraph two, Clause 3 or 4 of this Section accordingly.

#### **Section 95. Signing of the Annual Statement and Consolidated Annual Statement**

(1) The annual statement shall be signed:

1) the annual statement of an individual undertaking, farming or fishing enterprise - by the owner or other official who has the right registered with the Enterprise Register to represent the relevant individual undertaking, farming or

fishing enterprise;

2) the annual statement of the partnership - by all members of such partnership or such members of the partnership who are specially authorised to represent the partnership;

3) the annual statement of the capital company, as well as co-operative company - by the board of directors or authorised member of the board of directors.

(2) If a member of the partnership, member of the board of directors of the capital company or co-operative company, considers that the annual statement cannot be approved, or also has some objections, such person shall indicate his or her different point of view in a special note.

(3) The consolidated annual statement shall be signed by the management of the parent undertaking of the group of companies:

1) in the capital company, as well as in a co-operative company - by the board of directors or authorised member of the board of directors;

2) in the partnership - by all members of such partnership or such members of the partnership who are specially authorised to represent the partnership.

(4) If a member of the board of directors of the capital company or co-operative society or a member of the partnership considers that the consolidated annual statements cannot be approved, or also has some objections, such person shall indicate his or her different point of view in a special note.

(5) The financial statement and consolidated financial statement shall also be signed by the person (accountant or outsourced accountant) who has entered into a written agreement with the undertaking, in which the obligations, rights, and responsibility of such person in issues related to conducting of accounting have been laid down, and he or she has prepared the abovementioned statement, indicating his or her given name, surname, and name of full position or name of the undertaking, or firm name, and name of the position. An undertaking having an accounting unit and accounting employees may appoint a person responsible for conducting accounting and preparation of an annual statement (for example, chief accountant), who signs the financial statement and consolidated financial statement. In such case the given name, surname, and name of full position shall be indicated in the financial statement and consolidated financial statement.

#### **Section 96. Approval of the Annual Statement and Consolidated Annual Statement**

(1) The annual statement shall be approved in accordance with the requirements of the laws and regulations governing the relevant legal person.

(2) The consolidated annual statement shall be approved by the annual meeting of stockholders or members of a parent undertaking of the group of companies together with the annual statement of the relevant parent undertaking of the group of companies within seven months after the end of the reporting year.

#### **Section 97. Submission of the Annual Statement and Consolidated Annual Statement**

(1) An undertaking shall, not later than one month after approval of the annual statement and consolidated annual statement (if any) and not later than four months after the end of the reporting year, but for a medium-sized undertaking, large undertaking and parent undertaking of the group of companies, which prepares a consolidated annual statement, not later than seven months after the end of the reporting year, submit to the State Revenue Service a derivative of the annual statement (financial statement and management report) and consolidated annual statement (if any) prepared in printed form or electronically - electronic true copy or electronic copy (if it is stipulated in the laws and regulations regarding the electronic true copy form of financial statements or consolidated financial statements prepared by undertakings for inclusion in the Electronic Declaration System of the State Revenue Service) in the Electronic Declaration System together with an explanation (in electronic form) as to when the annual statement and consolidated annual statement (if any) have been approved.

(2) The undertaking referred to in Section 3, Paragraph one, Clause 1 of this Law, the annual statement or consolidated annual statement (if any) of which is audited (revised) by a sworn auditor, shall submit an electronic copy of the auditor's report or auditor's revision report prepared in printed form to the State Revenue Service in the Electronic Declaration System. The sworn auditor shall examine and confirm in the Electronic Declaration System that the derivative of the annual statement or consolidated annual statement (if any) in electronic form according to the content of the information provided conforms to the annual statement or consolidated annual statement (if any), regarding which the sworn auditor has provided auditor's report or auditor's revision report.

(3) A derivative of the financial statement or consolidated financial statement (if any) in electronic form - electronic true copy - for submission to the Electronic Declaration System shall be prepared according to the form approved by the Cabinet.

(3<sup>1</sup>) If the management report or the consolidated management report has been prepared in paper form, it shall be

included in the Electronic Declaration System of the State Revenue Service as an electronic copy of the referred to report.

(4) The commercial company, which in accordance with the Financial Instrument Market Law prepares an annual statement and consolidated annual statement according to the international accounting standards, shall additionally submit an electronic copy of the annual statement and consolidated annual statement (if any) prepared in printed form to the State Revenue Service in the Electronic Declaration System.

[7 December 2017]

#### **Section 98. Making the Annual Statement and Consolidated Annual Statement Available to the Public**

(1) The State Revenue Service shall, not later than within five working days, electronically transfer the documents of the capital company, partnership and cooperative company referred to in Section 97, Paragraphs one, two, and four of this Law to the Enterprise Register. The Enterprise Register shall ensure public access to the received documents. The documents shall be transferred to the Enterprise Register, using online data transmission mode.

(2) The Enterprise Register shall, after obtaining the documents referred to in Section 97, Paragraphs one, two, and four of this Law not later than within five working days, publish a notification in the official gazette *Latvijas Vēstnesis* that copies of the annual statement or consolidated annual statement accordingly and the documents to be appended thereto in electronic form are available in the Enterprise Register.

#### **Section 99. Exemption for a Micro-entity from Submission of the Management Report**

The requirement of Section 97 of this Law regarding submission of the component part - the management report - of the annual statement shall not apply to a micro-entity, which has used the permit referred to in Section 56 of this Law and has not prepared a management report.

#### **Section 100. Person Responsible for Preparation, Audit (Review), and Submission of the Annual Statement and Consolidated Annual Statement**

(1) The management of the undertaking shall be responsible for preparation of the annual statement and in respective case - the consolidated annual statement and conformity thereof with the provisions of this Law, or in the cases laid down in this Law - conformity with the international accounting standards, subject to audit (review) or limited revision, as well as submission thereof in accordance with the procedures laid down in Section 97 of this Law.

(2) If the management of the undertaking has not submitted documents in accordance with the requirements of Section 97 of this Law, an official of the State Revenue Service shall apply administrative penalty punishment for failing to comply with the provisions for submitting annual statements or consolidated annual statements.

### **Transitional Provisions**

1. With the coming into force of this Law, the Annual Accounts Law (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1992, No. 44/45; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1995, No. 8; 1996, No. 24; 1998, No. 6, 21; 2000, No. 2; 2001, 9; 2004, No. 2; 2005, No. 13, 2006, No. 24; 2008, No. 13; 2009, No. 9; *Latvijas Vēstnesis* 2009, No. 199; 2010, No. 40, 102, 166; 2012, No. 101, 199; 2013, No. 142, 194; 2014, No. 105) and the Law On Consolidated Annual Accounts (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2006, No. 24; 2008, 13; *Latvijas Vēstnesis*, 2010, 166; 2013, No. 142, 194), are repealed.

2. The provisions of this Law shall be applied to annual statements and consolidated annual statements starting from 2016 (from the reporting year which starts on 1 January 2016 or during the calendar year 2016).

3. The norms of the Annual Accounts Law and the Law on Consolidated Annual Accounts and Cabinet regulations issued on the basis of these laws shall be applied to annual statements and consolidated annual statements accordingly, which are prepared for the reporting year 2015:

1) Cabinet Regulation No. 488 of 21 June 2011, Regulations for Application of the Annual Accounts Law;

2) Cabinet Regulation No. 481 of 21 June 2011, Regulations Regarding Content of the Cash Flow Statement and Statement of Changes in Equity and Procedures for Preparation Thereof;

3) Cabinet Regulation No. 537 of 15 June 2004, Procedures for Presenting Financial Support (Financial Aid), Donations and Gifts in Cash or in Kind of the State, Local Governments, Foreign States, the European Community, Other International Organisations and Institutions in Financial Reports.

4. The undertakings, which in relation to termination of operation prepare an annual statement in 2016 regarding a time period which is less than 12 months, until 31 December 2016 are allowed to apply the norms of the Annual Accounts Law.

5. The Cabinet shall issue the regulations referred to in Section 15, Paragraphs one and two of this Law not later than by 1 January 2016.

6. The Cabinet shall issue the regulations, which are necessary to approve the form in accordance with Section 97, Paragraph three of this Law, by which an undertaking shall prepare an electronic true copy of the financial statement or consolidated financial statement for submission to the State Revenue Service in the Electronic Declaration System, not later than by 1 July 2016.

7. The amendment to Section 3, Paragraph seven of this Law in respect of the replacement of words "State capital company" with the words "capital company" shall be applicable to annual statements from the reporting year of 2018.

*[7 December 2017]*

8. Section 11, Paragraph three of this Law shall be applicable to annual statements and consolidated annual statements from the reporting year of 2018.

*[7 December 2017]*

## **Informative Reference to Directive of the European Union**

The Law contains legal norms arising from Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (Text with EEA relevance).

This Law shall come into force on 1 January 2016.

This Law has been adopted by the *Saeima* on 22 October 2015.

President R. Vējonis

Riga, 12 November 2015

Law On Annual Statements and Consolidated Annual Statements  
**Annex 1**

*[7 December 2017]*

## **Layout of the Balance Sheet**

### **Assets**

Long-term investments

I. Intangible investments:

1. Development costs.
2. Concessions, patents, licences, trademarks and similar rights.
3. Other intangible investments.
4. Intangible value.
5. Advance payments for intangible investments.

II. Fixed assets, investment properties, and biological assets:

1. Immovable properties:
  - a) land parcels, buildings and engineering structures,
  - b) investment properties.
2. Fauna and flora:
  - a) draft animals or productive animals and perennial plantings,

b) biological assets.

3. Long-term investments in rented fixed assets.
4. Long-term investments in fixed assets of a public partner.
5. Technological equipment and devices.
6. Other fixed assets and inventory.
7. Costs of the establishment of fixed assets and unfinished building objects.
8. Advance payments for fixed assets.

III. Long-term financial investments:

1. Participation in the capital of related undertakings.
2. Loans to related undertakings.
3. Participation in the capital of associated undertakings.
4. Loans to associated undertakings.
5. Other securities and investments.
6. Other loans and other long-term debtors.
7. Own stocks and shares.
8. Loans to stockholders or members, and management.
9. Deferred tax assets.

Current assets

I. Inventories:

1. Raw materials, basic materials, and ancillaries.
2. Work in progress and orders.
3. Finished products and goods for sale.
4. Advance payments for inventories.

5. Fauna and flora:

- a) animals and annual plantings,
- b) biological assets.

6. Long-term investments held for sale.

II. Debtors:

1. Purchasers and commissioning party debts.
2. Related undertaking debts.
3. Associated undertaking debts.
4. Other debtors.
5. Shares not paid into company capital.
6. Short-term loans to stockholders or members, and management.
7. Next period costs.
8. Accrued revenue.

III. Short-term financial investments:

1. Participation in the capital of related undertakings.
2. Own stocks and shares.
3. Other securities and participation in capital.
4. Derivative financial instruments.

#### IV. Cash

#### **Liabilities**

##### Equity:

1. Stock or share capital (fixed capital).
2. Stock (share) issue premium.
3. Long-term investment revaluation reserve.
4. Fair value reserve of financial instruments.
5. Reserves:
  - a) reserves laid down in law,
  - b) reserves for own stocks or shares,
  - c) reserves laid down in the articles of association of the undertaking,
  - d) reserves directed for the development,
  - e) foreign currency conversion reserve,
  - f) other reserves.
6. Retained profit or non-covered losses brought forward from previous years.
7. Profit or losses for the reporting year.
8. Participatory share of minority stockholders.

##### Provisions:

1. Provisions for pensions and similar liabilities.
2. Provisions for contingent taxes.
3. Other provisions.

##### Long-term creditors:

1. Loans against debentures.
2. Loans convertible to stock.
3. Loans from credit institutions.
4. Other loans.
5. Prepayments received from purchasers.
6. Accounts payable to suppliers and contractors.
7. Bills of exchange payable.
8. Debts to related undertakings.
9. Debts to associated undertakings.
10. Taxes and State mandatory social insurance payments.
11. Deferred tax liabilities.



12. Other creditors.
13. Next period revenue.
14. Unpaid dividends.

Short-term creditors:

1. Loans against debentures.
2. Loans convertible to stock.
3. Loans from credit institutions.
4. Other loans.
5. Prepayments received from purchasers.
6. Accounts payable to suppliers and contractors.
7. Bills of exchange payable.
8. Debts to related undertakings.
9. Debts to associated undertakings.
10. Taxes and State mandatory social insurance payments.
11. Other creditors.
12. Next period revenue.
13. Unpaid dividends.
14. Accrued liabilities.
15. Derivative financial instruments.

**Regulations for Using Certain Items of the Balance Sheet Scheme:**

1. The items "Investment properties", "Biological assets", "Deferred tax assets", "Long-term investments held for sale", and "Deferred tax liabilities" and also words "investment properties and biological assets" in the title of the item group II shall be used only by such undertaking, which by applying Section 13, Paragraph five, Clause 2 of this Law according to the international accounting standards recognises, assesses, and reflects investment properties, biological assets, long-term investments held for sale, deferred tax assets, or deferred tax liabilities in the financial statement accordingly.

2. The item "Foreign exchange conversion reserve" and the item "Participatory share of minority stockholders" shall be used only in the consolidated annual statement.

Law on Annual Statements and Consolidated Annual Statements  
**Annex 2**

**Profit or Loss Account Scheme in Vertical Format (classified according to types of expenses)**

1. Net turnover:
  - a) from agricultural activity,
  - b) from other types of principal activity.
2. Changes in stocks of finished goods and work in progress.
3. Costs (capitalised) referenced to own long-term investments.
4. Other income from economic activities.
5. Costs of materials:

- a) costs of raw materials and ancillary materials,
  - b) other external costs.
6. Labour costs:
- a) remuneration for work,
  - b) pensions from funds of the undertaking,
  - c) State mandatory social insurance payments,
  - d) other social insurance costs.
7. Decrease in value adjustments:
- a) adjustments of decrease in value of fixed assets and intangible assets,
  - b) adjustments of decrease in value of current assets, if they exceed write-off sums of such value which the relevant undertaking considers as normal.
8. Other costs of economic activity.
9. Revenue from participation:
- a) in the capital of related undertakings,
  - b) in the capital of associated undertakings,
  - c) in the capital of other undertakings.
10. Revenue from other securities and loans which formed long-term financial investments:
- a) from related undertakings,
  - b) from associated undertakings and other undertakings, and also from securities and other long-term debtors.
11. Other revenue from interest and similar revenue:
- a) from related undertakings,
  - b) from other persons.
12. Adjustments of reduction in the value of long-term and short-term financial investments:
- a) reduction in the value of participation in the capital of associated undertakings,
  - b) adjustments of reduction in other value.
13. Interest payments and similar costs:
- a) for related undertakings,
  - b) for other persons.
14. Profit or loss before enterprise income tax.
15. Enterprise income tax for the reporting year.
16. Profit or loss after calculation of enterprise income tax.
17. Revenue or costs from changes in balances of deferred tax assets or liabilities.
18. Extraordinary dividends.
19. Profit or losses for the reporting year.
20. Share of profit or loss of minority stockholders.

Provisions for Use of Certain Items of Profit or Loss Account Scheme in Vertical Format (classified according to types of expenses):

- 1. Item "Extraordinary dividends" shall be used, if any.

2. The items "Revenue or costs from changes in balances of deferred tax assets or liabilities" shall be used only by such undertaking, which by applying Section 13, Paragraph five, Clause 2 of this Law according to the international accounting standards recognises, assesses, and reflects deferred tax assets or deferred tax liabilities in the financial statement.

3. The item "Reduction in the value of participation in the capital of associated undertakings", "Adjustments of reduction in other value", and "Share of profit or loss of minority stockholders" shall be used only in the consolidated annual statement.

### **Profit or Loss Account Scheme in Vertical Format (classified according to the function of expenses)**

1. Net turnover:
  - a) from agricultural activity,
  - b) from other types of principal activity.
2. Production cost price of produce sold, purchase costs for goods sold or services provided.
3. Gross profit or loss.
4. Selling costs.
5. Administrative costs.
6. Other revenue from economic activities.
7. Other costs of economic activity.
8. Revenue from participation:
  - a) in the capital of related undertakings,
  - b) in the capital of associated undertakings,
  - c) in the capital of other undertakings.
9. Revenue from other securities and loans which formed long-term financial investments:
  - a) from related undertakings,
  - b) from associated undertakings and other undertakings, and also from securities and other long-term debtors.
10. Other revenue from interest and similar revenue:
  - a) from related undertakings,
  - b) from other persons.
11. Adjustments of reduction in the value of long-term and short-term financial investments:
  - a) reduction in the value of participation in the capital of associated undertakings,
  - b) adjustments of reduction in other value.
12. Interest payments and similar costs:
  - a) for related undertakings,
  - b) for other persons.
13. Profit or loss before enterprise income tax.
14. Enterprise income tax for the reporting year.

15. Profit or loss after calculation of enterprise income tax.
16. Revenue or costs from changes in balances of deferred tax assets or liabilities.
17. Extraordinary dividends.
18. Profit or losses for the reporting year.
19. Share of profit or loss of minority stockholders.

**Conditions for Application of Certain Items of Profit or Loss Account Scheme in Vertical Format (classified according to the function of expenses):**

1. Item "Extraordinary dividends" shall be used, if any.
2. The items "Revenue or costs from changes in balances of deferred tax assets or liabilities" shall be used only by such undertaking, which by applying Section 13, Paragraph five, Clause 2 of this Law according to the international accounting standards recognises, assesses, and reflects deferred tax assets or deferred tax liabilities in the financial statement.
3. The item "Reduction in the value of participation in the capital of associated undertakings", "Adjustments of reduction in other value", and "Share of profit or loss of minority stockholders" shall be used only in the consolidated annual statement.

Law On Annual Statements and Consolidated Annual Statements  
**Annex 4**

## **Cash Flow Statement Scheme Prepared by Direct Method**

### **I. Cash flow of principal activity**

1. Revenue from the sale of goods and provision of services.
2. Payments to suppliers, employees, other expenses of principal activity.
3. Other revenue or expenses of principal activity.
4. Gross cash flow of principal activity.
5. Expenses for interest payments.
6. Expenses for enterprise income tax payments.
7. Net cash flow of principal activity.

### **II. Investment activity cash flow**

1. Acquisition of stocks or shares of related undertakings, associated undertakings, or other undertakings.
2. Revenue from alienation of stocks or shares of related undertakings, associated undertakings, or other undertakings.
3. Acquisition of fixed assets and intangible assets.
4. Revenue from sale of fixed assets and intangible investments.
5. Loans issued.
6. Revenue from repayment of loans.
7. Interest received.
8. Dividends received.
9. Investment activity cash flow.

### **III. Financing activity cash flow**

1. Revenue from stock and debenture issue or investments of capital participatory shares.

2. Loans received.
3. Subsidies, grants, gifts or donations received.
4. Expenses for repayment of loans.
5. Expenses for purchase of leased fixed asset.
6. Disbursed dividends.
7. Financing activity cash flow.

**IV. Result of fluctuations of foreign currency exchange rates**

**V. Net increase or decrease in cash and its equivalents**

**VI. Balance of cash and its equivalents at the beginning of the reporting year**

**VII. Balance of cash and its equivalents at the end of the reporting year**

## **Cash Flow Statement Scheme Prepared by Indirect Method**

**I. Cash flow of principal activity**

1. Profit or loss before enterprise income tax.

Corrections:

- a) corrections of decrease in value of fixed assets,
- b) corrections of decrease in value of intangible assets,
- c) creation of reserves (except reserves for bad debts),
- d) profit or loss from fluctuations of foreign currency rates,
- e) revenue from participation in fixed capital of related undertakings, associated undertakings, or other undertakings,
- f) revenue from other securities and loans which formed long-term financial investments,
- g) other revenue from interest and similar revenue,
- h) corrections of reduction in value of long-term and short-term financial investments,
- i) interest payments and similar costs.

2. Profit or loss before corrections of influence of changes in balances of current assets and short-term creditors.

Corrections:

- a) increase or decrease in balances of debts of debtors,
- b) increase or decrease in balances of stocks,
- c) increase or decrease in balances of debts to be paid to suppliers, contractors, and other creditors.

3. Gross cash flow of principal activity.

4. Expenses for interest payments.
5. Expenses for enterprise income tax payments.
6. Net cash flow of principal activity.

**II. Investment activity cash flow**

1. Acquisition of stocks or shares of related undertakings, associated undertakings, or other undertakings.
2. Revenue from alienation of stocks or shares of related undertakings, associated undertakings, or other undertakings.
3. Acquisition of fixed assets and intangible assets.
4. Revenue from sale of fixed assets and intangible investments.
5. Loans issued.
6. Revenue from repayment of loans.
7. Interest received.
8. Dividends received.
9. Investment activity cash flow.

### **III. Financing activity cash flow**

1. Revenue from stock and debenture issue or investments of capital participatory shares.
2. Loans received.
3. Subsidies, grants, gifts or donations received.
4. Expenses for repayment of loans.
5. Expenses for purchase of leased fixed asset.
6. Disbursed dividends.
7. Financing activity cash flow.

### **IV. Result of fluctuations of foreign currency exchange rates**

### **V. Net cash flow of the reporting year**

### **VI. Balance of cash and its equivalents at the beginning of the reporting year**

### **VII. Balance of cash and its equivalents at the end of the reporting year**

Law On Annual Statements and Consolidated Annual Statements  
**Annex 6**

*[7 December 2017]*

## **Statement Scheme of Changes in Equity**

### **I. Stock or share capital (fixed capital)**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease in stock or share capital (fixed capital).
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **II. Stock (share) premium account**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease in stock (share) premium account.
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **III. Long-term investment revaluation reserve**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease in the balance of long-term investment revaluation reserve.
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **IV. Fair value reserve of financial instruments**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease in the balance of the fair value reserve of financial instruments.
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **V. Reserves**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease of the balance of the reserves.
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **VI. Retained profits**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. Increase/decrease in retained profit.
4. The amount indicated at the end of the period in the balance sheet of the reporting year.

### **VI.<sup>1</sup> Participatory share of minority stockholders**

#### **VII. Equity**

1. Amount indicated in the balance sheet of the previous year.
2. Correction of the amount indicated in the balance sheet of the previous year.
3. The amount indicated at the end of the period in the balance sheet of the reporting year.

#### **Implementing provision of the statement scheme of changes in equity:**

chapter "VI.<sup>1</sup> Participatory share of minority stockholders" shall be used only in the consolidated annual statement.

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<sup>1</sup> The Parliament of the Republic of Latvia

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