

**Annual report of the
state joint-stock company
"Privatization
Agency" for the year 2008**

State joint-stock company "Privatization Agency"
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State joint-stock company "Privatization Agency" Information about the Company

Full name of the company	State joint-stock company "Privatization Agency"
Legal status of the company	Corporation
Date of registration in the register of companies : number, place and date	000319215 Riga, April 22, 1994
Date of registration in the Commercial Register: number, place and date	40003192154 Riga, November 1, 2004
Address	K. Valdemāra street 31 Riga LV-1887 Latvia
The reporting period	January 1, 2008 - December 31, 2008.
News about the subsidiary company	SIA "Latvian International Arbitration" 31 K. Valdemāra Street , Riga, LV 1010 Equity share 99.4%
Auditors	SIA "Audit and Management Consulting" Dīrzaugļu iela 1-107 Riga, LV-1012 Commercial company license no. 79

State joint-stock company "Privatization Agency" Information about the Company

Shareholder 's representative

According to Article 9 of the Law "On the Privatization of State and Municipal Property Objects", the representative of the Privatization Agency's share holder is the Minister of Economy.

Kaspar Gerhard	From 20.12.2007 to 12.03.2009.	Minister of Economy
Artis Kampars	From 12.03.2009	Minister of Economy

Chairman of the Council In

accordance with Article 9 of the Law "On the Privatization of State and Municipal Property Objects", the members of the Council are appointed and dismissed by the Cabinet of Ministers. The chairman of the Council is the Minister of Economy.

Gaidis Bīrzziņš is waiting	From 02.11.2007 until 11.01.2008
Kaspar Gerhard	From 11.01.2008 until 18.03.2009
Artis Kampars	From 18.03.2009

Deputy Chairman of the Council

Askold Kliavins	From 15.12.2006
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Composition of the Council

Vladimirs Barinovs	From 11.12.2006	Representative of the association of political organizations (parties) "Saskaņas centrs".
Arild Bether	From 03.06.2004	Representative of the "Jaunais Laks" party
Ivars Forands	From 23.01.2003	Representative of the People's Party
Askold Kliavins	From 23.01.2003	A representative of the Union of Greens and Farmers
Imants Mantins	From 10.03.2005	Representative of the "Motherland and Freedom"/LNNK voter association
Krišjānis Peters	From 11.12.2006	Voters' association "Latvia's First Party and Party".
Eduards Žemaitis - Dzicevijs	From 11.12.2006	" Representative of the Latvian road Representative of the association of political organizations (parties) "On human rights in a united Latvia".

Board composition

According to the Statute, the board of the Privatization Agency consists of four board members. The Chairman of the Board is appointed by the Cabinet of Ministers.

Arthur Grant	From 21.06.2004	Chairman of the Board
Mihail Pietkevich	From 19.01.2007	Member of the Board
Wynette Stoler	From 19.01.2007	Member of the Board
Juris Vaskans	From 19.01.2007	Member of the Board

State joint-stock company "Privatization Agency" Management report

Mode of operation

The state joint-stock company "Privatization Agency" (hereinafter - the Agency) performs the state administration function delegated to it - the privatization of state property objects and state plots of land in the Law "On the Privatization of State and Local Government Property Objects" and " The Law on Privatization of State and Local Government Property and Completion of Use of Privatization Certificates " " to the extent of the specified competence , as well as the function of expropriation of capital shares , which is determined by the law "On State and Local Government Capital Shares and Capital Companies".

Brief description of the Company's activities in the reporting year

The aim of the agency is to ensure the completion of the privatization of state property and, by changing the owner of state -owned objects , to create a favorable environment for the activity of private capital in the interests of the development of the Latvian economy and to narrow down the activities of the state

as a merchant. The 2008 lats revenues from privatization have reached 25.96 million lats. The biggest revenues came from the privatization of state plots of land.

In 2008, 171 land purchase contracts were concluded for the total amount of 24.32 million. lat. In 2008, 56 contracts for the purchase of state real estate objects were concluded , the total sales price of which (including the land included in the object) is 17.22 million. lats.

Also, in 2008, the Agency concluded 79 contracts for the sale of state capital shares for the total amount of 868 thousand lats.

In total, in 2008, the Agency concluded contracts for the purchase of state land and real estate and state capital shares for the amount of 42.41 million. lats, which is 1.93 million more than in 2007.

In 2008, 177,193.49 privatization certificates and 9,044.15 property compensation certificates for land privatization were credited to the agency's privatization certificate accounts, with a total nominal value of 52.15 million lats .

In order to limit the Agency's financial risks, that is, to assess the company's exposure to market risk, credit risk, liquidity risk and cash flow risk, regular monthly reports on cash flow, debtors and Agency expenses are prepared and analyzed for the Agency's management .

The most significant financial risk of the Agency is its credit risk. In connection with the potential buyer of the object to be privatized , the decision on its approval is made by the board after evaluating its solvency . In the further course of the agreement , the debt repayment history of the privatization subjects is constantly evaluated and the accounts receivable balances are continuously monitored in order to reduce the possibility of irrecoverable debts . The current financial crisis in the country has an impact on the solvency of the privatization subjects , which creates additional risks regarding the receipt of the amounts specified in the privatization contracts .

During the preparation of the Agency's 2008 financial report, following the instructions of the holder of the Agency's state capital , the accounting policy in the part of revenue recognition has been changed . In 2008, as a result of the change in the revenue recognition policy , adjustments have been made in equity by recalculating the retained earnings of previous years and the corporate income tax payable in the 2007 budget , as well as the profit for the 2008 reporting year has been calculated accordingly . In general, the undistributed profit on December 31, 2008 is 5.7 million lats .

Events after the last day of the reporting year

In the period after the end of the reporting year, the Agency has gained decisive influence and participation in the joint-stock company "Parex banka", in accordance with the decision of the Cabinet of Ministers of February 24, 2009, on February 25, 2009, by purchasing from the state joint-stock company "Latvijas Hipotýku un zemes banka" 55,365,116 shares of the joint-stock company "Parex banka", which amounts to 85.14 % of the share capital of the joint-stock company "Parex banka", at a price of two lats and one euro cent. The shares of the joint-stock company "Parex banka" have become part of the Agency's assets in 2009 .

In compliance with the decisions taken by the Cabinet of Ministers at the meeting of March 24, 2009 (prot. No. 21, § 76), and in order to ensure the capital adequacy of the joint-stock company "Parex banka" , the Agency is preparing to increase a substantial stake in the joint-stock company "Parex banka" by purchasing the new issues 165,000,000 registered shares with voting rights for a nominal value of 1 lats and make an investment in the subordinated capital of the joint-stock company "Parex banka" in the amount of 62,000,000 lats . The mentioned activities will be implemented after the permission of the European Union to carry out state support measures.

In order to fulfill the above , in compliance with the conditions set by the Minister's Cabinet , the Agency is preparing to take a loan from the State Treasury. The existing and newly issued shares of the joint-stock company "Parex banka", as well as an investment in the subordinated capital, will serve as collateral for the mentioned loan .

From the end of the reporting year to today, no important events have occurred that could significantly affect the evaluation of the annual report .

State joint-stock company "Privatization Agency" Management report

Proposals on the use of the Company's profits

According to the Cabinet of Ministers Regulation No. 996 of November 30, 2004 "Procedure in which the share of profit to be paid to the state budget and other payments for the use of state capital is determined and credited " 3.1. the minimum share of profit to be paid in dividends to state-controlled capital companies for the reporting year 2008 is determined and calculated in the amount of 50 percent of the net profit remaining at the disposal of the relevant capital company , but the Agency's board, following the tasks given by the Cabinet of Ministers regarding the share management of the joint-stock company "Parex banka" , proposes not to pay dividends for the 2008 operating year.

Arthur Grant

*On behalf of the Agency's Board in accordance
with the Board's decision*

April 17, 2009 .

State joint-stock company "Privatization Agency" Profit or loss statement for 2008

	Notes number	2008 Ls	2007 Ls
Net turnover	3	3,855,732	7,336,272
Other revenues from economic activity	4	171,892	89,598
Personnel costs			
Reward for work		(1,566,769)	(1,320,085)
Mandatory costs of state social insurance		(355,121)	(298,584)
Accruals for unused vacations		9,031	(32,592)
Write-off of assets and values			
Depreciation and write-off of fixed assets and intangible assets		(143,777)	(134 417)
Other costs of economic activity	5	(1,760,088)	(1 137 451)
Other interest income and similar income	6	868 171	1,295,405
Profit or loss before tax		1,079,071	5,798,146
Corporate income tax for the reporting year	7	(253 445)	(881 070)
Profit or loss for the reporting year		825,626	4,917,076

The appendix from pages 12 to 32 is an integral part of this financial report .

Arthur Grant

*On behalf of the Agency's Board in accordance
with the Board's decision*

April 17, 2009 .

State joint-stock company "Privatization Agency"

Balance as of December 31, 2008

	Notes number	31.12.2008 LVL	31.12.2007 Ls
<u>Active</u>			
Long-term investments			
Intangible investments			
Concessions, patents, licenses, trademarks and similar rights		5,286	6,516
Total intangible assets	8	<u>5,286</u>	<u>6,516</u>
Fixed assets			
Land plots, buildings and structures		908 227	1 014 082
Other fixed assets and inventory		66 675	57 980
Advance payments for fixed assets		7 140	-
Total fixed assets	9	<u>982 042</u>	<u>1,072,062</u>
Long-term financial investments			
Participation in the capital of related companies	10		
Long - term trade payables	11	1,987,19,380,626	1,987,10,817,019
Long-term financial investments		<u>19,382,613</u>	<u>10,819,006</u>
Long-term investments together		<u>20,369,941</u>	<u>11,897,584</u>
Current assets			
Savings			
Raw materials, basic materials and auxiliary materials		123	-
Stocks together		<u>123</u>	<u>-</u>
Debtors			
Trade payables _ _	11	8,608,825	5,069,326
Other debtors	12	6,981	2,857
payments of the next period	13	14,080	15,129
Debtors together		<u>8,629,886</u>	<u>5,087,312</u>
Money	14	23 174 154	27,719,861
Total working capital		<u>31,804,163</u>	<u>32,807,173</u>
Total assets		<u><u>52 174 104</u></u>	<u><u>44,704,757</u></u>

The appendix from pages 12 to 32 is an integral part of this financial report .

State joint-stock company "Privatization Agency"

Balance as of December 31, 2008

	Notes number	31.12.2008 LVL	31.12.2007 Ls
<u>Passive</u>			
Equity			
Share capital (share capital)	15	1,765,000	1,765,000
Retained earnings:	16		
Retained earnings of previous years		4,917,076	-
Retained earnings for the reporting year		825,626	4,917,076
Total equity		7,507,702	6,682,076
Savings			
Savings for reserve fund	17	13,308,757	12,162,526
Total savings		13,308,757	12,162,526
Long-term creditors			
Other creditors	18	19,431,229	10,876,617
Long-term creditors together		19,431,229	10,876,617
Short-term creditors			
Advances of regulatory deductions	3	-	21,886
Taxes and mandatory state social insurance contributions	19	1 142 272	991 204
Other creditors	18	10 415 886	13 805 054
Accrued liabilities	20	368 258	165 394
Short term creditors together		11,926,416	14,983,538
Creditors together		31 357 645	25,860,155
Total liabilities		52 174 104	44,704,757

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Arthur Grant

*On behalf of the Agency's Board in accordance
with the Board's decision*

April 17, 2009 .

State joint-stock company Privatization agency Cash flow report for 2008

	Notes number	2008 Ls	2007 Ls
Cash flow from operating activities 1.			
Profit or loss before taxes Profit before taxes		1,079,071	13,350
effect of accounting policy change corrections Corrections		-	5,784,796
for: Depreciation of intangible assets		2 082	
Depreciation of fixed assets Increase in reserves for the reserve fund		141 695	
Increase in accrued arrears for cash Results		1 146 231	3,045,131,372 1,398,136
of sale of fixed assets (profit)		213 758	-
		(936)	(160)
For other interest income and similar income 2. Profit or loss before		(868 171)	(1,295,405)
adjustments for the effect of changes in current assets and short-term liability balances, corrections for: Decrease (increase) in		1,713,730	6,035,134
accounts			
receivable balances		(12,107,230)	(11,100,127)
Decrease in inventory balances (increase) Decrease		(123)	-
(increase) in costs for future periods		1,049	4,367
Increase (decrease) in accounts payable		5,070,408	2,810,894
Increase (decrease) in advances of regulatory deductions		(21,886)	2,218,503
Advances (reductions) of regulatory deductions - correction for 2007 Net cash		-	(5,784,796)
flow of gross operating activities		(5,344,052)	(5,816,025)
Expenses for corporate income tax payments		(18,235)	(14,172)
Net operating cash flow		(5,362,287)	(5,830,197)
Cash flow from investing activities			
Acquisition of intangible assets		(852)	(701)
Purchase of fixed assets		(51 675)	(45 661)
Proceeds from the sale of fixed assets		936	160
Interest received		868 171	1 295 405
Net cash flow from investing activities		816 580	1 249 203
Increase (decrease) in net cash and cash equivalents		(4,545,707)	(4,580,994)
Cash and cash equivalents at the beginning of the reporting year		27,719,861	32,300,855
Cash and cash equivalents at the end of the reporting year	14	23 174 154	27,719,861

The appendix from pages 12 to 32 is an integral part of this financial report .

Arthur Grant

On behalf of the Agency's Board in accordance
with the Board's decision

April 17, 2009 .

State joint-stock company "Privatization Agency"

Report on changes in equity for 2008

	Notes number	Share capital	Retained earnings of previous years	Retained earnings for the reporting year	Total equity
		Ls	Ls	Ls	Ls
31.12.2006		1,765,000	-	-	1,765,000
Adjusted 2007 profit		-	-	4,917,076	4,917,076
31.12.2007		1,765,000	-	4,917,076	6,682,076
2007 retained earnings transferred		-	4,917,076	(4,917,076)	-
Retained earnings for the reporting year		-	-	825,626	825,626
31.12.2008	15	1,765,000	4,917,076	825,626	7,507,702

The appendix from pages 12 to 32 is an integral part of this financial report .

Arthur Grant

*On behalf of the Agency's Board in accordance
with the Board's decision*

April 17, 2009 .

State joint-stock company "Privatization Agency"

Annex to the financial statement

(1) Information on the establishment of the Company and types of core activities

Information about the Company's activity

The agency was founded on April 22, 1994 as a non-profit organization, a state joint-stock company. On November 1, 2004, the Agency was registered in the commercial register as a state joint-stock company "Privatization Agency". According to the statute, the agency carries out the following commercial activities according to the NACE classification: real estate operations (7), business and management consulting (74.14) and other unclassified commercial services (74.87).

The agency operates in accordance with the laws "On Privatization of State and Municipal Property Objects", "On State and Municipal Capital Shares and Capital Companies", "Law on Privatization of State and Municipal Property and Completion of Use of Privatization Certificates", "Commercial Law", other legal acts and the Statute.

The Agency's financing procedures are basically regulated by the Cabinet of Ministers' regulations of July 24, 2007 No. 516 "The procedure for making deductions to the Privatization Agency for the privatization of state-owned objects, expropriation of state capital shares and other activities specified in regulatory acts, a reserve fund to be created and used, and payments to be made to state and local government property privatization funds and the state and local government budget".

The basic activity of the agency is ensuring the privatization of state-owned objects in accordance with the law "On Privatization of State and Municipal Property Objects".

The agency is responsible for the collection and distribution of the funds obtained as a result of privatization and other activities between the state and municipal privatization funds and the budget. These commitments are reflected in this financial statement.

The State is not responsible for the Agency's obligations, and the Agency is not responsible for the State's obligations.

(2) Accounting and valuation methods - general principles

a) Basis for preparation of the report

The financial report has been prepared in accordance with the Law "On Accounting" and "Law on Annual Accounts" and mandatory Latvian accounting standards set by the Cabinet of Ministers, which are in force on December 31, 2008.

The profit or loss statement is prepared according to the period cost method. The cash flow statement is prepared using the indirect method.

Compared to the previous annual report, the revenue recognition policy has been changed and Latvian accounting standard no. 4 "Change in accounting policy, changes in accounting estimates and errors of previous periods".

b) Applied accounting principles

The items of the financial statement are evaluated according to the following accounting principles: 1) It is assumed that the Company will continue to operate.

2) The same assessment methods used in the previous year are used.

3) The assessment was carried out with due care:

the report includes only the profit obtained up to the balance sheet date; all expected risk amounts and losses incurred in the reporting year or previous years are taken into account, even if they became known in the period between the balance sheet date and the date of drawing up the annual report; all depreciation and depreciation amounts are calculated and taken into account, regardless of whether the accounting year ends with a profit or a loss.

4) Revenues and costs related to the reporting year are taken into account, regardless of the date of payment and the date of receipt or issuance of the invoice. Costs are matched with revenues in the reporting period.

5) Components of active and passive items are evaluated separately.

State joint-stock company "Privatization Agency"

Annex to the financial statement

- 6) The balance sheet at the beginning of the reporting year coincides with the closing balance sheet of the previous year, except for the adjustments made in connection with the change in the accounting policy in revenue recognition, which was applied retroactively .
- 7) All items that significantly affect the evaluation of users of the annual report or decision- making are specified ,
Minor items are combined and detailed in the Annex.
- 8) Economic transactions are reflected in the annual report , taking into account their economic content and essence, not legal form.

Use of estimates When

preparing a financial report, the management has to rely on known estimates and assumptions that affect the balances of balance sheet and profit or loss statement items reflected in individual reports , as well as the amount of possible liabilities . Future events may affect the assumptions on which the relevant estimates are made. Any impact of changes in estimates is reflected in the financial statements at the time they are determined .

c) Change in accounting policy

During the preparation of the 2008 financial report, following the instructions of the holder of the Agency's state capital , the accounting policy in the part of revenue recognition has been changed .

The previous accounting policy, which was applied starting from 1996, provided that revenues from privatization were included in the revenues of the reporting year as net turnover only to the extent to cover the expenses of the relevant reporting year. The balance of the revenue for the reporting period was listed in the balance sheet item " Revenues for future periods " (after reclassification of the balance sheet items into the balance sheet item "Advances of regulatory deductions "). After the change of accounting policy , revenues are recognized in the following order.

When the decision of the Cabinet of Ministers is made on the transfer of the relevant state property object for privatization or expropriation, it is transferred to the Agency with the transfer-acceptance act for the initiation of the privatization (expropriation) preparation process . In accordance with the regulations of the Cabinet of Ministers of July 24, 2007 no. 516 "Procedure in which deductions must be made to the Privatization Agency for privatization of state-owned objects, expropriation of state capital shares and other activities specified in regulatory acts, a reserve fund to be created and used and payments to be made to state and local government property privatization funds and the state and local government budget", Agency in the course of the process performs the calculation of regulatory deductions . These statutory deductions calculated for the Agency are, in essence , advance payments, but possible costs will arise later in the implementation of the privatization process. The amount of normative deductions for the privatization of the relevant object, which is the Agency's revenue for ensuring its operation , applying the Latvian accounting standard no. 6 "Revenues", the established principles, are recognized as the calculated advance payments, which are necessary for the preparation of the state- owned object transferred to the Agency's possession for privatization. The mentioned amount of deductions is listed in the balance sheet item "Advances of regulatory deductions " until the privatization or expropriation agreement is concluded for the privatization or expropriation of the corresponding object . After the conclusion of the mentioned contract , the calculated regulatory deductions for the objects for which the purchase contracts have been concluded are recognized as the net turnover of the reporting year in the profit or loss statement. Expenses are recognized in the amount of expenses for the relevant reporting year . The profit or loss for the reporting year is calculated accordingly .

Such revenue recognition policy provides reliable and relevant information about the impact of transactions on the Agency's financial position, performance and cash flow, as well as provides the shareholder with the opportunity to decide on the use of the profit of the reporting period .

No transitional period was set for the change in accounting policy and comparative indicators have been adjusted for 2007, applying it retroactively in accordance with Latvian accounting standard no. 4 "Change in accounting policy , changes in accounting estimates and errors of previous periods " .

The agency has made corrections in the balances of equity items of the 2007 financial report , as well as in other comparable indicators, which were affected by the change in accounting policy in revenue recognition before 2008. As a result of the change in revenue recognition , adjustments have been made to the Agency's equity, recalculating retained earnings until 2008 and corporate income tax payable in the budget in 2007.

State joint-stock company "Privatization Agency"

Annex to the financial statement

d) Related parties

Related parties are legal and natural persons related to the Company, in accordance with the provisions below. A party is considered related to the Company if:

- 1) The Party and the Company are under the common control of one Concern (Related Companies);

A concern is a set of companies, which consists of the parent company of the concern and its subsidiaries. A subsidiary is a company controlled by a parent company that can determine the financial and operating policies of the subsidiary in order to benefit from the operations of the subsidiary. 2)

A party is a natural person who directly or indirectly controls the Company; The party has a stake in the Company that allows it to exercise significant influence in the Company and which is provided by 3) not less than 20 but not more than 50 percent of the voting rights of shareholders or participants in this Company (The Company is the Party's associated

- 4) company); The Party has joint control over the Company (the Company is a joint venture of the Party).

Investments in subsidiaries

Participation in the subsidiary company is initially recognized in the acquisition cost. If the value of the holding at the balance sheet date is lower than the acquisition cost or valuation in the previous year's balance sheet and the decline in value is expected to be permanent, it is valued at the lower value.

e) State property objects in the possession of the Agency

According to Article 13 of the Law "On the Privatization of State and Municipal Property Objects", after the issuance of the Cabinet of Ministers' order on the transfer of the state property object for privatization, the state institution, which is in charge of the state property object to be privatized, transfers it and the Agency takes possession of it. During the privatization process, the objects to be privatized are in the possession of the Agency, but the state retains the ownership rights to the state-owned object until the ownership rights are transferred to a third party in accordance with the terms of the purchase agreement.

The agency is the holder of state capital shares in capital companies in which the state-owned capital share has been transferred for privatization or sale, if the state capital share in the company has arisen as a result of privatization of the object, as well as the capital shares of heirless persons taken over for sale.

The mentioned objects are not included in the composition of the Agency's assets. Information about the state property objects in the possession of the Agency is provided in note 23 of the financial statement appendix.

f) Revenue and expenditure

After the decision of the Cabinet of Ministers is adopted on the transfer of the relevant state-owned object for privatization or expropriation, the Agency calculates the amount of regulatory deductions for the privatization of the relevant object, from which the preparation expenses of the privatization process are financed. These deductions are made in accordance with the regulations of the Cabinet of Ministers of July 24, 2007 no. 516 "The procedure for making deductions to the Privatization Agency for the privatization of state-owned objects, expropriation of state capital shares and other activities specified in regulatory acts, a reserve fund to be created and used, and payments to be made to state and local government property privatization funds and the state and local government budget". If regulatory deductions are calculated in accordance with the procedures specified in the regulations, which cannot be covered from the revenues from the privatization of the relevant object, these funds are covered from the reserve fund in accordance with the procedures specified in the regulations. After receipt of revenue, the balance of the reserve fund is restored to its previous amount.

Regulatory deductions calculated by the Agency may change during the year if additional information is obtained for the calculation of regulatory deductions.

The calculated regulatory deductions are recognized as revenues and credited to the net turnover in the period when the privatization or expropriation agreement for the privatization or expropriation of the corresponding object is concluded.

State joint-stock company "Privatization Agency" Annex to the financial statement

Expenses are recognized in the amount of expenses for the relevant reporting year .

Expenditures related to the fulfillment of the obligations specified in the regulatory acts of the Privatization and Certification Information Support Center are financed in accordance with the procedure set forth in the Cabinet of Ministers' Regulations No. 71 of February 11, 2003 "Regulations for Allocation of Privatization Certificates and Opening Privatization Certificate Accounts " .

Interest income Interest

income is recognized on a pro rata time basis , taking into account the actual yield of the asset .

Lease income

Income from the leased property is recognized in the income statement on a straight-line basis over the period of the lease agreement.

Fines

Calculated fines for non-fulfilment of privatization contracts are credited to revenues only after they are received.

Lease transactions

Operating lease payments are recognized in the income statement on a straight-line basis over the lease term .

g) Financial instruments

Fair value of financial assets and liabilities The fair

value of financial assets and liabilities represents the amount for which an asset could be exchanged or a liability could be settled in a transaction between well-informed, interested and financially independent persons. If, in the opinion of the company's management , the fair value of financial assets and liabilities differs significantly from the value presented in the balance sheet , then the fair value of these assets and liabilities is reflected in the appendix to the financial statement.

Derivative financial instruments The

Agency does not use derivative financial instruments to hedge financial risks. The Agency does not hold and does not issue derivative financial instruments for trading.

h) Financial risk management

The significant financial instruments of the Agency are the money obtained in the form of regulatory deductions . The main task of this financial instrument is to ensure financing of the Agency's economic activity . The Agency is also exposed to several other financial instruments, such as trade and other receivables, debts to suppliers and contractors and other creditors , which result directly from its economic activity.

Credit risk

The agency is exposed to credit risk related to the debts of buyers and customers and money and its equivalents.

The agency controls its credit risk by constantly evaluating customer debt repayment history and setting credit conditions for each customer separately. In addition, the Agency continuously monitors accounts receivable balances to minimize the possibility of bad debts .

Currency risk

Based on the current structure of the Company's financial assets and liabilities held in foreign currencies , the currency risk is not significant.

i) Reporting period

The reporting period is 12 months from January 1, 2008 to December 31, 2008.

State joint-stock company "Privatization Agency"

Annex to the financial statement

j) Currency and foreign exchange revaluation

The indicators reflected in this financial report are expressed in the national currency of Latvia - lats (Ls).

Transactions in foreign currencies are converted into lats according to the foreign exchange rate set by the Bank of Latvia valid on the day of the transaction .

All monetary assets and liabilities are recalculated in lats according to the foreign exchange rate determined by the Bank of Latvia on the last day of the reporting year . All non-monetary asset and liability items are listed in lats at the foreign exchange rate determined by the Bank of Latvia , which was in effect on the day of the transaction.

	31.12.2008	31.12.2007
USD	LVL 0.495	LVL 0.484

Profits or losses resulting from fluctuations in foreign exchange rates are reflected in the income statement for the relevant period .

k) Long term and short term items

Long-term items include amounts due for receipt , payment or write-off later than one year after the end of the relevant reporting year. Amounts to be received, paid or written off during the year are presented in short-term items.

l) Depreciation of intangible investments and fixed assets

In the balance sheet , all intangible investments and fixed assets are reflected in their purchase prices, less depreciation. Depreciation begins on the first day of the next month after its commissioning and ends on the first day of the next month after its exclusion from the composition of intangible investments or fixed assets . Depreciation is calculated according to the straight-line method and written off during the period of useful use of the relevant intangible investments and fixed assets , choosing as a basis the annual depreciation rates determined by the following management :

	%
Intangible investments	25-33.3
Fixed assets:	%
Buildings	5
Other fixed assets and inventory: -	
vehicles - other fixed	20 – 25
assets	20 – 50

Fixed asset balances have been verified in the annual inventory.

Valuation of fixed assets If the

value of fixed assets on the balance sheet date is lower than their valuation on the balance sheet and the decrease in value is expected to be long-term, they are valued according to the lower value. The result of the revaluation is recognized in the profit or loss account, except when the decrease in value compensates for the increase in the value of previously recognized fixed assets . In that case , the equity item "Long-term investment revaluation reserve" is reduced by the amount of the decrease in value .

If the value of the fixed assets on the balance sheet date is significantly higher than their valuation in the balance sheet, the fixed assets can be revalued according to the higher value, if it can be assumed that the increase in value will be long-lasting. The increase in value resulting from the revaluation is reflected in the item "Long-term investment revaluation reserves". If the increase in value caused by the revaluation compensates for the decrease in the revaluation of the same fixed asset , which was recognized as costs in the profit or loss statement in previous accounting periods , then the increase in value caused by the revaluation is recognized as revenue in the profit or loss statement of the reporting period . Revaluation reserves for long-term investments are reduced if the revalued object is liquidated or not used, or

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there is no longer any basis for increasing the value .

The increase in value contained in the equity item "Long-term investment revaluation reserve" is reduced by recognizing the reduction in the profit or loss statement as follows: the entire amount at the time when the revalued fixed asset is liquidated or disposed of.

m) Inventory accounting

Inventories are accounted for using the FIFO method. Inventories are shown in the balance sheet at purchase value.

Stock accounting is organized according to the continuous stock accounting method. When necessary, the value of obsolete, slow-moving or damaged inventory is written off or provisioned .

n) Valuation of receivables

Receivables have been evaluated in accordance with the principle of prudence , and are presented in the balance sheet at net value , deducting provisions for doubtful debts of buyers and customers from the accounting value .

Provisions for doubtful debts of buyers and customers are created after the management individually evaluates the possibilities of recovery of each debtor's debt .

o) Savings

Reserves are intended to cover certain types of losses, liabilities or costs, which refer to the reporting year or previous years and are predictable or known with certainty at the time of preparing the annual report , but the amount of which or the date of occurrence and settlement of specific liabilities is not clearly known.

In accordance with Article 5 of the Law of February 9, 1992 "On State and Local Government Property Privatization Funds", the Agency's transfers to the State Property Privatization Fund are reduced by 10 percent for the creation of the Agency's reserve fund. According to the law, the resources of the said reserve fund can be used to cover expenses related to the privatization process (cancellation of purchase contracts, repurchase, capitalization of tax debts , denationalization and other expenses) in accordance with the procedures established by the Cabinet of Ministers.

p) Obligations towards the State Property Privatization Fund (hereinafter - VÿPF), municipalities, the budget and settlements with buyers

The debts of the subjects of privatization in accordance with all contracts valid on December 31 , 2008 are shown in the item " Debts of buyers and customers " in the composition of long-term investments and current assets .

The total amount that will actually be received may change depending on the changes made in the prices of state -owned objects , changes in the relationship between the funds paid for state -owned objects and privatization certificates , as well as the termination of contracts with privatization subjects.

Obligations towards VÿPF, local governments and the budget are calculated in accordance with Cabinet of Ministers regulations of July 24, 2007 no. 516 "The procedure for deductions to be made to the Privatization Agency for the privatization of state-owned objects, the expropriation of state capital shares and other activities specified in regulatory acts, the reserve fund to be created and used, and the payments to be made to state and local government property privatization funds and the state and local government budget" and the Cabinet of Ministers 2003 of February 11, No. 71 "Regulations for granting privatization certificates and opening privatization certificate accounts ".

In accordance with the regulations, orders or protocol decisions of the Cabinet of Ministers, the Agency makes payments to third parties and reduces liabilities to VÿPF. Such payments are not reflected in the income statement .

If the Agency is tasked with performing other functions, the source and procedures for financing the relevant function shall be stipulated in the legal act . In 2008, in accordance with the orders of the Cabinet of Ministers , the Agency sold the capital shares owned by the state and transferred to the special budget for state pensions . Agency from the sale of the mentioned state capital shares

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the obtained funds (minus the expenses for the organizational security of the sale process in accordance with the first part of Article 11 of the Law "On Privatization of State and Local Government Property Objects") have been credited to the special state pension budget.

r) Liabilities for payments collected as a result of debt capitalization

Agency on contracts concluded in accordance with the regulations of June 3, 1997 No. 200 "Regulations on the capitalization of principal debts of tax payments to be included in the state budget ", to the regulations of May 11, 1999 no. 177 "Regulations on capitalization of property tax and personal income tax payments ", regulations of April 16, 2002 no. 159 "Regulations on the capitalization of the loan of the International Bank for Reconstruction and Development issued to privatized companies " and the regulations of August 5, 2003 No. 440 "Rules on privatized companies (business companies) issued and credited to the state budget Capitalization of the loan of the International Bank for Reconstruction and Development in 2003" and by the regulations of the Cabinet of Ministers of July 24, 2007 no. 516 "The procedure for deductions to be made to the Privatization Agency for the privatization of state-owned objects, the expropriation of state capital shares and other activities specified in regulatory acts, the reserve fund to be created and used, and the payments to be made to state and local government property privatization funds and the state and local government budget" as the capitalization institution collects payments and transfers the obtained funds quarterly to the accounts specified by the State Treas

As of December 31, 2008, liabilities for payments collected as a result of debt capitalization are shown as liabilities to the state budget for debt capitalization in the long-term and short-term part of other creditors .

s) Settlements for the collected payments stipulated in the lease agreements from the management of state-owned objects

Since November 29, 2005, the Agency performs the administration of the lease contracts of the state-owned objects in its possession and related settlements. According to the regulations of the Cabinet of Ministers of July 24, 2007 no. 516 "The procedure for deductions to be made to the Privatization Agency for the privatization of state-owned objects, the expropriation of state capital shares and other activities specified in regulatory acts, the reserve fund to be created and used, and the payments to be made to state and local government property privatization funds and the state and local government budget" in relation to state property rental of objects, monetary income from the rental of state-owned objects in the possession of the Agency , after deducting its normative deductions , must be credited to the state budget or to the State joint-stock company "State real estate" accounts.

t) Real estate tax settlements for state real estate owned by the Agency .

Article 2, Part 1 of the Law "On Real Estate Tax" stipulates that real estate tax is paid Latvian or foreign natural and legal persons and groups of such persons established on the basis of a contract or other agreement , or their representatives, who own or legally possess real estate. Local governments send real estate tax notices to the Agency for real estate owned by the Agency . The agency pays the real estate tax based on the mentioned notifications. In case the real estate is leased, the tax for the leased real estate is collected by the Agency from the lessee.

u) Corporate income tax

Corporate income tax for the reporting period consists of tax calculated and deferred during the reporting period . Corporate income tax is recognized in the income statement .

Calculated tax The

calculated tax for the reporting period has been calculated in accordance with the requirements of the Law "On Corporate Income Tax" , determining the taxable income and applying the 15% tax rate for 2008 prescribed by the law. Due to the change in the accounting policy , the adjusted tax for 2007 has been calculated in compliance with the requirements of the law "On corporate income tax" , determining the taxable income and applying

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statutory 15% tax rate.

Deferred tax

Deferred corporate income tax is calculated for temporary differences caused by time differences, which arise from differences between the value of assets and liabilities in financial statements (accounting) and their values for tax purposes. The mentioned differences mainly arise from different depreciation rates of fixed assets, which are used in tax and financial accounting, created provisions. Deferred tax is calculated by applying the statutory tax rate - 15%. The result of the company's deferred tax calculation is a deferred tax asset, which is not recognized in the balance sheet because its recovery is not reliably predictable.

v) **Reclassification of items**

According to the opinion of the management, in 2008 changes have been made in the classification of items compared to the 2007 report. The reclassification has no impact on the financial result. In the 2008 report, the comparative indicators for 2007 are classified according to the principles of 2008 and are comparable.

z) **Continuation of operation**

On June 16, 2005, the Saeima adopted and on September 1 of the corresponding year the law "The Law on Privatization of State and Municipal Property and Completion of the Use of Privatization Certificates" came into force. The purpose of the law is to ensure the completion of the privatization of state or local government property, as well as the completion of the allocation and use of privatization certificates in the privatization, expropriation and redemption of state or local government property.

The law determines the main guidelines in the field of completion of the privatization process, that is, the deadline by which a person can submit a proposal for privatization, the procedure for submitting and registering the proposal for privatization, by which a decision on the transfer of state-owned objects, built-up and unbuilt plots of land for privatization; procedures and conditions for privatization of built-up and unbuilt land plots; the procedure for privatizing a built-up plot of land, if the owner of the building (structure) has changed after receiving the privatization proposal, joint ownership of buildings (structures) has been established or the division of buildings (structures) into independent property objects has taken place; settlement procedure; the procedure by which a decision on the termination of privatization is adopted; future actions with state capital shares and capital companies; future actions with state-owned objects, built-up and unbuilt plots of land and actions with objects important to the national economy. On August 31, 2006, the Agency finished accepting privatization proposals, as provided for by the aforementioned law, and in the following years, the Agency will ensure the realization of the final stage of privatization by implementing the provisions of this law.

ž) **Events after the last day of the reporting year**

The financial statements reflect such events after the end of the reporting year, which provide additional information about the Company's financial position at the date of preparation of the balance sheet (adjusting events). If events after the end of the reporting year are not corrective, they are reflected in the notes to the financial statements only if they are material.

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(3) Net turnover and regulatory deductions

	2008 Ls	2007 Ls
Balance of regulatory deductions on January 1	-	3,588,179
Regulatory deductions:		
Conducting and evaluating privatization cases	21,886	-
Organization of auction of objects to be privatized and liquidated , their liabilities and assets	1,008	70,448
Sale of real estate	3,025,228	2,966,529
Land preparation and registration expenses for privatization		
Control of privatization and liquidation contracts		
Control of leases	91,736,356,954,168,310	175,844,247,950,193,878
Remuneration to the representative and responsible employee of the holder of state capital shares	48,636	57,773
Security of companies to be privatized	48,292	25,288
Legal expenses	4,266	24,603
Insurance services	8,476	7,155
Sale of objects to be privatized or liquidated and their property and expropriation of state capital shares	42,540	511
Total regulatory deductions in the reporting period	<u>3,855,732</u>	<u>3,769,979</u>
Advances of regulatory deductions are included in the income of the reporting year as net turnover in the amount to cover the expenses of the reporting year (before the change in accounting policy)	-	(1,551,476)
Balance of regulatory deductions	3,855,732	5,806,682
Adjusted net turnover: Net turnover before accounting policy change Net turnover correction from accounting policy change before 2008	-	1,551,476
	-	5,784,796
Net turnover in the reporting year	<u>3,855,732</u>	<u>7,336,272</u>

As a result of the change in the agency's accounting policy , corrections were made in the 2007 net turnover.

During the reporting year , when conducting an inventory of the degree of completion of state property objects transferred to privatization , the balance of the advance of regulatory deductions of previous periods of LVL 5,784,796 was included in the net turnover of 2007 , while the amount of regulatory deductions of LVL 21,886 was recognized in 2008 revenues.

In the 2007 report, the advance balance of regulatory deductions as of 31.12.2007. was reflected in the balance sheet item " Revenues for future periods". In 2008, they were reclassified and presented under the item "Regulatory deduction advances". The advance balance of regulatory deductions as of 31.12.2007 has been adjusted due to changes in the accounting policy, applying it retroactively .

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(4) Other revenues from economic activity

	2008	2007
Repaid receivables for which provision had been made	LVL	LVL
Revenue from transactions with certificates	55,436,77,297	1,440,59,600
Overpaid mandatory state social insurance contributions		3 114
Proceeds from the sale of fixed assets		160
Other income	8,858,936 29,365	25 284
	<u>171,892</u>	<u>89,598</u>

(5) Other costs of economic activity

	2008	2007
Preparation of real estate (including land) for privatization	LVL	LVL
Information system maintenance	156,758	153,641
Property evaluation	53,185	65,641
legal services	85,325	123,744
Security and management of companies to be privatized	46,269	92,041
Agency security	41,357	16,820
Audit services in companies to be privatized	24,416	16,329
Other subcontractor services	13,174 90,978	3,416 93,984
Total cost of subcontractor services :	<u>511 462</u>	<u>565,616</u>
Communication	169 266	193 730
expenses Building and premises maintenance and repair expenses	108 778	121 340
Creation of provisions for other doubtful receivables	435 244	68 184
Doubtful receivables are written off in expenses	972	-
Employee health insurance	39 278	44 518
Inventory and stationery	31 255	27 329
Real estate tax - Agency building, land	13 948	13 036
Real estate tax on objects that do not have a tenant	136 004	-
Vehicle maintenance expenses _	26 772	21,071
Computer equipment maintenance expenses	11 149	10,404
Employee training expenses	39 185	31,394
Representation expenses	13 248	15,960
Business trip expenses	722	3,796
Audit expenses of the annual report	5 807	7,670
Net loss from exchange rate fluctuations	-	11
Other expenses	216,998	13,392
Other costs of economic activity in total	<u>1,760,088</u>	<u>1 137 451</u>

In the composition of other economic expenses, the item "other expenses" includes LVL 213,758 of calculated delay fines for additional corporate income tax payments calculated as a result of the change in accounting policy .

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(6) Interest income and similar income

	2008	2007
	Ls	Ls
Interest income	868 171	1,295,405
	<u>868 171</u>	<u>1,295,405</u>

In 2008, the amount of interest income was formed from the balance of funds in the account of Latvijas Krājbanka.

(7) Corporate income tax for the reporting year

	2008	2007
	Ls	Ls
Calculated tax according to the declaration	253 445	13,350
Adjustment from a change in accounting policy	-	867,720
	<u>253 445</u>	<u>881 070</u>

(8) Intangible investments

	Concessions, patents, licenses, computer programs Ls
Initial value 31.12.2007	494 183
	852
Purchased 31.12.2008	<u>495 035</u>
Depreciation 31.12.2007	487,667
Calculated depreciation 31.12.2008	<u>2,082,489,749</u>
Balance value 31.12.2007	<u>6,516</u>
31.12.2008	<u>5,286</u>

Intangible assets include user software licenses and software developed for the purposes of the Agency's information system .

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(9) Fixed assets

	Land plots, buildings and structures	Other fixed assets and inventory	Advance payments for fixed assets	In total
	Ls	Ls	Ls	Ls
Initial value 12/31/2007				
Purchased	2 172 102	856 818	-	3,028,920
for cash Excluded	-	44 535	7 140	51,675
12/31/2008	-	(143 512)	-	(143,512)
	2 172 102	757 841	7 140	2,937,083
Depreciation				
31.12.2007		798 838	-	1 956 858
Calculated depreciation	1,158,020,105,855	35 840	-	141 695
Excluded	-	(143 512)	-	(143 512)
31.12.2008	1,263,875	691 166	-	1 955 041
Balance value on				
31.12.2007		57 980	-	
31.12.2008	1,014,082,908,227	66 675	7 140	1,072,062,982,042

The fixed assets of the agency include an administrative building in Riga, K. Valdemāra street 31 LVL 2,117,000 and land worth LVL 55,000.

According to the data of the State Land Service, as of January 1, 2008, the cadastral value of the plot of land in Riga, K. Valdemāra street 31, with cadastral number 0100-019-0074 and an area of 1,252 m² is LVL 201,822 and the cadastral value determined for administrative buildings is LVL 1,272,695.

(10) Participation in the capital of related companies

Name of the company	Number of parts owned %	Purchase	Investment value	Investment balance value
		value Ls	reduction 31.12.2007. Ls	on 31.12.2008 Ls
SIA "Latvian International Arbitration Court"	99.4%	79,500	(77,513)	1 987

In 1996, the Agency established a non-profit organization SIA "Latvijas Internazionale shīrījtiesa" to act as a dispute resolution institution in processes related to privatization. The Agency's initial investment in it was LVL 79,500. Since in 2005 its business results had significantly deteriorated and this trend had already been observed for several years, the Agency recognized the decrease in the value of this investment, determining its true value at LVL 1,987.31, 2008. In December, the equity capital of SIA "Latvijas Internazionale shīrījtiesa" is LVL 6,416.

The profit for the reporting year is LVL 1,503.

Address of the subsidiary company : K. Valdemāra iela 31, Riga, Latvia LV 1010. The total number of shares of its share capital is 800 shares. The nominal value of one share is LVL 100. The agency owns 795 shares or 99.4%. The Agency since May 24, 2004 with the order of the Cabinet of Ministers of the Republic of Latvia of March 31, 2004 no. 188 has been appointed as the holder of the remaining 5 (five) or 0.6% state-owned capital shares of SIA "Latvijas Internazionale Arbitration".

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(11) Trade and customer debts

	31.12.2008	31.12.2007
	Ls	Ls
Long - term trade payables		
Debts under purchase agreements	19,380,626	10,817,019
	<u>19,380,626</u>	<u>10,817,019</u>
Short - term accounts payable		
Debts under purchase agreements	8 479 197	
Other debts	639 003	
Provisions for doubtful other debts	(509 375)	
	<u>8 608 825</u>	<u>4,845,912,358,175 (134,76</u>
Total accounts payable and accounts payable	<u>27,989,451</u>	<u>15,886,345</u>

The item "Long-term debts of buyers and customers" includes payments of privatization subjects in accordance with the payment schedules specified in the purchase agreement, which, according to the agreements in force on December 31, 2008, are payable after January 1, 2010 until the end of the payment schedule of the purchase agreements. The composition of short-term debts of buyers and customers includes those payments of the subjects of privatization in accordance with the payment schedules specified in the purchase agreement, which, according to the agreements valid on December 31, 2008, are payable by December 31, 2009.

No impairment provisions are made for debts under purchase agreements. The Agency carries out court procedures for debt collection against buyers who do not make payments on time. If the buyers do not pay off the expected debt, the purchase contracts are canceled in accordance with the procedures established by the legislation and the obligations towards the State Property Privatization Fund (VĶPF) and municipalities are reduced by the unpaid amounts.

The other debts include rent, insurance and other liability payments for the state-owned objects transferred for privatization, which must be made until the state-owned object is handed over to the buyer. Provisions have been made for debts whose recovery is doubtful.

(12) Other debtors

	31.12.2008	31.12.2007
	Ls	Ls
Claims against privatization subjects for World Bank loan interest and late fees Provisions for doubtful receivables Debt of V/u "Latvijas nafta" for World Bank loan payments (see note (a))	50,603	59,599
	(50,603)	(59,599)
	665,412	665,412
Provisions for bad debts RAF debt Provisions for bad debts	(665,412)	(665,412)
	502,288	502,288
Other receivables Provisions for bad debts	(502,288)	(502,288)
	27,924	24,000
	<u>(20,943)</u>	<u>(21,143)</u>
	<u>6,981</u>	<u>2,857</u>

a) With the judgment of the non-profit organization SIA "Latvijas International Arbitration Court" of January 12, 2001 in the case No. 22/2000, the Agency had obligations towards SIA "Lukoil Baltija R" and on July 21, 2001, the Agency made a payment of Ls 665,412 to fulfill the obligations towards SIA "Lukoil Baltija R". The Agency covered these obligations with claims against AS "Latvijas Nafta" in the appropriate amount.

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On the basis of the "Agreement on the procedure for repayment of the loan granted by the International Bank for Reconstruction and Development in the course of the privatization of the State petroleum product supply company "Latvijas Nafta" concluded on December 24, 1996 between the Agency and the State oil product supply company "Latvijas Nafta", the Agency On November 15, a claim was submitted to the Riga Regional Court against "Latvijas Nafta" for the demand for non-existent debt in the amount of LVL 665,412.05. On the other hand, the insolvent joint-stock company "Latvijas Nafta" has filed a counterclaim for the recovery of 1,195,213 lats from the Agency. On March 4, 2008, the Agency and the insolvent JSC "Latvijas nafta" in the Riga District Court allowed the possibility to settle the mutual disputes for 0.6 million lats and 1.19 million lats in damages. During 2008, no settlement was reached between the parties, therefore legal proceedings continue (see note 26).

(13) Deferral costs

Costs of the following period are listed costs incurred before the balance sheet date of December 31, 2008, but refer to the following financial reporting periods:

	31.12.2008	31.12.2007
Health insurance payments	LVL 10,885	LVL 10,955
Subscription to press and informative materials	2,915,280	3,804,370
<small>The others</small>	14,080	15 129
	<u>14,080</u>	<u>15 129</u>

(14) Cash Cash

balance consists of cash balance in bank accounts.

Breakdown by currencies:		31.12.2008	31.12.2007
	Currency	LVL	Ls
Current account	Ls	- 23 174 083 143	- 27 719 767 194
	USD	71	94
		<u>23 174 154</u>	<u>27,719,861</u>

(15) Share capital

The agency's share capital (share capital) consists of 1,765,000 shares with a nominal value of LVL 1. As of December 31, 2008, all company shares are registered shares.

(16) Retained Earnings

The retained earnings of previous years have been calculated - adjusted due to the change in the Agency's accounting policy. As of December 31, 2008, the adjusted undistributed profit of the previous years is LVL 4,917,076 and the profit of the reporting year is LVL 825,626.

The shareholders' meeting will decide on the undistributed profit of the previous year and the distribution of the profit of the reporting year.

(17) Accruals

The procedure for the creation and use of the reserve fund is determined by the Cabinet of Ministers' regulations of July 24, 2007 No. 516 "The procedure for making deductions to the Privatization Agency for the privatization of state-owned objects, expropriation of state capital shares and other activities specified in regulatory acts, a reserve fund to be created and used, and payments to be made to state and local government property privatization funds and the state and local government budget".

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(18) Other creditors

Other long-term creditors	31.12.2008	31.12.2007
	Ls	Ls
Liabilities to the State Property Privatization Fund	11 919 778 7	9 495 997 1
Liabilities to municipalities	317 534 27	229 297 68
Liabilities to the state budget for debt capitalization	817 16	964 22
Liabilities to the state budget for disposal of capital shares	844 98	760
Liabilities to other budget institutions	653 50	-
Commitments for World Bank loan payments	603	59,599
	<u>19,431,229</u>	<u>10,876,617</u>

In 2008, the Agency made payments to third parties in accordance with the orders of the Cabinet of Ministers in the amount of LVL 14,292,683 and payments to the State Property Privatization Fund in the amount of LVL 5,301,001. These payments, totaling LVL 19,593,684, are reflected as a reduction of liabilities to VjPF .

Settlements with the Ministry of Education and Science are listed in relation to other budget institutions .

By order of the Cabinet of Ministers of March 28, 2007 no. 177 "On transfer of state-owned objects to privatization"

The Agency makes settlements with the Ministry of Education and Science for the purpose provided for in the order of the Cabinet of Ministers (for the establishment of the carpentry workshop of the 13th Vocational High School of Riga) for the funds obtained during the privatization of the state real estate at 125 Ljypljša Street . In 2008, the Agency transferred LVL 30,678 for this purpose .

In 2008, LVL 3,595,585 was transferred to the municipal property privatization funds .

In 2008, the Agency transferred to the relevant accounts of the state budget :

LVL 96,422 of the funds obtained as a result of the expropriation of state capital shares

LVL 130,887 in the special state pension budget

payments collected as a result of debt capitalization amount to LVL 25,868

state property rental revenue LVL 1,234,027.

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Other short-term creditors	31.12.2008	31.12.2007 Ls
	LVL	
Obligations to the budget, V�PF and municipalities during the year:		
including: Liabilities to the state property privatization fund	6 265 030 2	
Liabilities to local governments	936 022 250	11,548,752,742,912
Liabilities to the state budget for debt capitalization	956	224,482
Liabilities to the state budget for expropriation of capital shares	54 569	122 459
Liabilities to other budget institutions	47 057	-
Liabilities to the state budget for state property lease revenues	472,776	464,621
Liabilities to the state budget for transactions with privatization certificates	664	13,814
	<u>10,027,074</u>	<u>13 117 040</u>
Security deposit for participation in the auction	36,619	287,531
Salary	930	38,487
Obligations regarding loans of privatized objects from World Bank	911	911
Obligations with the state joint-stock company "Valsts nekusmatie ipsumimi" regarding cash receipts from the lease of state-owned objects	129 389	
Other obligations	220 963	50,632,310,453
	<u>10,415,886</u>	<u>13,805,054</u>
Including total liabilities to the state budget and state and local government privatization funds		
	31.12.2008	31.12.2007
Obligations towards V�PF	LVL 18 184	LVL 21,044,749
Liabilities to municipalities	808 10 253	1,972,209
Obligations to the budget for debt capitalization	556 278 773	293 446
Obligations to the budget for disposal of capital shares	71 413	145 219
Liabilities to other budget institutions	145,710	-
Obligations with the state budget for state property rental income	472,776	464,621
Liabilities to the budget for transactions with privatization certificates	664	13,814
	<u>29,407,700</u>	<u>23,934,058</u>
Breakdown by payment terms:		
	31.12.2008	31.12.2007 Ls
After a year and later	LVL	10,817,018
Within one year	19,380,626	13 117 040
	<u>29,407,700</u>	<u>23,934,058</u>

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(19) Taxes and mandatory state social insurance contributions

Type of tax	Balance on 31.12.2007 Ls	Corrected for 2007 Ls	Calculated in 2008 Ls	Paid in 2008 Ls	Balance on 31.12.2008 Ls
Corporate income tax		867,720		(18,235)	1,105,933
Value added tax	3,003,46,642	-	253,445,289,709	(300,012)	36,339
Social security contributions	41 305	-	495,521	(536,826)	-
Personal income tax	32,506	-	337 387	(369,893)	-
Real estate tax	-	-	13 948	(13,948)	-
Business risk fee	28	-	323	(351)	-
In total	123 484	867,720	1,390,333	(1,239,265)	1 142 272

(20) Accrued liabilities

	31.12.2008	31.12.2007
Savings for vacations	LVL 148	LVL 157,724
Accrued liability for late fees	693 213	-
For services received	758 5 807	7,670
	368 258	165,394

At the end of the reporting period, provisions for unused vacations have been created, calculated according to the number of unused vacation days as of December 31, 2008 and the average daily wage in the last six months of the reporting year.

Accumulated liabilities as a result of the change in the accounting policy, late fee for the payment of LVL 213,758 for the correction of the company's income tax for the year 2007.

(21) Related parties, related party transactions

During the reporting year, the Company had no transactions with related parties as part of its economic activity.

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(22) General notes

a) Average number of employed persons

	2008	2007
The average number of employees in the Company in the reporting year , incl. state employees	129	140
	<u>92</u>	<u>94</u>

b) Personnel costs

	2008	2007
	Ls	Ls
Council members:		
• salaries	44,809	38,560
• mandatory state social insurance contributions	10,995	9,916
	<u>55,804</u>	<u>48,476</u>
Board members:		
• salaries	143 094	140 842
• bonuses •	32 102	24 827
mandatory state social insurance contributions	26,033	28 404
	<u>201 229</u>	<u>194 073</u>
	<u>257 033</u>	<u>242 549</u>

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(23) Information on state real estate owned by the Agency

According to the Latvian accounting standard no. 8 "Accruals, contingent liabilities and contingent assets", the Agency classifies state property objects transferred for privatization as "contingent assets". In compliance with the requirements of the mentioned standard, beginning with the 2006 reporting year, the Agency shall include in the appendix of the financial report an appropriate section on the state property objects in its possession. In order to reflect the state property in the annex to the financial statement as being in the possession of the Agency in the relevant year, the Agency uses the following criterion - the state property has been taken into possession by deed (land properties - or registered in the Land Register in the name of the Agency) until December 31 of the reporting year. The agency excludes the state-owned object from the relevant report with the date of conclusion of the purchase contract for the sale of the relevant object.

Real estates are reflected in their cadastral value in the annex to the financial statement, the value of capital shares is indicated in their nominal value.

a) Buildings, structures and land

	Number of objects, pcs.		Land area, 2 m		Cadastral value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008 Ls	31.12.2007 Ls
Real estate - buildings and constructions and their accessories land	94		109 1,787,195	1,610,969	38,760,825	50,386,724
Real estate - land	694		626 8 492 240 5 844	379 22 911 018 66 685 198		
In total	788		735 10 279 435 7 455	348 61 671 843 117 071 922		

According to the data of the State Land Service, the cadastral value of land in 2008 decreased by an average of 4.22 lats per square meter (as of 01.01.2008 - 11.41 Ls/m², as of 01.01.2009 - 2.7 Ls/m²).

In 2008, the Agency concluded purchase contracts for the sale of land (the largest transactions for 221,294 m², which were in the possession of the Agency on January 1, 2008, with a cadastral value of LVL 21,734,152).

b) Capital shares

Number of capital companies		Value of capital shares * Value of capital shares *	
31.12.2008	31.12.2007	31.12.2008	31.12.2007
pc.	pcs.	Ls	Ls
39	44	88 300 597	113 107 732
Of these, 25 are in the process of insolvency or liquidation			
22 of them in insolvency or liquidation proceedings		12,407,514	13,680,720
Number of capital shares of heirless persons		Value of capital shares * Value of capital shares *	
31.12.2008	31.12.2007	31.12.2008	31.12.2007
pc.	pcs.	Ls	Ls
472	472	12,000	12,000

*) The value of capital shares is indicated in their nominal value

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(24) Operating lease

The company has concluded operating lease agreements for the lease of 3 cars . The rent payable under these agreements shall be:

In 2008, 2009	LVL 12,738
- 2011	LVL 26,918

(25) Events after the last day of the reporting year

In compliance with the decision of the meeting of the Cabinet of Ministers on February 24, 2009 (prot. No. 14, § 1), on February 25, 2009, the Agency concluded a share purchase agreement with the state joint-stock company "Latvijas Hipotēku un zemes banka" for the joint-stock company "Parex banka" with the purchase of 55,365,116 shares (85.15% of the total share capital) , gaining decisive influence and participation in the joint-stock company "Parex banka".

In compliance with the decisions taken by the Cabinet of Ministers at the meeting of March 24, 2009 (prot. No. 21, § 76), and in order to ensure the capital adequacy of the joint-stock company "Parex banka" , the Agency is preparing to increase a substantial stake in the joint-stock company "Parex banka" by purchasing the new issues 165,000,000 registered shares with voting rights for a nominal value of 1 lats and make an investment in the subordinated capital of the joint-stock company "Parex banka" in the amount of 62,000,000 lats . The mentioned activities will be implemented after the permission of the European Union to carry out state support measures. In order to fulfill the above , in compliance with the conditions set by the Minister's Cabinet , the Agency is preparing to take a loan from the State Treasury. The loan is planned to be taken for a period of 7 years, with a fixed annual interest rate of 3.678%. The existing and newly issued shares of the joint-stock company "Parex banka" , as well as an investment in the subordinated capital, will serve as collateral for the mentioned loan .

In the period from the last day of the reporting year to the date of signature of these financial statements , there have been no events that would require adjustments to be made to these financial statements and which should be explained in these financial statements.

(26) Uncertainties, future liabilities

On April 19, 2006, Andis Skalders filed a lawsuit against the Agency in the Riga District Court for monetary compensation of the tenement property claimed by the heir and then subject to privatization (on February 22, 2008, the monetary value of the compensation was 33,247 lats). The claim is based on the fact that the Agency privatized VAS "Bauskas auto", which included property that should have been returned to the legal heirs, but this was not done.

The immovable property at Mýmeles street 8, Bauska, was transferred to VAS "Privatization Agency" as a residential house, which can be seen from the case materials, and the Plaintiff does not deny it either. The Agency transferred this residential house to the Central Commission for Privatization of Residential Houses in accordance with the requirements of the regulatory acts .

On February 2, 2008 , the Riga Regional Court decided to completely reject the claim of Andas Skalders against the Agency.

The judgment of the Riga Regional Court is based on the fact that the Agency did not carry out the privatization of the disputed real estate (residential house), because it was not part of the Agency's competence and the case files did not include evidence that Andis Skalders had taken any actions to recover the real estate from 1998 until the filing of the lawsuit .

On March 19, 2008, Andis Skalders submitted an appeal against the aforementioned judgment, in which he states that the court committed a violation of material legal norms (did not take into account the second part of Article 19 of the law "On Privatization of State and Local Government Property Objects "). The Agency considers the above-mentioned statement to be unfounded, because Article 1, Part 3 of the Law "On the Privatization of State and Local Government Property Objects" states that the privatization of housing stock owned by the state and local governments is determined by other laws. The Agency considers this claim to be unacceptable and completely unfounded.

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J. Paleps brought a lawsuit against the Agency for recovery of LVL 700,000 . The plaintiff believes that the Agency has not fulfilled the purchase agreement concluded on June 18 , 1996 , with which the state company "Cysu ARR" was sold to the Evangelical Lutheran Church of Cysu Svety Jyjas Lauku . On August 2, 1996, a renewal agreement was signed , with which the congregation transferred its right to the privatization of this company to the limited liability company "Cysu autoremonta rypnyka", which was declared insolvent in February 1999 . The plaintiff states that the entire purchase price was paid, but he did not acquire the property rights . The plaintiff, as an authorized person, has signed both the purchase agreement and the renewal agreement. In the course of the case review , the plaintiff has asked to invite the Ministry of Finance as a co-defendant in the case . The hearing of the case in the Riga Regional Court is scheduled for May 22, 2009. The Agency considers this claim to be unacceptable and completely un

On the basis of the "Agreement on the procedure for repayment of the loan granted by the International Bank for Reconstruction and Development in the course of the privatization of the State petroleum product supply company "Latvijas Nafta" concluded on December 24, 1996 between the Agency and the State oil product supply company "Latvijas Nafta" , the Agency On November 15, a claim was submitted to the Riga Regional Court against "Latvijas Nafta" for the demand for non- existent debt in the amount of LVL 665,412.05 . The insolvent joint-stock company "Latvijas Nafta" has filed a counterclaim for the recovery of 1,195,213 lats from the Agency. On March 4, 2008, the Agency and the insolvent JSC "Latvijas nafta" in the Riga District Court allowed the possibility to settle the mutual disputes for 0.6 million lats and 1.19 million lats in damages. During 2008, no settlement was reached between the parties , therefore legal proceedings are ongoing (see note 12).