VALSTS NEKUSTAMIE ĪPAŠUMI

Annual Report for 2020

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

Content

Information on the Company

Name of the Company	VALSTS NEKUSTAMIE ĪPAŠUMI
Legal status	State Joint Stock Company
Number, place and date of registration of the Company	Enterprise Register 40003294758, Riga, 17 May 1996 Unified registration number with the Commercial Register 40003294758, Riga, 1 October 2004
Legal and postal address of the Company	Talejas iela 1, Riga, LV-1026
Shareholder	State (holder of the state shares – Ministry of Finance of the Republic of Latvia), 100%
Holder of the shares	Ministry of Finance of the Republic of Latvia
Governance	The Council and the Board of the Company
Members of the Council and their positions	Jānis Garisons, Chairman of the Council Inta Komisare, Member of the Council Ieva Braunfelde, Member of the Council
Members of the Board and their positions	Renārs Griškevičs, Chairman of the Board (from 06.01.2020) Andris Vārna, Member of the Board (Chairman of the Board from 23 April 2019 to 5 January 2020) Jānis Ivanovskis-Pigits, Member of the Board (from 16.11.2019 to 15.05.2020) Ojārs Valkers, Member of the Board (from 28 December 2019 to 1 April 2020)
Reporting period	01.01.2020 – 31.12.2020
Auditors	KPMG Baltics AS Vesetas iela 7 Riga, Latvia LV-1013 Licence No. 55

Management Report

Overall description of the Company

State Joint Stock Company Valsts Nekustamie Īpašumi (hereinafter – VNI or the Company) is one of the largest corporations in the Republic of Latvia which performs management, maintenance and development of real estate, as well as provides premises to state institutions for performance of their public functions. The Company has the most extensive experience in the country in the maintenance of cultural and historical objects with strategic importance, and is contributing to the preservation of the cultural heritage and creation of the urban environment, regional development and establishment and maintenance of infrastructure objects of strategic importance for the country.

VNI shares are 100% owned by the state and the holder is the Ministry of Finance of the Republic of Latvia. The share capital of VNI as at 31 December 2020 was EUR 142 152 445 which comprised 142 152 445 shares with the nominal value per share EUR 1.

As a subject of private law VNI conducts business activities, and as a subject of public law VNI performs public administrative functions delegated to it under the national law. VNI operates in compliance with the concept of unified management of state real estate approved by Cabinet Order dated 9 May 2006 No. 319 'Concerning the concept of unified management of the state real estate properties'. In liaison with the Ministry of Finance, VNI prepares draft development planning documents, laws and other documents to be reviewed by the Cabinet of Ministers and implements such documents in the area of state real estate management policies.

Key financial indicators

Net sales in 2020 amounted to EUR 37.99 million, which is EUR 2.26 million or 5.61% less than that of the previous year. In 2020 the operations of VNI were impacted by the pandemic caused by Covid-19. Changes in net sales are explained by rent concessions provided to tenants impacted by the emergency situation related to Covid-19 based on Cabinet Regulation of 2 April 2020 No. 180 ‘Regulation on the release or reduction of rent fee for property of a public person and property of a company controlled by a public person due to the spread of Covid-19.’ In addition to the above on 18 March 2020 the Company and the Ministry of Finance of the Republic of Latvia signed a new contract on the management of the real estate portfolio. Under the contract, a part of rent payments is intended to cover future costs of planned repairs. This part of revenue is deferred until the date the repair work has been completed and is recognised as deferred income. These contract provisions had an adverse effect on net sales for the reporting period.

In view of the discounts provided due to Covid-19 emergency situation and substantial changes in revenue recognition, the Company’s EBITDA in 2020 amounted to EUR 14.81 million, which is EUR 1.91 million less than in 2019, and net profit decreased by EUR 2.21 million and amounted to EUR 2.99 million.

Financial ratios	2020	2019 adjusted
Sales, mEUR	37.99	40.25
Gross profit, mEUR	9.25	12.20
EBIT, mEUR [1)]	4.10	6.45
EBITDA, mEUR [1)]	14.81	16.72
Profit or loss, mEUR	2.99	5.20
Profit margin	8%	13%
Share capital, mEUR	142.15	142.15
Equity, mEUR	277.29	278.74
Total liabilities, mEUR	124.35	118.37
Total financial liabilities, mEUR [1)]	83.18	92.13
Return on Equity (ROE) [1)]	1%	2%
Return on Assets (ROA) [1)]	0.75%	1.31%
Current liquidity ratio [1)]	0.89	1.01
Quick ratio [1)]	0.89	1.01
Debt to equity ratio	0.45	0.42
Non-current investments, mEUR	366.43	365.01
Dividends expected in the state budget, million EUR	-	-
Government grants received, mEUR	24.35	18.59

[1)]*List of formulas on page 9 of the report*

Major events

The operation of the VNI and the fulfilment of its tasks in 2020 took place in accordance with the mid-term operational strategy of VNI for the period of 2018–2022 and the action plan of VNI for 2020.

During the pandemic in 2020, 35 significant development and maintenance projects led by VNI were completed with the total budget of EUR 29.9 million.

The key projects were adaptation of the historical police building at 7 Aspazijas bulvaris, Riga, to the needs of the prosecutor's office where 9 structural units of the prosecutor's office are situated under the same roof, completed energy efficiency projects at Jurmala residence of the President of Latvia, National Archive building in Daugavpils, 9 Komandanta iela, S.Broks' Daugavpils Music Secondary School at 2A Kandavas iela. Façade renovation, restoration of windows and the entry portal was made at the Museum of the History of Riga and Navigation at 2 Palasta iela, Riga, Pharmacology Museum at 13 R.Vagnera iela and the popular exhibition hall 'Arsenals'. Façade renovations were made for significant buildings like the Ministry of Economics at 55 Brivibas iela, Riga, and office of the Ombudsman of Latvia at 25 Baznicas iela, Riga. Restoration of the roof and windows, the entry portal and the stairwell was made in the administrative building at 1 Smilsu iela, Riga (used by the Ministry of Finance, the Treasury and the Central Finance and Contracts Agency).

At the of 2020 VNI was working on 73 infrastructure development projects of approximately EUR 152 million and was working on 32 new project ideas.

Key ongoing development projects include:

- Reconstruction of the building of the Latvian Occupation Museum, including construction of annex 'Nākotnes nams' and the memorial for victims of the Soviet occupation;
- Reconstruction of the New Riga Theatre building at 25 Lacplesa iela, Riga;
- Infrastructure was updated in border crossing points 'Terehova', 'Paternieki' and 'Silene'.
- Drafting of the renovation design for concert hall 'Liela gilde';
- Revitalisation of degraded territories by creating a set of prototyping workshops at 13 A.Briana iela, Riga, interdisciplinary culture centre at 58A Miera iela, Riga, and a decoration centre of the Latvian National Opera and Ballet at 2 Meiranu iela, Riga;
    - Improving building energy efficiency of Daile Theatre at 75 Brivibas iela, Riga, Latvian Puppet Theatre at 16/18 K. Barona iela, Riga, Valmiera Drama Theatre at 4 Lacplesa iela, Valmiera, Latvian State Archive at 14 Skandu iela, Riga.

VNI is governed in an effective and sustainable manner in line with the best practice and corporate governance principles and recommendations expressed by the Organisation for Economic Co-operation and Development (OECD), improving the quality management system of VNI, developing more efficient processes and ensuring sustainable business management strengthening activities:

- In 2020 the Company developed and approved Real Estate Portfolio Development Strategy 2020 - 2022. Within the scope of the strategy development the Company gathered, classified and validated data and established a common set of rules for action to be taken with regard to individual properties of the primary portfolio. It enables the Company to implement unified property management principles, create development scenarios, set performance indicators, source data for analysis and decision making and reports on each individual property. VNI has a dynamic portfolio. According to orders issued by the Cabinet of Ministers or court judgements, the Company routinely gains control over a number of properties that mostly are structures that degrade the environment. In 2020 VNI made targeted efforts to improve degrading state properties and reduced the number of degraded structures by 83, i.e. out of structures that degrade the environment 63 were sold, 6 were demolished and 5 were transferred for governance to other public persons to facilitate new development, and 10 buildings of cultural and historic importance had their façades and/or roofs renovated and signs of degradation removed;
- In 2020 VNI developed guidance for BIM or building information modelling for public procurement and commenced incorporating BIM in VNI procurement procedures. A pilot project in 2020 was renovation of the building in Riga, 7 Aspazijas bulvaris, for the needs of the prosecutor's office. In 2020 VNI implemented 12 projects containing BIM components, including

reconstruction of the oldest part of Riga Castle, renovation of the historical building of Riga New Theatre, development of a restoration design of 'Liela gilde', renovation of the historic building in Ventspils, 2 Kuldigas iela, and adaptation of it to the needs of state and local government authorities, modernisation of border crossing point 'Silene-Paternieki' between Latvia and Belarus and other projects;

- As an acknowledgement of sustainability of operations and corporate responsibility, VNI was awarded the gold prize at the Sustainability Index 2020 organised by the Institute of Corporate Sustainability and Responsibility. The Company retained its award in Gold category presented last year and increased the overall rating from 81.6 points in 2019 to 85.7 points in 2020, and received the highest expert rating in categories Strategy and Market relationships, and a recognition from experts and organisers for the high quality and professional content of materials submitted;

- In 2020 VNI introduced non-financial reporting and the first ever sustainability report of VNI (for 2019) was approved prepared in line with guidance of the Global Reporting Initiative (GRI). The sustainability report provides an insight into activities conducted in areas such as the environment and social and economic matters with a particular focus on aspects of importance to stakeholders – user safe properties, accessibility, energy efficiency and the climate impact of buildings, sustainable solutions in construction and operations, open, inclusive and fair corporate practices, employees and their health and safety, modern work places for users of buildings and VNI investments into sustainable society. The non-financial report of VNI for 2020 is in the process of preparation (in line with internationally approved guidance of the Global Reporting Initiative (GRI)).

- In the summer of 2020 VNI held the first discussion with stakeholders about sustainable development and responsible business of VNI. The discussion was attended by representatives of 25 stakeholders, including clients, cooperation partners, supervisory authorities, academics;

- VNI has maintained a status of the TOP 6 capital company in the list of the most valuable and best managed top 101 companies.

- VNI has kept the status of a gold customer of the State Revenue Service at the SRS Extended Cooperation Program or the so-called SRS 'White-List' gold level, confirming the transparency of operations and fair fulfilment of tax obligations.

The Company provides professional real estate management and maintenance to a set of 395 properties that includes 1 000 buildings with 1 million square meters, land under the buildings of 623 ha, and 4 000 land properties with the total area of 1 000 ha.

Subsequent events

No significant subsequent events have occurred that would materially impact the financial statements.

Suggestion regarding profit distribution

Based on paragraphs 10 and 11.2 of Cabinet Regulation No. 806 of 22 December 2015 'Procedure for state companies and public private companies with the state as the shareholder to forecast and determine the share of profit to be distributed as dividends and to make payments into the state budget for the use of state capital' (hereinafter - Cabinet Regulation) the Board of the Company suggests that profit for 2020 be retained undistributed and used to both perform state tasks and support further development of the Company to improve the quality and availability of its services in line with the type of operating activities.

Formulas

In order to ensure objective and comparable presentation of financial results, the Company uses a number of financial ratios and ratios, which are calculated on the basis of financial statements data.

The definitions and components of the financial indicators are described below.

EBITDA = EBIT + depreciation of long -term investments
EBIT =Gross profit – Administrative expenses – Selling expenses – Other expenses + Other revenue.
Total financial liabilities = Long-term loan + Short-term loan.
Return on Equity (ROE) = Profit/ average value of shareholder's equity during the year.
Return on Assets (ROA) = Profit/ average value of assets during the year.
Current ratio = Current assets / Short-term liabilities.
Quick ratio = Current assets – Inventories / Short-term liabilities.
Equity ratio = Total liabilities / Shareholder's equity.
Profitability = Profit / Revenue.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Statement of the Management's Responsibility

The Board of the Company is responsible for the preparation of financial statements in accordance with International Financial Reporting Standards (hereinafter – IFRS) as adopted by the European Union, in compliance with the requirements for additional disclosures set out in the Annual Reports and Consolidated Annual Reports Law.

The financial statements were prepared based on accounting records and source documents and they give true and fair view of the financial position of the Company as at the reporting date, its performance and cash flows for the year then ended.

The Board of the Company confirms that the Company has prepared appropriate accounting methods for the preparation of the annual report for 2020, the application of which has been consistent, the decisions and assumptions of the Board regarding the preparation of these financial statements have been prudent. The financial statements have been prepared on a going concern basis and data from prior periods are comparable.

The management report presents true information on the business development operations of the Company, the results of its operations, and major events.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Financial statements

Statement of Comprehensive Income

Comprehensive income			
	Note	**2020**	**2019**
Revenue	6	37 988 823	40 246 828
Cost of sales	7	(28 742 674)	(28 048 020)
Gross profit		**9 246 149**	**12 198 808**
Selling expenses	8	(1 051 066)	(959 495)
Administrative expenses	9	(4 711 428)	(5 187 012)
Other operating income	10	767 111	689 882
Other operating expenses	11	(146 495)	(288 462)
Results from operating activities		**4 104 271**	**6 453 721**
Financial income	12	67 114	74 248
Finance expenses	13	(619 626)	(681 051)
Profit of the reporting year before corporate income tax		**3 551 759**	**5 846 918**
Corporate income tax on dividends	14	(564 674)	(648 853)
Other comprehensive income		**2 987 085**	**5 198 065**

The accompanying notes on pages 18 to 74 form an integral part of these financial statements.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

*(signature *)*
Linda Lietaviete
Chief Accountant

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Statement of Financial Position

	Note	31.12.2020	31.12.2019 adjusted
Assets			
Long-term investments			
Intangible assets	15	561 614	299 330
Property and equipment	16	10 402 124	10 292 582
Investment property	17	355 467 746	354 421 706
Right-of-use assets	18	74 706	143 666
Trade and other receivables	19	42 284	67 072
Prepaid expenses	20	96 623	-
Other financial investments		1 423	1 423
Total non-current assets		***366 646 520***	***365 225 779***
Current assets			
Inventories		42 639	100 743
Trade and other receivables	19	12 749 127	9 548 345
Prepaid expenses	20	212 374	243 669
Accrued income	21	548 697	1 532 589
Contract assets	22	193 131	458 287
Cash	23	20 861 531	19 753 819
Assets held for trading	24	386 089	244 381
Total current assets		***34 993 588***	***31 881 833***
Total assets		**401 640 108**	**397 107 612**

Equity and liabilities			
Shareholder's equity			
Share capital	25	142 152 445	142 152 445
Reserves	26	12 650 052	7 358 269
Retained earnings		122 482 919	129 227 567
Retained earnings for the previous periods		*119 495 834*	*124 029 502*
Profit for the reporting year		*2 987 085*	*5 198 065*
Total shareholder's equity		***277 285 416***	***278 738 281***

(continued overleaf)

Statement of Financial Position (continued)

	Note	31.12.2020	31.12.2019 Adjusted
Equity and liabilities			
Liabilities			
Non-current liabilities			
Loans from credit institutions	28	75 294 156	83 164 648
Trade and other payables	29	983 617	792 627
Lease liabilities	30	61 328	90 265
Deferred income	31	8 651 419	2 325 434
Contract liabilities	32	-	187 540
Provisions	33	68 423	236 123
Total non-current liabilities		***85 058 943***	***86 796 637***
Current liabilities			
Loans from credit institutions	28	7 882 796	8 962 194
Trade and other payables	29	21 074 077	15 244 790
Lease liabilities	30	94 873	77 824
Deferred income	31	1 990 504	619 491
Contract liabilities	32	68 992	932 792
Other liabilities	34	747 873	952 158
Accrued liabilities	35	7 426 733	4 715 378
Derivatives	36	9 901	68 067
Total current liabilities		***39 295 749***	***31 572 694***
Total liabilities		***124 354 692***	***118 369 331***
Total equity and liabilities		***401 640 108***	***397 107 612***

The accompanying notes on pages 18 to 74 form an integral part of these financial statements.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

*(signature *)*

Linda Lietaviete
Chief Accountant

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Statement of Cash Flows

	Note	2020	2019 Adjusted
Cash flows from operating activities			
1. Profit before income tax		**3 551 759**	**5 846 918**
Depreciation of property and equipment/investment property	16, 17	10 355 511	10 160 934
amortisation of intangible assets	15	251 406	104 792
amortisation of right-of-use assets	17, 18	104 870	66 963
changes to provisions	33	(167 700)	(46 981)
net (revenue)/ loss from disposal and write-off of non-current assets	10	(313 201)	(107 283)
profit from changes in the fair value of financial instruments	12	(58 166)	(63 560)
interest and similar income	12	(8 948)	(10 688)
interest and similar expenses	13	594 059	652 741
2. Profit before adjustments for the effect of changes to current assets and liabilities		**14 309 590**	**16 603 836**
Adjustments for:			
increase in receivables;		(1 992 274)	(2 928 593)
decrease in inventories and assets held for sale		143 469	89 346
increase of accounts payable to suppliers, contractors and other creditors		10 855 291	7 895 123
3. Gross cash flows from operating activities		**23 316 076**	**21 659 712**
Interest payments	13, 28	(596 029)	(653 619)
Corporate income tax	14	(564 674)	(648 853)
Net cash flows from operating activities		***22 155 373***	***20 357 240***

(continued overleaf)

	Note	2020	2019 adjusted
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(12 388 712)	(12 025 689)
Interest received	12	8 948	10 688
Proceeds from sales of long term investments		380 451	298 944
Net cash flows used in investing activities		***(11 999 313)***	***(11 716 057)***
Cash flows from financing activities			
Repayment of loans	28	(8 947 920)	(18 776 467)
Payments for the lease of right-of-use assets	28	(100 428)	(63 176)
Loans received		-	9 500 000
Dividends paid		-	(2 595 411)
Net cash flows used in financing activities		***(9 048 348)***	***(11 935 054)***
Net increase / decrease in cash and cash equivalents		**1 107 712**	**(3 293 871)**
Cash and cash equivalents at the beginning of the period	23	**19 753 819**	**23 047 690**
Cash and cash equivalents at the end of the period	23	**20 861 531**	**19 753 819**

The accompanying notes on pages 18 to 74 form an integral part of these financial statements.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

(signature *)

Linda Lietaviete
Chief Accountant

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Statement of Changes in Equity

	Note	Share capital	Long-term investment revaluation reserve	Other reserves	Retained earnings	Share-holder's equity
31.12.2018		**135 474 106**	**3 319 291**	**7 358 269**	**129 983 961**	**276 135 627**
Transfer of profit for 2017 to share capital increase	27	6 678 339	-	-	(6 678 339)	**-**
Payments for the use of the state capital in 2018 (dividends)	27	-	-	-	(2 595 411)	**(2 595 411)**
Retained earnings of the reporting period	27	-	-	-	5 198 065	**5 198 065**
Decrease in the revaluation reserve for property and equipment from depreciation	27	-	(86 527)	-	86 527	**-**
Transfer of revaluation reserve to retained earnings	27	-	(3 232 764)	-	3 232 764	**-**
31.12.2019		**142 152 445**	**-**	**7 358 269**	**129 227 567**	**278 738 281**

(continued overleaf)

	Note	Share capital	Long-term investment revaluation reserve	Other reserves	Retained earnings	Shareholder's equity
Loss of previous periods covered from other reserves	26, 27	-	-	(694 920)	694 920	**-**
Share of profit of 2018 and 2019 transferred to other reserves	26, 27	-	-	6 108 939	(6 108 939)	**-**
Conditional distribution of profit for 2018 and 2019	27	-	-	-	(4 317 714)	**(4 317 714)**
Reduction in other reserves for disposed real estate properties formerly managed	26	-	-	(122 236)	-	**(122 236)**
Profit of the reporting year		-	-	-	2 987 085	**2 987 085**
31.12.2020		**142 152 445**	**-**	**12 650 052**	**122 482 919**	**277 285 416**

The accompanying notes on pages 18 to 74 form an integral part of these financial statements.

*(signature *)* *(signature *)*

Renārs Griškevičs — *Chairman of the Board*

Andris Vārna — *Member of the Board*

(signature *)

Linda Lietaviete
Chief Accountant

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

Notes to the Financial Statements

1. General information

The registered and office address of VAS Valsts nekustamie īpašumi (hereinafter - the Company), unified registration number 40003294758, is Talejas iela 1, Riga. Its primary lines of business are real estate activities (NACE rev.2 codes 6820, 6831,6832I), and construction operations (4120).

2. Summary of significant accounting principles

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") and International Financial Reporting Standards as adopted by the European Union ("IFRS") on a going concern basis.

The financial statements are prepared on the historical cost basis, except for revaluation to fair value through profit and loss for certain financial liabilities such as derivatives.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

- Going concern assumption that the Company will continue as a going concern ;
- Consistent valuation principles with those used in the prior period, except for revenue recognition from management of state real estate properties;
- Items were valued in accordance with the principle of prudence: the financial statements reflect only the profit generated to the balance sheet date; all incurred liabilities and current or prior period losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; all amounts of impairment and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- Income and expenses incurred during the reporting period have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period;
- Assets and liabilities have been valued separately;
- The opening balances agree to the prior year closing balances, except for adjustments described in Section 2.9;
- All material items, which would influence the decision-making process of users of the financial statements, have been recognised and insignificant items have been combined and their details disclosed in the notes.
- Business transactions are recorded taking into account their economic contents and substance, rather than the legal form.

The reporting period is the 12 months from 1 January 2020 to 31 December 2020.

2.1. Accounting and presentation currency

Items of the financial statements are measured in the currency of the economic zone in which the Company operates (functional currency).

Amounts in these financial statements are expressed in the official currency of the Republic of Latvia – euro (EUR), the functional currency of the Company.

All transactions in foreign currencies are translated into euros at the reference exchange rate published by the European Central Bank as at the transaction date.

All monetary asset and liability items were revalued to euros according to the reference exchange rate published by the European Central Bank on the reporting date. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date.

2.2. Estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that concern the future. Considering their nature, the estimates rarely match the actual results. The key estimates relate to the valuation of investment properties, the carrying amount of receivables and provisions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are recognised in the period when those estimates are reviewed and in the future periods.

Information about judgements and estimates made in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is included in notes:

Key estimates:
2.3.3. Investment properties,
2.5.1.1. Accounts receivable,
17. Investment property
19. Trade and other receivables

Other estimates:
2.3.11. Provisions
33. Provisions

2.3. Non-financial assets and liabilities

2.3.1. Intangible assets

An intangible asset is a non-monetary asset without physical substance which is separable from other assets and can be sold, transferred, licensed, rented or exchanged, and arises from contractual or other legal rights (binding agreement).

Intangible assets include rights of use, licenses and software applications obtained in exchange for consideration.

Intangible assets are initially recognised at the cost of acquisition or creation.

Subsequent to initial recognition, intangible assets are carried at cost with accumulated amortisation and impairment losses charged to the statement of comprehensive income.

Intangible assets are amortised on a straight-line systematic basis, dividing the amortised cost of the asset over the useful lives of these assets established by the Company that matches the useful life of the asset.

The useful life of intangible assets under the rights established in the contract, for example, licences, does not exceed the contractual useful life.

The Company has established the following useful lives of intangible assets:

Licenses - depending on the duration of the license

Open end licenses 3 years

Software 3 and 5 years

Amortisation methods, estimated useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.3.2. Property and equipment

2.3.2.1. Recognition

Property and equipment are tangible assets held by the Company to be used for the provision of services, lease or administrative needs that are not purchased for sale.

Classified as property and equipment are assets that the Company plans to use for more than one year regardless of their acquisition cost.

Items of property and equipment are recognised when the Company obtains control over the asset and all the risks and rewards related to the asset are transferred to the Company.

The carrying amount of an item of property and equipment includes expenses directly related to the acquisition or establishment of the asset such as interest payments on loans obtained to purchase the asset, as well as other expenses directly related to the installation of the asset: preparation of the site, transportation, preparatory works, testing its operation, dismantling and bringing the site to its initial state.

2.3.2.2. Subsequent measurement

Subsequent to initial recognition, property and equipment is carried at cost with accumulated depreciation and impairment losses charged to the statement of comprehensive income.

2.3.2.3. Depreciation

All items of property and equipment are recognised at historical cost less accumulated depreciation and impairment allowances. Depreciation is calculated from the first day of the month following their putting into operation to the first day of the month following their disposal. Depreciation is calculated on a straight-line basis and systematically written-off over the useful lives of the assets.

Management estimates the useful lives of individual items of property and equipment in proportion to the expected duration of use of the asset based on historical experience with similar assets and future plans. The following useful lives have been set for property and equipment:

Vehicles 5 years
Other assets 3–10 years
Depreciation is not calculated for antiquities.

Depreciation rates and useful lives are reviewed by the Company at each reporting date.

Where depreciation methods and forecast useful lives differ from previous estimates the difference is accounted as changes in accounting estimates.

2.3.3. Investment property

2.3.3.1. Recognition

Investment property is real estate property held by the Company to earn rentals or for capital appreciation. These properties are not intended for sale or for administrative purposes in the ordinary course of business.

The Company's internal valuator will continue determining the fair value of investment properties for financial reporting purposes at each reporting date.

Investment properties are divided by the Company into components based on costs that are significant in relation to total costs and useful lives significantly different from the useful life of the investment property as a whole to ensure that:

- depreciation is calculated in line with the actual use of the property and to extend the use of the significant components of investment property as much as possible,
- the financial statements provide a true and fair view of assets and the financial position and the statement of comprehensive income provides a fair view of the consumption of economic benefits of these assets.

All investment properties are divided into components except those that cannot be divided. Such properties are land plots, asphalt surfaces and squares, lawns and plants, road signs, electrical networks, cable and light lines, flag poles, fences, gates, lifting barriers etc.

The initial cost of each component is equal to the cost incurred to obtain the component. The cost of each component is recognised as an asset only if it can be determined reasonably and it is likely that future economic benefits related to the component will flow to the Company.

Assets are reclassified to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of a lease to another party or ending of construction or development. Assets are reclassified from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with an aim to dispose an asset.

Investment property is derecognised when it has been either disposed or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal (Note 17).

2.3.3.2. Subsequent measurement

Subsequent to initial recognition, investment properties are carried at cost with accumulated depreciation and impairment losses charged to the statement of comprehensive income.

2.3.3.3. Depreciation

Components of investment property are depreciated on a straight-line basis and recognised over the useful life of the asset. Each component of investment property is depreciated individually. Depreciation is charged to the statement of comprehensive income for every period (Note 7.)

The basis for revising useful lives of investment properties is the information on the physical depreciation of components indicated in property inspection acts.

Real estate properties are inspected on site once a year according to a schedule approved by relevant units of the Company. Any inspections of real estate properties outside the schedule are carried out as part of the year end closing procedures in the following cases:

- if an insurance case has been reported during the reporting year;
- if multiple complaints have been received from clients regarding technical condition and use of the property;
- if the real estate property has not been inspected during the reporting year according to the schedule approved by relevant units of the Company.

Where the remaining useful life of a sub-component in the inspection act is significantly different from that on the Company's records the Company recalculates the remaining useful life of subcomponents and components.

After recalculating the useful life, the Company recalculates annual depreciation of the component by dividing the net book value amount of the component with the remaining useful life.

Based on division of properties into categories, components of investment property have the following useful lives:

Component 1 - Building structures	*15 – 150 years*
Component 2 - Exterior finishes	*29 years*
Component 3 - Interior finishes	*28 years*
Component 4 - Internal engineering systems	*35 years*

Investment properties are divided into 18 categories according to the construction and type of use.

2.3.4. Cost of construction in progress

Assets not ready for the intended use at the moment of acquisition or in the process of construction are classified as 'Construction in progress'. The historical cost of construction in progress may be increased in the reporting period by the borrowing costs and other direct expenses related to the respective object prior to putting it into operation. The historical cost of a property and equipment is not increased by borrowing costs in the periods when development works are not performed for object under construction.

Once the units are prepared for the intended use, they are reclassified to the appropriate category under non-current investment and subject to depreciation. Construction in progress are assessed on a regular basis to identify any impairment indications.

2.3.5. Capitalised costs

Costs that improve a condition of a non-current asset (such as costs of reconstruction, restoration, installation of new permanent equipment and systems) during its useful life or significantly change the properties of an asset compared to its previous indicators are capitalised as part of the relevant item of property and equipment, investment property or intangible asset.

Borrowing costs are capitalised in proportion to the cost of construction in progress over the construction period. Purchased software directly related to the functionality of the equipment is capitalised as part of the related equipment. Subsequent expenses are capitalised only when it is probable that the future economic benefits associated with the expenses will flow to the Company. Regular repair and maintenance costs are expensed in the period when incurred.

2.3.6. Leasehold improvements

Leasehold improvements include capitalised construction costs invested in improvements of state real estate properties that are not assets of the Company.

Leasehold improvements are recognised on the date when the object is put into operation after construction work (date of the act of transfer). Where no act of putting into operation is required by law, the date of putting into operation is assumed to be the date of the act of acceptance of construction work and the latest date it is signed.

According to the Company's accounting policy, depreciation of leasehold improvements in properties owned by other persons is calculated on a straight line basis over the useful life of the respective investment, which is determined by a commission established by the Company according to Cabinet Regulation No. 48 of 10 January 2012 'On cadastre measurements of buildings' and Cabinet Regulation No. 907 of 1 October 2010 'On inspection, technical maintenance, regular repairs and the minimum energy efficiency requirements of residential houses'.

2.3.7. Lease

2.3.7.1. Lease as a lessee

Right-of-use assets are recognised by the Company for property (land) and vehicles leased in the ordinary course of business.

Initially right-of-use assets are measured at the present value of outstanding lease payments at the date of recognition. Lease payments are discounted using WACC set for the Company.

Subsequent to initial recognition, right-of-use assets are measured at cost.

Under the cost model, right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Assets are amortised from the date of acquisition to the end date of lease.

Subsequent to initial recognition, lease liabilities are measured

- by increasing the carrying amount to reflect interest on lease liabilities and
- by reducing the carrying amount to reflect lease payments made.

Right-of-use assets relating to vehicles are disclosed in the statement of financial position separately from other assets and lease liabilities are disclosed separately from other liabilities. Right-of-use assets relating to real estate properties are recognised under investment property.

Interest expenses on lease liabilities are disclosed in the statement of comprehensive income and other comprehensive income separately from amortisation of the right-of-use asset.

IFRS 16 was implemented using the modified retrospective approach rather than the full application approach with 1 January 2019 as the date of the initial application, and rights of use and assets were recognised only for contracts signed after the above date (refer to Note 17 and 18).

During the reporting period the Company did not make use of a practical expedient for current leases and leases for which the underlying asset is of low value as such contracts were not signed during the reporting period.

2.3.7.2. Company as a lessor

The core business activity of the Company is management and lease of own real estate and real estate owned by the Republic of Latvia represented by the Ministry of Finance. Real estate operations are conducted in line with Cabinet Regulation No. 97 'Renting of property of a public person' and Cabinet Regulation No. 350 'On lease and construction rights of land of a public person'. Premises and land plots are leased in accordance with the provisions established by the Law on Prevention of Squandering of the Financial Resources and Property of a Public Individual, and Cabinet regulations.

Agreements on lease of premises are typically concluded for 6 years and where a tenant is deemed to act in a good faith the agreement is extended for another 6 years with a respective revision of the rent payment; however, if the lease provisions published stipulate that the lessee has the obligation to make financial investments in the lease object to ensure sustainable development of the real estate property owned by a public person, or if during the lease period the lessee agrees with the lessor to incur expenses necessary and useful for the lease object that cannot be amortised (recovered) in 12 years, the lease agreement may be concluded or extended for a period which does not exceed 30 years. Lease agreements for premises and real estate (buildings and land) typically stipulate monthly lease payments, however lease agreements for land plots stipulate quarterly and annual lease payments.

Rent for real estate properties owned, possessed, managed and/or held by the Company is calculated in accordance with internal regulation 'Procedure for determining lease payments for state real estate properties owned, possessed, managed and/or held by VAS Valsts nekustamie īpašumi'.

Lease agreements determine the procedure for revising lease payments in accordance with Cabinet Regulation No. 97.

Revenue from management of state real estate properties is recognised according to IFRS 15 as revenue from contracts with customers.

Real estate properties of the Company that are leased in operating lease are disclosed under investment properties at cost net of depreciation and accumulated impairment. Revenue from the lease of own real estate properties is recognised according to IFRS 16 in the statement of comprehensive income on a straight-line basis over the term of the lease.

2.3.8. Impairment of non-financial assets

Non-current investments carried at cost are reviewed by the Company for impairment at each reporting date.

In accordance with IAS 36 an assessment is made at each reporting date to determine whether there is an indication that the carrying amount of non-financial assets has been impaired substantially and such impairment is other than temporary.

In assessing investment properties for impairment, the following indications are considered:

- during the reporting period, the technical condition of the investment property has deteriorated substantially compared to that in the previous reporting period;
- there have been or are pending permanent changes to the Company's operations which have an adverse impact on the intended use of the investment property;
- a decision has been made to suspend establishment of investment property before it is completed or put into operation;
- decrease in the performance (profitability) of revenue and expenses related to the investment property by at least 50% compared to the previous reporting period.

The fair value of investment property is determined in the presence of at least one of the above indications.

The fair value of investment property is determined according to methodology approved by the Company.

The fair value of property and equipment is determined according to the market approach.

If the fair value of a non-current investment less cost to sell exceeds its carrying amount the value in use is not calculated and no impairment is recognised.

If the fair value of a non-current investment less cost to sell is lower than the carrying amount or it is impossible to determine, the value in use of the investment property is determined.

The value in use of an investment property is determined by estimating the present (discounted) value of future incoming and outgoing cash flows.

The value in use of property and equipment is determined using amortised replacement cost method or replacement cost method.

The value in use of an investment property is compared to its fair value less cost to sell. Investment properties are carried at the recoverable value which is the larger of the two.

The value in use of an asset is determined using the weighted average cost of capital (WACC) set by the Company or the replacement cost method under which the value in use of an asset is equal to its replacement cost less replacement expenses.

If an asset is impaired it may require revising and adjusting its remaining useful life, depreciation method or the carrying amount even if no impairment loss is recognised.

If an asset is impaired significantly, impairment losses are recognised in the statement of comprehensive income.

Where the amount of impairment exceeds the carrying amount of an asset the carrying amount is written down to nil.

Impairment of assets is recorded in depreciation and amortisation accounts with other expenses recognised. After recognition of impairment it is continued to depreciate (amortise) the asset with the carrying amount (residual value) systemically allocated to the remaining useful life.

When impairment has decreased or no longer exists the carrying amount (residual value) of an asset is increased by writing down the impairment amount and recognising other revenue. The increase in the carrying amount (residual value) of an asset cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had impairment losses not been recognised for the asset in the previous periods.

After adjusting impairment, it is continued to depreciate (amortise) the asset with the carrying amount (residual value) systemically allocated to the remaining useful life.

2.3.9. Inventories

Inventories represent materials that the Company intends to use in repairs and maintenance of real estate properties, articles with useful lives shorter than 12 months that are not in use, representation articles and non-current investments intended for disposal.

Inventories other than real estate properties intended for disposal are carried at the lower of cost or present replacement cost. The present replacement cost is calculated by estimating the cost that the Company would incur in order to purchase or create the same asset at the reporting date.

Inventories may be written down to present replacement cost in case:

- they are damaged;
- they have become fully or partly obsolete or the sales price has reduced;

- the estimated cost to sell or replace inventories has increased.

2.3.10. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use and if they comply with both of the following classification criteria:

- these objects in their current condition are available for immediate sale and are subject only to common selling conditions of such objects;
- the objects are likely to be sold (the selling process is initiated based on the management’s decision on the sale of these objects, and there is confidence over the completion of the process in one year’s time from the day of initiation).

Non-current assets held for sale are initially carried at cost then at the lower of cost or net realisable value. If facts or events indicate the decrease in the value of non-current assets held for sale, a value impairment test is performed, and the losses created by the impairment of those assets are estimated and recognised in statement of comprehensive income.

2.3.11. Provisions

Provisions are formed by the Company to cover liabilities incurred in the reporting period or connected with transactions carried out in the previous reporting period and are foreseeable or known at the time of preparing the financial statements but amount of which or exact date of incurring or covering is not known precisely.

Provisions are not formed for liabilities and costs to be incurred in the future.

At the reporting date the Company has created provisions for expected enforcement of court rulings.

The amount of provisions is assessed in line with the current best estimate of expected cost to settle each claim taking account of the specific circumstances of the case, its complexity, judicial practice and case law in similar cases and the following is carried out:

- determine the amount that the entity would rationally pay to settle or transfer the obligation to a third party at the reporting date;
- estimate the amount of provisions using available information, evidence, including subsequent events, and experience. If a reasonable estimate of provisions is not possible, no provisions are recognised and disclosures on contingent liabilities are made.

Provisions are revised each quarter by assessing the progress and outcomes of litigation and making corresponding adjustments (upward or downward) to provisions.

The cost of creating provisions is recorded separately from income from compensation of costs.

2.3.12. Employee benefits

Short term employee benefits, including salaries, bonuses and vacation benefits are measured on an undiscounted basis and included in expenses on an accrual basis. The Company makes contributions into the state social insurance fund on behalf of each employee over the entire period of employment according to effective laws and regulations.

The Company does not participate in any defined long term pension plans and does not provide any long term employee benefits. The Company has no commitments to make further contributions in relation to the services provided by retired employees.

2.3.13. Prepaid expenses

Prepaid expenses represent expenses paid during the reporting year but relate to future periods.

2.3.14. Deferred income

Deferred income is recognised if payments are received by the Company in the reporting period for services to be provided in future periods (following the reporting period). Payments included under deferred income are recognised as revenue in the reporting period to which they relate.

Deferred income includes:

- government grants linked to assets invested in properties of the Company and state and European Union funds intended for creation of long-term investments of the Company. Financing is recognised as revenue in the statement of comprehensive income gradually over the useful life of the underlying assets. Revenue is recognised by the Company on the date the asset is delivered or the service is provided, and deferred income is reduced by a corresponding amount at the same date.
- Payments received for rent of premises in the Company's properties and land, repairs of real estate properties and other services.

2.3.15. Accrued income

Accrued income includes clearly known amounts to be settled with clients in relation to rent of property of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date. These amounts are calculated based on fees for services set in effective agreements.

2.3.16. Contract assets

Contract assets include the right to a consideration for management services provided for properties of the Company and other owners, except the state real estate properties, which have not been invoiced at the reporting date. These rights are recognised under receivables.

2.3.17. Contract liabilities

Contract liabilities consist primarily of advances paid by customers for real estate management services of the property of the Company and other owners, except the state real estate properties.

2.3.18. Accrued liabilities

Accrued liabilities are recognised if the amount and maturity date of the liability is reasonably accurately determinable and the degree of uncertainty is significantly lower than that for provisions.

Accrued liabilities are recognised:

- for services for which the supporting document for payment (invoice) has not been received at the reporting date due to delivery, purchase or company contract provisions, or for other reasons. The amount of these liabilities is calculated based on the contract price and documents supporting actual receipts of goods or services;

- settlements with regard to annual staff vacations and bonuses.

Accrued liabilities for annual staff vacations are recognised:

- by calculating liabilities towards the employee for unused vacation days at the reporting date regardless of the number of vacation days used by the employee after the reporting date;
- calculated for each employee individually, by determining the number of vacation days that are not used by the employee by the end of the reporting period and multiplying it with the average daily wage of the employee and calculating the related social insurance payments to be made by the employer;
- by summing the amount of accrued liabilities to each employee, calculate the total amount of accrued liabilities for unused staff vacations.

Accrued liabilities for annual staff vacations, bonuses for the reporting year and compulsory state social security contributions are calculated at least on a quarterly basis.

2.4. Donations

Government grants and financing from other external financial instruments received by the Company to implement real estate development projects are recognised according to IAS 20.

In the reporting period the Company changed the accounting treatment of transactions related to the portfolio of state real estate properties. Before the reporting period transactions related to the management of state real estate were reflected according to IFRS 15 Revenue from Contracts with Customers.

In the reporting period a new real estate management agreement was signed with the Ministry of Finance of the Republic of Latvia under which revenue and expenses related to the management of state real estate properties are reflected in the financial statements for the reporting period according to IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’ on a gross basis.

Under the new agreement, the share of revenue intended to cover the cost of planned repairs in state real estate properties is deferred by the Company until the date of such repairs and is recognised under deferred income. Revenue is recognised gradually in proportion to the degree of completion of repairs and matched with expenses in the respective period. State real estate properties are treated as assets of the Ministry of Finance of the Republic of Latvia Latvia. Capital repairs made using rental income are recognised under assets of the Company as capital investments in state properties.

2.4.1. Donations linked to income

Where constructions projects are funded by government grants or other external financial instruments and the investment is made into real estate properties owned by other persons revenue is recognised by the Company in the statement of comprehensive income net of the value of construction services provided by third parties.

Revenue from real estate construction services is recognised at net value as the Company acts on behalf of the client, the State, using funds assigned as part of the annual state budget. The Company does not conclude construction contracts with the client, instead it signs an agreement on the transfer of funding and use of the funding for the implementation of a construction project. The Company does not have influence over the choice of suppliers, as the suppliers are chosen according to the procedure established by the Public Procurement Law, and in line with the approved client or user's procurement documents. The arrangement regarding the transfer and use of funds for construction projects includes consideration for administrative costs related to monitoring of the project.

Revenue from construction services funded by grants that are still ongoing at the reporting date is recognised based on the amount of services provided in accordance with the acceptance certificates or a reliable estimate of construction works completed. Revenue is recognised only to the extent it is expected to recover recognised expenses. Revenue is not recognised when there is doubt whether the cost of services will be covered.

2.4.2. Donations linked to assets

Where the construction project is funded by government grants or external financial instruments and the investment is made in the Company's real estate deferred income is recognised by the Company in the statement of comprehensive income on a straight-line basis over the useful life of the underlying asset.

2.4. Financial assets and liabilities

Financial instruments (financial assets and liabilities) are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. Changes in the fair value of the asset to be received or transferred in the period between the dates of transaction and settlement are accounted for using the same principles as those applied to any purchased assets of the same type.

2.5.1. Financial assets

Financial assets include receivables, cash and cash equivalents. Classification depends on the purpose for which the financial asset was acquired. Financial assets are cash, instruments in equities of another party, contractual rights to receive cash or other financial assets and offset financial assets or financial liabilities, and a contract with equity based settlements.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial asset have expired or have been transferred to another party or when substantially all the risks and rewards of ownership have been transferred.

2.5.1.1. Accounts receivable

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short term receivables are not discounted.

Receivables are initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate less impairment allowances.

Trade receivables from rented real estate property are assessed by the Company using the expected credit loss (ECL) model with impairment allowances recognised regardless of whether or not a loss event had taken place.

The Company believes that given that trade receivables are not individually significant for impairment purposes they are assessed on a portfolio basis.

For ECL assessment purposes receivables are divided into two groups based on their credit risk as laid down in Cabinet Regulation No. 1456 of 10 December 2013 'On classification of institutional sectors';

- general government;
- other receivables.

The Company uses a simplified approach to receivables and recognises life-time expected credit losses based on the analysis of historical credit losses and forward-looking information.

The Company uses an allowance matrix based on the ageing structure of receivables and the historical level of default for 5 years supplemented with forward-looking information.

ECLs for receivables are calculated based on the assumed risk of default and expected loss rates. In making these assumptions and selecting data for impairment calculation the Company relies on its experience, the present market conditions and forward-looking information at the reporting date (refer to Note 19).

2.5.1.2. Cash and cash equivalents

Cash and cash equivalents comprise non-cash balances on current accounts at banks of the Republic of Latvia.

2.5.2. Financial liabilities

Financial liabilities include loans and trade accounts payable and other creditors.

2.5.2.1. Accounts payable

Accounts payable are initially recognised at fair value. In subsequent periods, accounts payable are carried at amortised cost calculated in accordance with the effective interest rate method. Accounts payable are classified as current liabilities if the payment term is one year or less. Where the payment term exceeds one year accounts payable are classified as non-current liabilities.

The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

2.5.2.2. Borrowings

The Company obtains loans from credit institutions to finance construction, renovation and reconstruction of real estate properties. Loans are initially recognised at the fair value net of borrowing costs. In future periods, loans are carried at amortised cost calculated using the effective interest rate of the loan.

The difference between the amount received, net of borrowing costs, and the value of the loan at maturity is gradually charged to the statement of comprehensive income using the effective interest rate. The difference is recognised under finance expenses. Loans are classified as current liabilities except when the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Financial liabilities are derecognised when the underlying obligation is discharged or cancelled or expires (see Note 28).

2.5.2.3. Derivatives

The Company uses derivative financial instruments to limit its exposure to interest rate risks arising from operating, financing and investment activities.

The Company makes use of derivatives such as interest rate swaps that are initially carried at cost and subsequently measured at fair value through other comprehensive income. Fair value is determined with reference to market prices. A derivative is recognised as an asset if its fair value is positive and as a liability if its fair value is negative. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

The Company does not use hedge accounting.

2.6. Revenue

Revenue related to the management of state real estate portfolio is recognised according to IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’ on a gross basis.

Revenue from rent of investment properties is recognised according to IFRS 16.

Revenue from the following services is recognised according to IFRS 15:

- real estate management services;
- state real estate disposal services;
- provision of services related to use of real estate (at net value).

Revenue from construction services implemented using government grants is recognised according to IAS 20 (see Note 2.4) at net value.

According to the criteria of IFRS 15, revenue from contracts with customers represents revenue from services provided and goods sold in the ordinary course of business. Contracts with customers are identified by the Company using the following criteria:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;

- the contract has commercial substance (i.e. the risk, timing or amount of the Company's future cash flows is expected to change as a result of the contract);
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In evaluating whether collectability of an amount of consideration is probable, for practical reasons the Company applies a portfolio method to all services provided to customers. The Company expects that the impact on the financial statements from the application of the requirement on a portfolio basis will not differ significantly from that arising from the application to each individual contract in the portfolio.

The Company considers only the customer's ability and intention to pay that amount of consideration when it is due.

Performance obligation is a promise in a contract with a customer to transfer to the customer either goods or service or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The key performance obligations in the Company’s contracts with customers are management of real estate properties and related services, provision of services related to disposal of real estate properties and provision of construction services.

Revenue is recognised when the Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Company’s performance;
- at a point in time, when control of the goods or services is transferred to the customer.

2.6.1. Revenue from contracts with customers recognised over time

2.6.1.1. Revenue from real estate management services

Revenue from real estate management recognised under IFRS 15 represents all revenue generated by the Company from the management of own and state real estate properties.

Revenue from real estate management is recognised to the extent the services are provided. Revenue is recognised in the statement of comprehensive income according to contract provisions on a straight line basis over the period of lease.

2.6.2. Revenue from contracts with customers recognised when control of a good or service is transferred to a customer.

2.6.2.1. Income from the disposal of state real estate

Revenue from the disposal of state real estate is recognised when real estate properties, damage or loss risks and all theoretical benefits from this real estate are transferred to the buyer, and the amount of income can be reliably estimated and the payment is expected to be received, and ownership rights of the new owner are registered with the Land Registry, and, pursuant to Regulation No. 109 of 1 February 2011, a half of the proceeds gained is transferred to the state budget.

Disposals of state real estate property (revenue, expenses and settlements with the state budget for funds generated by disposal) are treated by the Company in accordance with the Law on Disposal of Public Person's Property and Cabinet Regulation No. 109 of 1 February 2011 Procedure of Disposal of Public Person's Property (Regulation No. 109).

The “realisation price” referred to in Section 36 of Regulation No. 109 is understood to be the purchase price set in the purchase agreement of state real estate property or the bid price.

Expenses incurred in the sale of state real estate property are covered by revenues generated from sale of state real estate properties. These expenses are determined as normative costs and are compensated according to percentages of the realisation price laid down in Section 36 of Regulation No. 109. Disposal expenses remain with the Company and are recognised as revenue.

Funds obtained from disposal of state real estate properties, less disposal expenses, are transferred into the state budget according to the procedure in place.

2.6.3. Revenue from contracts with customers recognised at net value

Revenue from provision of real estate operation services to lessees and tenants is recognised according to IFRS 15 and represents final payments of lessees to cover expenses incurred by the Company to providers of services. As a lessor of real estate, the Company collects payments from customers and transfers those funds to service providers.

The Company has considered the following signs which indicate that it acts as an agent:

- it has no control of services prior to their provision to the customer;
- it has an obligation to invoice these services to customers and collect cash but it is not entitled to revenue;
- it has no right to determine the price of the service either directly or indirectly.

The above real estate operation services are recognised in the statement of comprehensive income at net value.

2.7. Corporate income tax

On 1 January 2018 the Law on Enterprise Income Tax of the Republic of Latvia entered into force and set out a new regime for paying taxes. The tax rate is 20% from the taxable base determined by dividing the value of the amount taxable with corporate income tax by coefficient 0.8, includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends), and
- conditionally or theoretically distributed profit (non-operating expenses and other specific cases provided for by the law).

Corporate income tax calculated for conditionally distributed profit under IFRS is classified as other operating expenses.

The new tax regime is not applicable to the distribution of dividends from profit accumulated to 31 December 2017 and taxed under the previous taxation regime. Corporate income tax calculated and reported for 2018 amounted to EUR 14. Corporate income tax calculated for 2019 is reflected in Note 14.

Contingent assets that derive from the calculation of the Company's Corporate Income Tax for periods prior to 31 December 2017

The use of tax losses carried forward from previous periods is limited: it will be possible to utilise 15% these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It will be possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

The corporate income tax declaration for 2020 contains accumulated transferable tax losses of EUR 2 828 068. According to the Corporate Income Tax Law, these losses can be utilised to reduce CIT on dividends by up to 50% paid exclusively from profit of 2020-2021 distributed as dividends by the end of 2022 and from profit of 2022 to be distributed as extraordinary dividends during 2022.

As at 31 December 2020 the Company has provisions of EUR7 049 808 and if certain legal conditions are fulfilled by this amount the Company will be able to reduce the CIT taxable base in future taxation periods.

The potential benefits described above as at 31 December 2020 that may arise from the potential possibility to decrease the amount of tax in the future are treated as contingent assets and are not recognised on the balance sheet.

2.8. Share capital and payments for the use of state shares

The Company's share capital consists of ordinary voting shares. Share capital consists of ordinary shares. Nominal value of each share is EUR 1.

The Company is owned by the government and it distributes dividends according to laws of the Republic of Latvia and decisions of the Ministry of Finance. Dividends are recognised as a liability in the Company's financial statements in the period in which the shareholder approves the amount of dividends.

2.9. Change of the accounting policy

Before the beginning of the reporting period, capital investments in state real estate properties funded by EU funds were transferred to the Ministry of Finance to be added to the cost of the asset after construction is completed. During the project implementation claims and liabilities related to the project funding were recognised by the Company on its own balance sheet.

Effective from 1 January 2020 the Company changed the accounting treatment of projects financed by EU funds. In the reporting period capital investments were transferred to the Ministry of Finance for recognition under construction in progress in proportion to the degree of completion and so was all work completed before the beginning of the reporting period. The new accounting policy more accurately reflects substance of these transactions.

The change of the accounting policy is reflected in the financial statements retrospectively.

Assets	31.12.2019 as reported	Adjustment related to the change in accounting policy	31.12.2019 adjusted
Total non-current assets	**365 225 779**	**-**	**365 225 779**
Total current assets	**32 468 493**	**(586 660)**	**31 881 833**
Trade and other receivables	10 135 005	(586 660)	9 548 345
Total other current assets	22 333 488	-	22 333 488
Total assets	**397 694 272**	**(586 660)**	**397 107 612**
Total shareholder's equity	**278 738 281**	**-**	**278 738 281**
Total non-current liabilities	**86 796 637**	**-**	**86 796 637**
Total current liabilities	**32 159 354**	**(586 660)**	**31 572 694**
Accounts payable to suppliers and contractors, and other creditors	15 831 450	(586 660)	15 244 790
Total other non-current liabilities	16 327 904	-	16 327 904
Total liabilities	**118 955 991**	**(586 660)**	**118 369 331**
Total equity and liabilities	**397 694 272**	**(586 660)**	**397 107 612**

3. New standards, amendments and interpretations

A number of new standards (or amendments thereto) are in effect for annual periods beginning after 1 January 2020, which do not have a material impact on the financial statements.

Standards published but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020, with earlier application permitted; however, the Company has not early adopted the new standards in preparing these financial statements.

Onerous contracts – Cost of Fulfilling a Contract (amendments to IAS 37)

The amendments clarify which costs should be taken into account in determining the cost of fulfilling a contract in order to evaluate if the contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022; to be applied to contracts that were in effect at the date of initial application of the amendments. The cumulative effect of applying these amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate at the date of initial application. Comparatives are not restated.

The Company has determined that all onerous contracts effective as at 31 December 2020 will be performed before the date of application of the standard.

Other standards

The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Onerous contracts – Cost of Fulfilling a Contract (amendments to IAS 37);
- COVID-19-Related Rent Concessions (amendments to IFRS 16);

- Property, Plant and Equipment: Proceeds before Intended Use (amendments to IAS 16);
- Reference to Conceptual Framework (amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (amendments to IAS 1);
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

The management made the decision not to adopt new standards and interpretations in advance of their effective dates, as well as expects that the adoption of new standards, revisions and interpretations will have no significant impact on the financial statements during the implementation year.

4. Fair value measurement

Fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has an access at that date. The fair value of liabilities represents the risk of default.

According to the Company's accounting policies and disclosure requirements fair value should be determined for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and disclosure purposes based on the below methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash equivalents are included in Level 1. Cash and cash equivalents are financial assets with maturities below 3 months. The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Company has no financial assets and liabilities categorised as Level 2.

Level 3 includes:

- loans from credit institutions;
- payables and receivables;
- derivatives;
- investment properties.

Loans from credit institutions

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value of financial liabilities with outstanding maturities longer than six months is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. Loans include a fixed and floating interest rate components and changes to the fixed component are assessed each year according to changes in the market situation. As a result it is assumed that the loan interest rate approximates the market rate in all reporting dates presented. For finance leases the market interest rate is determined with reference to similar lease agreements. Fair value of shorter term financial liabilities with no stated interest rate is deemed to approximate their face value on initial recognition and carrying value on any subsequent date as the effect of discounting is immaterial.

Payables and receivables

As trade receivables, amounts due from related parties, other receivables, other financial assets, accounts payable to contractors and other creditors, accounts payable to related parties and other financial liabilities typically mature in less than six months the Company believes that the fair value of these financial assets and liabilities matches their initial nominal value and their carrying amount at any future date.

Derivatives

The Company makes use of derivatives such as interest rate swaps that are initially carried at cost and subsequently measured at fair value through other comprehensive income. Fair value is determined with reference to market prices. A derivative is recognised as an asset if its fair value is positive and as a liability if its fair value is negative. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Investment property

The Company’s internal valuator determines the fair value of investment properties for financial reporting purposes at each reporting date.

5. Financial risk management

This note presents information about the Company’s exposure to below risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of financial risks and capital requirements. Further quantitative disclosures are included throughout these financial statements.

The management has overall responsibility for the establishment and oversight of the Company's risk management framework. The achievement of risk management goals in the Company is organised in such a way that risk management is a part of normal business operations and management. Risk management is a process of identifying, assessing and managing business risks that can prevent or jeopardise the achievement of business goals.

The Company is improving its risk management processes to be able to adjust to the development trends in the industry and the changing business environment. Risk assessment is being gradually integrated in corporate governance.

The objective of risk management is to identify on a timely basis and manage key risks to enable the Company to achieve its strategic objectives and to reduce potential losses and other damages.

The key financial instruments held by the Company are financial assets such as trade receivables and other receivables and financial liabilities – loans, accounts payable to suppliers and contractors and other creditors arising directly from its business activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

In relation to a credit risk, the Company has procedures in place to ensure that goods are sold and services are provided to clients after evaluation of their historical payment discipline. The most important factor is the client's ability to pay for goods supplied and services provided on a timely basis. Receivables disclosed in the statement of financial position are not secured.

The Company is exposed to credit risk, which is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the counterparty.

The Company is exposed to credit risk in relation to its trade receivables, short-term loans, cash and cash equivalents. Management controls the credit risk by regular assessment of customer debt history and individual lending terms for each customer. In addition, the management of the Company performs continuous monitoring of receivables to reduce the possibility of incurring bad debts.

In its derivative and cash transactions, the Company partners with financial institutions with adequate credit rating and good reputation. The Company strictly monitors and manages credit risk acceptable with each financial institution.

The Company has established an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables according to the expected credit loss model. The carrying amount of receivables, net of impairment allowances and the total of cash and cash equivalents, represents the maximum amount exposed to credit risk.

Credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings.

The Company has no significant concentration of credit risk since the customer portfolio is diversified among a number of customers. Although collection of loans and receivables could be influenced by economic factors, the management believes that there is no significant risk of loss to the Company beyond the allowances already recorded (see Note 37).

Liquidity risk

Liquidity risk is a risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Refer to Note 37 for more information.

The Company controls and reduces the funding and liquidity risk by maintaining an appropriate amount of cash and cash equivalents, carefully planning its cash flow, planning the refinancing of the loans in due time, differentiating the deadlines for loan portfolio obligations.

Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its investments in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Foreign currency risk is the risk that changes in foreign exchange rates will affect the Company's financial position and cash flows.

Due to the introduction of euro and insignificant cash flows in foreign currencies from operating activities, the Company is not exposed to a significant foreign currency risk.

Interest rate risk

Interest rate risk represents the effect of market interest rate fluctuations on the Company's financial position. The sources of funding of VNI are comprised primarily of equity, income from business activities and loans. The Company is exposed to interest rate risk, as the bank loans have floating interest rates that are fixed for a period of 1, 3 or 6 months.

In order to reduce interest rate risk from loans, to Company uses derivatives, when necessary. The measures for management of financial risks are implemented to promote business activity, and the Company is not engaged in any speculative transactions that may increase the currency risk or interest rate risk.

Capital management

The Company believes it is necessary to maintain a stable capital base to sustain creditor trust in the Company and support further development. As the Company aims to maintain an optimum capital structure to reduce the cost of capital external financing from non-related parties is minimised. The objective of capital management set by the management for 2020 was to achieve return on equity or profitability of 1.48%. The actual indicators are lower than planned and ROE amounts to 1.08% which is 0.41 base points lower than planned in the strategy and 0.80 base points lower than that in 2019, and it is the result of profit reduction on account of substantial Covid-19 related discounts and change in the accounting treatment of the provision component of the Ministry of Finance properties.

6. Revenue

Revenue represents revenue from contracts with customers generated during the year, revenue from construction services and rent of the Company's real estate properties

Revenue	IFRS or IAS applied	2020	2019
Lease of real estate of the Company	IFRS 16	21 665 711	24 702 034
Management of state real estate, construction	IAS 20	10 456 795	939 362
Management of own real estate, disposal of state real estate	IFRS 15	5 866 317	14 605 432
Total income		**37 988 823**	**40 246 828**

Revenue from contracts with customers by group of receivables (IFRS 15)	2020	2019
General government	4 876 011	7 919 586
Other receivables	990 306	6 685 846
Total revenue from contracts with customers	**5 866 317**	**14 605 432**

Assets and liabilities from contracts with customers (IFRS 15)	31.12.2020	31.12.2019
Contract assets – accrued assets from real estate management services (Note 22)	193 131	458 287
Contract liabilities (Note 32)	68 992	1 120 332

According to the management agreement signed during the reporting period, the share of revenue intended to cover the cost of planned repairs in the state real estate properties is deferred by the Company and until the work is completed is recognised under deferred income. As the new management agreement was signed during the reporting period and it was not in effect at the beginning of the reporting period, the change in the accounting treatment was not reflected retrospectively in the financial statements for the reporting period.

The table below presents changes in comparatives for 2019 in case changes in the accounting treatment of transactions related to the management of the state real estate properties were applied retrospectively.

Revenue	IFRS or IAS applied	2019	Changes in accounting treatment if the management contract was applied retrospectively	2019 (If the management contract was applied retrospectively)
Lease of real estate of the Company	16	24 702 034	-	24 702 034
Management of state real estate, construction	20	939 362	10 185 300	11 124 662
Management of own real estate, disposal of state real estate	15	14 605 432	(10 185 300)	4 420 132
Total income		**40 246 828**	**-**	**40 246 828**

Revenue from contracts with customers by group of receivables (IFRS 15)	**2019**	**Changes in accounting treatment if the management contract was applied retrospectively**	**2019** (If the management contract was applied retrospectively)
General government	7 919 586	(4 302 044)	3 617 542
Other receivables	6 685 846	(5 883 256)	802 590
Total revenue from contracts with customers	**14 605 432**	**(10 185 300)**	**4 420 132**

Assets and liabilities from contracts with customers (IFRS 15)	**31.12.2019**	**Changes in accounting treatment if the management contract was applied retrospectively**	**31.12.2019** (If the management contract was applied retrospectively)
Contract assets – accrued assets from real estate management services (Note 22)	458 287	(415 852)	42 435
Contract liabilities (Note 32)	1 120 332	(1 060 600)	59 732

7. Cost of sales

	2020	2019
Depreciation of non-current investments	10 165 661	10 005 857
Real estate maintenance costs	9 025 721	7 928 233
Remuneration	4 466 677	4 465 963
Real estate tax	2 546 446	2 466 110
Compulsory state social security contributions	1 207 762	1 150 446
Public utilities	380 213	626 175
Accrued liabilities for remuneration	130 780	81 928
Raw material and other material costs	111 995	154 549
Transport costs	106 669	141 150
Identification and legal registration of state real estate property	102 501	130 584
Amortisation of right-of-use assets	104 870	57 825
Information services	58 527	59 186
Cost (recovery) of doubtful debts and bad debts	56 422	463 025
Maintenance of moveable property and equipment	37 296	19 648
Advisory services	32 250	33 000
Personnel training	26 193	22 953
Telecommunications	21 798	31 780
Services for disposal of real estate	14 883	26 411
Business trips	6 909	51 256
Other expenses	139 101	131 941
Total cost of sales	**28 742 674**	**28 048 020**

8. Selling expenses

	2020	2019
Remuneration	624 012	561 066
Services for disposal of state real estate	165 456	186 777
Compulsory state social security contributions	150 060	135 178
Accrued liabilities for remuneration	27 334	6 503
Advertising	18 495	5 740
Information services	12 357	8 060
Depreciation	8 187	8 412
Personnel training	4 253	4 354
Identification and legal registration of state real estate property	3 641	-
Telecommunications	3 571	5 267
Advisory services	-	15 957
Other expenses	33 700	22 181
Total selling expenses	**1 051 066**	**959 495**

9. Administrative expenses

	2020	2019
Remuneration	2 816 647	2 878 060
Compulsory state social security contributions	677 571	692 644
Depreciation	432 846	196 472
Maintenance of IS and implementation of pilot projects	98 969	308 916
IT applications and lease of licences	87 641	133 305
Personnel training	71 668	80 786
Accrued liabilities for remuneration	48 030	8 084
GDPR related services	47 760	47 098
Legal and other professional fees	45 046	214 107
Advisory services	37 520	61 104
Postal expenses	32 628	27 260
Non-deductible VAT input tax	24 096	46 795
Transport costs	22 503	50 200
Insurance	17 246	18 394
Telecommunications	16 138	23 300
Maintenance of movable assets	15 226	20 346
Representation expenses	13 531	68 484
Accounting software maintenance cost	13 057	29 098
Archive services	12 136	5 874
Information services	10 945	9 554
Services for finance and accounting function	4 250	39 477
Expenses on cash turnover	2 469	3 636
Business trip expenses	844	31 944
Other expenses	162 661	192 074
Total administrative expenses	**4 711 428**	**5 187 012**

10. Other operating income

	2020	2019
Net income from the disposal of assets held for trading and investment property	186 020	99 383
Decrease in provisions for potential court proceedings (net)	167 700	31 119
Income from servicing the car fleet of the Ministry of Finance	145 806	169 448
Income from capital investments in the Company's real estate property funded by other parties	73 966	74 245
Fines received	42 152	58 128
Insurance compensations received	10 058	52 876
Court expenses recovered	9 748	17 954
Income from disposal of moveable property	4 945	7 900
Receipt of real estate tax overpaid by the subsidiary merged during the previous years based on a court ruling	-	138 230
Other income	126 717	40 599
Total other operating income	**767 111**	**689 882**

11. Other operating expenses

	2020	2019
Sustainability measures	44 326	68 213
Loss on disposal of formerly managed properties	40 277	4 029
Write-off of costs of construction in progress	28 875	107 074
Fines paid	6 118	10 263
Loss on disposal of movable property	3 225	7 860
Increase/(decrease) in provisions for selling expenses of real estate	1 000	2 000
Provision for illegally disposed movable property and equipment	223	-
Impairment of investment property*	-	58 736
Other expenses	22 451	30 287
Total other operating expenses	**146 495**	**288 462**

* Impairment was determined for 17 investment properties where the carrying amount of the underlying assets at the reporting date exceeded the fair value (recoverable amount) and the trend was expected to exist for more than 12 months. These investment properties were measured at fair value (recoverable amount).

12. Financial income

	2020	2019
Gain from changes in the fair value of financial instruments	58 166	63 560
Interest on disposal of state land on lease terms	8 948	10 688
Total financial income	**67 114**	**74 248**

(continued overleaf)

The item includes a result of changes in the fair value of financial instruments based on the financial instruments revaluation reports by the relevant bank, and the financial statements disclose the fair values of financial instruments indicated by banks. Financial instruments are presented on the balance sheet under derivatives. The net result from transactions with financial instruments and the related swaps is disclosed in the statement of comprehensive income.

13. Finance expenses

	2020	2019
Interest expenses	580 248	642 795
Net loss from currency exchange fluctuations, including:	15 675	17 981
gain	*(3 244)*	*(2 061)*
loss	*18 919*	*20 042*
Interest expenses from lease liabilities	13 811	9 946
Other expenses	9 892	10 329
Total finance expenses	**619 626**	**681 051**

14. Corporate income tax

14.1. Corporate income tax recognised in the statement of comprehensive income

Corporate income tax is calculated by the Company according to the laws and regulations of the Republic of Latvia.

	2020	2019
Current tax	**564 674**	**648 853**

14.2. Reconciliation of effective tax rate

Current corporate income tax expenses for the years ending on 31 December 2020 and 31 December 2019 is different from the theoretical tax amount that the Company would incur if profit before tax was taxed at the statutory rate of 20%:

	2020	2019
Profit before tax	**3 551 759**	**5 846 918**
Theoretical tax at 20%	710 352	1 169 384
Effect of retained earnings brought forward from previous years taxable upon distribution	564 674	648 853
Effect of profit for the reporting year that will be taxable upon distribution	(710 352)	(1 169 384)
Tax expenses	**564 674**	**648 853**
Effective income tax rate	**16%**	**11%**

15. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Expenses of creating intangible assets	Total intangible assets
Historical cost			
31.12.2018	**1 198 584**	**-**	**1 198 584**
Additions	-	203 164	**203 164**
Reclassified	193 572	(193 572)	**-**
Disposals	(1 275)	-	**(1 275)**
31.12.2019	**1 390 881**	**9 592**	**1 400 473**
Additions	-	513 690	**513 690**
Reclassified	500 734	(500 734)	**-**
Disposals	(27 403)		**(27 403)**
31.12.2020	**1 864 212**	**22 548**	**1 886 760**
Accumulated depreciation			
31.12.2018	**997 626**	**-**	**997 626**
Charge for the period	104 792	-	**104 792**
Amortisation of disposed intangible assets	(1 275)	-	**(1 275)**
31.12.2019	**1 101 143**	**-**	**1 101 143**
Charge for the period	251 406	-	**251 406**
Amortisation of disposed intangible assets	(27 403)	-	**(27 403)**
31.12.2020	**1 325 146**	**-**	**1 325 146**
Carrying amount			
31.12.2018	**200 958**	**-**	**200 958**
31.12.2019	**289 738**	**9 592**	**299 330**
31.12.2020	**539 066**	**22 548**	**561 614**

16. Property and equipment

	Real estate (land plots, buildings and engineering structures)	Leasehold improvements	Other property and equipment	Antiquities	Construction in progress	Total
Historical cost						
31.12.2018	**10 216 264**	**13 302 431**	**2 501 069**	**116 175**	**71 402**	**26 207 341**
Additions	-	-	-	-	636 023	**636 023**
Disposals	-	(30 858)	(156 235)	(265)	-	**(187 358)**
Reclassified	-	-	527 757	-	(527 757)	**-**
Transfers to/from other balance sheet item (Note 16.1.)	-	1 639 909	-	-	(2 497)	**1 637 412**
Transfers to inventories	-	-	(311 878)	-	-	**(311 878)**
Transfers to investment property	(10 216 264)	-	-	-	-	**(10 216 264)**
31.12.2019	**-**	**14 911 482**	**2 560 713**	**115 910**	**177 171**	**17 765 276**
Additions	-	-	1 352	1 680	217 306	**220 338**
Disposals	-	(358 290)	(367 417)	-	-	**(725 707)**
Reclassified	-	-	323 075	-	(323 075)	**-**
Transfers to/from other balance sheet items (Note 16.1.)	-	911 865	-	-	-	**911 865**
Transfers from inventory		-	516	-	-	**516**
31.12.2020	-	**15 465 057**	**2 518 239**	**117 590**	**71 402**	**18 172 288**
Accumulated depreciation						
31.12.2018	**6 717 587**	**5 298 368**	**1 839 535**	**-**	**-**	**13 855 490**
Charge for the period	97 325	472 508	283 000	-	-	**852 833**
Depreciation of disposed property and equipment	-	(26 829)	(153 084)	-	-	**(179 913)**
Transfers to inventories	-	-	(240 804)	-	-	**(240 804)**
Transfers to investment property	(6 814 912)	-	-	-	-	**(6 814 912)**
31.12.2019	**-**	**5 744 047**	**1 728 647**	**-**	**-**	**7 472 694**

(continued overleaf)

	Real estate (land plots, buildings and engineering structures)	Leasehold improvements	Other property and equipment	Antiquities	Construction in progress	Total
Charge for the period	-	508 996	342 867	-	-	**851 863**
Depreciation of disposed property and equipment	-	(195 776)	(358 840)	-	-	**(554 616)**
Allowance for illegally disposed items of property and equipment	-	-	223	-	-	**223**
31.12.2020	**-**	**6 057 267**	**1 712 897**	**-**	**-**	**7 770 164**
Carrying amount						
31.12.2018	**3 498 677**	**8 004 063**	**661 534**	**116 175**	**71 402**	**12 351 851**
31.12.2019	**-**	**9 167 435**	**832 066**	**115 910**	**177 171**	**10 292 582**
31.12.2020	**-**	**9 407 790**	**805 342**	**117 590**	**71 402**	**10 402 124**

16.1. Transfers from other balance sheet items

	Leasehold improvements	Construction in progress	Total
2019			
Capital expenditure (reclassified from Cost of creating investment property and construction in progress)	1 639 909	-	**1 639 909**
Reclassified to low-value articles	-	(2 497)	**(2 497)**
	1 639 909	**(2 497)**	**1 637 412**
2020			
Capital expenditure (reclassified from Cost of creating investment property and construction in progress)	911 865	-	**911 865**
	911 865	**-**	**911 865**

17. Investment property

Investment property includes land, buildings and constructions intended for lease.

Subsequent to initial recognition, investment property items are carried at cost with accumulated depreciation and impairment losses charged to the statement of comprehensive income.

The fair value of investment properties to be disclosed in the notes to the financial statements is determined by an internal valuator of the Company at each reporting date.

	Real estate (land plots, buildings and engineering structures)	Construction in progress	Right-of-use asset (real estate properties)	Total
Historical cost				
31.12.2018	**565 242 363**	**20 623 758**	**24 387**	**585 890 508**
Additions	-	10 696 768	-	**10 696 768**
Disposals	(420 305)	-	-	**(420 305)**
Reclassified	3 097 891	(3 097 891)	-	-
Transfers to other balance sheet items (Note 17.1.)	-	(1 150 175)	-	**(1 150 175)**
Transfers to assets held for sale	(562 717)	-	-	**(562 717)**
Reclassified from property and equipment	10 216 264	-	-	**10 216 264**
Written off allowances for construction in progress	-	(743 288)	-	**(743 288)**
31.12.2019	**577 573 496**	**26 329 172**	**24 387**	**603 927 055**
Additions	-	11 634 734	106 935	**11 741 669**
Reclassified	15 293 322	(15 293 322)	-	**-**
Disposals	-	-	(27 337)	**(27 337)**
Transfers to other balance sheet items (Note 17.1.)	-	(910 310)	-	**(910 310)**
Transfers to assets held for sale	(611 193)	-	-	**(611 193)**
31.12.2020	**592 255 625**	**21 760 274**	**103 985**	**614 119 884**

(continued overleaf)

	Real estate (land plots, buildings and engineering structures)	Construction in progress	Right-of-use asset (real estate properties)	Total
Accumulated depreciation and impairment				
31.12.2018	**224 894 659**	**9 941 139**	**-**	**234 835 798**
Charge for the period	9 249 365	-	3 751	**9 253 116**
Depreciation of disposed properties	(236 089)	-	-	**(236 089)**
Transfers to assets held for sale	(477 836)	-	-	**(477 836)**
Reclassified from property and equipment	6 814 912	-	-	**6 814 912**
Written off allowances for construction in progress	-	(743 288)	-	**(743 288)**
Impairment *	58 736	-	-	**58 736**
31.12.2019	**240 303 747**	**9 197 851**	**3 751**	**249 505 349**
Charge for the period	9 503 425	-	35 910	**9 539 335**
Depreciation of disposed properties	-	-	(8 942)	**(8 942)**
Transfers to assets held for sale	(383 604)	-	-	**(383 604)**
31.12.2020	**249 423 568**	**9 197 851**	**30 719**	**258 652 138**
Carrying amount				
31.12.2018	**340 347 704**	**10 682 619**	**24 387**	**351 054 710**
31.12.2019	**337 269 749**	**17 131 321**	**20 636**	**354 421 706**
31.12.2020	**342 832 057**	**12 562 423**	**73 266**	**355 467 746**

* Impairment was determined for 17 investment properties where the carrying amount of the underlying assets exceeded the fair value (recoverable amount) and the trend was expected to exist for more than 12 months. These investment properties were measured at fair value (recoverable amount).

Charged to the statement of comprehensive income from investment property	2020	2019
Lease income from investment property	21 665 711	24 702 034
Direct operating expenses (including repairs and maintenance) for leased investment property	(3 992 548)	(2 641 557)
Direct operating expenses (including repairs and maintenance) for non-leased investment property	(2 793 209)	(1 934 227)
Profit or loss from investment property	**14 879 954**	**20 126 250**

Fair value of investment property

Had investment properties been measured in accordance with the fair value model their carrying amounts would be:

	31.12.2020	31.12.2019
Fair value	**374 774 600**	**364 381 344**

The fair values of investment property items such as buildings, constructions and land plots is categorised as Level 3 in the fair value hierarchy.

The table presents the valuation approach used to determine the fair value and the significant unobservable data:

Number of investment properties	Valuation approach	Significant unobservable inputs	Relation between significant unobservable inputs and measurement of value in use
67 properties	The valuation was based on the income approach	Revenue and cost-push inflation, vacancy rate, discount and capitalisation rate (WACC and risk factor specific to each property), revenue forecasting period of 5 years with the reversal in the terminal year.	The value would increase if the revenue and cost-push inflation was higher, the vacancy rate reduced and the discount and capitalisation rate were lower. The value would decrease if the revenue and cost-push inflation was lower, the vacancy rate increased and the discount and capitalisation rate were higher.
57 properties	The valuation was based on the market or comparable transactions approach	Value adjustment coefficient for similar properties: timing of sale, location and technical condition of property.	The value increases/decreases depending on changes in the real estate market since the date of transaction with the comparable property; The value increases/decreases if the comparable properties are situated in different transaction regions, the comparable properties have different positions in relation to other objects in the same transaction region or the comparable properties have a different access for pedestrians and vehicles; The value increases/decreases if the comparable properties have a different depreciation and technical condition of the building.

(continued overleaf)

17 properties	Measurement was based on the income approach and market or comparable transactions approach	Highest of both values (for information on significant unobservable inputs and relation between significant unobservable inputs and measurement of value in use refer above).

17.1. Transfers to other balance sheet items

Construction in progress	2020	2019
Capital expenditure (transferred to property and equipment – Non-current leasehold improvements)	(911 865)	(1 639 909)
Capitalisation of personnel costs	580 580	603 832
Updated account - costs	(579 025)	(114 098)
	(910 310)	**(1 150 175)**

18. Right-of-use assets

The right-of-use assets were recognised according to IFRS 16 Lease.

Leased movable property (vehicles)	2020	2019
Opening balance	**206 878**	**-**
Additions	-	206 878
Carrying amount at the end of the year	**206 878**	**206 878**
Accumulated depreciation at the beginning of the reporting period	**63 212**	**-**
Charge for the period	68 960	63 212
Accumulated depreciation at the end of the reporting period	**132 172**	**63 212**
Carrying amount at the end of the reporting period	**74 706**	**143 666**

19. Trade and other receivables

	31.12.2020	31.12.2019 adjusted
Non-current portion		
Receivable from the Ministry of Foreign Affairs of the Republic of Latvia for the construction work carried out at the embassy of the Republic of Latvia in Denmark*	42 284	67 072
Total non-current portion	**42 284**	**67 072**
Current portion		
Prepayments to contractors for services	9 195 228	4 628 705
Payments for construction works performed	2 603 232	3 074 564
Net value of trade receivables	682 862	813 449
Trade receivables	*3 240 060*	*3 566 318*
Impairment allowance	*(2 557 198)*	*(2 752 869)*
Net VAT paid from advance payments received and paid	194 992	486 723
Receivable from the Ministry of Foreign Affairs of the Republic of Latvia for the construction work carried out at the embassy of the Republic of Latvia in Denmark*	24 788	24 788
Overpaid taxes	14 640	13 962
Other receivables	33 385	506 154
Total short term	**12 749 127**	**9 548 345**

*The receivable was taken over from VAS Diplomātiskais serviss as a result of reorganisation in 2008. The agreement stipulates a deferred payment - the Ministry of Foreign Affairs of the Republic of Latvia is required to pay a part of the service fees every year until 2023 when the final payment is made. No interest is calculated on the deferred payment.

Changes in allowances for impairment of accounts receivable:

Impairment allowance for trade receivables as at 31.12.2018	**2 531 283**
Additional allowances	463 025
Decrease of allowances due to write-off of debts	(241 439)
Impairment allowance for trade receivables as at 31.12.2019	**2 752 869**
Additional allowances	56 422
Decrease of allowances due to write-off of debts	(252 093)
Impairment allowance for trade receivables as at 31.12.2020	**2 557 198**

Trade receivables under the expected credit loss (ECL) model:

Overdue days under IFRS 9	ECL rate	Receivable	Impairment	ECL rate	Receivable	Impairment
General government		**31.12.2020**			**31.12.2019**	
Not past due	0%	20 632	-	0%	121 781	-
Overdue by 1-30	0%	1 134	-	0%	3 700	-
Overdue by 31-60	0%	3 053	-	9%	5	-
Overdue by 61-90	0%	1 403	-	18%	258	46
Overdue by 91-180	0%	3 328	-	23%	633	146
Overdue by 181-360	2%	349	7	51%	2 186	1 115
Overdue by > 360	100%	20 592	20 592	100%	18 405	18 405
Insolvent debtors*	100%	-	-	100%	-	-
	Total	**50 491**	**20 599**		**146 968**	**19 712**
Other receivables		**31.12.2020**			**31.12.2019**	
Not past due	3%	141 357	4 241	3%	256 370	7 691
Overdue by 1-30	7%	152 942	10 706	10%	134 950	13 495
Overdue by 31-60	15%	92 907	13 936	21%	65 328	13 719
Overdue by 61-90	21%	66 216	13 905	30%	63 443	19 033
Overdue by 91-180	26%	133 257	34 647	37%	128 365	47 495
Overdue by 181-360	39%	235 617	91 891	53%	296 107	156 937
Overdue by > 360	100%	2 183 582	2 183 582	100%	2 404 860	2 404 860
Insolvent debtors*	100%	183 691	183 691	100%	69 927	69 927
	Total	**3 189 569**	**2 536 599**		**3 419 350**	**2 733 157**
Total all receivables		**3 240 060**	**2 557 198**		**3 566 318**	**2 752 869**

Trade and other receivables by financial and non-financial receivables:

	31.12.2020	31.12.2019 adjusted
Financial receivables		
Payments for construction works performed	2 603 232	3 074 564
Trade receivables	749 934	905 309
Other receivables	33 385	506 154
Total financial receivables	**3 386 551**	**4 486 027**
Non-financial receivables		
Refund of overpaid tax	14 640	13 962
Prepayments received and VAT on prepayments	9 390 220	5 115 428
Total non-financial receivables	**9 404 860**	**5 129 390**
Total receivables	**12 791 411**	**9 615 417**
Long-term receivables	42 284	67 072
Short-term receivables	12 749 127	9 548 345

20. Prepaid expenses

The item represents expenses incurred during the reporting period but relating to the next reporting periods.

	31.12.2020	31.12.2019
Non-current portion		
Real estate repair costs	96 623	-
Total non-current portion	**96 623**	**-**
Current portion		
Real estate repair costs	89 072	15 934
Insurance payments	76 843	69 360
Software licenses	5 394	74 052
Other	41 065	84 323
Total current portion	**212 374**	**243 669**
Total prepaid expenses	**308 997**	**243 669**

21. Accrued income

	31.12.2020	31.12.2019
Accrued income	**548 697**	**1 532 589**

The item represents clearly known amounts to be settled with clients in relation to rent and maintenance services in properties of the Company and provision of construction services in the reporting year in relation to which a due date for issue of the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date.

	31.12.2019	Changes in accounting treatment if the management contract was applied retrospectively	31.12.2019 (If the management contract was applied retrospectively)
Accrued income	1 532 589	415 852	1 948 441

22. Contract assets

	31.12.2020	31.12.2019
Contract assets – accrued income from real estate management services	**193 131**	**458 287**

Contract assets include the right to a consideration for management services provided to the Company and other owners, except the state real estate properties, which have not been invoiced at the reporting date.

	31.12.2019	Changes in accounting treatment if the management contract was applied retrospectively	31.12.2019 (If the management contract was applied retrospectively)
Contract assets	458 287	(415 852)	42 435

23. Cash

	31.12.2020	31.12.2019
Cash on current accounts	20 861 401	19 753 839
Money in transit	130	(20)
Total cash	**20 861 531**	**19 753 819**

24. Assets held for sale

	31.12.2020	31.12.2019
Real estate for sale at auctions	390 589	247 881
Expected expenses for sale of real estate properties	(4 500)	(3 500)
Total	**386 089**	**244 381**

Information on changes in assets held for sale:

	2020	2019
Carrying amount at the beginning of the period	**247 881**	**163 000**
Disposed during the period	(84 881)	-
Transfer from investment properties (carrying amount)	227 589	84 881
Carrying amount at the end of the period	**390 589**	**247 881**

25. Share capital

The share capital of the Company as at 31 December 2020 is EUR 142 152 445 and it is divided into 142 152 445 shares with the nominal value of EUR 1. All shares are held by the Latvian state in the person of the Ministry of Finance of Latvia.

26. Reserves

26.1. Other reserves

Other reserves include retained earnings of previous reporting years until 2016 and capital investments in real estate properties taken over for management, as take-over transactions were carried out according to the shareholder's decision and were considered to be transactions with the shareholder. Other reserves are reduced after the underlying assets are disposed or transferred to the shareholder.

	2020	2019
Other reserves, beginning of the period	**7 358 269**	**7 358 269**
Covered loss of the previous reporting period	(694 920)	-
Transfer of the share of profit for 2018 and 2019	6 108 939	-
Decrease in reserves due to disposed properties formerly under management	(122 236)	-
Other reserves, end of the period	**12 650 052**	**7 358 269**

27. Retained earnings

Based on the shareholder's decision and Order of the Cabinet of Ministers the share of profit for 2018 and 2019 was not distributed as dividends and paid into the state budget and it was retained by the Company and used for investments into state and own properties.

In the reporting period the share of profit of 2018 and 2019 that was used for investments in own properties is reflected under equity and transferred out of retained earnings into other reserves. Whereas, the share of profit for 2018 and 2019 that was invested in state properties is reflected as a reduction in retained earnings following the principle of dividend distribution. At the same time, given the objective of redirecting retained earnings deferred income was recognised in line with the accounting treatment of revenue and financing received in relation to the management of state real estate properties under IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

Corporate income tax has been paid for the share of profit transferred to investments in state properties. Calculated corporate income tax for the share of profit of 2019 used for investments in state properties is reflected in profit and loss.

	Note	2020	2019
Retained earnings at the beginning of the year		**129 227 567**	**129 983 961**
Loss of previous periods covered from other reserves	26	694 920	-
Share of profit for 2017 added to equity		-	(6 678 339)
Distribution of profit for 2018 – payment for the use of the state capital		-	(2 595 411)
Distribution of profit for 2018 and 2019 – the share of profit used for development of the Company's real estate properties transferred to other reserves	26	(6 108 939)	-
Distribution of profit for 2018 and 2019 – conditional distribution of the share of profit used for development of state real estate properties		(4 317 714)	-
Revaluation reserve transferred to retained earnings of prior periods		-	3 232 764
Decrease of the revaluation reserve for property and equipment by the written down portion of depreciation		-	86 527
Profit of the reporting year		2 987 085	5 198 065
Retained earnings at the end of the year		**122 482 919**	**129 227 567**

28. Loans from credit institutions

	31.12.2020	31.12.2019
Non-current portion		
Loan from a credit institution registered abroad	54 369 389	60 358 599
Loan from a credit institution registered abroad	4 335 154	4 993 658
Loan from a credit institution registered in the Republic of Latvia	9 082 620	9 508 195
Loan from a credit institution registered in the Republic of Latvia	7 506 993	8 304 196
Total non-current portion, including:	**75 294 156**	**83 164 648**
non-current portion of loans maturing in up to 5 years	*34 388 644*	*69 652 860*
non-current portion of loans maturing in more than 5 years	*40 905 512*	*13 511 788*
Current portion		
Loan from a credit institution registered abroad	5 989 209	7 076 255
Loan from a credit institution registered abroad	658 504	658 504
Loan from a credit institution registered in the Republic of Latvia	429 872	420 254
Loan from a credit institution registered in the Republic of Latvia	797 203	797 203
Accrued interest expenses	8 008	9 978
Total current portion	**7 882 796**	**8 962 194**
Total loans from credit institutions	**83 176 952**	**92 126 842**

As at 31.12.2019 and 31.12.2020:

Credit institution		Loan agreement				Purpose
No		Date	Maturity	Currency	Principal (EUR million)	
1	Credit institution registered abroad	14.11.2005	2025	EUR	68,2	Administrative complex of the Ministry of the Interior
		08.08.2011	2021	EUR	65,61	State Revenue Service administrative building
2	Credit institution registered abroad	15.08.2007	2028	EUR	12,9	Administrative building of the Ministry of Foreign Affairs
3	Credit institution registered in the Republic of Latvia	24.10.2011	2041	EUR	14,2	Constructions for the State Police Latgale region in Daugavpils Fortress
4	Credit institution registered in the Republic of Latvia	06.06.2019	2024	EUR	9,5	Art Museum Rīgas birža

On 23 February 2021 the Company refinanced the loan of EUR 40.38 million from a credit institution registered abroad and signed a new loan agreement with a credit institution registered in Latvia for EUR 40.38 million for five years at a floating interest rate.

Interest rates applied to all loans are 1M, 3M or 6M EURIBOR rates plus an added rate. The added rates range from 0.17% to 1.12% (2019: 0.17% to 1.12%).

The loans are secured with mortgages of real estate properties that required these loans for construction, renovation or reconstruction. The carrying amount of mortgaged real estate as at 31 December 2020 is EUR 196 040 244 (2019: EUR 200 372 158).

One of the five loans was issued against a state guarantee.

The most significant loan covenants:

- According to the contracts, the Company should provide credit institutions its annual report, pro-forma balance sheets, income statements, statements of cash flows and insurance policies of mortgaged properties. This covenant is met.
- The DSCR ratio of the Company must not be lower than 1.20. This ratio is complied with.
- The LTV ratio should be below 90%. This ratio is complied with.
- The equity ratio must not be lower than 40%. This ratio is also complied with.

Impact of changes in liabilities on cash flows from financing activities:	2020	2019
Opening balance	**92 294 931**	**101 404 187**
Changes from financing cash flows		
Repayment of loan	(8 947 920)	(18 776 467)
Lease payments for a right-of-use asset	(100 428)	(63 176)
Loans received	-	9 500 000
Total changes from financing cash flows	**(9 048 348)**	**(9 339 643)**
Other changes in liabilities		
Interest calculated*	594 059	642 795
Interest paid*	(596 029)	(643 673)
Lease liabilities	88 540	231 265
Total other changes in liabilities	**86 570**	**230 387**
Closing balance	**83 333 153**	**92 294 931**

*The impact is reflected in the statement of cash flows from operating activities.

29. Trade and other payables

	31.12.2020	31.12.2019 adjusted
Non-current portion		
Security deposits from lessees	711 057	728 567
Lease payments for sale of real estate	208 500	-
Provision for current repairs	64 060	64 060
Total non-current portion	**983 617**	**792 627**
Current portion		
Government grants and EU funding	12 200 118	7 716 752
Accounts payable to suppliers and contractors	5 760 942	6 609 846
Lease payments for sale of real estate	2 164 827	-
Prepayments received	522 603	479 043
Payments to state budget for disposal of state real estate	47 307	109 098
Amounts repayable	208 159	205 877
Other liabilities	170 121	124 174
Total short term	**21 074 077**	**15 244 790**
Total accounts payable to suppliers and contractors and other creditors	**22 057 694**	**16 037 417**

29.1. Accounts payable to suppliers and contractors and other creditors by classification into financial and non-financial creditors

	31.12.2020	31.12.2019 adjusted
Financial creditors		
Accounts payable to suppliers and contractors	5 760 942	6 609 846
Payments to the state budget for disposal of the state real estate	2 420 634	109 098
Amounts repayable	208 159	205 877
Other liabilities	170 121	124 174
Total financial creditors	**8 559 856**	**7 048 995**
Non-financial creditors		
Government grants and EU funding	12 200 118	7 716 752
Security deposits from lessees	711 057	728 567
Advance payments	522 603	479 043
Provision for current repairs	64 060	64 060
Total non-financial creditors	**13 497 838**	**8 988 422**
Total creditors, including:	**22 057 694**	**16 037 417**
Long-term liabilities	*983 617*	*792 627*
Short-term liabilities	*21 074 077*	*15 244 790*

	31.12.2019 adjusted	Changes in accounting treatment if the management contract was applied retrospectively	31.12.2019 (If the management contract was applied retrospectively)
Accounts payable to suppliers and contractors and other creditors - non-current portion	792 627	187 540	980 167
Accounts payable to suppliers and contractors and other creditors - current portion	15 244 790	651 817	15 896 607
Total liabilities	**16 037 417**	**839 357**	**16 876 774**

30. Lease liabilities

Lease liabilities arise from right-of-use assets disclosed under investment properties - leased real estate properties (Note 17) and disclosed separately in the balance sheet item Right-of-use assets – leased movable assets (Note 18).

The present value of lease payments is calculated using a WACC rate of 2.748% approved by the Company. For lease contracts signed during the period 1 January 2019 to 17 October 2019 an annual interest rate of 4.79% was applied, and for those signed during the period 18 October 2019 to 21 September 2020 an annual interest rate of 4.122% was applied.

	2020	2019
Opening balance	**168 089**	**-**
Initial cost as at 01.01.2019	-	24 387
Recognised changes in lease contracts	88 540	206 878
Recognised decrease in lease liabilities	(114 239)	(73 122)
Recognised lease interest expense	13 811	9 946
Closing balance, including	**156 201**	**168 089**
Non-current lease liabilities	*61 328*	*90 265*
Current lease liabilities	*94 873*	*77 824*

31.12.2020	Minimum lease payments	Minimum lease payments at the present value	Interest expenses
Lease liabilities, including:	**167 648**	**156 201**	**11 447**
Amount payable within one year, i.e. current lease liabilities	*101 394*	*94 873*	*6 521*
Amount payable within 2-5 years	*63 796*	*59 106*	*4 690*
Amount payable in more than 5 years	*2 458*	*2 222*	*236*

31.12.2019	Minimum lease payments	Minimum lease payments at the present value	Interest expenses
Lease liabilities, including:	**182 005**	**168 089**	**13 916**
Amount payable within one year, i.e. current lease liabilities	*85 850*	*77 824*	*8 026*
Amount payable within 2-5 years	*94 301*	*88 642*	*5 659*
Amount payable in more than 5 years	*1 854*	*1 623*	*231*

31. Deferred income

	31.12.2020	31.12.2019
Non-current portion		
Settlements relating to capital investments in VNI properties	4 192 829	2 325 434
Settlements relating to capital investments in MF properties	3 764 098	-
Accumulated funding for investments in MF properties	504 240	-
Capital investments in MF properties made from accumulated funding	190 252	-
Total non-current portion, including:	**8 651 419**	**2 325 434**
Amount to be recognised as revenue within 2-5 years	*5 157 844*	*463 457*
Amount to be recognised as revenue in more than 5 years	*3 493 575*	*1 861 977*
Current portion		
Accumulated funding for capital investments in MF properties	1 170 920	-
Rent of premises and land from VNI and MF properties	593 375	476 411
Settlements relating to capital investments in VNI properties	131 772	91 721
Compensation of real estate tax	31 303	1 056
Capital investments in MF properties made from accumulated funding	6 495	-
Other income	56 639	50 303
Total current portion	**1 990 504**	**619 491**
Total deferred income	**10 641 923**	**2 944 925**

	31.12.2019	Changes in accounting treatment if the management contract was applied retrospectively	31.12.2019 (If the management contract was applied retrospectively)
Deferred income – non-current portion	2 325 434	-	2 325 434
Deferred income – current portion	619 491	221 243	840 734
Total deferred income	**2 944 925**	**221 243**	**3 166 168**

32. Contract liabilities

	31.12.2020	31.12.2019
Non-current portion		
Settlements for disposal of state real estate on lease terms	-	187 540
Total non-current portion	**-**	**187 540**
Current portion		
Deferred income from management services	58 361	276 475
Prepayments received	10 631	259 831
Settlements for disposal of state real estate on lease terms	-	396 486
Total current portion	**68 992**	**932 792**
Total contract liabilities	**68 992**	**1 120 332**

	31.12.2019	Changes in accounting treatment if the management contract was applied retrospectively	31.12.2019 (If the management contract was applied retrospectively)
Contract liabilities – non-current portion	187 540	(187 540)	-
Contract liabilities – current portion	932 792	(873 060)	59 732
Total contract assets	**1 120 332**	**(1 060 600)**	**59 732**

33. Provisions

	31.12.2020	31.12.2019
Provisions for enforcement of potential court rulings	**68 423**	**236 123**

Provisions for claims filed against the Company are formed by assessing the expected cost of settling each claim as at the year end, refer to Note 44 for information on current law suits.

Movements in provisions for enforcement of potential court rulings:

	2020	2019
Provisions for enforcement of potential court rulings at the beginning of the reporting year	**236 123**	**283 104**
Additional provisions	2 013	84
Decrease of provisions	(169 713)	(47 065)
Provisions for enforcement of potential court rulings at the end of the reporting year	**68 423**	**236 123**

34. Other liabilities

	31.12.2020	31.12.2019
Value added tax	551 269	732 131
Social contributions	195 324	214 541
Real estate tax	1 276	5 027
Natural resources tax	4	459
Total other liabilities	**747 873**	**952 158**

35. Accrued liabilities

	31.12.2020	31.12.2019
Accrued liabilities to suppliers	5 864 449	3 359 238
Accrued liabilities to personnel	1 562 284	1 356 140
Total accrued liabilities	**7 426 733**	**4 715 378**

36. Derivatives

	31.12.2020	31.12.2019
Derivatives	**9 901**	**68 067**

37. Fair value of financial instruments and financial risk

37.1. Fair value

As indicated in Note 4 to the financial statements the Company management believes that cash and cash equivalents included in Level 1 of the fair value hierarchy and the fair value of current financial assets and liabilities included in Level 3 matches their initial nominal value and the carrying amount at any future date as the terms for receipt of assets and settlement of liabilities typically do not exceed six months.

The Company does not have financial assets and liabilities categorised as Level 2.

The Company maintains regular negotiations with credit institutions and other organisations to which it has financial lease liabilities in relation to changes in the fixed interest rate component. The last update of interest rates in line with the market rates was performed in 2019. The management believes that the fixed rate component has not changed significantly in the market since the date the latest agreements were signed and the management believes that remeasured fair values of loans and financial lease liabilities at the year end are not significantly different from amortised cost.

As at 31 December 2020		
Financial assets	**Carrying amount**	**Fair value**
Trade receivables (Level 3)	3 386 551	3 386 551
Accrued income and contract assets (Level 3)	741 828	741 828
Cash and cash equivalents (Level 1)	20 861 401	20 861 401
Total financial assets:	**24 989 780**	**24 989 780**
Financial liabilities		
Loans (Level 3)	83 176 952	83 176 952
Accounts payable to suppliers and other creditors (Level 3)	8 559 855	8 559 855
Contract liabilities (Level 3)	58 361	58 361
Accrued liabilities (Level 3)	7 426 733	7 426 733
Derivative financial instruments (Level 3)	9 901	9 901
Total financial liabilities	**99 231 802**	**99 231 802**
31 December 2019		
Financial assets	**Carrying amount**	**Fair value**
Trade receivables (Level 3)	4 486 027	4 554 974
Accrued income and contract assets (Level 3)	1 990 876	1 990 876
Cash and cash equivalents (Level 1)	19 753 839	19 753 839
Total financial assets:	**26 230 742**	**26 299 689**
Financial liabilities		
Loans (Level 3)	92 126 842	92 126 842
Accounts payable to suppliers and other creditors (Level 3)	7 048 995	7 048 995
Contract liabilities (Level 3)	860 501	860 501
Accrued liabilities (Level 3)	4 715 378	4 715 378
Derivative financial instruments (Level 3)	68 067	68 067
Total financial liabilities	**104 819 783**	**104 819 783**

The table describes the valuation method used to arrive at the Level 3 fair value, and the significant unobservable inputs:

Type	Valuation approach	Significant unobservable data
Long-term receivables	Discounted cash flows	Discount rate
Accrued liabilities	Discounted cash flows	Discount rate
Derivatives	Discounted cash flows	Discount rate

There were no transfers between the levels of the fair value hierarchy in 2019 and 2020.

37.2. Credit risk

The Company does not have significant credit exposures in relation to a single counterparty or a group of counterparties.

All cash of the Company at the third parties is placed with credit institutions registered in Latvia and a credit institution registered in the EU. The concentration of credit risk in relation to receivables and other financial assets is connected with payments to be received, which the Company management does not consider to be assets subject to a high credit risk.

The maximum exposure to a credit risk in relation to receivables and other financial assets is reflected by their carrying amounts.

Receivables and other financial assets at the reporting date by geographic region are as follows:

	Trade and other receivables		Accrued income and contract assets	
	31.12.2020	**31.12.2019 adjusted**	**31.12.2020**	**31.12.2019**
Latvia	10 944 625	7 655 175	725 674	1 974 081
Other countries	1 846 786	1 960 242	16 154	16 795
Total	**12 791 411**	**9 615 417**	**741 828**	**1 990 876**

37.3. Liquidity risk

As the Company follows a prudent liquidity risk management and maintains sufficient amounts of cash. The liquidity ratio is 0,89 (31.12.2019: 1.01), the quick ratio is 0,89 (31.12.2019: 1.01). The Company's management monitors liquidity reserves and makes operational forecasts based on estimated net cash flows.

The management believes that the Company will be able to sustain sufficient liquidity from its operating activities and it does not believe there is a significant liquidity risk. For cash flows to be paid refer to the tables.

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As at 31.12.2020	Carrying amount	Contractual cash flows	3 months or less	3-12 months	To 5 years	More than 5 years
Non-derivative financial liabilities						
Loans	**83 168 944**	**85 166 725**	2 230 440	6 029 754	35 625 202	41 281 329
Accounts payable to suppliers and other creditors	**8 559 855**	**8 559 855**	6 869 259	1 482 097	208 499	-
Lease liabilities	**156 201**	**167 648**	25 554	75 840	63 796	2 458
Contract liabilities	**58 361**	**58 361**	58 361	-	-	-
Accrued liabilities	**7 426 733**	**7 426 733**	5 834 477	1 590 287	1 969	-
Total	**99 370 094**	**101 379 322**	**15 018 091**	**9 177 978**	**35 899 466**	**41 283 787**

As at 31.12.2019	Carrying amount	Contractual cash flows	3 months or less	3-12 months	to 5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	**92 116 865**	**94 236 737**	2 373 735	7 106 300	70 901 644	13 855 058
Accounts payable to suppliers and other creditors	**7 048 995**	**7 048 995**	6 320 428	-	728 567	-
Lease liabilities	**168 089**	**182 005**	21 462	64 388	94 301	1 854
Contract liabilities	**860 501**	**860 501**	406 917	266 044	187 415	125
Accrued liabilities	**4 715 378**	**4 715 378**	2 884 120	1 826 544	4 714	-
Total	**104 909 828**	**107 043 616**	**12 006 662**	**9 263 276**	**71 916 641**	**13 857 037**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

37.4. Currency risk

The Company is not exposed to a significant currency risk. At the reporting date the Company has cash balances only in EUR.

37.5. Interest rate risk

The Company is exposed to the interest rate risk primarily in connection with its non-current loans as these include a floating interest rate component. Changes in the aggregate interest rate by 1 per cent would have an effect of EUR 1.35 million (2019: EUR 1.60 million) on the Company's profit or loss and comprehensive income for 2020.

38. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', represent both legal entities and private individuals related to the Company in accordance with the following rules.

A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- Both entities are joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the company is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity, if the reporting entity itself is such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled, or jointly controlled by a person identified in (a).
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent company);
- The entity or any member of the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

The Company has concluded transactions with state owned entities in the regular course of business and in relation to standard business operations.

Information on remuneration to the management and the average number of members of management by category:

	31.12.2020	31.12.2019
Members of the Board	296 643	527 855
Members of the Council	102 524	99 640
Total	**399 167**	**627 495**

An average number of members of the Council during the reporting year was 3 (2019: 3). An average number of members of the Board during the reporting year was 3 (2019: 4). No loans were issued to or any other transactions made with members of the Board and management representatives.

39. Lease contracts

39.1. Company as a lessor

Revenue from lease of investment property is recognised in the profit and loss statement on a straight-line basis over the term of the lease under the revenue caption.

According to the contracts in effect as at the reporting date lease payments receivable in the future are:

	31.12.2020	31.12.2019
Year 1	21 142 960	22 410 684
Year 2	20 662 435	21 793 656
Year 3	20 080 492	21 547 515
Year 4	19 529 170	21 254 461
Year 5	18 915 318	20 867 273
More than five years	194 662 418	224 364 956
Total lease receivables	**294 992 793**	**332 238 545**

39.2. Company as a lessee

As at 31 December 2020 the Company has ten effective contracts on the lease of right-of-use assets (nine for real estate – a land plot and one for a vehicle) (as at 31 December 2019: three contracts).

According to the contracts in effect as at the reporting date future lease payments recognisable in the statement of comprehensive income are the following:

	31.12.2020	31.12.2019
Year 1	36 601	48 017
Year 2	35 569	35 091
Year 3	35 150	34 140
Year 4	29 772	34 708
Year 5	17 872	28 434
More than five years	641 985	1 299 672
Total lease payables	**796 949**	**1 480 062**

40. Number of employees

	2020	2019
Average number of employees in the reporting period, including:	**421**	**465**
Members of the Council	*3*	*3*
Members of the Board	*3*	*4*
Other employees	*415*	*458*

41. Personnel expenses

Type of costs	2020	2019
Remuneration	7 907 336	7 905 089
Compulsory state social security contributions	2 035 393	1 978 268
Accrued liabilities for remuneration	206 144	96 515
Total personnel costs	**10 148 873**	**9 979 872**

Personnel costs are included in Notes 7, 8 and 9 under remuneration, compulsory state social security contributions and accrued liabilities for remuneration.

42. Information on remuneration to certified auditors

Administrative expenses include a fee paid to the commercial company of certified auditors for the audit of the financial statements.

Type of costs	2020	2019
Audit of the financial statements	25 000	18 500
Total audit expenses	**25 000**	**18 500**

43. Information on other agreements and projects with a significant impact on the Company

43.1. Lease purchase agreement

The Company sells government real estate property in accordance with the Law On Privatisation State and Local Government Property and Usage of Privatisation Certificates and Completion of Privatisation and the Law on Disposal of Public Person's Property, and it is obliged to conclude lease purchase agreements with the real estate buyers in case the buyers expresses such wish. As at 31 December 2020 there were 197 effective agreements amounting to EUR 0,73 million (31.12.2019: EUR 0,71 million). The Company believes that all significant risks related to real estate are transferred to the buyer when the property is registered with the Land Register in the buyer's name, and proceeds from the disposal of land are recognised after the real estate sales transaction is registered with the Land Registry, and monthly payments on proceeds from the disposal of the property must be made to the state budget. During the reporting period EUR 1 205 592 (2019: EUR 938 836) were transferred to the state budget from the disposal of state real estate and EUR 948 352 (2019: EUR 1 397 714) were transferred to the management of the state properties to improve objects degrading the environment.

44. Litigations

Litigation is in process regarding the civil claim and a criminal case against general partnership SBRE, SIA Skonto Būve and SIA Re&Re, regarding the fire that started on the evening of 20 June 2013 in the Riga Castle, partly damaging the attic and roof constructions of the Castle, Eastern Block and Forefront, and constructions undamaged by fire were soaked during extinguishing. The case is in the court of first instance.

On 22 January 2021 the decision made by the court of second instance on 22 December 2020 entered into force with regard to litigation with SIA RBSSKALS Būvvadība initiated as the contractor had failed to comply with a number of provisions of the agreement, therefore VNI unilaterally terminated the agreement signed on 16 November 2015 between VNI and SIA RBSSKALS Būvvadība ‘On performance of construction work at site: 58 Miera iela, Rīga’. SIA RBSSKALS Būvniecība has ceded the claim to AS Citadeles Projekti. The decision satisfies the claims of both parties partly. VNI was requested to pay to the other party a liability of EUR 18 810.67, withheld guarantee deposit of EUR 10 594.80 and delay interest of EUR 1 337.56 for the period from 12 February 2019 to 9 September 2020 which comprises in total EUR 30 743.03, and litigation expenses of EUR 1 661.17, which amounts to EUR 32 404.20 in total. The claim of VNI against SIA RBSSKALS Buvvadiba to collect a liability of EUR 3 673.72 was rejected. The counter claim of AS Citadeles Projekti against VNĪ in the part that concerned collection of liabilities of EUR 62 546.17, losses of EUR 777.56, lost profit of EUR 114 843.96 and lawful delay interest of EUR 63 288.20 was rejected. Collected from SIA ‘RBSSKALS Būvvadība’ to be paid to VNI EUR 33 149.46 - liabilities of EUR 1 551.92, damages of EUR 31 597.54, with 8% per year to be received until the liabilities are settled, and legal costs of EUR 4 055.67. Collected from VNI was a state duty of EUR 2 098.65. Collected from AS Citadeles Projekti was a state fee of EUR 10 790.33 and legal costs of EUR 7.57. According to law office SORAINEN, filing a cassation claim would run counter the interests of VNI and the potential arguments for a cassation claim will neither guarantee the annulment of the judgement nor even initiation of cassation proceedings. According to the decision made by the Board on 19 January 2021 the decision will not be appealed.

Provisions for the following litigations where the Company is a defendant were recognised as at the end of the reporting period (refer to Note 33):

Claimant	Amount of provision, EUR	Nature of the claim
Legal entity	60 336	For collection of losses
Legal entity	5 069	Compensation of rent fee and losses
Legal entity	2 013	Collection of damages, litigation expenses
Other 3 litigations where the claimants are both natural persons and legal entities.	1 005	Renewal of purchase agreement, recognition of title, collection of damages and litigation expenses
Total amount	**68 423**	

45. Subsequent events

No significant subsequent events have occurred that would materially impact the presentation of the financial statements.

46. Suggestion regarding profit distribution

Based on paragraphs 10 and 11.2 of Cabinet Regulation No. 806 of 22 December 2015 'Procedure for state companies and public private companies with the state as the shareholder to forecast and determine the share of profit to be distributed as dividends and to make payments into the state budget for the use of state capital' (hereinafter - Cabinet Regulation) the Board of the Company suggests that profit for 2020 be retained undistributed and used to both perform state tasks and support further development of the Company to improve the quality and availability of its services in line with the type of operating activities.

*(signature *)*	*(signature *)*
Renārs Griškevičs	Andris Vārna
Chairman of the Board	*Member of the Board*

*(signature *)*

Linda Lietaviete

Chief Accountant

* This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp.

KPMG Baltics AS
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
kpmg.com/lv

Independent Auditors' Report

To the shareholder of VAS "Valsts nekustamie īpašumi"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of VAS Valsts nekustamie īpašumi ("the Company") set out on pages 11 to 74 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2020,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of VAS Valsts nekustamie īpašumi as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 4 of the accompanying Annual Report,
- the Management Report, as set out on pages 5 to 9 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 10 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

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

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

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

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

KPMG Baltics AS
Licence No. 55

Marina Iļjina

Marina Iļjina
Director pp. KPMG Baltics AS
Latvian Certified Auditor
Certificate No. 193
Riga, Latvia
23 April 2021

This is an English translation of the original Latvian document, that has been signed on 23 April 2021 with a secure electronic signature and contains a timestamp. In the event of discrepancies between the two reports, the Latvian version prevails

I, **Renuārs Hausmanis**, ID No. 300176-11092, hereby certify that I know the Latvian and English language, hold a Bachelor's Degree in English Philology from the University of Latvia, and this translation of the document, as certified by my signature, is correct in spelling as well as in its contents.

THIS DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME-STAMP