Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

7 December 2017 [shall come into force on 3 January 2018];

11 November 2021 [shall come into force on 1 January 2022];

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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 Annual Statements and Consolidated Annual 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 interests 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 per cent of the voting rights of stockholders or shareholders;

2) **development costs**– costs which are directly attributable 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 at which an asset or a liability is indicated in the balance sheet;

5) **material information**– such information the non-disclosure or incorrect provision whereof in financial statements may reasonably be expected to change or influence the decision taken by a person on the basis of such financial statements. The materiality of the 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) equity security of another undertaking;

c) the contractual right to receive cash or another financial asset from another person or mutually exchange financial assets or financial liabilities with another person under circumstances which are potentially favourable for the undertaking;

d) financial instrument for which the undertaking will settle accounts (or may settle accounts) with its own equity securities, if it is not a derivative and the undertaking has (or may have) an obligation to receive a variable number of its own equity 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 equity securities. By applying this term, the undertaking shall not include in its own equity securities the financial instruments which are an agreement for the receipt of own equity securities or delivery thereof in the future;

7) **financial liabilities**:

a) contractual obligation to transfer cash or another financial asset to another person or mutually exchange financial assets or financial liabilities with another person under circumstances which are potentially favourable for the undertaking;

b) financial instrument for which the undertaking will settle accounts or may settle accounts with its own equity securities, if it is not a derivative and the undertaking has (or may have) an obligation to deliver a variable number of its own equity 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 equity securities. By applying this term, the undertaking shall not include in its own equity securities the financial instruments which are an agreement for the receipt of own equity securities or delivery thereof in the future;

8) **accounting policy**– principles, methods, and regulations for the accounting of the relevant economic transactions, facts, and events and the measurement and indication of items of the financial statement (in the financial statement) (for example, methods for measuring property, plant, and equipment or calculating depreciation, methods for measuring amounts receivable from debtors or balances of inventories, principles for the accounting and indication of loan interest and penalties, conditions and methods for the formation of provision which are used for the indication of profit or losses, 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 subsidiaries thereof in accordance with the procedures laid down in this Law;

10) **subsidiary 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 of a subsidiary of a group of companies shall be considered a subsidiary of the parent undertaking of that group of companies;

11) **group of companies**– an aggregate of undertakings which includes a parent undertaking of the group of companies and all subsidiaries thereof;

12) **consolidation**– the unification of the annual statements of the 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 standalone undertaking and which provides information on the whole group of companies as a standalone undertaking;

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

15) **intangible investments**– intangible properties other than financial assets which meet both of the following classification criteria:

a) they can be separated or divided from an undertaking and sold, transferred, licensed, leased or exchanged (individually or together with another liability or asset) or they have arisen from a contract or other rights regardless of whether such rights are transferable or separable from the undertaking or from other rights and obligations;

b) an undertaking plans 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 an unfavourable event (for example, costs or loss arisen or expected, reduction in assets value or increase in the amount of liabilities) during the period between the balance sheet date and the date of signing the annual statement;

17) **property, plant, and equipment**– movable or immovable tangible properties meeting all of the following classification criteria:

a) they are held by the undertaking as the owner or lessee in accordance with a finance lease in order to use them for the production of goods, provision of services, lease or administrative purpose (for the management or other needs of the undertaking, for example, for the maintenance of the operation of other property, plant, and equipment, ensuring compliance with the occupational safety or environmental protection requirements of significance for the operating activity of the undertaking);

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

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

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

18) **fair value**– the amount which would be received from the sale of an asset or would be paid by discharging liabilities in a standard transaction between market participants on the date of measurement of the abovementioned asset or liabilities;

19) **research costs**– the costs which are directly attributable to research measures and also such costs which have arisen in the development stage of the project for the formation 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 cash or its equivalents or the fair value of the consideration transferred for the acquisition of the goods or service at the time when the asset was acquired;

21) **management**:

a) in a capital company and also in a cooperative society – the executive board and supervisory board (if the supervisory board 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, farm or fish farm – the owner of the undertaking or farm accordingly;

22) **impairment adjustments**– adjustments which are made in to indicate the impairment of assets at balance sheet date regardless of whether such impairment is final or not. Impairments adjustments of shall also mean the calculation of the annual depreciation of a property, plant, and equipment and annual write-down of intangible investments;

23) **essential intangible resources**– resources without physical substance on which the business model of the subject of the Law fundamentally depends and which constitute the source of value creation for the subject of the Law.

(2) The terms “financial instruments”, “equity securities”, and “transferable securities” used in this Law correspond to the terms used in the Financial Instrument Market Law.

(3) The term “related parties” used in this Law corresponds to IAS 24 “Related Party Disclosures” referred to in the Annex to Commission Regulation (EU) 2023/1803 of 13 September 2023 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

(4) The terms “sustainability matters” and “sustainability report” used in this Law correspond to the terms used in the Law on Sustainability Disclosures.

[*7 December 2017; 26 September 2024*]

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

This Law prescribes:

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

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

3) the person responsible for the 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 and cooperative societies 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, farms and fish farms whose turnover (revenues) from economic transactions within the previous reporting year exceeds 300 000 euros.

(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, farms and fish farms may prepare an annual statement taking into account the provisions of this Law also if their turnover (revenues) from economic transactions within the previous reporting year does not exceed 300 000 euros.

(4) This Law shall not apply to credit institutions, credit unions, insurance companies, re-insurance companies, private pension funds, investment firms, investment management companies, and also alternative investment funds founded as commercial companies.

(5) A development finance 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 to annual statement and for the measurement of the items of a financial statement laid down in this Law, the items of an annual statement shall be measured 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 items of a financial statement need not be indicated if they are not material or their omission makes the financial statement more transparent, and 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 the annex to a 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 measurement of the items of the consolidated annual statement and consolidated financial statement, components of the consolidated financial statement and for the provision of explanatory information in the consolidated financial statement accordingly.

(6) A development finance institution a and a commercial company the transferable securities of which are admitted on 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.

(61) If a commercial company the transferable securities of which were admitted on the regulated market in the previous reporting year and which had prepared, as required by the Financial Instrument Market Law, the annual statement and consolidated annual statement according to the international accounting standards ceases to be the regulated marked participant in the reporting year, it may continue to prepare the annual statement and the consolidated annual statement according to the international accounting standards. The provisions of Paragraph five, Clauses 1, 2, 3, and 4 and Paragraph six of this Section shall apply to a commercial company which uses the opportunity provided in this Paragraph.

(7) A capital company which is a large undertaking in conformity with the provisions of this Law 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 measurement of the items of the financial statement, components of the financial statement and provision of the explanatory information in the financial statement accordingly.

[*7 December 2017; 11 November 2021*]

**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 (euro).

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

**Chapter II**

**Division of Undertakings and Groups of Companies**

**Section 5. Categories of Undertakings**

(1) When 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 does not exceed at least two of the three limit values of the criteria referred to in this Paragraph on the balance sheet date:

1) balance sheet total – 450 000 euros;

2) net turnover – 900 000 euros;

3) average number of employees in the reporting year – 10.

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

1) balance sheet total – 5 000 000 euros;

2) net turnover – 10 000 000 euros;

3) average number of employees in the reporting year – 50.

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

1) balance sheet total – 25 000 000 euros;

2) net turnover – 50 000 000 euros;

3) average number of employees in the reporting year – 250.

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

(6) If the undertaking does not exceed two limit values of the criteria referred to in Paragraph two, three, or four of this Section on the balance sheet date for two consecutive years (both in the current and previous reporting year), it shall obtain the right to provide in its annual statement the minimum amount of information 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 it exceeds the abovementioned limit values in the subsequent reporting years 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 shall, when preparing the annual statement, 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, farm and fish farm which becomes the subject of this Law in the reporting year, if it does not exceed two limit values of the criteria referred to in Paragraph two, three, or four of this Section on the balance sheet date, is entitled to provide in its first annual statement the minimum amount of information 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; 26 September 2024* / *See Paragraph 13 of Transitional Provisions*]

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

(1) When 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 the 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 – 5 000 000 euros;

2) net turnover total – 10 000 000 euros;

3) average number of employees in 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 the 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 – 25 000 000 euros;

2) net turnover total – 50 000 000 euros;

3) average number of employees in 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 the 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 exceeds upon consolidation two of the limit values of criteria referred to in Paragraph two or three of this Section on the balance sheet date of the parent undertaking thereof for two consecutive years (both in the 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 does not exceed upon consolidation two of the limit values of the criteria referred to in Paragraph two or three of this Section on the balance sheet date of the parent undertaking thereof for two consecutive years (both in the current and previous reporting year), the parent undertaking of the group of companies shall obtain 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; 26 September 2024*]

**Section 7. Special Provisions Regarding Criteria**

(1) The criterion “Balance sheet total” is the total of all items of the asset of the layout for the balance sheet indicated in Annex 1 to this Law.

(2) The criterion “Net turnover” is the amount of revenues disclosed under the item “Net turnover” of the profit or loss account layout indicated in Annex 2 or 3 to this Law.

(3) In an exceptional case, if there is no amount under the item “Net turnover” of the profit or loss account of the undertaking or it is immaterial, but the amounts of revenues included under other items of the profit or loss account are material, the criterion “Total revenues” which is calculated by taking into account also those amounts of revenues indicated under all other items of the profit or loss account shall be used instead of the criterion “Net turnover”.

(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 the derecognition 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) The undertaking has the obligation to prepare an annual statement on each reporting year within the meaning of the Accounting Law.

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

[*11 November 2021*]

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

(1) A financial statement for a small undertaking shall consist of at least 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 the funds of the undertaking and sources thereof (assets and liabilities) on the balance sheet date are indicated. Funds shall be indicated under the assets of the balance sheet, but sources thereof under the liabilities of the balance sheet. Total assets of the balance sheet must be equal to total liabilities of the balance sheet.

(4) A profit or loss account is a part of the financial statement in which revenues and costs of the undertaking and also the profit gained or losses arisen within the reporting year are indicated.

(5) Annex to the 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. Layouts for Parts of a Financial Statement and Change Thereof**

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

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

(3) A cash flow statement shall be prepared on the basis of the layout 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 layout laid down in Annex 6 to this Law.

(5) The layout used for the preparation of a profit or loss account and also 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 layout for two consecutive reporting years).

(6) In exceptional cases, the requirements of Paragraph five of this Section need not be applied if the reason for the change of the layout of the relevant part of the financial statement is the 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 layout for the 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 the Indication of Items of Parts of a Financial Statement**

(1) The balance sheet items laid down in Annex 1 to this Law, the items of the layout 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 – the items) shall be, when preparing the relevant part of the financial statement, shall be disclosed each separately in the order laid down for the relevant layout.

(2) The undertakings may, when preparing the relevant part of the financial statement, join within the framework of the relevant layout those items in layouts which are designated with Arabic figures if their amounts are immaterial 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 layout, 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 aforementioned item is not covered in any of the items of the relevant layout. 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 layout, 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 aforementioned item is not included under any of the items of the relevant layout.

[*7 December 2017* / *See Paragraph 8 of Transitional Provisions*]

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

(1) When 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 for the previous reporting year shall be indicated for each item.

(2) If significant errors from previous years are found in the reporting year 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 figures of the previous reporting years have been adjusted, an explanation shall be provided in the annex to the financial statement.

(4) An item under which there is no figure shall be indicated only if there was a relevant item with a figure in the statement on the previous 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 Accounting Law, this Law and other laws and regulations governing accounting and annual statements.

(2) A financial statement must provide true and fair view of the funds (assets), liabilities, financial position and profit or losses of an undertaking, but an annual statement of a medium-sized undertaking and large undertaking – also of the 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 the recognition, measurement, and disclosure of the items of the financial statement laid down in this Law if the application thereof does not provide a 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 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 shall be indicated in annex to the financial statement.

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

1) the undertaking does not fall under the the going concern assumption 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 for measuring the items of the financial statement in conformity with the acquisition costs or production cost price cannot be applied;

2) due to justified reasons (for example, if the undertaking the transferable securities of which are admitted on 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 of such group of companies whose parent undertaking requires to use the international accounting standards for the recognition, measurement, disclosure of items in the financial statement and for the provision of explanatory information) the undertaking recognises, measures, discloses 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 on 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, i.e., plots of land, buildings, engineering structures, building units, and the undivided shares of the abovementioned objects, which an undertaking holds as the owner or lessee according to a finance lease in order to acquire a lease (rent) payment or to await a rise in prices (increase in value), but not to use it for the production of goods, provision of services, administrative purposes (for the management 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 to acquire agricultural products for sale or additional biological assets;

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

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

5) deferred tax liabilities are such amounts of enterprise income tax which are to be paid within the next reporting years and refer to those temporary differences between the value of the items of a balance sheet asset or liability in the financial statement and the value of such item for the needs of the 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 the preparation of a financial statement, except in the case referred to in Paragraph five, Clause 1 of this Section when a micro-entity does no longer fall under the going concern assumption laid down in Section 14, Paragraph one, Clause 1 of this Law.

[*11 November 2021*]

**Section 14. General Principles for the 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 (going concern assumption);

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

3) items shall be recognised and measured in the financial statement by exercising prudence, especially taking into account the following conditions:

a) only the profit made until the balance sheet date shall be included in the financial statement;

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

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

4) amounts under the items of the balance sheet and the profit or loss account shall be disclosed on the accrual basis, namely, revenues and expenditures shall be disclosed by taking into account the time of their occurrence, not the time when money was received or spent. Revenues and expenses related to the reporting year shall be disclosed regardless of the date of payment or receipt of invoice;

5) costs shall be matched with revenues for the respective reporting periods;

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

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

8) except for 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 expenditure items of the profit or loss account is prohibited;

9) amounts under the items of a profit or loss account shall be disclosed by taking into account the content and nature of economic transactions, not only their legal form;

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

(2) Material financial information which significantly affects the assessment of users of the annual statement or the decision taken thereby shall be disclosed under the specific items of a balance sheet and profit or loss account, but by a medium-sized and large undertaking also in the specific items of a cash flow statement and statement of changes in equity. Immaterial amounts which do not significantly affect the assessment of users of the annual statement or the decisions taken thereby shall be disclosed in the abovementioned parts of the financial statement under 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 a derived or liquidated long-term investment object is derecognised, the revenues and costs related to derecognition of the abovementioned object shall be mutually set off. In such case, the net value shall be disclosed in the profit or loss account – profit or loss from the disposal of a long-term investment object, calculated as the difference between the balance sheet value of the derecognised object and the revenues and the revenues and expenditures for the disposal or liquidation thereof provided that gross amounts are disclosed in annex to the financial statement. An undertaking is entitled to disclose in the profit or loss account also the net value of the profit gained or losses incurred due to fluctuations in foreign currency exchange rates calculated as the difference between the revenues and expenditures arisen 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 of the 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 the measurement and disclosure of the financial support (financial aid) received from the State, local governments, foreign countries, European Union, other international organisations and institutions, donations and gifts of cash or kind in the financial statement;

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

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

4) the methods for the accounting and measuring of property, plant, and equipment, and the procedures for disclosing the expenses and changes in value related thereto in the financial statement;

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

6) the conditions and methods for the measurement of the provisions, accounts receivable, accrued revenues, accrued liabilities, contingent liabilities and contingent assets;

7) the procedures by which the undertaking which is a performer of construction work or a performer of other long-term contract works shall account and measure the revenues and expenditures related to the construction contract or another long-term contract;

8) the disclosure of intangible properties created under research and development measures which do not conform to conditions for the classification of intangible investments in the financial statement, providing specific examples;

9) the methods for the accounting and measurement of inventories, and the procedures for disclosing the expenses associated therewith and changes in value in the financial statement;

10) the procedures for the measurement and disclosure of finance lease and operating lease transactions in the financial statement;

11) the procedures by which individual undertakings, farms and fish farms shall disclose equity items in the financial statement;

12) the procedures by which the undertaking which does not fall under the going concern assumption laid down in Section 14, Paragraph one, Clause 1 of this Law shall prepare the financial statement;

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

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

(3) The Cabinet shall issue regulations regarding the form of the electronic true copy 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 shall be submitted in the form of an electronic copy.

[*7 December 2017*]

**Chapter V**

**Balance Sheet**

**Section 16. General Conditions for Disclosing Amounts of Balance Sheet Asset Objects, Receivables, and Payables**

(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-lasting property. Other assets are current assets.

(2) A specific asset object shall be disclosed 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 disclosed separately for each item of receivables in the balance sheet.

(4) Particular amounts of liabilities shall be disclosed in the composition of long-term payables and short-term payables in the balance sheet depending on the due date for the payment of a debt or coverage of liabilities. Composition of long-term payables shall include those amounts of liabilities the payment term of which is due more than 12 months after the end of the respective reporting year and which have arisen to finance long-term investments and current assets or to cover liabilities, and which are not to be included in composition of short-term payables. Composition of short-term payables 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 operational cycle of the undertaking.

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

**Section 17. Deferred Expenses and Revenues**

(1) Payments made before the balance sheet date but referring to the next reporting years shall be disclosed under the item “Deferred expenses”.

(2) Payments received before the balance sheet date but referring to the next reporting years or further reporting years shall be disclosed under the balance sheet item “Deferred revenues”.

**Section 18. Own Stocks or Shares and Participating Interests in Other Undertakings**

(1) The undertaking shall disclose the acquired own stocks or shares under the balance sheet item “Own stocks or shares”, but the interests acquired in the equity of a subsidiary of a group of companies or the parent undertaking of a group of companies, or another subsidiary of such a group of companies, or a subsidiary of the subsidiary of such group of companies shall be disclosed under the balance sheet item “Participating interests in affiliated undertakings”.

(2) The undertaking shall disclose the interests acquired in the equity capital of an associated undertaking under the balance sheet item “Participating interests in associated undertakings”, but other participation in the equity capital of another undertaking shall be disclosed under the balance sheet item “Other securities and investments”.

(3) Participating interests of the undertaking in another undertaking (hereinafter – the participating interests) 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 participating interests is to promote activity of the undertaking by creating a continued link with another undertaking. Participating interests in another undertaking is as follows:

1) participating interests in an affiliated undertaking if the undertaking has acquired for more than 50 per cent of the stocks or capital shares (for a cooperative society – cooperative share) of another undertaking;

2) participating interests in an associated undertaking if the undertaking has acquired not less than 20 per cent but not more than 50 per cent of the stocks or capital shares (for a cooperative society – cooperative share) of another undertaking.

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

(1) The undertaking shall disclose the acquired immovable property objects (plots of land, buildings, engineering structures, building units, and undivided shares of the abovementioned objects) under the balance sheet item “Plots of land, buildings, and engineering structures”.

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

**Section 20. Profit or Loss Sum**

Under the balance sheet item “Profit or loss for the reporting year”, the amount which corresponds to the amount disclosed under the profit or loss account item “Profit or loss for the reporting year”. The profit distribution or coverage of losses of the undertaking shall be disclosed in the annual statement for the next year, correspondingly decreasing the amount disclosed at the beginning of the reporting year under the item “Retained earnings for previous years”.

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

Balances of foreign currency (for example, cash at the cashier’s office of the undertaking, non-cash in payment 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 receivables or payables 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 the Property, Plant, and Equipment of a Public Partner**

If the undertaking makes, during the term of validity of a public-private partnership contract, long-term investments in the property, plant, and equipment of a public partner which have bee transferred to it with the abovementioned contract, such undertaking shall disclose the amount of expenses related to the establishment of the abovementioned long-term investments under the balance sheet item “Long-term investments in the property, plant, and equipment of a public partner”.

**Section 23. Impairment Adjustments 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 cost), or the value (if any) determined in revaluation shall be gradually reduced for this object during the planned useful life, by deducting therefrom impairment adjustments which are calculated to gradually write down the value of such object (for an object of property, plant, and equipment – annual calculation of depreciation, for an intangible investment object – annual write-down of the value) during its planned useful life.

(2) Useful life for a plot of land is not limited, therefore its initial cost may not be subject to the impairment adjustments referred to in Paragraph one of this Section.

(3) If the value of a long-term investment object on the balance sheet date 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 impairment will be continuous, impairment adjustment shall be applied to the relevant object, valuing it based on 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) Impairment adjustments 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) Impairment adjustments of long-term investments referred to in Paragraph three of this Section may be discontinued if the impairment is no longer justified. This provision shall not apply to impairment adjustments which are applied to an intangible value, namely, these impairment adjustments are not revocable.

**Section 24. Impairment Adjustments of Current Assets**

The value of current assets shall be adjusted so that they would be valued based on the 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 – based on another lowest value (for example, receivables the receipt of which is doubted shall be valued based on the net value, damaged or outdated units of inventories and units of inventories for which production completion or sales costs significantly increase shall be valued based on the net realisable value). Impairment adjustments of the current assets referred to in this Section may be discontinued if the impairment is no longer justified.

**Section 25. Measurement of Inventories**

(1) The acquisition costs or production cost price of inventories may be measured as the weighted average price or according to the “First in – first out” (FIFO) method.

(2) The “First in – first out” (FIFO) method is a method for measuring the the use of inventories and residual value which is based on the assumption that the units of inventories which have been purchased or produced first are sold or used first. Therefore those units of inventories which remain in balance at the end of the reporting period are those which have been purchased or produced last.

(3) The weighted average price method is a method for measuring the use of inventories and residual value under which the costs of each unit of inventory are measured on the basis of the weighted average costs of similar units of inventories at the beginning of the reporting period and the costs of similar units of inventories purchased or produced during the reporting period.

(4) The undertaking shall use the same method for measuring the use and residual value of inventories for all inventories of similar type and use.

**Section 26. Measurement of Exchangeable Transferable Securities**

The value of exchangeable transferable securities included in short-term financial investments may be measured as the weighted average price or according to the “First in – first out” (FIFO) method.

**Section 27. Difference between the Amount of Borrowings to be Repaid and Received**

(1) If the amount of a borrowing to be repaid is larger than the amount received, the difference shall be disclosed in annex to the financial statement.

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

**Section 28. Inclusion of Interest Rates**

Interest rates for the borrowings received for the formation of long-term investments or current assets, insofar as they are attributable to the formation period, may be included in the production cost price of the relevant newly formed objects. The undertaking shall provide information in annex to the financial statement on the cases of application of this provision, indicating the amount of interest included in the production cost price.

**Section 29. Formation of Intangible Investment Items**

(1) Expenditures for the establishment of the undertaking and research costs may not be included in the balance sheet (capitalised). They shall be written down under expenditures of the reporting year when they have been incurred.

(2) Only rights acquired in exchange for reward may be disclosed under the item “Concessions, patents, licenses, trademarks, and similar rights”.

(3) Expenditures related to the acquisition of an undertaking may be disclosed under the item “Goodwill” if they cannot be attributed to other items of the balance sheet asset, moreover, only in such amount for which such goodwill was acquired for reward.

**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 cost of the object of development costs is not completely written-down, the profit shall not be distributed unless the amount of earnings retained for previous years is at least equivalent to the amount of the initial cost of development costs not written down.

**Section 31. Write-down of Value of Intangible Investment Items**

(1) The initial cost of the object of intangible investments shall be written down by making the impairment adjustments referred to in Section 23, Paragraph one of this Law, i.e., the annual write-down of the value of intangible investments during the useful life of such object.

(2) In exceptional case, if the useful life of the object of goodwill or development costs cannot be reliably estimated, their initial cost shall be written down gradually, dividing by years, over a period which does not exceed 10 years. Each such exceptional case shall be explained in annex to the financial statement, indicating length of the period over which it is planned to write down the initial cost of the relevant item.

**Section 32. Formation and Measurement of Provisions**

(1) Provisions are intended for settling the liabilities the essence of which is clearly determined and which are expected or known on the balance sheet date or will definitely occur on the balance sheet date, however, the amount of the sum necessary for settling such liabilities or the date of occurrence of such liabilities may change.

(2) The undertaking may form provisions to cover expenditures if the essence of such expenditures is clearly determined and the occurrence thereof are expected or known at the balance sheet date or thy will definitely occur on the balance sheet date, however, the amount of the sum necessary for covering such expenses or the date of occurrence of such expenses may change.

(3) Provisions shall be recognised based on the best accounting estimate of the amount which is necessary on the balance sheet date to settle the liabilities referred to in Paragraph one of this Section or the expenditures referred to in Paragraph two of this Section which may arise.

(4) Provisions may not be used for the adjustment of asset value.

**Chapter VI**

**Alternative Possibilities for Measuring Balance Sheet Items**

**Section 33. Revaluation of Property, Plant, and Equipment and Formation of Reserve**

(1) By derogation from Section 14, Paragraph one, Clause 10 of this Law, an object of property, plant, and equipment the value of which is significantly higher than its acquisition costs or production cost price, or valuation in the balance sheet of the previous year may be revalued at its higher value if it may be assumed that the value increase will be long-term.

(2) The difference arisen as a result of such revaluation between the valuation made on the basis of acquisition costs or production cost price and the valuation made on the basis of revaluation, if such difference is positive (hereinafter – the increase in value), shall be included under the relevant asset item of the balance sheet where the revalued object of property, plant, and equipment is indicated and under the liabilities item of the balance sheet “Long-term investment revaluation reserve” in section “Equity”. However, the sum in the amount of which an increase in the value arisen as a result of revaluation completely or partly compensates for the impairment of the same object of property, plant, and equipment which, in previous reporting years, was disclosed in the profit or loss account as costs shall not be disclosed in the long-term investments. This sum shall be disclosed in the profit or loss account as revenues in the reporting year in which the increase in the value of the object of property, plant, and equipment was determined.

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

[*11 November 2021*]

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

(1) Long-term investment revaluation reserve shall be reduced if the revalued object of property, plant, and equipment is alienated, liquidated or the basis for the increase in the value thereof has ceased to exist. The undertaking is entitled to reduce the revaluation reserve also if it calculates the annual depreciation of the revalued object of property, plant, and equipment. Reduction of revaluation reserve shall be disclosed in the profit or loss account as revenues in the reporting year in which such reduction is made.

(2) Long-term investment revaluation reserve shall only be reduced in the cases specified in Paragraph one of this Section. Long-term investment revaluation reserve may not be disbursed, divided in dividends or used to cover losses, increase the equity, form other reserves, or for other purposes.

[*7 December 2017*]

**Section 35. Measurement of Financial Instruments at Fair Value**

(1) By derogation from the measurement provisions laid down in Section 14, Paragraph one, Clause 10 of this Law, financial instruments (also derivative financial instruments) may be measured at fair value if the conditions included in Paragraphs two, three, and four of this Section are complied with.

(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 make settlements in cash or with another financial instrument are derivative financial instruments, except when all of the following conditions are in effect:

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

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

3) the the contractual obligations are planned to be settled through the supply of goods.

(3) Measurement at fair value shall be applied only to such financial liabilities which are an integral part of the trading portfolio or which have arisen from derivative financial instruments. Trading portfolio is the aggregate of the 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 to gain profit in the near future from the actual or expected purchase and sales price difference or other price or interest rate changes, and also the items which are acquired by the undertaking to hedge the risks of the trading portfolio items.

(4) In addition to that laid down in Paragraph one of this Section, any item of financial assets or financial liabilities which is qualified as a hedged item or also a specific part of such item may be measured at fair value if it is necessary according to the hedge accounting system adopted by the undertaking. A hedge accounting system is the disclosure of one or several hedging instruments (derivative financial instruments, other financial assets or financial liabilities) for the purpose of hedge accounting so that the change in the fair value of such instruments would completely or partially compensate for the change in the fair value or cash flow of the hedged item.

**Section 36. Financial Assets which are not Subject to Measurement at Fair Value**

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

1) held-to-maturity investments which are non-derivative financial instruments;

2) loans and receivables which are not held for trade;

3) interests in equity of the subsidiaries of a group of companies, associated undertakings and jointly controlled undertakings, equity securities issued by the undertaking, an also other financial instruments which, in conformity with the international accounting standards, are not subject to measurement at fair value.

(2) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payment schedule and fixed term which the undertaking is committed and able to hold until maturity, except for such financial assets:

1) which have been initially classified by the undertaking for measurement at fair value with the inclusion of changes in the value in profits or losses;

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

3) which are loans and receivables.

(3) Loans and receivables 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 held for trade, and also those which have been initially recognised by the undertaking for measurement at fair value with inclusion of changes in the value in profits or losses;

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

3) for which the owner may not recover substantially all of its initial investment due to different reasons, except when the credit situation has deteriorated, and which therefore are to be classified as financial assets available for sale.

(4) Financial assets shall not be classified as held-to-maturity investments if the undertaking has, during the current financial year or the two preceding financial years, sold or reclassified more than an insignificant amount of financial assets which were classified as held-to-maturity investments in comparison with the total amount of held-to-maturity investments, except for such sold or reclassified investments which:

1) are so close to maturity or call date of the financial asset (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the fair value of the financial instrument;

2) occur after the undertaking has collected substantially all of the original principal amount of the financial asset, through a payment schedule or prepayment;

3) are attributable to an isolated event which is beyond the control of the undertaking, which is non-recurring and could not have been reasonably anticipated by the undertaking.

**Section 37. Valuation Methods of Financial Instruments**

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

1) for financial instruments for which price quotations have been published in an 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 the market price cannot be determined – on the basis of the value calculated using generally known and applicable measurement 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 reliably measured with the methods referred to in Paragraph one of this Section shall be measured in accordance with the procedures laid down in Section 14, Paragraph one, Clause 10 of this Law, insofar as such measurement 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 while making assessment in accordance with the methods laid down in Section 37, Paragraph one of this Law shall be disclosed in the profit or loss account, except in the following cases:

1) the financial instrument is qualified as a hedging instrument, and according to the hedging 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 disclosed 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 disclosed under the balance sheet item “Fair value reserve of financial instruments”.

(2) The undertaking shall disclose changes in the fair value of financial assets available for sale if such assets are non-derivative financial instruments under 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 financial assets which are accounted as available for sale or which are not classified as loans and receivables, investments held until maturity 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 disclosed under the balance sheet item “Fair value reserve of financial instruments” shall be reduced by including it in a profit or loss account for the same reporting year in which the relevant financial instrument is sold, deleted 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 reduced 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 to cover losses, increase equity, form other reserves or for other purposes.

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

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

**Chapter VII**

**Profit or Loss Account**

**Section 41. Net Turnover and Other Operating Revenues**

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

(2) Different other revenues (for example, profit gained from the alienation of long-term investment objects or fluctuations in foreign currency exchange rates, revenues from insurance compensations, financial assistance or financial aid received) which are not recognised under the item “Net turnover” or other relevant revenue items and which have arisen as a result of economic activity or are arising therefrom shall be recognised under the item “Other operating revenues”.

**Section 42. Sales and Administrative Costs**

(1) The relevant part of staff costs, material costs, impairment adjustments of property, plant, and equipment and intangible investments, and other costs of economic activity which refer to the reporting year, shall be recognised under the items “Sales costs” and “Administrative costs”.

(2) The part of 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 disclosed under the item “Sales costs”.

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

**Section 43. Other Revenue and Expenditure Items**

(1) Revenues from the transfer of assets of the undertaking for use to other persons shall be recognised under the following items of the profit or loss account:

1) revenues from long-term financial investments in equity of other undertakings (hereinafter – the dividends) shall be recognised under the item “Revenues from participating interests”, recognising separately those dividends which are received from participating interests in affiliated undertakings and those dividends which are received from participating interests in the associated undertakings and other undertakings;

2) revenues from long-term cash deposits, loans, securities, and other long-term receivables (hereinafter – interest from long-term financial investments) shall be recognised under the item “Revenues from other securities and loans which formed long-term financial investments”, recognising separately the interest received from affiliated undertakings and the interest received from associated undertakings and other undertakings;

3) revenues from short-term loans and claims (for example, interest), and also royalties (for example, for the transfer of patents, trademarks, copyrights and the rights of use of computer software) shall be recognised under the item “Other interest receivable and similar revenues”, recognising separately the revenues received from affiliated undertakings and revenues 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 recognised under the item “Production cost price of produce sold, acquisition costs of goods sold or services provided”.

(3) Operating expenses of the undertaking which are not recognised under other items of the 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 the alienation of long-term investment objects or fluctuations in foreign currency exchange rate) shall be recognised under the item “Other operating expenses”.

(4) The amounts to be recognised under the item “Changes in inventories of finished goods and work-in-progress”, if the undertaking prepares a profit or loss account according to the layout indicated in Annex 2 to this Law, and under the items “Production cost price of produce sold, acquisition costs of goods sold or services provided”, “Sales costs” and “Administrative costs”, if the undertaking prepares a profit or loss account according to the layout indicated in Annex 3 to this Law, shall be measured according to production cost price calculations corresponding to peculiarities of the undertaking in which the relevant part of material costs, personnel costs, impairment adjustments of property, plant, and equipment, intangible investments, and current assets and other costs is 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 at the end of the reporting year shall be recognised in the items of the profit or loss account in accordance with Paragraph two or three of this Section.

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

(3) If the profit amount disclosed under the item “Profit or loss after calculation of enterprise income tax” is less than the amount of extraordinary dividends calculated in the reporting year and if the losses are disclosed under this item, the part of the excess of extraordinary dividends over the abovementioned profit amount but, in the case of losses, the entire calculated amount of extraordinary dividends shall be disclosed under the item “Other operating expenses”.

**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 operating activity, investing activity, and financing activity of the undertaking, and also the increase or reduction in cash and its equivalents, and balances is disclosed separately.

(2) Operating cash flow is the cash revenues, payments, and expenses which have not arisen from investing or financing activity.

(3) Investing cash flow is such cash flow which arises in relation to the acquisition and alienation of long-term investments (for example, property, plant, and equipment, investment properties, intangible investments, long-term financial investments) and investments other than cash equivalents.

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

(5) Cash is cash at the cashier’s office of the undertaking and non-cash in payment accounts and sight deposit accounts.

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

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

(1) If the layout indicated in Annex 4 to this Law is used for the preparation of a cash flow statement, the operating cash flow shall be measured by applying the direct method. Under this method, information on cash flow broken down by items included in the layout shall be acquired directly from the accounting register data of the undertaking, analysing cash and non-cash operations or adjusting the amounts included in the item “Net turnover”, the item “Production cost price of produce sold, acquisition costs of goods sold or services provided” and in other items for the amounts of revenues and expenses other than related to the cash flow (for example, changes in the balances of inventories and operating receivables and payables in the reporting year, balances of other items which are related to the investing or financing cash flow).

(2) If the layout indicated in Annex 5 to this Law is used for the preparation of a cash flow statement, the operating cash flow shall be measured by applying the indirect method. Under this method, the amounts which are to be indicated in the items of the cash flow statement shall be calculated by adjusting the amount disclosed under the item “Profit or loss before the enterprise income tax” of the profit or loss account accordingly. If there have been cash revenues, payments or expenditures in foreign currencies in the reporting year, such impact shall be recognised separately from the operating cash flow, investing cash flow, and financing cash flow under a separate item of the cash flow “Result of fluctuations in foreign currency exchange rates”.

(3) Operating cash flows, investing cash flows, and financing cash flows in division by items included in layouts shall be disclosed at gross amounts (except in the cases referred to in Paragraph two of this Section).

(4) The difference between the received and made cash payments shall be recognised in the statement of operating cash flow:

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

2) payment received or made related to asset or liability items of the balance sheet which are characterised by fast circulation, large amounts, and short maturity or payment term (for example, the acquisition and sale of securities, receipt and repayment of such loans the repayment term of which does not exceed three months).

(5) The total amount of the interest paid during the reporting year shall be recognised 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 value of assets). The interest paid shall be recognised as the operating cash flow or financing cash flow. The interest received shall be recognised as the operating cash flow or the investing cash flow.

(6) The dividends disbursed shall be recognised as the operating cash flow or the financing cash flow. The dividends received shall be recognised as the operating cash flow or the investing cash flow.

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

(1) The difference between cash revenue and payments (expenditures) of the operating activity before expenditures for interest payments, enterprise income tax payments, and extraordinary items shall be disclosed under the item “Gross operating cash flow”. Excess of cash revenue over cash payments and expenditures shall be indicated as a positive figure, but excess of cash payments and expenditures over revenues shall be indicated as a negative figure.

(2) Excess of cash revenue from the operating activity, investing activity, or financing activity over cash payments and expenditures which relate to such direction of activity shall be disclosed as a positive figure or excess of payments and expenditures over revenues which relate to such direction of activity shall be disclosed as a negative figure under the items “Net operating cash flow”, “Net investing cash flow”, and “Net financing cash flow” 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 the influence of specific economic transactions during the reporting year, and also on the total profit or loss during this period, including amounts directly recognised in the equity or written down thereform.

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

1) the figures indicated in the balance sheet of the previous reporting year – the value of balances of the balance sheet section “Equity” and each item of the section on the balance sheet date of the previous year (hereinafter – the value of balances);

2) adjustment of the value of balances 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 an error of previous years;

3) changes in the value of balances referred to in Clause 1 of this Paragraph within the reporting year broken down 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 the value of balances of each item thereof on the balance sheet date.

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

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

1) involvement of additional capital or increase or reduction of equity [increase or reduction in the amount of the stock or share capital (equity) or the share premium account];

2) revaluation of property, plant, and equipment (increase or reduction 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 reduction in the balance of the fair value reserve of financial instruments);

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

5) inclusion of profit or loss for the reporting year in the balance sheet and changes in the amount of the balance of retained earning of the previous years, including changes in relation to the distribution of profit in dividends, use for the treatment of losses of previous years, increase in fixed capital, formation of reserves, or 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 the order in which 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 disclose in annex to the financial statement at least the following information in addition to the information laid down in this Law:

1) information on the adopted accounting policy and its conformity with the assumption that the undertaking will be operating also in the future, and also on any significant changes in the adopted accounting policy adopted and impact of such changes on the financial statement;

2) the total amount of the financial liabilities, guarantees provided, or other contingencies not included in the balance sheet. If the undertaking has entered into a lease or rent contract which are significant for its operations, the liabilities provided for under these contracts must be specially indicated. If the assets of the undertaking are pledged or encumbered with another security of liability, information thereon shall be recognised and the type of each security provided shall be disclosed. All liabilities concerning pensions and affiliated or associated undertakings shall be disclosed separately;

3) the amounts of advances, loans, or guarantees issued to the management broken down by individual groups of positions (members of the supervisory board and executive board), indicating the interest rates, the main conditions, and the amounts repaid, written-off, and repayable;

4) information on the revenue and expense items which have occurred as a result of events or transactions that clearly differ from the ordinary activities of the undertaking and not expected to be frequently or periodically repeated, their amounts and type. Ordinary activities of the undertaking are any activities which the undertaking performs within the framework of its economic activities, and also activities which promote economic activities of the undertaking, or have occurred in relation to such activities or are directly arising from them;

5) in respect of each item of long-term payables – the total amount of the accounts payable that become due and payable more than five years after the balance sheet date, and also the total amount of accounts payable which is covered by security, indicating the type and form of the security;

6) the average number of employees during 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, where appropriate,the fair value or value measured in revaluation at the beginning and end of the reporting year;

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

c) disposal or liquidation during the reporting year;

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

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

f) the impairment adjustments calculated during the reporting year;

g) changes in the total amount of impairment adjustments in relation to disposal, liquidation, or transfer to another item of long-term investment objects during the reporting year;

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

8) information on material events after the balance sheet date which are not included in the balance sheet or profit or loss account.

(2) If property, plant and equipment are measured at revalued amounts by applying the possibility provided for in Section 33 of this Law, a table shall be included in annex to the financial statement in which:

1) changes in the item “Revaluation reserve of long-term investments” during the reporting year are disclosed, explaining the procedures for imposing taxes applicable to the property, plant and equipment to be revalued;

2) information on the value which would have be disclosed in the balance sheet if the relevant item would not have been revalued is provided broken down by items of revalued property, plant, and equipment recognised in the balance sheet.

(3) If financial instruments are measured at fair value by applying the option provided for in Section 35, Paragraph one of this Law, the following shall also be included in annex to the financial statement:

1) the most important assumptions underlying the choice of valuation models and techniques if the fair value of such instruments has been 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 the 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 under the item “Fair value reserve of financial instruments” of the balance sheet;

3) in division by groups of derivative financial instruments – an explanation of such instruments, indicating total amounts, and also information on significant terms and conditions which may affect the amount, timing and certainty of future cash flow;

4) a table which reflects changes in the item “Fair value reserve of financial instruments” of the balance sheet during 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 measurement at fair value to the 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 measured 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 value and fair value of individual assets or asset groups, explaining why the reduction of value is not being applied and indicating facts which certify that the reduction in value is short-term and has occurred due to transitional circumstances;

3) the total amount of the emoluments granted to the management for performance of their functions by individual groups of positions (members of the supervisory board and executive board). The same shall apply to pensions and similar liabilities towards former members of administrative institutions;

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

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

6) information on subsidiaries and associated undertakings of the group of companies:

a) name, legal address and proportion of participating interest expressed as percentage in the property, plant, and equipment of the relevant undertaking;

b) the amount of equity and profits or losses according to the last approved annual statement of each such undertaking. Information on the amount of equity and profits or losses 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 of another undertaking;

7) the number and nominal value, if any has been measured, of the stocks or shares subscribed during the reporting year. In the absence of a nominal value, the accounting par value shall be disclosed for such stocks or shares;

8) if the property, plant, and equipment consists of several types of stocks or shares (for a cooperative society – cooperative shares), the number and nominal value of stocks or shares (for a cooperative society – cooperative shares) of each type. In the absence of a nominal value, the accounting par value of such stocks or shares shall be disclosed;

9) existence of any participation certificates, convertible debentures, warrants, options or similar financial instrument, indicating the number and rights conferred thereby;

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

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

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

b) the name and legal address of the smallest commercial company which prepares a consolidated annual statement as the parent undertaking of the group of companies, including such undertaking as its subsidiary therein, and itself being included as a subsidiary 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 authority of another European Union Member State, or the 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 obtained, provided that such statements are available;

12) proposed appropriation of profits or treatment of losses, but in the relevant case information on the appropriation of profits (also for extraordinary dividends, if any) or treatment of losses;

13) information on each agreement not included in the balance sheet, indicating the type, purpose, and financial impact thereof if the risks or benefits related to such agreement are material and if the information on such risks and benefits is necessary 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 on risk or benefit sharing, combined repurchase and sales transactions, debt factoring, consignment stock agreements, attraction of contract work, outsourcing);

14) information on the transactions of the undertaking with related parties if such transactions are material and not in line with normal market conditions, indicating the amount of such transactions, the type of relationship with the related parties and other information on such transactions which is necessary to understand the financial position of the undertaking. Information on individual transactions with related parties may be joined in groups on the basis of the type of such transactions, except for cases where it is necessary to provide information separately in order to measure the effect of related party transactions on the financial position of the undertaking;

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

16) changes in the value of the balances of equity items in relation to changes in the accounting policy or correction of the errors of previous years;

17) detailed information on research and development costs.

(2) With derogation from the requirements for the provision of information laid down in Paragraph one, Clause 14 of this Section, medium-sized undertakings are allowed to indicate only such information on transactions of the undertaking with related parties which refers to transactions made with stockholders or shareholders, subsidiaries and associated undertakings of the same undertaking, as well as with the management (members of the supervisory board and executive board) 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) The undertaking which is the parent undertaking of a 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 on the subsidiaries of a 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 the abovementioned subsidiaries and associated undertakings of the group of companies in its consolidated financial statement;

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

[*7 December 2017; 11 November 2021* / *See Paragraph 9 of Transitional Provisions*]

**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 broken down 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 the remuneration calculated for a sworn auditor of an undertaking or a commercial company of sworn auditors (hereinafter – the sworn auditor) in the reporting year broken down by each of the following types of services provided by the sworn auditor:

a) mandatory audit (review) of the annual statement;

b) carrying out of other audit tasks;

c) consultation on tax issues;

d) carrying out of other tasks of a specialist.

(2) The information laid down in Paragraph one, Clause 1 of this Section may be omitted where its disclosure could be seriously prejudicial to the interests of the respective undertaking, disclosing in the annex to the financial statement that such information is omitted for the abovementioned reason.

**Chapter XI**

**Management Report**

**Section 55. Composition and Contents of the Management Report**

(1) The management report shall provide general information and include a sustainability report in accordance with the Law on Sustainability Disclosures.

(11) The general information shall provide clear information on the development, financial performance, and financial position of the undertaking, and also information on significant risks and uncertainties faced by the undertaking. Such information shall be justified by a balanced and comprehensive analysis of the development, financial performance, and financial position of the undertaking according to the size and complexity of the operation of the relevant undertaking.

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

1) financial key performance indicators;

2) insofar as they are relevant, also the main non-financial key performance indicators characterising the undertaking and the relevant sector and also information on the influence of environmental protection requirements and information on the employees or other information;

3) where appropriate, references to the amounts reported in the financial statement and additional explanations of them.

(3) The general information of the management report shall also provide information on:

1) future development of the undertaking;

2) activities in the field of research and development;

3) the sum of the own stocks or shares of the undertaking, including on:

a) the reason for acquiring own stocks or shares during the reporting year,

b) the number of own stocks or shares acquired and disposed of during the reporting year and sum total of the nominal value thereof or, in the absence of a nominal value, the sum total of the accountable par of such stocks or shares, and also the the share in equity expressed as a percentage, repurchase or sale sum total;

c) number of own stocks or shares acquired and held by the undertaking and the sum total of the nominal value thereof or, in the absence of nominal value, the sum total of the accountable par of such stocks or shares, and also the share of the sum total in the equity at the end of the reporting year;

4) branches and representations of the undertaking in foreign countries (number in division by countries);

5) use of financial instruments, if it is material for the assessment of the assets, liabilities, financial position, and profits or losses of the undertaking:

a) financial risk management objectives and policy, approved risk management policy for each major type of forecasted transaction for which hedge accounting is used;

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

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

(5) Large undertakings, and also medium-sized and small undertakings, except for micro-entities, the transferable securities of which are admitted to trading on a regulated market shall also provide information in the management report on essential intangible resources and explain how the operating model of the undertaking is fundamentally dependent on such resources, and how these resources create value for the undertaking.

(6) Large undertakings and also medium-sized and small undertakings, except for micro-entities, the transferable securities of which are admitted to trading on a regulated market shall include in a separate section of the management report a clearly identifiable sustainability report on the impact of the activities of the undertaking on sustainability matters, and also the impact of sustainability matters on the development, performance and status of the undertaking in accordance with the Law on Sustainability Disclosures.

[*26 September 2024* / *See Paragraph 12 of Transitional Provisions*]

**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 on the sum 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. The information referred to in Section 52, Paragraph one, Clauses 4, 7, and 8 of this Law need not be provided 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 the limit values indicated in Paragraph two of this Section on the balance sheet date, it is permitted, by derogation from the requirements laid down in Section 9, Paragraph one of this Law, 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), and also information on the average number of employees during the reporting year.

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

1) balance sheet total – EUR 63 000;

2) net turnover – EUR 125 000;

3) average number of employees in 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 (Paragraph six of Section 10);

2) has combined immaterial amounts which refer to several items of the balance sheet under one item of the balance sheet, in addition shall provide details of such total amount (Paragraph two of Section 11);

3) has found errors of 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 (Paragraph three of Section 12);

4) has included interest of the received loans in the production cost price of the newly constructed object, shall additionally provide information on the amount of interest included in the production cost price (Section 28).

[*26 September 2024* / *See Paragraph 13 of Transitional Provisions*]

**Section 59. Prohibition to Use the Possibility to Measure Financial Instruments at Fair Value**

The possibility referred to in Chapter VI of this Law to measure financial instruments at the 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 shareholders from the management of their funds;

2) which is related with the micro-entity referred to in Clause 1 of this Section by participating interests (hereinafter in this Clause – the related micro-entity) if the only purpose of such related micro-entity is to purchase fully paid-up stocks or shares issued by the micro-entity referred to in Clause 1;

3) the only purpose of which is to acquire interests (stocks or shares) in other undertakings, to manage such interests and gain profit from it, without becoming involved in the management of the abovementioned other undertakings neither directly nor indirectly, but also without prejudice to its rights as a stockholder or shareholder.

**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 cooperative society registered in the Republic of Latvia, a European Economic Interest Grouping registered in the Republic of Latvia, a European cooperative society, and a European commercial company, if the abovementioned person is the parent undertaking of a group of companies, have the obligation to prepare a consolidated annual statement for each reporting year within the meaning of the Accounting Law if such parent undertaking is directly or indirectly (with interests of one or several subsidiaries 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 shareholders’ voting rights (more than 50 per cent of the voting rights) based on the participating interests in the relevant subsidiary (regardless of the amount of the share of such interests);

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 based on the participating interests in the relevant subsidiary (regardless of the amount of the share of such interests);

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

4) majority of the members of the supervisory or executive body of the subsidiary of the group of companies who have been in the relevant positions in the current reporting year, previous reporting year and until the 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 shareholders in the abovementioned subsidiary of the group of companies on the basis of the contract entered into with other stockholders or shareholders of this subsidiary.

[*11 November 2021*]

**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 the group of companies shall be added respectively to the number of voting rights and members of the supervisory body and executive body of other subsidiaries 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 subsidiaries of this group;

2) the total number of voting rights of the stockholders or shareholder of the subsidiary of the group of companies shall be reduced by the voting rights which refer to the stocks or shares:

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

b) held as a security for liabilities to the extent of the amount of voting rights exercised for the benefit of the person to whom the security for liabilities has been provided or according to the conditions of the person granting the loan;

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

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

(1) When preparing a consolidated annual statement, the parent undertaking of a group of companies and all of its subsidiaries regardless of whether legal address of such subsidiaries is in the Republic of Latvia or abroad, except for those subsidiaries which are not included in consolidation in accordance with Section 68 of this Law shall be included in consolidation.

(2) A subsidiary of a 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.

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

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

(1) The parent undertaking of a group of companies referred to in Section 61 of this Law shall be exempt 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 a group of companies or one of its subsidiaries have been admitted to trading on a regulated market.

**Section 65. Exemption from the Obligation to Prepare a Consolidated Annual Statement for the Parent Undertaking of a Group of Companies which is a Subsidiary 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 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 holds all (100 per cent) of the stocks or shares in the undertaking which is exempted from the obligation to prepare a consolidated annual statement in accordance with the procedures provided for in this Section. When determining participating interests in such undertaking, the stocks or shares which are held by members of the supervisory body or executive body of such undertaking according to the obligation laid down in laws and regulations or the incorporation documents or articles of association of such undertaking;

2) it holds at least 90 per cent of the stocks or shares in the undertaking which is exempted from the obligation to prepare a consolidated annual statement in accordance with the procedures provided for in this Section, and the remaining stockholders or shareholder (minority stockholders) of this undertaking have agreed (are informed and do not object) 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 subsidiaries 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. This condition does not apply to the preparation of the consolidated sustainability report;

2) a true copy of the consolidated annual statement referred to in Clause 1 of this Paragraph together with a true copy of the report of a sworn auditor or a true copy of the 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) are 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 the report of a sworn auditor or a true copy of the 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 accordance with the procedures laid down in Section 98, Paragraph two of this Law;

4) the annex to the financial statement of an undertaking which is exempted from the obligation to prepare a consolidated annual statement contains the identification data for the parent undertaking of a 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 that the undertaking is 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 a group of companies or one of its subsidiaries have been admitted to trading on a regulated market.

[*11 November 2021; 26 September 2024*]

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

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

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

The parent undertaking of a 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 subsidiaries 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 of ta Group of Companies in Consolidation**

A subsidiary of a 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 to the assets and management of the subsidiary of the group of companies;

2) the information necessary for the preparation of the consolidated annual statements can be obtained only by missing the deadlines specified in Section 97 of this Law and with excessively high costs;

3) stocks or shares of the subsidiary of the group of companies are held by its parent undertaking only for the purpose of selling them later;

4) information on the subsidiary of the group of companies is immaterial for the implementation of the requirements of Section 69, Paragraph three of this Law. If there are several such subsidiaries within the same group of companies and they are material as a whole the elimination of which from consolidation would prevent a true and fair presentation of the performance and financial position of the group of companies, they may not be eliminated from consolidation.

**Chapter XIV**

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

**Section 69. Composition of a Consolidated Annual Statement and General Provisions for the 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 account, consolidated cash flow statement, consolidated statement of changes in equity and annex to the consolidated financial statement (hereinafter – the components of the consolidated financial statement).

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

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

(4) If the information included in a consolidated annual statement 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, profits or losses, or cash flow of the group of companies.

[*11 November 2021*]

**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 measuring the items of the consolidated annual statement and consolidated financial statement, components of the consolidated financial statement and for the provision of explanatory information in the consolidated financial statement by the parent undertaking of a group of companies.

**Section 71. Layouts of the Components of the Consolidated Financial Statement**

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

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

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

(4) A consolidated statement of changes in equity shall be prepared in accordance with the layout 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 components of the consolidated financial statement, taking into account material 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 disclosed under the relevant items of the financial statement of the parent undertaking of a group of companies and subsidiaries included in consolidation (hereinafter also – the undertakings included in consolidation) in accordance with the procedures indicated in this Section. In order to deem the consolidated financial statement to be prepared as the financial statement of a single undertaking, the consolidation procedures lad down in Section 73 of this Law shall be complied with.

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

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

(4) The items of the cash flow statement of the undertakings included in consolidation shall be included 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 accordingly increasing or reducing the amounts which are recognised under the items of the consolidated profit or loss account. Information included in the consolidated balance sheet, as well as information acquired additionally on 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 equity items of the consolidated balances sheet and additionally acquired information on changes in the equity and components thereof of the undertakings included in consolidation over the reporting year.

**Section 73. Consolidation Procedures**

(1) Consolidation procedures are as follows:

1) such financial statements of the subsidiaries included in consolidation are adjusted in which the principles for the preparation of the financial statement and other valuation methods used differ from the methods used in the financial statement of the parent undertaking (conditions of Section 74 are applied);

2) the financial statements of the subsidiaries of the group of companies which are registered in foreign countries are recalculated 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 share of the equity interests of the subsidiary (consolidation of equity) is set off (conditions of Section 76 are applied);

4) the following amounts recorded from mutual transactions of the undertakings included in consolidation are completely eliminated:

a) amounts of balances of mutual settlement of accounts (conditions of Section 77 are applied);

b) amounts of revenues or expenses (conditions of Section 78 are applied);

c) amounts of increase or reduction in the balance sheet value of funds (assets) (conditions of Section 79 are applied);

5) the share of the equity interests in the subsidiaries included in consolidation and interests in their profits or losses for reporting year of minority stockholders are identified (conditions of Section 80 are applied).

(2) The consolidated financial statement shall be supported by calculations and tables in the preparation of which the requirements laid down in the Accounting Law for source documents and accounting registers shall be complied with. The storage period of the abovementioned documents – calculations and tables – shall be 10 years.

[*11 November 2021*]

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

(1) If the principles for the preparation of the financial statement and other valuation methods used in the financial statement of the subsidiary of a group of companies included in consolidation differ from the methods used in the financial statement of the parent undertaking of the group of companies, the parent undertaking of the group of companies shall adjust the relevant items of the financial statement when preparing a consolidated annual statement. The values of the items of the balance sheet of the relevant subsidiary of a group of companies and the relevant items of the profit or loss account shall be accordingly increased or reduced by the calculated amount of 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 on each case of derogation, explaining the reason.

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

(1) In order for a subsidiary of a group of companies registered in a foreign country to be included in the consolidated financial statement, the annual statement of the subsidiary which has been prepared in a foreign currency shall be recalculated into euros. When making recalculations, the following conditions shall be complied with:

1) the assets and liabilities (funds, liabilities, and equity) shall be recalculated in euros according to the foreign currency exchange rate to be used in accounting which is in effect on the balance sheet date (at the end of the day);

2) the revenues and expenditures (expenses) shall be recalculated in euros according to the foreign currency exchange rate to be used in accounting which is in effect at the beginning of the day of economic transaction.

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

(3) If the recalculation laid down in this Section results in differences in the value of the items of balance sheet or profit or loss account, these differences shall be recognised directly under the consolidated reserves. The positive or negative differences included in the reserves specified in the consolidated balance sheet shall be recognised under a separate item “Foreign currency translation reserve” or as part of the total amount of consolidated reserves, including the division of the amount in annex to the consolidated financial statement.

**Section 76. Consolidation of Equity**

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

1) it is the date on which the subsidiary was included in consolidation for the first time;

2) it is the date of acquisition (purchase) of the stocks or shares of the subsidiary;

3) it is the date as of which the undertaking has become a subsidiary of the group of companies if the stocks or shares of this undertaking have been acquired (purchased) on different dates. The valuation date shall be indicated in annex to the consolidated financial statement.

(2) The difference arising from the consolidation of equity shall be attributed to the value of the items of the consolidated balance sheet by increasing or reducing it accordingly if the value of these items is greater or less than the book value initially recognised in the balance sheet of the subsidiary included in consolidation. If the abovementioned difference cannot be fully attributed to the items of the consolidated balance sheet, any remaining positive amount shall be recognised under the item “Goodwill” 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 under the item “Goodwill”, and the changes therein as compared with the previous reporting year.

(4) The procedures laid down in this Section shall not be applied to stocks or shares of the parent undertaking of a group of companies which are held either by the parent undertaking itself or by a subsidiary included in consolidation. In the consolidated balance sheet, such stocks and shares shall be recognised under the item “Own stocks 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 for dividends) which are included in the items of receivables and payables and the items of provisions and which are recorded as a result of mutual transactions between the undertakings included in consolidation shall be excluded from the items of the consolidated balance sheet.

**Section 78. Exclusion of Revenues and Expenses**

The revenues arising from mutual transactions between the undertakings included in consolidation and the expenses related to such revenues, the dividends calculated in these undertakings and attributable to the undertakings included in consolidation, interest revenues and payments, and 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 from mutual transactions between the undertakings included in consolidation shall be excluded from the items of the consolidated balance sheet:

1) the amounts of revenues and expenditures attributable to other reporting years which are recognised under the items of deferred revenues or deferred expenses;

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

**Section 80. Participating Interests of Minority Stockholders**

(1) The relevant share of equity interests of the subsidiaries involved in consolidation in the amount corresponding to the stocks and shares held by minority stockholders shall be recognised under the item “Participating interests of minority stockholders” of the consolidated balance sheet.

(2) The profit or loss for the reporting year of the subsidiaries included in consolidation which are related to the stocks and shares held by minority stockholders shall be recognised under the item “Share of profits or losses of minority stockholders” of the consolidated profit or loss account.

**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 balance sheet date of the consolidated annual statement, the annual statement of the parent undertaking of a group of companies and the annual statements of the subsidiaries included in consolidation must be the same, and it shall be the day on which the annual statement of the parent undertaking is prepared.

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

**Section 83. Inclusion of Revenues and Expenses of a Subsidiary of a Group of Companies in the Consolidated Profit or Loss Account**

Revenues and expenses of a subsidiary of a group of companies shall be included in the consolidated profit or loss account starting from the date on which such undertaking has become a subsidiary 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 ends.

**Section 84. Elimination of Balance Sheet Items of a Subsidiary of a Group of Companies and Participating Interests of Minority Stockholders from the Consolidated Balance Sheet**

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

1) asset and liability items of the balance sheet such subsidiary;

2) participating interests of the relevant minority stockholders.

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

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

(1) If material 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 the consolidated financial statement with the consolidated financial statements of previous years, shall be included in such statement.

(2) In order to meet the requirements referred to in Paragraph one of this Section, the relevant balances of the 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 an adjusted consolidated profit or loss account may be prepared.

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

(1) If an undertaking included in consolidation and one or several undertakings not included in such consolidation jointly control another undertaking, such jointly controlled undertaking shall be included in consolidation by applying the equity method. Equity method is an accounting method whereby equity interests in another undertaking is initially, i.e. on the day of acquisition (purchase), measured and recorded at acquisition cost but thereafter the value of the abovementioned interests is adjusted at the end of each reporting year by increasing or reducing it depending on the increase or reduction in the total amount of the equity of this other undertaking over the relevant period.

(2) Interests in a jointly controlled undertaking measured under the equity method, if influence on such undertaking which is ensured with not less than 20 and not more than 50 per cent of voting rights in such undertaking is material, shall be recognised under the item “Participating interests in associated undertakings” of the consolidated balance sheet, and the requirements of Section 87 of this Law shall be applied. If influence on the jointly controlled undertaking is immaterial, interests in the jointly controlled undertaking shall be recognised under the item “Other securities and investments” of the consolidated balance sheet.

(3) By derogation from that referred to in Paragraphs one and two of this Section, the assets, liabilities, equity, revenues, and expenditures (expenses) of a jointly controlled undertaking may be included in the consolidated financial statement in proportion to the share of the participating interests of the 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 complied with accordingly.

**Section 87. Inclusion of an Associated Undertaking in the Consolidated Financial Statement**

(1) If an undertaking included in consolidation has an associated undertaking, it shall be recognised under the item “Participating interests in associated undertakings” of the consolidated balance sheet.

(2) When initially recognising participating interests in an associated undertaking in the consolidated balance sheet, it shall be measured at the amount consisting of the acquisition cost of the stocks or shares of the associated undertaking and the increase or reduction in the value of the participating interests over the period from the day of acquisition or the day on which this undertaking has become an associated undertaking, if the stocks or shares have been acquired (purchased) on different dates, until the balance sheet date of the consolidated annual statements. The abovementioned increase or reduction in value shall be calculated according to the data of the annual statement of the associated undertaking on the basis of the share (percentage) of the capital invested in the equity of the associated undertaking (equity method).

(3) The difference between the acquisition cost of the stocks or shares of the associated undertaking calculated in accordance with the valuation rules provided for in the Section 14, Paragraph one, Clause 10 of this Law, and the amount which corresponds to the share ( percentage) 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 interests in the associated undertaking are disclosed, when initially recognising them in the consolidated balance sheet, at the acquisition cost or amount which corresponds to the share of its participating interests in the associated undertaking.

(4) The annual statement of an associated undertaking shall, where possible, 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 the principles for the preparation of financial statement and other valuation methods used in the financial statement of the associated undertaking differ from the methods used in the consolidated financial statement, the parent undertaking of the group of companies may adjust the corresponding items of the financial statement of the associated undertaking accordingly in order to calculate the difference referred to in Paragraph three of this Section. If such adjustment has not been made, information on such fact shall be provided in annex to the consolidated financial statement.

(5) In the reporting years following the initial recognition of participating interests in the associated undertaking in the consolidated balance sheet, the amount disclosed under the item “Participating interests in 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.

(6) At the end of each reporting year, the amount disclosed under the item “Participating interests in associated undertakings” shall also be reduced by the amount of the dividends calculated for the associated undertaking which is related to such interests.

(7) If the difference referred to in Paragraph three of this Section is positive, it shall be included in the amount disclosed under the item “Participating interests in associated undertakings” of the consolidated balance sheet. If such difference cannot be fully attributed to the abovementioned item of the balance sheet, any remaining positive amount shall be disclosed under the item “Intangible value”. The negative difference arisen shall be immediately recognised in the consolidated profit or loss account.

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

1) under the item “Revenue from participating interests in associated undertakings”, if it is part of the profits of the associated undertaking;

2) under the item “Impairment of interests in associated undertakings”, if it is part of the losses of the associated undertaking.

(9) The participating interest of the undertaking in the long term investment revaluation reserve and other reserves of the associated undertaking which have been formed in relation to changes in the asset value shall be disclosed in the consolidated balance sheet by 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 for which source documents can be obtained.

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

(12) An associated undertaking has the obligation 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 shareholders of the associated undertaking. If the associated undertaking prepares the consolidated annual statement, the provision referred to in this Paragraph of the Section shall also apply to the consolidated annual statement.

(13) The procedures laid down in this Section shall not be applied if information on participating interests and interests in the profits or losses of the associated undertaking is immaterial to fulfil 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 the 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. When preparing such information, material adjustments arising from the peculiarities of the consolidated annual statement in comparison to financial statements of the undertakings included in consolidation shall be taken into account, including:

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

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

3) when providing information on the amounts of the advance payments, loans, or guarantee liabilities issued to the management (Paragraph one, Clause 3 of Section 52) and the sum total of the remuneration granted to the management for the performance of functions (Paragraph one, Clause 3 of Section 53), 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 a group of companies for the performance of their functions in the parent undertaking and its subsidiaries shall be disclosed in division by separate position groups (members of the supervisory board and executive board). The same applies to pensions and similar liabilities towards 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 names and legal addresses of the undertakings involved in consolidation, and also the participating interests (in percentage) of such undertakings (except for the parent undertaking of a group of companies) held by the undertakings involved in consolidation or persons 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 for those subsidiaries of the group of companies which have not been included in consolidation in accordance with Section 66 or 68 of this Law, and the reason for non-inclusion shall be explained;

2) the names and legal addresses of associated undertakings, and also the participating interests of such undertakings (in percentage) held by the undertakings involved in consolidation or persons acting in their own name but for the benefit of the undertakings involved in consolidation;

3) the name sand legal addresses of jointly controlled undertakings together with the justification for the joint control over such undertakings, and also the participating interests of such undertakings (in percentage) held by the undertakings involved in consolidation or persons acting in their own name but for the benefit of the undertakings involved in consolidation;

4) the names and legal addresses 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 participating interests, and the amount of the share of participating interests, the amount of equity, and the profits or losses of the relevant undertaking in the last reporting year for which the annual statement of the undertaking has been approved. Information which refers to the equity and profits or losses need not to be provided if the relevant undertaking does not publish its annual statement.

(3) The information laid down in Paragraph two, Clause 1 of this Section on the provision of Section 61 of this Law which justifies the involvement of the undertaking in consolidation need not be provided if consolidation is implemented on the basis of Section 61, Clause 1 of this Law and if the share of participating interests and the share of the voting rights of the stockholders or shareholders 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) The consolidated management report shall provide at least the information laid down in Chapter XI of the Law on the undertakings included in consolidation as a whole.

(2) In the consolidated management report, 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. When 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. When disclosing information on the undertaking’s own stocks or shares as a whole (Paragraph three, Clause 3 of Section 55), the stock or shares of the parent undertaking of a group of companies held by this parent undertaking itself or by its subsidiaries or persons acting in their own names but for the benefit of the undertakings of the group of companies (number of these stocks or shares and their nominal value shall be disclosed as well) shall also be disclosed.

(3) The parent undertaking of a large group of companies has the obligation to include a clearly identifiable consolidated sustainability report in a separate section of the consolidated management report in accordance with the Law on Sustainability Disclosures.

[*26 September 2024* / *See Paragraph 12 of Transitional Provisions*]

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

The parent undertaking of a 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 on the parent undertaking of the group of companies and the information laid down in Section 89 of this Law on 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 or large undertaking or if its transferable securities are admitted to trading on a regulated market, and also the consolidated annual statement prepared by the parent undertaking of a group shall be audited (reviewed) and an auditor’s report on the results of the audit (review) 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 Audit Services.

(11) The compliance of the sustainability report prepared by the undertaking referred to in Section 55, Paragraph six of this Law and the consolidated sustainability report prepared by the undertaking referred to in Section 89, Paragraph three of this Law with the requirements of the Law on Sustainability Disclosures shall be certified by a sworn auditor.

(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 on 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 1 000 000;

b) the net turnover – EUR 2 000 000;

c) the average number of employees in the reporting year – 50;

2) if such undertaking is a parent undertaking of a 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 entity, subsidiary thereof or a public-private capital company within the meaning of the Law on Governance of Capital Shares of Public Entity and Capital Companies;

4) if such undertaking has, when applying Section 13, Paragraph five, Clause 2 of this Law, recognised the relevant items of the financial statement, measured 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 the 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.

[*26 September 2024*]

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

(1) The limited review of the annual statement is a review task to be carried out in accordance with the Law on Audit Services in respect of the data indicated and information included in the financial statement, including the conformity of the enterprise income tax amounts.

(2) The 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 Audit Services, 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 500 000;

b) the net turnover – EUR 1 000 000;

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 the results of the audit (review) carried out.

[*26 September 2024*]

**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 annual statement to him or her.

**Chapter XVI**

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

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

(1) An 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 components of the financial statement and management report. For an annual statement to have legal force, general information on 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. The procedures laid down in the Law on Legal Force of Documents shall be applied to the annual statement, but, when the annual statement is prepared as an electronic document, the Electronic Documents Law shall also be applied thereto.

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

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

2) for an individual undertaking, farm and fish farm – 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 society – also the given name, surname and position of the members of the executive board and supervisory board (if the supervisory board has been established). This information shall also be provided on 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 information shall be indicated in the general information on the parent undertaking of a group of companies as the author of the consolidated annual statement:

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 Annual Statement and Consolidated Annual Statement**

(1) The annual statement shall be signed:

1) the annual statement of an individual undertaking, farm or fish farm – by the owner or other official whose right to represent the relevant individual undertaking, farm or fish farm has been registered in the Enterprise Register;

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 a cooperative society – by the executive board or a member authorised by the executive board.

(2) If a member of the partnership, member of the executive board of the capital company or a cooperative society 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 a group of companies:

1) in the capital company as well as in a cooperative society – by the executive board or an authorised member of the executive board;

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 executive board of the capital company or a cooperative 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 keeping the accounts have been laid down, and he or she has prepared the abovementioned statement, indicating his or her given name, surname, and full title of the 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 keeping accounts and preparation of the annual statement (for example, chief accountant) who shall sign the financial statement and consolidated financial statement. In such case, the given name, surname, and full title of the position shall be indicated in the financial statement and consolidated financial statement.

**Section 96. Approval of 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 shareholders 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 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), submit it to the State Revenue Service in printed form or a derivative of the annual statement (financial statement and management report) and consolidated annual statement (if any) prepared electronically in an electronic form, i.e. 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, in compliance with the following time limits:

1) a micro-entity – not later than five months after the end of the reporting year;

2) a small undertaking – not later than five months after the end of the reporting year;

3) a medium-sized undertaking, a large undertaking, and a 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.

(11) The undertakings referred to in Section 55, Paragraph six and Section 89, Paragraph three of this Law shall submit the annual report and consolidated annual report (if any) to the State Revenue Service, attaching in a separate file the management report and consolidated management report (if any) prepared in the single electronic reporting format specified in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format, and the auditor’s assurance report on the verification of the sustainability report. If the undertakings referred to in this Section also prepare the financial statements and consolidated financial statements in the single electronic reporting format, then they shall, when submitting the annual statement and consolidated annual statement (if any) to the State Revenue Service, additionally attach in a separate file the financial statements and consolidated financial statements (if any) prepared in the single electronic reporting format.

(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 has been 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 through 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 conforms, based on the content of the information provided, to the annual statement or consolidated annual statement (if any) on 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, i.e. as an electronic true copy, shall be prepared for submission in the Electronic Declaration System according to the form approved by the Cabinet.

(31) If the management report or the consolidated management report has been prepared in paper form, it shall be submitted in the Electronic Declaration System of the State Revenue Service as an electronic copy of the aforementioned report.

(4) If the undertaking prepares the annual statement and consolidated annual statement in accordance with the international accounting standards and it is not the undertaking referred to in Section 55, Paragraph six and Section 89, Paragraph three of this Law, it shall additionally submit an electronic copy or a file prepared in electronic form of the prepared annual statement and consolidated annual statement (if any) in the Electronic Declaration System of the State Revenue Service.

[*7 December 2017; 8 March 2023; 26 September 2024*]

**Section 98. Publication of Annual Statement and Consolidated Annual Statement**

(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 the online data transmission mode.

(2) After receipt of the documents referred to in Section 97, Paragraphs one, two and four of this Law, the Enterprise Register shall publish them on its website.

(3) The undertakings referred to in Section 55, Paragraph six and Section 89, Paragraph three of this Law shall, immediately after submitting the annual statement and consolidated annual statement (if any) in the Electronic Declaration System of the State Revenue Service, ensure the publication of the relevant annual statement on their websites.

[*11 November 2021; 26 September 2024*]

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

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

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

(1) The management of the undertaking shall be responsible for the preparation, publication (where applicable) and conformity of an annual statement and, where applicable also, consolidated annual statement with the provisions of this Law, or in the cases laid down in this Law, conformity with the international accounting standards and sustainability reporting standards referred to in the Law on Sustainability Disclosures, and the subjection of the annual statement and consolidated annual statement to audit or limited review, 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 impose an administrative penalty for the failure to comply with the provisions for submitting annual statements or consolidated annual statements.

[*26 September 2024*]

**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 begins 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 the Cabinet regulations issued on the basis of these laws shall be accordingly applied to annual statements and consolidated annual statements 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 Countries, the European Community, Other International Organisations and Institutions in Financial Reports.

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

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 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 2018.

[*7 December 2017*]

9. Section 53, Paragraph one, Clause 17 of this Law shall be applicable to annual statements and consolidated annual statements from the reporting year 2021.

[*11 November 2021*]

10. The Enterprise Register shall publish a notification in the official gazette *Latvijas Vēstnesis* on the documents referred to in Section 97, Paragraphs one, two and four of this Law which have been received until 31 December 2021 that the relevant annual statements or consolidated annual statement and copies of the documents appended thereto are available in electronic form in the Enterprise Register.

[*11 November 2021*]

11. Amendments to Section 97, Paragraph one of this Law in respect of the deadline for the submission of annual statements of micro-entities and small undertakings shall be applicable to annual statements from the reporting year 2022.

[*8 March 2023*]

12. The obligation referred to in Section 55, Paragraph six and Section 89, Paragraph three of this Law for undertakings to prepare a sustainability report and consolidated sustainability report (where applicable) shall come into force in accordance with the provisions of the Law on Sustainability Disclosures.

[*26 September 2024*]

13. The adjusted new thresholds of undertakings referred in Section 5, Paragraphs two, three and four and Section 58, Paragraph two of this Law shall be applicable from reporting year 2024 (the reporting year beginning on 1 January 2024 or during the calendar year 2024).

[*26 September 2024*]

**Informative Reference to Directives of the European Union**

[*26 September 2024*]

This Law contains norms arising from:

1) 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;

2) Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting;

3) Commission Delegated Directive (EU) 2023/2775 of 17 October 2023 amending Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups.

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. Goodwill.

5. Advance payments for intangible investments.

II. Property, plant, and equipment, investment properties, and biological assets:

1. Immovable properties:

a) plots of land, 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 leased property, plant, and equipment.

4. Long-term investments in the property, plant, and equipment of a public partner.

5. Technological equipment and devices.

6. Other property, plant, and equipment and inventory.

7. Costs of construction of property, plant and equipment and unfinished building objects.

8. Advance payments for property, plant, and equipment.

III. Long-term financial investments:

1. Participating interests in affiliated undertakings.

2. Loans to affiliated undertakings.

3. Participating interests in associated undertakings.

4. Loans to associated undertakings.

5. Other securities and investments.

6. Other loans and other long-term receivables.

7. Own stocks and shares.

8. Loans to stockholders or shareholders, 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. Receivables:

1. Trade receivables.

2. Debts of affiliated undertaking.

3. Debts of associated undertaking.

4. Other receivables.

5. Unpaid share capital of the undertaking.

6. Current loans to stockholders or shareholders, and management.

7. Deferred expenses.

8. Accrued revenues.

III. Short-term financial investments:

1. Participating interests in affiliated undertakings.

2. Own stocks and shares.

3. Other securities and participating interests.

4. Derivative financial instruments.

IV. Cash.

**Liabilities**

Equity:

1. Stock or share capital (equity capital).

2. Share premium account.

3. Long-term investment revaluation reserve.

4. Fair value reserve of financial instruments.

5. Reserves:

a) statutory reserves;

b) reserves for own stocks or shares;

c) reserves laid down in the articles of association of the undertaking;

d) reserves for development;

e) foreign currency translation reserve;

f) other reserves.

6. Retained earnings or uncovered losses for previous years.

7. Profit or loss for the reporting year.

8. Participating interests of minority stockholders.

Provisions:

1. Provisions for pensions and similar liabilities.

2. Provisions for contingent taxes.

3. Other provisions.

Long-term payables:

1. Debenture loans.

2. Convertible loans.

3. Loans from credit institutions.

4. Other loans.

5. Advance payments received from purchasers.

6. Accounts payable to suppliers and contractors.

7. Bills of exchange payable.

8. Debts to affiliated undertakings.

9. Debts to associated undertakings.

10. Taxes and mandatory State social insurance contributions.

11. Deferred tax liabilities.

12. Other payables.

13. Deferred revenues.

14. Unpaid dividends.

Short-term payables:

1. Debenture loans.

2. Convertible loans.

3. Loans from credit institutions.

4. Other loans.

5. Advance payments received from purchasers.

6. Accounts payable to suppliers and contractors.

7. Bills of exchange payable.

8. Debts to affiliated undertakings.

9. Debts to associated undertakings.

10. Taxes and mandatory State social insurance contributions.

11. Other payables.

12. Deferred revenues.

13. Unpaid dividends.

14. Accrued liabilities.

15. Derivative financial instruments.

**Provisions for Use of Certain Items of the Layout of Balance Sheet:**

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, recognises, measures, and discloses investment properties, biological assets, long-term investments held for sale, deferred tax assets, or deferred tax liabilities in the financial statement in accordance with the international accounting standard.

2. The item “foreign currency translation reserve” and the item “Participating interests of minority stockholders” shall be used only in the consolidated annual statement.

Law on Annual Statements and Consolidated Annual Statements

**Annex 2**

[*11 November 2021*]

**Vertical Layout of Profit or Loss Account (Classified by Types of Expenditures)**

1. Net turnover:

a) from agricultural activity;

b) from provided construction services;

c) from other types of operating activity.

2. Changes in inventories of finished goods and work-in-progress.

3. Expenses (capitalised) attributed to own long-term investments.

4. Other operating revenues.

5. Costs of materials:

a) costs of raw materials and consumables;

b) other external charges.

6. Staff costs:

a) remuneration for work;

b) pensions from funds of the undertaking;

c) mandatory State social insurance contributions;

d) other social security costs.

7. Impairment adjustments:

a) impairment adjustments of property, plant and equipment;

b) impairment adjustments of current assets if they exceed such amounts of write-downs which the relevant undertaking considers as normal.

8. Other operating expenses.

9. Revenues from participating interests in:

a) affiliated undertakings;

b) associated undertakings;

c) other undertakings.

10. Revenues from other securities and loans which formed long-term financial investments:

a) from affiliated undertakings;

b) from associated undertakings and other undertakings, and also from securities and other long-term debtors.

11. Other interest receivable and similar revenues:

a) from affiliated undertakings;

b) from other persons.

12. Impairment adjustments of long-term and short-term financial investments:

a) impairment of participating interests in associated undertakings;

b) other value impairment adjustments.

13. Interest payable and similar expenses:

a) for affiliated 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. Revenues or costs from changes in balances of deferred tax assets or liabilities.

18. Extraordinary dividends.

19. Profit or loss for the reporting year.

20. Share of profits or losses of minority stockholders.

**Provisions for Use of Certain Items of the Vertical Layout of Profit or Loss Account (Classified by Types of Expenditures):**

1. Item “Extraordinary dividends” shall be used, if any.

2. The item “Revenues 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, recognises, measures and discloses deferred tax assets or deferred tax liabilities in the financial statement in accordance to the international accounting standards.

3. The item “impairment of participating interests in the associated undertakings”, “other value impairment adjustments”, and “Share of profits or losses of minority stockholders” shall be used only in the consolidated annual statement.

Law on Annual Statements and Consolidated Annual Statements

**Annex 3**

[*11 November 2021*]

**Vertical Layout of Profit or Loss Account (Classified by the Function of Expenditures)**

1. Net turnover:

a) from agricultural activities;

b) from provided construction services;

c) from other types of operating activity.

2. Production cost price of produce sold, acquisition costs of goods sold or services provided.

3. Gross profits or losses.

4. Sales costs.

5. Administrative costs.

6. Other operating revenues.

7. Other operating expenses.

8. Revenues from participating interests:

a) in affiliated undertakings;

b) in associated undertakings;

c) in other undertakings.

9. Revenues from other securities and loans which formed long-term financial investments:

a) from affiliated undertakings;

b) from associated undertakings and other undertakings, and also from securities and other long-term debtors.

10. Other interest receivable and similar revenues:

a) from affiliated undertakings;

b) from other persons.

11. Impairment adjustments of long-term and short-term financial investments:

a) impairment of participating interests in associated undertakings;

b) other impairment adjustments.

12. Interest payable and similar expenses:

a) for affiliated 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. Revenues or costs from changes in the balances of deferred tax assets or liabilities.

17. Extraordinary dividends.

18. Profits or losses for the reporting year.

19. Share of profits or losses of minority stockholders.

**Conditions for Application of Certain Items of the Vertical Layout of Profit or Loss Account (Classified by the Function of Expenditures):**

1. Item “Extraordinary dividends” shall be used, if any.

2. The items “Revenues or costs from changes in the 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, recognises, measures, and discloses deferred tax assets or deferred tax liabilities in the financial statement according to the international accounting standards.

3. The item “impairment of participating interests in associated undertakings”, “other impairment adjustments”, and “Share of profits or losses of minority stockholders” shall be used only in the consolidated annual statement.

Law on Annual Statements and Consolidated Annual Statements

**Annex 4**

**Layout of Cash Flow Statement Prepared by Direct Method**

**I. Operating cash flow**

1. Revenues from the sale of goods and provision of services.

2. Payments to suppliers, employees, for other expenditures of the operating activity.

3. Other revenues or expenditures of the operating activity.

4. Gross operating cash flow.

5. Expenditures for interest payments.

6. Expenditures for enterprise income tax payments.

7. Net operating cash flow.

**II. Investing cash flow**

1. Acquisition of the stocks or shares of affiliated undertakings, associated undertakings, or other undertakings.

2. Revenues from the disposal of the stocks or shares of affiliated undertakings, associated undertakings, or other undertakings.

3. Acquisition of property, plant, and equipment and intangible investments.

4. Revenues from the sale of property, plant, and equipment and intangible investments.

5. Loans issued.

6. Revenues from the repayment of loans.

7. Interest received.

8. Dividends received.

9. Net investing cash flow.

**III. Financing cash flow**

1. Revenues from the stock and obligation issue or equity interest investments.

2. Loans received.

3. Subsidies, grants, gifts or donations received.

4. Expenditures for the repayment of loans.

5. Expenditures for the redemption of leased property, plant, and equipment.

6. Disbursed dividends.

7. Net financing cash flow.

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

**V. Net increase or reduction 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**

Law on Annual Statements and Consolidated Annual Statements

**Annex 5**

**Layout of the Cash Flow Statement Prepared by Indirect Method**

**I. Operating cash flow**

1. Profits or losses before enterprise income tax.

Adjustments:

a) impairment adjustments of property, plant, and equipment;

b) impairment adjustments of intangible investments;

c) formation of provisions (except for provisions for doubtful debts);

d) profits or losses from fluctuations of foreign currency rates;

e) revenues from participating interests in affiliated undertakings, associated undertakings, or other undertakings;

f) revenues from other securities and loans which formed long-term financial investments;

g) other interest revenues and similar revenues;

h) impairment adjustments of long-term and short-term financial investments;

i) interest payments and similar costs.

2. Profits or losses before adjustments of the impact of changes in the balances of current assets and short-term creditors.

Adjustments:

a) increase or reduction in the balances of receivables;

b) increase or reduction in the balances of inventories;

c) increase or reduction in the balances of debts to be paid to suppliers, contractors, and other payables.

3. Gross operating cash flow.

4. Expenditures for interest payments.

5. Expenditures for enterprise income tax payments.

6. Net operating cash flow.

**II. Investing cash flow**

1. Acquisition of the stocks or shares of affiliated undertakings, associated undertakings, or other undertakings.

2. Revenues from the disposal of the stocks or shares of affiliated undertakings, associated undertakings, or other undertakings.

3. Acquisition of property, plant, and equipment and intangible investments.

4. Revenues from the sale of property, plant, and equipment and intangible investments.

5. Loans issued.

6. Revenues from the repayment of loans.

7. Interest received.

8. Dividends received.

9. Net investing cash flow.

**III. Financing cash flow**

1. Revenues from stock and obligation issue or equity interest investments.

2. Loans received.

3. Subsidies, grants, gifts or donations received.

4. Expenditures for the repayment of loans.

5. Expenditures for the redemption of a leased property, plant and equipment.

6. Disbursed dividends.

7. Net financing 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*]

**Layout of the Statement of Changes in Equity**

**I. Stock or share capital (equity capital)**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in stock or share capital (equity capital).

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

**II. Share premium account**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in share premium account.

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

**III. Revaluation reserve of long-term investments**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in the balance of the long-term investment revaluation reserve.

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

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

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in the balance of the fair value reserve of financial instruments.

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

**V. Reserves**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in the balance of the reserves.

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

**VI. Retained earnings**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. Increase/reduction in retained earnings.

4. The amount reported in the balance sheet of the reporting year as at the end of the period.

**VI.1 Participating interests of minority stockholders**

**VII. Equity**

1. Amount reported in the balance sheet of the previous year.

2. Adjustment of the amount reported in the balance sheet of the previous year.

3. The amount reported in the balance sheet of the reporting year as at the end of the period.

**Provision for the application of the layout of the statement of changes in equity:**

chapter “VI.1 Participating interests of minority stockholders” shall be used only in the consolidated annual statement.