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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*¹ has adopted and
the President has proclaimed the following Law:

Law On Consolidated Annual Accounts

Chapter I General Provisions

Section 1. Terms Used in this Law

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

1) **significant influence** – the influence of a company over another company which is ensured with not less than 20%, but not more than 50% of the stockholders' or shareholders' voting rights in that company;

2) **consolidation** – the unification of the annual accounts of companies within a group of companies in accordance with the procedures specified in this Law;

3) **consolidated annual accounts** – the annual accounts of a group of companies which have been prepared in accordance with the procedures specified in this Law as if they were the annual accounts of a single separate company and which provide information on the whole group as a single company;

4) **consolidated report** – the report of a group of companies on the development of the companies involved in the consolidation as a whole over the accounting year; and

5) **minority stockholders** – stockholders or shareholders of a subsidiary company which are neither stockholders nor shareholders of the parent company of the group of companies nor other subsidiary companies involved in the consolidation;

6) **equity method** – an accounting technique using which the participation in the capital of an affiliated company – on the day of acquisition (purchase) – is evaluated and recorded in accordance with the expenses of acquisition, but the value of the referred to participation is adjusted after this date at the end of each accounting year increasing or decreasing it depending on the increase or decrease of the total amount of equity of the affiliated company during the relevant period of time.

(2) The term used in this Law “related parties” conforms with the terms used in 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.

¹ The Parliament of the Republic of Latvia

Section 2. Purpose of this Law

The purpose of this Law is to determine the general provisions for the preparation of consolidated annual accounts, the range of companies to be included in the consolidation, as well as the procedures for preparing, auditing, approving and publishing consolidated annual accounts and a consolidated report.

Section 3. Application of this Law

(1) This Law applies to commercial companies and co-operative societies registered in Latvia (hereinafter – the company) if they are parent companies of a group of companies.

(2) This Law does not apply to banks, commercial insurance companies in the form of stock companies, mutual insurance co-operative societies, private pension funds, investment broker companies and investment management companies, as well as alternative investment funds established as commercial companies.

(3) This Law does not apply to institutions, which are financed from the State budget or local government budgets.

(4) Commercial companies which perform reinsurance, shall prepare consolidated annual accounts taking into account the Finance and Capital Market Commission regulations, which are binding on commercial insurance companies in the form of stock companies in relation to the preparation of consolidated annual accounts.

[9 July 2013]

Section 4. Obligation to Prepare Consolidated Annual Accounts

The parent company of a group of companies shall have the duty to prepare consolidated annual accounts for every accounting year, if this parent company, directly or indirectly (with participation of one or more subsidiary companies of the group of companies) has attained influence in accordance with at least one of the following conditions:

1) it has the majority of stockholders' or shareholders' voting rights (more than 50% of the voting rights) based on the participatory capital in the relevant subsidiary company (irrespective of the amount of this participatory share);

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

3) it has the right to exercise the rights set out in Paragraphs one and two of this Section, pursuant to a contract entered into together with other stockholders or shareholders of the subsidiary company or in accordance with the charter of this company (regardless whether the parent company does or does not have participatory capital shares in this company).

Section 5. Calculating the Number of Voting Rights and Members of Supervisory Bodies and Executive Bodies

The number of voting rights and members of the supervisory bodies and executive bodies referred to in Section 4 of this Law shall be calculated as follows:

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

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

a) held by minority stockholders and used in the interest of the minority stockholders themselves;

b) held by way of security for obligations, to the extent that the voting rights are exercised in the interests of the person for whom the security for obligations is provided or in accordance with the conditions of the person granting the loans; and

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

Section 6. Persons Responsible for the Preparation of Consolidated Annual Accounts

The preparation of consolidated annual accounts in the parent company of a group of companies shall be the responsibility of an administrative body, which is entitled to take decisions in respect of the operation of this company (hereinafter – administration).

Section 7. Companies to be Included in the Consolidation

(1) In preparing consolidated annual accounts, the parent company of the group of companies and all of its subsidiary companies, except those subsidiary companies which in accordance with Section 10 of this Law shall not be included in the consolidation, shall be included in the consolidation.

(2) Within the meaning of this Law, any subsidiary company of a subsidiary company of a group of companies shall be considered a subsidiary company of the parent company of that group of companies.

Section 8. Exemption from the Obligation to Prepare Consolidated Annual Accounts

(1) A parent company of a group of companies, as referred to in Section 3, Paragraph one of this Law, is exempt from the obligation to prepare consolidated annual accounts if it, together with its subsidiary companies, in accordance with the annual accounts of all the companies referred to, does not exceed at least two of the following criteria for 2 consecutive years:

1) a balance sheet total of 1 400 000 EUR;

2) a net turnover of 3 400 000 EUR; and

3) and an average number of employees in the accounting year of 250.

(2) The balance sheet total referred to in Paragraph one, Clause 1 of this Section is the total of asset items specified in Section 10 of the Law On the Annual Accounts of Undertakings. The average number of employees referred to in Paragraph one, Clause 3 of this Section shall be calculated by adding up the employees of the company on the last date of each month of the accounting year and dividing the sum by the number of months in the accounting year.

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

[19 September 2013]

Section 9. Exemption from the Obligation to Prepare Consolidated Annual Accounts, for a Parent Company Which Itself is a Subsidiary Company in Another Group of Companies

(1) A parent company of a group of companies, as referred to in Section 3, Paragraph one of this Law, which is at the same time a subsidiary company of another group of companies, shall be exempted from the obligation to prepare consolidated annual accounts if such parent company is a company registered in Latvia or in another Member State of the European Union which is in compliance with at least one of the following conditions:

1) it owns all (100%) of the stock or shares in the company which according to the procedures provided for in this Section is exempted from the obligation of preparing consolidated annual accounts; or

2) it owns at least 90% of the stock or shares in a company which according to the procedures provided for in this Section is exempted from the obligation of preparing consolidated annual accounts, and the remaining stockholders or shareholders (minority stockholders) of this company have agreed (are informed and do not oppose) to the application of the referred to exemption.

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

1) the parent company of the group of companies, exempted from the obligation to prepare consolidated annual accounts, and all of its subsidiary companies are included in the consolidated annual accounts of the parent company, which is the company registered in Latvia or in another Member State of the European Union, and such consolidated annual accounts have been prepared and audited in accordance with the requirements of that country in which the company has been registered;

2) a true copy of the consolidated annual accounts 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, which is responsible regarding the audit of the consolidated annual accounts in another Member State of the European Union, and the translation of these documents into Latvian (if the documents are submitted by a company registered in another Member State of the European Union and they have not been prepared in Latvian) shall be submitted to the Register of Enterprises in accordance with the procedures specified in Section 33, Paragraph one of this Law;

3) a true copy of the consolidated annual accounts 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, which is responsible regarding the audit of the consolidated annual accounts in another Member State of the European Union (if the referred to documents have been prepared in Latvian), or the translation of these documents into Latvian (if the documents are submitted by a company registered in another Member State of the European Union and they have not been prepared in Latvian) have been published in the official publication *Latvijas Vēstnesis* [the official Gazette of the Government of Latvia] in accordance with the procedures specified in Section 33, Paragraph two or three of this Law;

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

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

[9 July 2013]

Section 9.¹ Exemption from the Obligation to Prepare Consolidated Annual Accounts, for such Parent Company, which only has such Subsidiary Companies, regarding which Information is not Material

A parent company as referred to by Section 3, Paragraph one of this Law shall be exempt from the obligation to prepare consolidated annual accounts, if it only has such subsidiary companies, regarding which information regarding each individually, as well as the whole for the implementation of the requirements of Section 12, Paragraph one is not material.

[30 September 2010]

Section 10. Non-inclusion of a Subsidiary Company of a Group of Companies in a Consolidation

(1) A subsidiary company of a group of companies may not be included in the consolidation, if at least one of the following circumstances exists:

1) strict long-term restrictions substantially hinder the ability of its parent company to exercise its rights over the assets and management of this subsidiary company of the group of companies;

2) the information necessary for the preparation of the consolidated annual accounts can be obtained only by being late regarding the terms set out in Sections 32 and 33 of this Law and with excessively large expenditures; or

3) the stock or participatory shares of the subsidiary company are owned by the parent company on a short-term basis, are listed as current assets and are held in order to be resold within the next 12 months from the time of purchase.

(2) A subsidiary company of the group of companies may not be included in the consolidation if information about this company is not material in order to meet the requirements of Section 12, Paragraph one of this Law. If there are several such subsidiary companies within one and the same group of companies, and they are material as a whole, and, if they were excluded from the consolidated annual accounts, 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 the consolidation.

Chapter II

Preparation of Consolidated Annual Accounts

Section 11. Contents of Consolidated Annual Accounts

(1) Consolidated annual accounts as a composite whole shall comprise consolidated financial accounts: the consolidated balance sheet, consolidated profit or loss account, consolidated statement of changes in equity, consolidated cash flow statement and annex to the consolidated annual accounts – to which a consolidated report is appended.

(2) The measure of value – the euro – shall be used in the consolidated annual accounts and numbers shall be rounded up to whole numbers. Consolidated annual accounts shall be prepared in the Latvian language.

(3) Consolidated annual accounts shall be drawn up in a clear and comprehensible fashion and in accordance with the Law On Accounting and this Law.

[19 September 2013]

Section 12. True and Fair View

- (1) Consolidated annual accounts shall provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the group of companies.
- (2) If the information included in the consolidated annual accounts, which have been prepared in accordance with this Law does not provide a sufficiently true and fair view of the group of companies, additional information shall be provided.
- (3) In exceptional cases, in order to provide a true and fair view of the group of companies within the meaning of Paragraph one of this Section, there may be derogation from the requirements of Sections 13, 14, 15, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and 28 of this Law. Every such derogation shall be explained in the annex to the consolidated annual accounts, indicating the reason for and the effect of the referred to derogation on the assets, liabilities, financial position, and profit or loss of the group of companies.

Section 13. Consolidated Financial Account Layouts

- (1) The consolidated balance sheet shall be prepared in accordance with the layout prescribed in Section 10 of the Law On the Annual Accounts of Undertakings, taking into account the items referred to in Sections 17, 18 and 21 of this Law. One of the layouts prescribed in Sections 11, 12, 13 and 14 of the Law On the Annual Accounts of Undertakings may be chosen for the consolidated profit or loss account, taking into account the items referred to in Sections 21, 25 and 27 of this Law.
- (2) The consolidated profit or loss account layout for the following year may be changed only in exceptional cases in accordance with the following conditions:
 - 1) the change of the layout shall be based on the condition, that a parent company of the group of companies has become a subsidiary company of another group of companies and the parent company of this another group of companies requests to use a different layout;
 - 2) the account has been prepared according to one and the same layout for at least 2 consecutive years. The reason for the change shall be explained in the annex to the consolidated annual accounts.
- (3) The procedures for the content of the consolidated cash flow statement and the consolidated statement on changes in the equity and the preparation thereof shall be determined by the Cabinet.
- (4) The requirements of Sections 6, 7, 8, 9, 15, 16, 17, 18, 19, 20, 20.¹, 20.², 21, 22 and 23 of the Law On the Annual Accounts of Undertakings shall be applied to the items of the consolidated balance sheet and the consolidated profit or loss account.
- (5) In exceptional cases inventory items may be combined in the consolidated balance sheet if the breakdown of the inventory into separate items would entail undue expenses.

[30 September 2010]

Section 14. Procedures for Combining the Annual Accounts of Companies Involved in Consolidation

- (1) Consolidated annual accounts shall be prepared by using consolidation procedures to combine the amounts of assets, liabilities, equity, income and expenses (expenditures) set out under the financial statement items concerned in the annual accounts of the parent company of the group of companies and in the annual accounts of the subsidiary companies involved in the consolidation. The asset and liability items of the annual balance sheets of companies involved in the consolidation shall be incorporated in full in the consolidated balance sheet. The profit or loss account items of these companies shall be incorporated in full in the consolidated profit or loss account.

(2) In order to prepare the consolidated annual accounts as the annual accounts of a single company, the following consolidation procedures shall be observed:

1) adjustments shall be made in the annual accounts of subsidiary companies of the group of companies in which other accounting methods and other valuation rules have been used;

2) the annual accounts of subsidiary companies of the group of companies, which are registered in foreign states, shall be converted into euro;

3) the balance sheet value of the investment by the parent company of the group of companies in a subsidiary company shall be set off against the amount of the participatory share in the equity of the subsidiary company (consolidation of equity) corresponding thereto;

4) the results of transactions (adjustments of income and expenditures) and the balances of mutual payments between the companies involved in the consolidation shall be completely excluded;

5) profit that has not yet been obtained (unrealised), resulting from transactions between the companies involved in the consolidation and which is included in the value of assets shall be excluded;

6) losses not yet existing (unrealised), resulting from transactions between the companies involved in the consolidation, and by the amount of which the accounting value of the assets has been reduced, shall be excluded, unless these losses are recoverable; and

7) the minority shareholder participatory share in the equity and income or losses of accounting year of the subsidiary companies involved in the consolidation shall be identified.

(3) The consolidated annual accounts shall be supported by calculations and tables, in the preparation of which the requirements of Sections 6, 7 and 10 of the Law On Accounting regarding source documents and accounting registers shall be observed. The storage period of the referred to documents - calculations and tables – shall be 10 years.

[19 September 2013]

Section 15. Adjustments to be Made in the Annual Accounts of a Subsidiary Company of a Group of Companies if Different Accounting Methods and Different Valuation Rules Have Been Applied

(1) In preparing the consolidated annual accounts, items within a group of companies shall be valued according to uniform accounting methods and uniform valuation rules as stipulated in Sections 25, 26, 27, 28, 29, 30, 31, 32, 35, 36, 37, 55.¹, 55.², 55.³ and 55.⁵ of the Law On the Annual Accounts of Undertakings.

(2) If, in the preparation of its annual accounts, a subsidiary company of a group of companies uses accounting methods and valuation rules different from those used by the parent company of the group of companies, the parent company of the group of companies shall adjust such annual accounts accordingly during the preparation of the consolidated annual accounts.

(3) If it is not practically possible to calculate the adjustment amounts, it shall be so indicated in the annex to the consolidated annual accounts, also providing information on the proportion of such subsidiary companies in the consolidated annual accounts, which have used other accounting methods and other valuation rules.

(4) The values of balance sheet items of a subsidiary company of a group of companies shall be increased or reduced and the respective profit or loss account items shall be adjusted according to the amount of adjustments calculated in accordance with the procedures prescribed in this Section.

Section 16. Permission to Prepare Consolidated Annual Accounts in Accordance with 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 (hereinafter – Regulation), a parent company of a group of companies may prepare consolidated annual accounts in accordance with international accounting standards, which are implemented in accordance with the procedure specified in Article 6 (2) of the Regulation. Such parent companies of a group of companies are permitted to derogate from the requirements of Section 13, Paragraphs three and four; Section 15, Paragraph one, as well as Sections 25, 26 and 27 of this Law.

Section 17. Conversion into Euro of the Annual Accounts of Subsidiary Companies Registered in Foreign States

(1) In order for a subsidiary company of a group of companies registered abroad to be included in the consolidated annual accounts, the annual accounts of the subsidiary company, which have been prepared in a foreign currency, shall be recalculated into euro. In effecting the recalculation the following provisions shall be observed:

1) the assets and liabilities (funds, liabilities and equity) shall be recalculated into euro according to the foreign currency exchange rate used in the accounting which is in effect on the last day of the accounting year; and

2) the income and expenses (expenditures) shall be recalculated into euro according to the foreign currency exchange rate used in the accounting which is in effect on the transaction day. The transaction day shall be considered to be the day when money is received or paid, respectively, the day when goods and services are purchased or sold, as well as any other day on which resources are actually obtained or disposed of (liabilities are created or ended) and all risks relating to property are assumed or transferred.

(2) For the purpose of recalculation into euro of the income and expenses (expenditures) referred to in Paragraph one, Clause 2 of this Section, it is permitted to use the average exchange rate of the week, month or accounting year which has been calculated by adding up the relevant foreign currency exchange rates in effect for all the calendar days in the relevant period, used in the accounting, and dividing the sum by the number of calendar days in the relevant period.

(3) If the conversion specified 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 these reserves in the consolidated balance sheet may 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 the annex to the consolidated annual accounts.

[19 September 2013]

Section 18. Consolidation of Equity

(1) In accordance with Section 14, Paragraph two, Clause 3 of this Law, the balance sheet value of the investment by a parent company of a group of companies in any subsidiary company included in the consolidation shall be set off against the value of the corresponding participatory share in the equity of each such subsidiary company.

(2) The set-off referred to in Paragraph one of this Section shall be effected on the basis of the value of the stock and shares of the subsidiary companies involved in the consolidation on the date which conforms to one of the following conditions:

- 1) it is the date on which the subsidiary company was included in the consolidation for the first time;
 - 2) it is the date of acquisition (purchase) of the stock or shares of the subsidiary company; or
 - 3) it is the date as of which a company has become a subsidiary company of the group of companies, if the acquisition (purchase) of the stock or shares of this company took place on several dates. The valuation date shall be indicated in the annex to the consolidated annual accounts.
- (3) The difference arising as a result of mutual exclusion shall be attributed to the value of the consolidated balance sheet item, by accordingly increasing or reducing it if the value of these items is greater or less than the value initially indicated in the balance sheet of the subsidiary company included in the consolidation. If the difference referred to cannot be attributed fully to the items of the consolidated balance sheet, any remaining positive amount shall be indicated in a separate item "Goodwill" on the asset side of the balance sheet. The remaining negative difference shall be immediately included in the profit or loss account.
- (4) Information shall be provided in the annex to the consolidated annual accounts on the methods used, the amounts included in the item "Goodwill" and the change in these amounts as compared to the previous accounting year.
- (5) The amount indicated under the consolidated balance sheet item "Goodwill" after the initial accounting shall be valued as costs, from which the accumulated losses from the reduction in value shall be deducted. The parent company of the group of companies for the purposes of preparation of consolidated financial statements at the end of each accounting year shall evaluate whether the balance sheet value of the amount indicated under consolidated balance sheet item "Goodwill" has not reduced.
- (6) The procedures specified in this Section are not applicable to stock or shares of the parent company of a group of companies owned either by the parent company itself or by a subsidiary company included in the consolidation. In the consolidated balance sheet such stock and shares shall be specified under the item "Own stock and shares".

Section 19. Adjusting of Income and Expenses

Income resulting from transactions between companies involved in the consolidation and expenditures related to this income, the dividends calculated in these companies and attributable to companies involved in the consolidation, interest income and payments and similar expenditures shall be excluded from the items of the consolidated profit or loss account.

Section 20. Adjusting of the Balances of Mutual Payments and Value of Assets

The following amounts, which have been recorded as the result of transactions between companies involved in a consolidation, shall be excluded from the consolidated balance sheet items:

- 1) the balances of mutual payments (including dividend payments) which are included under the items of debtor and creditor obligations, and of provisions;
- 2) the amounts of income and expenses attributable to other accounting periods which are included under the items of the next period income or next period costs; and
- 3) 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 21. Presentation of the Participatory Shares of Minority Stockholders

- (1) The relevant share of equity of subsidiary companies involved in the consolidation in the amount corresponding to the stock and shares held by minority stockholders shall be set out under a separate equity item “Participatory share of minority stockholders”.
- (2) The profit or loss for the accounting year of subsidiary companies included in the consolidation, which are related to the stock and shares held by minority stockholders, shall be set out in the consolidated profit or loss account under the separate item, “Share of profit or loss of minority stockholders”.

Section 22. Date of the Balance Sheet for Consolidated Annual Accounts

- (1) The dates of the consolidated annual accounts, the annual accounts of the parent company of a group of companies and the balance sheets of the annual accounts of the subsidiary companies involved in the consolidation shall be the same, and it is the day on which the annual accounts of the parent company were prepared.
- (2) If the date of the annual balance sheet of a subsidiary company of a group of companies included in the consolidation differs from the date of the annual balance sheet of the parent company by 3 months or more, such subsidiary company shall be included in the consolidation on the basis of financial statements prepared (non-audited) for consolidation purposes, the date of the balance sheet of which accords with the date of the consolidated annual accounts balance sheet.

Section 23. Disposition or Liquidation of a Subsidiary Company of a Group of Companies

- (1) The results of operations of a subsidiary company of a group of companies disposed of or liquidated shall be included in the consolidated profit or loss account until the day of disposal or liquidation of such subsidiary company, that is, until the date on which the parent company of the group of companies ceases to exercise influence over the subsidiary company in accordance with the conditions of Section 4 and 5 of this Law.
- (2) The difference between the proceeds from the disposal or liquidation of a subsidiary company of a group of companies and the balance sheet value of the company disposed of or liquidated as on the day of disposal or liquidation shall be indicated in the consolidated profit or loss account as the profit or loss from the disposal or liquidation of the subsidiary company.
- (3) The balance sheet value of a subsidiary company of a group of companies to be disposed of or liquidated shall be calculated as the difference between the resources and liabilities in the consolidated balance on the day of disposal or liquidation. In calculating the referred to balance sheet value, the amounts indicated under the consolidated balance sheet item “Goodwill”, which refer to this subsidiary company of the group of companies to be disposed of or liquidated, shall also be taken into account.

Section 24. Changes in the Composition of a Group of Companies

- (1) If significant changes have taken place in the composition of the companies involved in the consolidation over the course of the accounting year, information, which allows to compare these accounts with the consolidated annual accounts of the previous years, shall be included in the consolidated annual accounts.
- (2) In special cases (if the changes in the composition of the companies involved in the consolidation in the accounting year are significant) an adjusted opening balance sheet and an adjusted profit or loss account may be prepared in order to fulfil the requirements of the Paragraph one of this Section.

Section 25. Amounts of Deferred Tax Liabilities and Deferred Tax Assets

Amounts of deferred tax liabilities and deferred tax assets in the consolidated balance sheet, as well as income and expenses of deferred tax liabilities and deferred tax assets in the profit or loss account shall be determined on the basis of the provisional differences which are formed by excluding the profit not yet acquired (unrealised) or losses not yet existing (unrealised) and by evaluating separate items of assets or liabilities in the consolidated balance sheet at their actual value.

Section 26. Inclusion of the Annual Account Items of a Jointly Controlled Company in the Consolidated Annual Accounts

(1) If a company included in the consolidation and one or more companies not included in the consolidation jointly control another company, the assets, liabilities, equity, income and expenses (expenditures) of the jointly controlled company may be included in the consolidated annual accounts in proportion to the participatory capital share, of the companies involved in the consolidation, in such company.

(2) A jointly controlled company can be included in the consolidation by using the method indicated in Paragraph one of this Section only if the requirements of Sections 10, 11, 12, 13, 14, 15, 17, 18, 19, 20, 21, 22, 23, 24 and 25 of this Law are observed accordingly.

Section 27. Presentation of Profit or Loss and Participatory Capital Share of an Associated Company in the Consolidated Annual Accounts

(1) The participation in the profit or loss of an associated company and in equity by the companies involved in the consolidation shall be presented in the consolidated annual accounts in accordance with the procedures specified in Paragraphs two, three, four, five, six, seven, eight, nine and ten of this Section.

(2) The annual accounts of the associated company, if possible, shall be prepared by using the accounting methods and valuation rules which are used within the group of companies or they shall be adjusted in accordance with Section 15, Paragraph two of this Law. If the associated company is registered in a foreign state, its annual accounts compiled in a foreign currency shall be converted into euro in accordance with Section 17 of this Law.

(3) The exclusion of profit or losses, provided for in Section 14, Paragraph two, Clause 5 and 6 of this Law, from the balance sheet items of the associated company shall be effected only to the extent as is based on source documents or on facts concerning which it is possible to obtain source documents.

(4) Initially, upon including participatory capital in an associated company in the consolidated balance sheet, it shall be indicated under the item "Participatory capital in associated companies" in an amount consisting of the acquisition value of the stock or shares of the associated company 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 company has become an associated company [if stock or participatory shares have been acquired (purchased) on different dates], up to the date of the consolidated annual accounts. The referred to increase or decrease in value shall be calculated in accordance with the annual account data of the associated company, on the basis of the proportion (in percentage terms) of the capital invested in the equity of the associated company.

(5) The difference between the acquisition value of the stock or shares of the associated company, calculated in accordance with the valuation rules provided for in the Law On the Annual Accounts of Undertakings, and the amount which corresponds to the proportion (in percentage terms) of the capital invested in the equity of the associated company on the day of

acquisition, shall be specified in the annex to the consolidated annual accounts. The difference referred to shall be calculated according to the situation as of the date on which the equity method is applied for the first time.

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

(7) At the end of each accounting year the value of the amount indicated under the item "Participatory capital in associated companies" shall also be reduced by the amount of the dividends, calculated for the associated company, which is related to such participation.

(8) The amount of the profit or loss of the associated company during the accounting year which is related to stock or shares held by the companies involved in the consolidation shall be set out in a separate consolidated profit or loss account item, observing one of the following conditions:

1) under the item "Income from participation in the capital of the associated company", if it is a part of the profit of the associated company; or

2) under the item "Reduction in the value of long-term financial investments in associated companies", if it is a part of the loss of the associated company.

(9) The participatory capital in the revaluation reserve and other reserves of long-term investments of the associated company, which have been created for corrections of assets value, shall be reflected in the consolidated balance sheet by including directly into the equity.

(10) If the difference referred to in Paragraph five of this Section is positive, it shall be included in the amount indicated under the item "Participatory capital in associated companies" of the consolidated balance sheet. Negative difference formed shall be immediately included in the profit or loss account.

(11) The associated company is obligated to provide companies, which exercise significant influence over it, with a copy of the annual accounts approved at the general meeting of the stockholders or shareholders of the associated company. Where the associated company prepares the consolidated annual accounts this Section applies to the consolidated annual accounts of the associated company.

(12) The procedures specified in this Section do not apply if the information on the participation in the capital and the profit or loss of the associated company is immaterial in order to meet the requirements of Section 12, Paragraph one of this Law.

[19 September 2013]

Section 28. Preparation of the Annex to the Consolidated Annual Accounts

(1) In addition to other information provided for in this Law, the following information shall be provided in the annex to the consolidated annual accounts:

1) the valuation methods applied to the valuation of various items in the consolidated annual accounts, as well as the methods employed in depreciating fixed assets, and in calculating reduction in value and the writing off of investments in goodwill, long-term financial investments and other assets. If any of the items in the consolidated annual accounts has originally been expressed in foreign currency, the basis of conversion and the euro exchange rate used for conversion shall be indicated;

2) the names and legal addresses of the associated companies and the proportion of the capital (expressed as a percentage) in these companies (except for the parent company of the group of companies) held by companies involved in the consolidation or persons acting in their own name but for the benefit of the companies involved in the consolidation, in addition indicate also which of the conditions of Section 4 of this Law justifies the inclusion of the company in the consolidation. The information referred to in this Clause shall also be

provided in respect of those subsidiary companies of the group of companies which have not been included in the consolidation in accordance with the provisions of Section 10 of this Law, together with the basis for the non-inclusion;

3) the names and legal addresses of associated companies, as well as the proportion of their capital (expressed as a percentage) held by companies involved in the consolidation or by persons acting in their own name but for the benefit of companies involved in the consolidation; The information referred to in this Clause shall also be provided in respect of those associated companies which have not been included in the consolidation in accordance with the provisions of Section 27, Paragraph twelve of this Law, together with the basis for the non-inclusion;

4) the names and legal addresses of jointly controlled companies together with the basis for the joint control of such companies, as well as the proportion of their capital (expressed as a percentage) held by companies involved in the consolidation or by persons acting in their own name but for the benefit of companies involved in the consolidation;

5) the names and legal addresses of the rest of the companies, which are not referred to in Paragraph one, Clauses 2, 3 and 4 of this Section, and in which the companies involved in the consolidation, either themselves or through persons acting in their own name but for the benefit of those companies, hold at least such capital share as is greater than 20%, and indicate the amount of participatory capital share, the amount of equity and the profit or loss for the latest accounting year for which the annual accounts of the company have been approved. This information may be omitted if it is not materially significant for creating a true and fair view. The information concerning equity and profit or loss may also be omitted in cases where the company concerned does not publish its annual accounts and if the companies involved in the consolidation (directly or indirectly) hold less than 50% of the capital of the company concerned;

6) the total amount of obligations to creditors which is indicated in the consolidated balance sheet and the due date for which is more than 5 years after the balance sheet date, as well as the total amount of obligations to creditors which is indicated in the consolidated balance sheet and is covered by security furnished by the companies involved in the consolidation, as well as indicating the nature and form of the security;

7) the total amount of any financial commitments that are not presented in the consolidated balance sheet, if this information is significant in assessing the financial position of the companies involved in the consolidation. Any obligations relating to pensions, and obligations to subsidiary companies of the group of companies, which are not included in the consolidation, shall be indicated separately;

8) the net turnover shown in the consolidated profit or loss account broken down by categories of activity and geographical markets, if the categories of activity and markets pertaining to the fundamental activities (sale of products and provision of services) of the companies involved in the consolidation differ substantially from one another;

9) the average number of employees during the accounting year of the companies involved in the consolidation broken down by categories and the personnel expenditures relating to the accounting year, broken down according to the requirements of item 6 as referred to in Section 11 or item 3 as referred to in Section 13 of the Law On the Annual Accounts of Undertakings, if this break-down is not included in the consolidated profit and loss account. Information about the average number of persons employed by the jointly controlled companies during the accounting year shall be provided separately;

10) the total amount of emoluments granted to the members of supervisory bodies and executive bodies of the parent company of the group of companies for fulfilling functions in the parent company and its subsidiary companies broken down as to the total for each occupational group (members of the council, board). The same applies to pensions and similar liabilities with respect to members of former supervisory and executive bodies;

11) the amount of liabilities regarding advances, loans or guarantees issued in respect of members of supervisory bodies and executive bodies of the parent company of the group of companies by the parent company or by its subsidiary companies broken down by occupational groups (members of the council, board) setting out the interest rates, main conditions and amounts repayable; and

12) the stock or shares of the parent company of a group of companies, held by this parent company itself or by its subsidiary companies, or by persons acting in their own names but for the benefit of the companies of the group of companies (the number of stocks or shares and their nominal value shall be indicated as well).

(2) The information indicated in Paragraph one, Clauses 2, 3, 4, 5 and 8 of this Section may be omitted if such could seriously harm the companies concerned. Any such non-furnishing of information shall be justified in the annex to the consolidated annual accounts.

(3) If financial instruments are valued at fair value applying Sections 55.¹, 55.² and 55.³ of the Law on the Annual Accounts of Undertakings, the consolidated annual accounts annex shall also include:

1) the most important assumptions on which the choice of valuation models and methods is based if the value of such instruments is specified in accordance with Section 55.², Paragraph one, Clause 2 of the Law on the Annual Accounts of Undertakings;

2) the financial instrument fair value and the changes in such value, which on the basis of Section 55.³ of the Law on the Annual Accounts of Undertakings are included in the profit or loss account or in the balance sheet item “Financial instruments revaluation reserve” in subdivisions by the financial instruments categories in accordance with the international accounting standards which are accepted in accordance with the subdivision specified in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards;

3) in the subdivision by derived financial instruments groups – explanations regarding such instruments, indicating the total amounts, as well as information regarding significant provisions and conditions, which may influence the size, time of creation and certainty of the expected cash flow in the future; and

4) a table, which reflects changes in the balance sheet item “Financial instruments revaluation reserve” in the accounting year.

(4) If the possibility of applying the fair value valuation of financial instruments provided for in Section 55.¹ of the Law on the Annual Accounts of Undertakings has not been utilised, the consolidated annual accounts annex shall provide explanations regarding the amount and essence of derived financial instruments by subdivision of such instrument groups, indicating the balance sheet value and fair value if such can be specified with one of the methods referred to in Section 55.², Paragraph one of the Law on the Annual Accounts of Undertakings.

(5) If the possibility of applying value reduction provided for in Section 28, Paragraph two of the Law on the Annual Accounts of Undertakings to the long-term financial investments referred to in Section 55.¹, Paragraph four of the Law on the Annual Accounts of Undertakings, the fair value of which is less than the balance sheet value, is not utilised, the consolidated annual accounts annex shall provide information regarding the balance sheet value and the fair value of separate assets or relevant asset group, explaining why the value reduction is not being applied and indicating information, which attests that the value reduction is short-term and has been caused due to transitional circumstances.

(6) The total amount of remuneration in the accounting year for a sworn auditor or commercial company of sworn auditors (hereinafter – a sworn auditor) shall be indicated separately regarding:

- 1) the audit of consolidated annual accounts;
- 2) the carrying out of other audit tasks;
- 3) tax consultancy; and

4) the carrying out of other specialist's tasks.

(7) Provide information regarding each agreement not included in the consolidated balance sheet, indicating its type, purpose and financial effect, if the risks or benefits related to this agreements are essential and if the information regarding these risks and benefits is required in order to evaluate the financial position of the companies involved in the consolidation as a whole.

(8) Provide the information regarding the transactions of the parent company of the group of companies or other companies involved in the consolidation with the related parties (except for mutual transactions of companies involved in the consolidation), if these transactions are essential and do not comply with the normal market conditions indicating the amounts of these transactions, type of relationship of related parties and other information regarding these transactions, which is necessary in order to understand the financial position of the companies involved in the consolidation as a whole. Information regarding separate transactions with related parties may be combined in groups according to the type of these transactions, except for the cases when it is necessary to provide separate information in order to evaluate the effect of the transactions of related parties to the financial position of the companies involved in the consolidation as a whole.

[19 September 2013]

Chapter III Consolidated Reports

Section 29. Contents of a Consolidated Report

(1) The consolidated report shall provide clear information regarding the development of the companies involved in the consolidation as a whole, financial results of operation and financial position, as well as information regarding the significant risks and unclear conditions with which the companies involved in the consolidation have come into contact.. This information shall be justified with a comprehensive and all-inclusive analysis of the development of the companies involved in the consolidation as a whole, financial results of operation and financial position in accordance with the scope of operation and complexity. In order to understand the development of the companies involved in the consolidation as a whole, financial results of operations and financial position, the referred to analysis shall include:

- 1) the indicators of financial results;
- 2) in so far as it is important also the main non-financial indicators characterising the company and the relevant sector – information regarding the influence of regulatory requirements regarding the environment and information regarding the employees (for example, employment policy, guarantees and support to employees) and other information;
- 3) if possible, references to amounts indicated in the consolidated financial reports and additional explanations regarding them.

(2) In respect of companies involved in the consolidation as a whole, the consolidated report shall also provide information on:

- 1) any important events that have occurred in the activities of the companies as a whole after the end of the accounting year;
- 2) future development prospects of these companies as a whole;
- 3) research work and development measures;
- 4) utilisation of financial instruments and if such are significant in the valuation of assets, obligations, financial position and profit or loss – regarding the goals and policies of financial risk management, also regarding the accepted risk management policy in relation to each more important forecast type of future transaction for which risk limitation accounting

has been applied, and regarding subjection of the companies involved in the consolidation as a whole to market risk, credit risk, liquidation risk and cash flow risk.

Chapter IV **Auditing of Consolidated Annual Accounts**

Section 30. Activities of a Sworn Auditor During the Auditing of Consolidated Annual Accounts

The consolidated annual accounts prepared by the parent company of a group of companies shall be audited by one or several sworn auditors in accordance with the Law On Sworn Auditors.

Section 31. Auditor's Report

If the auditing of the annual accounts and the consolidated annual accounts of a parent company of a group of companies are examined by one and the same sworn auditor (the same sworn auditors) and in accordance with the requirements of Section 33 of this Law such referred to accounts are submitted simultaneously, the auditor's report regarding the consolidated annual accounts may be combined with the auditor's report regarding the annual accounts.

Chapter V **Approval and Publication of the Consolidated Annual Accounts**

Section 32. Approval and Signing of the Consolidated Annual Accounts

(1) The consolidated annual accounts shall be signed by the management of the parent company of the group of companies:

- 1) in capital companies and co-operative societies – by the board of directors;
- 2) in partnerships – by all the members of such partnership or those members of the partnership who have been specially authorised to represent the partnership.

(2) If a member of the board of directors of a capital company or co-operative society or a member of a partnership considers that the consolidated annual accounts cannot be approved, or stipulate objections, they shall indicate their different point of view in a special note.

(3) The consolidated annual accounts together with the annual accounts of the company concerned shall be approved by a general meeting of the stockholders or shareholders of the parent company of the group of companies within 7 months after the end of the accounting year.

Section 33. Submission and Publication of the Consolidated Annual Account

(1) Not later than 1 month after the approval of the consolidated annual account in the regular meeting of the stockholders or shareholders of the parent company of a group of companies and not later than 7 months after the end of the accounting year, the parent company of a group of companies shall submit a copy of the consolidated annual account approved in accordance with the procedures specified in Section 32 of this Law, together with a copy of the annual account approved by the meeting of the company stockholders or shareholders and copies of the sworn auditors' reports, to the State Revenue Service. The referred to documents shall be submitted in paper or electronic format.

(2) Not later than within five working days the State Revenue Service shall electronically submit the documents referred to in Paragraph one of this Section (if they have been

submitted electronically) or the electronic copies of these documents (if they have been submitted in paper format) to the Enterprise Register. The Enterprise Register shall ensure the public access to the received documents. The procedure of authentication of electronic copies of documents and electronic transfer of documents shall be determined by the intra-departmental agreement.

(3) Not later than within five working days of receipt of the documents referred to in Paragraph two of this Section the Enterprise Register shall publish a notice in the official publication *Latvijas Vēstnesis* on the accessibility of the information referred to in Paragraph one of this Section at the Enterprise Register.

(4) If the parent company fails to observe the requirements of Paragraph one of this Section, it shall be held liable in accordance with the procedures specified in law.

[22 May 2008; 30 September 2010; 9 July 2013]

Transitional Provisions

1. With the coming into force of this Law, the Law On Consolidated Annual Accounts (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1999, No. 22; 2004, No. 2; 2005, No. 13) is repealed.

2. Section 28, Paragraph six, seven and eight of this Law shall come into force on 1 January 2008.

3. Up to the day of coming into force of the Cabinet Regulation referred to in Section 13, Paragraph three of this Law, but not longer than up to 1 September 2007 the Cabinet Regulation No. 776 of 18 October 2005, Regulations Regarding Accounting Standards of Latvia to be Applied Mandatorily (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2006, No. 3; *Latvijas Vēstnesis* No.140, 2006) are applicable.

4. Amendments to Section 33 of this Law shall come into force on 1 July 2008 and shall apply to the consolidated annual accounts submitted on or after this date.

[22 May 2008]

5. Amendment to Section 13, Paragraph three of this Law shall come into force on 1 July 2011 and shall apply to consolidated annual accounts, as from accounting year of 2011.

[30 September 2010]

6. Amendments to Section 8, Paragraph one, Clauses 1 and 2, Section 11, Paragraph two, Section 14, Paragraph two, Clause 2, Section 17, Section 27, Paragraph two and Section 28, Paragraph one, Clause 1, that have been made in relation to transition to euro, shall be applicable to consolidated annual accounts starting from the accounting year 2014.

[19 September 2013]

Informative Reference to European Union Directives

This Law contains legal norms arising from:

1) Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts;

2) Council Directive 90/604/EEC of 8 November 1990 amending Directive 78/660/EEC on annual accounts and Directive 83/349/EEC on consolidated accounts as concerns the exemptions for small and medium-sized companies and the publication of accounts in ecus;

3) Council Directive 90/605/EEC of 8 November 1990 amending Directive 78/660/EEC on annual accounts and Directive 83/349/EEC on consolidated accounts as regards the scope of those Directives;

4) Directive 2001/65/EC of the European Parliament and of the Council of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions;

5) Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings;

6) Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC;

7) Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings; and

8) Directive 2009/49/EC of the European Parliament and of the Council of 18 June 2009 amending Council Directives 78/660/EEC and 83/349/EEC as regards certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated accounts (Text with EEA relevance).

[30 September 2011]

This Law has been adopted by the *Saeima* on 19 October 2006.

President

V. Vīķe-Freiberga

Rīga, 8 November 2006