

SJSC "LATVIJAS GAISA SATIKSME"

ANNUAL REPORT FOR THE YEAR 2011

**PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

ANNUAL REPORT FOR THE YEAR 2011

(Translation of the Latvian original)

**SJSC "LATVIJAS GAISA SATIKSME"
TABLE OF CONTENTS**

| | PAGE |
|---|----------------|
| COMPANY INFORMATION | 3 |
| BOARD OF THE COMPANY | 4 |
| MANAGEMENT REPORT | 5 - 7 |
| STATEMENT OF THE MANAGEMENT RESPONSIBILITY | 8 |
| FINANCIAL STATEMENT | |
| STATEMENT OF FINANCIAL POSITION | 9 - 10 |
| STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 11 |
| STATEMENT OF CHANGES IN EQUITY | 12 |
| CASH FLOW STATEMENT | 13 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 14 - 31 |
| INDEPENDENT AUDITOR'S REPORT | 32 |

**SJSC "LATVIJAS GAISA SATIKSME"
COMPANY INFORMATION**

| | |
|--|--|
| NAME OF COMPANY | SJSC "LATVIJAS GAISA SATIKSME" |
| LEGAL STATUS | State Joint Stock Company |
| REGISTRATION NUMBER., PLACE AND DATE | Company Register Nr.40003038621, Riga, 21 October 1991 Commercial Register, Riga, 11 October 2004 |
| ADDRESS (LEGAL AND MAIL) | KDP building, International airport "Riga", Marupe district, LV-1053, Latvia |
| PRIMARY BUSINESS TYPE | Airspace use and air traffic management of the Republic of Latvia |
| NAMES AND ADDRESS OF SHAREHOLDERS AND NUMBER OF SHARES AS % | Ministry of Transport of the Republic of Latvia 3 Gogola street, Riga, LV-1743 |
| REPORTING YEAR | 01.01.2011 - 31.12.2011 |
| FINANCIAL STATEMENT USERS CURRENCY | LVL |
| CERTIFIED AUDITOR | Commandite "S. Vilcanes audits" Reģ.Nr.40003192915 Certified Auditor Sandra Vilcane Certificate No. 30 |

**SJSC "LATVIJAS GAISA SATIKSME"
BOARD OF THE COMPANY**

| Name | Position |
|--|-------------------|
| From July 10, 2009 till March 25, 2010 | |
| Chairman of the Council | Arturs Kokars |
| Member of the Council | Vadims Prudnikovs |
| Member of the Council | Aldis Murnieks |
| Member of the Council | Evija Leitlande |
| Member of the Council | Baiba Broka |
| From March 26, 2010 till May 25, 2010 | |
| Chairman of the Board | Davids Taurins |
| Member of the Board | Vadims Prudnikovs |
| Member of the Board | Bergholcs Arturs |
| Member of the Board | Baiba Broka |
| From December 17, 2010 till November 30, 2011 | |
| Chairman of the Board | Davids Taurins |
| Member of the Board | Edmunds Kancevics |
| Member of the Board | Artis Birkmanis |
| Member of the Board | Elmars Svede |
| Member of the Board | Baiba Broka |
| From December 17, 2010 till November 30, 2011 | |
| Chairman of the Board | Davids Taurins |
| Member of the Board | Edmunds Kancevics |
| Member of the Board | Artis Birkmanis |
| Member of the Board | Elmars Svede |
| Member of the Board | Baiba Broka |
| From December 1, 2011 till till the financial statements signing day | |
| Chairman of the Board | Davids Taurins |
| Member of the Board | Gints Freimanis |
| Member of the Board | Artis Birkmanis |
| Member of the Board | Elmars Svede |
| Member of the Board | Baiba Broka |
| Company discontinued the Council from 25.06.2009 | |

Business

Core business activity of the SJSC "Latvijas gaisa satiksme" (further in text LGS) is provision of air navigations services to all the airspace users within Riga Flight Information Region (FIR). Product of LGS is air navigation services.

LGS Management Structure

LGS shareholder is Ministry of Transport of the Republic of Latvia.

The company is managed by the Board acting in accordance with the legal acts. Board is responsible for economic activities of LGS and proper accountancy in the Company. The Ministry of Transport performed changes in the Board Membership on November 30, 2011 replacing Board Member Edmunds Kancevics with Gints Freimanis.

No structural changes have been executed during the 2011 and the company consists of 5 departments:

- ATM Department
- Technical Department
- Administrative Department
- Development Department
- Quality Assurance Department

Main projects of the Company in 2011

Joining the EUROCONTROL

Latvia joining the EUROCONTROL was one of the most important events of the year 2011 and since January 1, 2011, the Republic of Latvia is a full member of this organisation. The following process was technical integration and one of the stages was completed in March 10, when LGS was integrated into Eurocontrol system of Initial Integrated Flight Plan Processing System. The technical integration was fully completed on October 20, 2011 and this is the date since when the LGS is fully integrated into Eurocontrol Air Traffic Flow and Capacity Management system.

Certification

On April 14, 2011, the Board of LGS made a decision to commence the process to receive a certificate as an ATM training services provider, as stated in the regulations of EU and the Republic of Latvia. State Agency "Civil Aviation Agency" (further in text – CAA) was verifying the submitted documents and conducting audit in the premises of the LGS from April 18, 2011 to June 21, 2011. During the certification audit CAA it was concluded that the LGS Training Unit is ready to provide the given services and quality assurance system of the enterprise is operating with trackable evidence concerning the Training Unit.

As a result, CAA issued the certificate to LGS and confirmed that LGS has fully complied the Cabinet Regulations No 563 (from July, 21, 2008) "Procedures for the Certification of Air Traffic Controller Training Instructors and Issuance of Controller Licences, Recognition and Maintaining the Validity Thereof" Chapter 9, and is authorized to provide on-the-job training of the air traffic controllers and further training in accordance with the attachment to the certificate.

As a new EU Regulation No.805/2011 came into force on August 10, 2011 laying down detailed rules for air traffic controllers' licences and certain certificates pursuant to Regulation (EC) No 216/2008 of the European Parliament and of the Council, CAA provided a training organisations supervision audit to check compliance to the regulation as well as to the criteria defined by ICAO and EUROCONTROL. As a result a new certificate was issued confirming LGS's compliance to the regulations of the Commission of August 10, 2011 No. 805/2011 and authorized LGS to provide Air Traffic Controller Unit Training and Continue Training in accordance with the list of courses attached to the certificate.

This certificate will allow decrease LGS expenses related to the qualification maintenance of the LGS experts avoiding external services using internal resources as stated in the certificate.

EURASIA RVSM ATM WG/8

The 8th working group meeting organized by International Civil Aviation Organisation (ICAO) and LGS, took place in Riga on June 13-17, 2011. 26 experts of civil aviation from East European Region – Russian Federation, Kazakhstan, Kyrgyzstan, Turkmenistan, Afghanistan, Poland and Latvia including LGS experts and representatives of the Ministry of Transport and CAA of LR took part in this meeting.

The main point of the meeting was single Reduced Vertical Separation Minima between the aircrafts in the whole European Region and in accordance with the ICAO Rules applicable in Russian Federation, Kazakhstan, Kyrgyzstan, Turkmenistan and Mongolia since November 17, 2011.

Latvia implemented RVSM 300m (1000ft) between the aircrafts on January 24, 2002 along with 40 other European and North Africa countries.

NEFAB

A declaration expressing commitment to create a North European Functional Airspace Block (NEFAB) has been signed by Latvia, Estonia, Finland and Norway. On December 22, 2011, this declaration and all the necessary documents were submitted to the Commission, 6 months ahead to the deadline set by the EU. This gave NEFAB the opportunity to be the first FAB, invited by the Commission, to present the entire concept and framework to stakeholders. During this observation period that lasts until March 12, 2012, the EU Commission and all stakeholders are invited to bring forward questions and remarks regarding the documentation.

It is very important to point that the most significant input in establishing of the FAB either financial or experts' involvement was carried out and will be continued by ANSPs. Working on this initiative, is considered as a priority. To secure high level and harmonised process funds have been allocated and leading experts recruited for NEFAB establishment, which will benefit air space users and ANSPs.

The states plan to sign the agreements for establishment of NEFAB during the spring of 2012.

e-AIP

In March 2011, works on creation of the electronic AIP VFR of Latvia was successfully completed. The new aeronautical information product was developed and produced in accordance with the EUROCONTROL e-AIP specification, and for the first time was presented to aviation audience at ATC Global 2011 in Amsterdam.

Close cooperation of AIS LGS, EAD and M-AIS (Frame APS software developer from UK) specialists facilitated the process of achieving the ultimate goal in a relatively short period of time. In the nearest future LGS in cooperation with M-AIS (UK), plans to offer customers to subscription MOBILE AIP.

In Latvia, e-AIP VFR was published on March 15, 2011, and came into force on April 7, 2011.

Technical modernisation

Several ambitious projects were implemented in 2011 within the process of technical upgrading providing significant quality enhancement of the technological processes and flight safety. The major completed and launched projects are:

- Installation of Multilateration system in Riga TMA area within the scope of the WAMRIX project (MSS-W system);
- Expansion of A-SMGCS system by adding two additional sensors in the Riga airport;
- Relocation of the UIV object "Rezekne" to Viļāni;
- Modernisation of HIPATH 4500 telephone exchange;
- New Data transmission line in RRC Riga – Radar ALENIA Riga;
- Replacement of the emergency radio-stations in the ATM Centre;
- Tele-control and monitoring system among the communication object of the LGS;
- Connection to the CFMU using PENS network;
- Supervision of ILS system installation process in Tukums airport.

Ongoing and new projects:

- ATRACC system modernisation;
- Modernisation of the „air-ground” aviation mobile communications;
- Construction of the high-speed optic network in the airport “Riga”;
- Modernisation of the system MIDAS;
- Briefing facility implementation.

SC “Latvijas Krājbanka” insolvency

On December 23, 2011, Riga Regional Court announced insolvency of the SC “Latvijas Krājbanka” (Bank). This had a significant impact on the financial situation of LGS, since, LGS had a short term deposit for a sum of 1 600 000 EUR (1 124 486 LVL) placed in November of 2011 in the Bank.

The insolvency of the Bank is considered to be an unpredictable force majeure and LGS was not in the position to influence or prevent.

Taking into consideration the advise of LGS's auditor, S.Vilcane, State Revenue Service reference No. 8.12/6741 and the information regarding procedures commenced against the Bank, LGS classified the deposited amount in this Bank as an outstanding bill of doubtful debtor and created special loan lost provisions. After receipt of the state guaranteed compensation, the outstanding debt of the Bank is 1 181 891 LVL. For this amount the provision was made, and due to this situation LGS financial year ended with losses compared with the previous plan.

Further development of the company

In future LGS is going to focus on the goals mentioned in the National Performance Plan in accordance with the EU regulations. Work on NEFAB development will proceed as well. As LGS is a member of the organisation NEAP (Borealis since 2011) since March 17, 2009, the enterprise is actively participating in the activities of the organisation.

Dauids Taurins
Chairman of the Board

Gints Freimanis
Member of the Board

Elmars Svede
Member of the Board
Riga, 12 April, 2012.

Artis Birkmanis
Member of the Board

Baiba Broka
Member of the Board

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 9 to page 31 and decisions and assessments were made with proper discretion and prudence. the accounting policies applied have been consistent with the previous period. the management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Dauids Taurins
Chairman of the Board

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Member of the Board

Elmars Svede
Member of the Board
Riga, 12 April, 2012.

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Baiba Broka
Member of the Board

**SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2011 AND 31 DECEMBER 2010**

| | December 31, 2011 | December 31, 2010 | Notes |
|-------------------------------------|----------------------|----------------------|-------|
| ASSETS | LVL | LVL | |
| Non-current assets: | | | |
| Intangible assets | | | |
| Concessions, patents, licenses | - | 1,218 | 12 |
| Total Intangible assets: | - | 1,218 | |
| | | | |
| Fixed assets | | | |
| Property, plant and equipment | 16,125,195 | 17,422,090 | 13 |
| Other investments | 10,548 | 12,658 | 14 |
| Total Fixed assets: | 16,135,743 | 17,434,748 | |
| Total non-current assets: | 16,135,743 | 17,435,966 | |
| | | | |
| Current assets | | | |
| Inventories | 38,819 | 46,644 | 15 |
| Trade and other receivables | 3,111,380 | 2,651,152 | 16 |
| Receivables from group companies | - | 267 | |
| Available-for-sale financial assets | - | 1,071,197 | 17 |
| Cash and cash equivalents | 2,781,516 | 2,917,807 | 18 |
| Total current assets: | 5,931,715 | 6,687,067 | |
| Total assets | 22,067,458 | 24,123,033 | |

The notes on pages 14 to 31 forms an integral part to this financial statements.

Davids Taurins
Chairman of the Board

Gints Freimanis
Member of the Board

Elmars Svede
Member of the Board
Riga, 12 April, 2012.

Artis Birkmanis
Member of the Board

Baiba Broka
Member of the Board

**SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2011 AND 31 DECEMBER 2010**

| | December 31, 2011 | December 31, 2010 | Notes |
|---|----------------------|----------------------|-----------|
| EQUITY AND LIABILITIES | LVL | LVL | |
| Equity | | | |
| Share capital | 16,000,000 | 16,000,000 | 19 |
| Other reserves | 2,262,505 | 2,262,505 | |
| Revaluation reserve on Financial assets | - | -4,621 | |
| Retained earnings | 135,955 | 1,201,855 | |
| Total equity: | 18,398,460 | 19,459,739 | |
| Liabilities: | | | |
| Non-current liabilities | | | |
| Borrowings | 773,084 | 1,616,449 | 20 |
| Deferred income tax liabilities | 246,617 | 555,440 | 11 |
| Other non-current liabilities | 36 | 476 | |
| Total non-current liabilities: | 1,019,737 | 2,172,365 | |
| Current liabilities | | | |
| Borrowings | 843,365 | 843,365 | 20 |
| Trade and other payables | 1,805,456 | 1,647,124 | 21 |
| Deferred revenue | 440 | 440 | |
| Total current liabilities: | 2,649,261 | 2,490,929 | |
| Total liabilities: | 3,668,998 | 4,663,294 | |
| Total equity and liabilities: | 22,067,458 | 24,123,033 | |

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Riga, 12 April, 2012.

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Member of the Board

**SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

| | 2011 | 2010 | Notes |
|---|--------------------|----------------|--------------|
| | LVL | LVL | |
| Net sales | 16,698,250 | 15,346,056 | 2 |
| Investment income | 35,531 | 37,891 | 3 |
| Other gains and losses | 122,226 | 35,744 | 4 |
| Employee benefits expense | (8,045,933) | (7,419,617) | 5 |
| Depreciation and amortization expenses | (3,531,201) | (3,659,419) | 6 |
| Other expenses | (6,480,167) | (4,192,982) | 7 |
| Other gains/(losses), net | 29,111 | 155,996 | 8 |
| Operating profit | (1,172,183) | 303,669 | |
| Finance income | 12,175 | 17,527 | 9 |
| Finance income | (78,197) | (113,594) | 10 |
| Profit before tax | (1,238,205) | 207,602 | |
| Income tax expense | 172,305 | 8,142 | 11 |
| Profit for the year | (1,065,900) | 215,744 | |
| Other comprehensive income | | | |
| Net gain on available-for-sale financial assets during the year (reversal of impairment loss) | 4,074 | 62,770 | 17 |
| Currency exchange of securities evaluation | 1,362 | - | |
| Deferred tax effect on changes in the fair value | (815) | (9,416) | 11 |
| Total comprehensive income for the year | (1,061,279) | 269,098 | |
| Number of shares | 16,000,000 | 16,000,000 | |
| Earnings per share (in santims) | (0.07) | 0.02 | |

The notes on pages 14 to 31 forms an integral part to this financial statements.

Dauids Taurins
Chairman of the Board

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Riga, 12 April, 2012.

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Baiba Broka
Member of the Board

**SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

| | Share Capital | Available for sale financial assets revaluation reserve | Other Reserves | Retained earnings | Total |
|---|-------------------|--|-------------------|----------------------|-------------------|
| At 31 December 2009 | 6,000,000 | - | 12,262,505 | 928,136 | 19,190,641 |
| Profit for the year | - | - | - | 215,744 | 215,744 |
| Correction in presentation of financial assets available for sale | - | (68,206) | - | 68,206 | - |
| Correction in presentation of deferred income tax effect on financial assets revaluation | - | 10,231 | - | (10,231) | - |
| Net gain on available-for-sale financial assets during the year (reversal of impairment loss) | - | 62,770 | - | - | 62,770 |
| Total comprehensive income for the year | - | (9,416) | - | - | (9,416) |
| Increase of share capital from reserve | 10,000,000 | - | (10,000,000) | - | - |
| At 31 December 2010 | 16,000,000 | (4,621) | 2,262,505 | 1,201,855 | 19,459,739 |
| Profit (loss) for the year | - | - | - | (1,065,900) | (1,065,900) |
| Net gain on available-for-sale financial assets during the year (reversal of impairment loss) | - | 4,074 | - | - | 4,074 |
| Current differences of fair value revaluation income tax effect on financial assets revaluation | - | 1,362 | - | - | 1,362 |
| Current differences of fair value revaluation income tax effect on financial assets revaluation | - | (815) | - | - | (815) |
| Total comprehensive income for the year | - | - | - | - | - |
| Transferred to reserves from retained earnings | - | - | - | - | - |
| At 31 December 2011 | 16,000,000 | - | 2,262,505 | 135,955 | 18,398,460 |

The notes on pages 14 to 31 forms an integral part to this financial statements.

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Chairman of the Board

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Member of the Board
Riga, 12 April, 2012.

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SJSC "LATVIJAS GAISA SATIKSME"
CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

| | 2011 | 2010 | NOTES |
|--|--------------------|--------------------|--------------|
| | LVL | LVL | |
| Cash flow from operating activities | | | |
| From customers and subscribers to the money received | 16,007,319 | 14,375,991 | |
| Proceeds from redemption of bonds | 976,000 | - | 17 |
| Suppliers and employees paid in cash | (9,435,771) | (8,744,215) | |
| Taxes paid and social security charges | (3,196,735) | (2,702,480) | |
| Corporate income tax expenses | (189,586) | - | |
| Interest paid | (79,155) | (113,856) | |
| Net cash flow from operating activities | 4,082,072 | 2,815,440 | |
| Cash flow from investing activities | | | |
| Fixed assets and intangible assets | (2,241,565) | (1,355,701) | |
| Interest received | 48,533 | 55,492 | |
| Net cash used in investing activities | (2,193,032) | (1,300,209) | |
| Cash flow from financing activities | | | |
| Long-term debt repayments | (843,365) | (843,365) | 20 |
| Cash in Latvijas Krajbanka converted in receivables | (1,251,610) | - | |
| Received state-guaranteed compensation for deposit in Latvijas Krajbanka | 70,046 | - | |
| Net cash outflow from financing activities | (2,024,929) | (843,365) | |
| Foreign exchange rate fluctuations | (402) | (133) | 10 |
| Net cash and cash equivalents increase (decrease) | (136,291) | 671,733 | |
| Cash and cash equivalents at the beginning | 2,917,807 | 2,246,074 | |
| Cash and cash equivalents at end of year | 2,781,516 | 2,917,807 | |

The notes on pages 14 to 31 forms an integral part to this financial statements.

Davids Taurins
Chairman of the Board

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Member of the Board

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Member of the Board
Riga, 12 April, 2012.

Artis Birkmanis
Member of the Board

Baiba Broka
Member of the Board

**SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

I. GENERAL INFORMATION

SJSC "Latvijas gaisa satiksme" (hereinafter "the Company" or "LGS") was registered in Commercial Register of the Republic of Latvia in Riga on 21 October 1991 with the registration No. 40003038621. The legal address of the Company is KDP Building, International airport "Rīga", Marupes parish, Riga region, LV-1053, Latvia. The Company's primary activities are organisation of airspace use and air traffic of the Republic of Latvia.

These financial statements are separate financial statements of the Company for the financial period from 1 January till 31 December 2011. The Company's subsidiary "LGS Macibu centrs" Ltd. Is liquidated in the year 2011 so there is no necessity for consolidation.

II. ACCOUNTING POLICIES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS) as adopted by the EU. All International Financial Reporting Standards issued by the International Accounting Standards Board, which are applicable for the period covered by these Financial Statements, are approved for use in the European Union pursuant to the procedure of approval (endorsement) stated by the European Commission. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets at fair value.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgements applying the accounting policies adopted by the Company.

a) Standards, amendments and interpretations effective in the current year

IFRS 7, Financial Instruments: Disclosures

The amendment to IFRS 7 requires limited exemption from comparative disclosures for first-time adopters.

IAS 1, Presentation of Financial Statements

Amendment to IAS 1 requires a statement of profit or loss and other comprehensive income containing two distinct sections— profit or loss and items of other comprehensive income. The Amendment requires that items that will never be recognised in profit or loss should be presented separately from those that are subject to subsequent reclassification (recycling).

IAS 24, Related Party Disclosures

The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

b) Standards, amendments and interpretations that are effective from 1 January 2011, but not relevant for operations of the Company

IFRS 1, First-time Adoption of IFRS

The amendment replaces 'fixed dates' for certain exceptions with 'the date of transition to IFRSs', Additional exemption for entities ceasing to suffer from severe hyperinflation.

IAS 34, Interim Financial reporting

Amendment to IAS 34 clarifies the requirements relating to segment information for total assets for each reportable segment in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

**SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

2. Foreign currencies

a) Functional and presentation currency

Items are recognized in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Financial statements are presented in Latvian lat (LVL), which is the Company's functional and presentation currency.

b) Transactions and balances

All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period.

Exchange rates used at the balance sheet date are as follows:

| | December 31, 2011 | December 31, 2010 |
|-------|-------------------|-------------------|
| | LVL | LVL |
| 1 USD | 0.544 | 0.535 |
| 1 EUR | 0.702804 | 0.702804 |

3. Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

4. Income recognition

Net sales contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income mainly comprises of air navigation services charges which are calculated in accordance with the Cabinet of Ministers of Republic of Latvia Regulation No.1662 "Procedures for the Specification of Charges for Air Navigation Services and for Services Provided by Civil Aviation Aerodromes of State Significance" service charges are determined and allocated". Charge on en-route air navigation services is directly proportional to the weight of aircraft and the distance flown, while charge on terminal air navigation services is directly proportional to the weight of aircraft.

Income is recognized according to the following principles:

Rendering of services - income is recognized in the period when services are rendered;

Interest income - income is recognized based on an accrual basis considering actual profitability;

Lease revenue - is described in the accounting policy "Operating leases – the Company as a lessor".

5. Intangible assets

Intangible assets, in general, consist of licences and patents. Intangible assets are recognized at cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

| | Years |
|----------|-------|
| Licences | 5 |

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the highest of the fair value of the relevant intangible asset less cost to sell or value in use.

6. Property, plant and equipment

Property, plant and equipment are recognized at historical cost net of accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the property, plant and equipment.

Where the carrying amount of property, plant and equipment exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related property, plant and equipment asset. The decrease is reflected as the expenses.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the income statement. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Increase in value arising on revaluation is shown in equity under "Revaluation reserve", but decrease that offsets a previous increase of the same asset's value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is charged to the income statement for the year.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

| | Years |
|-------------------------------|-------|
| Buildings | 10-20 |
| Technological equipment | 7-8 |
| Other machinery and equipment | 3-5 |

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each statement of financial position date.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period.

7. Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

8. Financial assets

The Company classifies its financial assets in the following categories: available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The management of the Company determines the classification of its financial assets at initial recognition.

The purchase and sale of available-for-sale financial assets is recognised on a trade-date - the date on which the Company commits to purchase or to sell financial assets. Loans and receivables are recognised, when cash is advanced to the borrower. The financial assets are derecognised, when the rights to receive cash flows from financial assets have expired or the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are initially recognised at fair value, including all transaction expenses.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables.

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

a) Available-for-sale financial asset

Available-for-sale financial assets are non-derivative financial instruments, which have been designated in this category by the management or which are not classified in any other category. Available-for-sale financial assets are included in non-current assets, unless the management intends to dispose of the investment within 12 months of the balance sheet date.

Changes in the fair value of monetary and non-monetary assets classified as available-for-sale financial assets are recognised in the equity. Fair value of quoted investment securities is based on their market price. When available-for-sale financial assets are sold or impaired, the accumulated fair value gains or losses recognized in equity are included in the statement of comprehensive income. Interest income from available-for-sale securities is calculated, using the effective interest rate method, and is recognised in the income statement. The Company evaluates at each balance sheet date whether there is an objective evidence that a financial asset is impaired - both for individual assets and for each category if the assets are individually insignificant. If any such evidence exists, the loss from impairment of financial asset is recognised in the statement of comprehensive income.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for those, which the Company has determined to sell immediately or in the nearest future, and investments, which are classified as available-for-sale financial assets.

Loans and receivables mainly consist of trade receivables and other receivables and term deposits. Term deposits with credit institutions are assets, which may be withdrawn after a definite term. Deposits with no such term limitations or where the maturity does not exceed 24 hours or one working day, even if they are interest bearing, are accounted as demand deposits.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

9. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the balance of current bank accounts and current deposits with maturities up to 3 month.

10. Operating leases

a) The Company as a lessee

Lease in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments and prepayments made under operating leases (net of any financial incentives received from the lesser) are charged to the income statement on a straight-line basis over the period of the lease.

b) The Company as a lessor

Assets, which are leased out under operating lease terms, are recorded within property, plant and equipment at historic cost less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using rates set for similar Company's assets. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

11. Payments for the use of state capital

Dividends paid to the state are recognised in the financial statements as liabilities in the period in which the state capital holder (the Ministry of Transport of Latvian Republic) approves the dividends.

12. Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their values for tax calculation purposes. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences even out. The temporary differences arise from different fixed asset depreciation rates, from accruals and provision, as well as from tax losses carried to the next taxation periods.

In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is included in the financial statements only if a taxable profit will be available against which the temporary differences composing the deferred tax assets could be applied.

13. Borrowings

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

14. Provisions

Provisions are recognized, when there is a present obligation as a result of current or previous years events, it is probable that an outflow of resources will be required, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

15. Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

16. Income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15 % tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different fixed assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

17. Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

18. Related parties

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board, their close relatives and companies, in which they have a significant influence or control.

19. Critical accounting estimates and judgements

When preparing financial statements in accordance with IFRS, material estimates and assumptions must be made. Moreover, when preparing financial statements management must make assumptions and estimates by adapting Company's accounting policy.

Preparation of financial statements in accordance with IFRS means using estimates and assumptions that affect the value of assets and liabilities presented in financial statements, information disclosed in notes to financial statements as at date of financial statements as well as income and expenses. Actual results may differ from the estimates. Items such as estimates when deciding on useful lives of fixed assets, determining recoverable values of receivables and inventories, as well as fixed assets impairment test as described in relevant notes can affect the financial statements the most.

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

1. Segment information

a. Operation and reportable segment

Basic activity of the Company is provision of air navigation services to all users of air space within Riga Flight Information Region. Rental and other services income are immaterial and included in "Revenue".

b. Geographical markets

The Company is operating in territory of the Republic of Latvia when rendering air navigation services to flights en-route, to and from airports as well as airport traffic management services. Rental and other income of the Company originate in the territory of Republic of Latvia.

| 2. Revenue | 2011 | 2010 |
|---|-------------------|-------------------|
| | LVL | LVL |
| Revenues from air navigation services in relation to transit flights and routes to the airports | 14,527,342 | 13,158,698 |
| Revenues from air navigation services in airport control zones | 2,033,661 | 2,026,643 |
| <i>Total revenues from air navigation</i> | <u>16,561,003</u> | <u>15,185,341</u> |
| Revenue from rental service | 121,791 | 136,136 |
| Revenue from other services | 15,456 | 24,579 |
| | <u>16,698,250</u> | <u>15,346,056</u> |
| 3. Investment income | 2011 | 2010 |
| | LVL | LVL |
| Interest income on deposits | 27,584 | 24,172 |
| Interest income from securities | 7,947 | 13,719 |
| | <u>35,531</u> | <u>37,891</u> |
| 4. Other gains and losses | 2011 | 2010 |
| | LVL | LVL |
| Receipt of surcharge and penalties | 108,947 | 23,375 |
| VAT paid back from EU | 8,816 | 2,744 |
| Receipt of overpaid social security contributions from budget | 711 | 1,961 |
| Eurocontrol administrative expenses – correction | - | 4,159 |
| Receipt of bed debt | - | 1,864 |
| Other operating income | 3,752 | 1,641 |
| | <u>122,226</u> | <u>35,744</u> |
| 5. Employee benefits expense | 2011 | 2010 |
| | LVL | LVL |
| Salaries | 5,868,006 | 5,468,520 |
| Social security contributions | 1,452,568 | 1,328,995 |
| Other personnel expenses | 303,517 | 230,950 |
| Accrued unused annual leave | 296,801 | 289,779 |
| Employees' life and health insurance expenses | 118,751 | 98,547 |
| Provisions for performance bonuses of the Board | 6,290 | 2,826 |
| | <u>8,045,933</u> | <u>7,419,617</u> |
| including Board members | | |
| salaries and bonuses | 148,542 | 161,046 |
| social security contributions | 35,784 | 38,796 |
| | <u>184,326</u> | <u>199,842</u> |
| Average number of employees during the reporting year | 340 | 334 |

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

| 6. Depreciation and amortisation | 2011 | 2010 |
|---|------------------|------------------|
| | LVL | LVL |
| Depreciation of technical equipment | 2,696,332 | 2,812,428 |
| Depreciation of other property, plant and equipment | 314,407 | 299,172 |
| Depreciation of buildings | 270,152 | 282,503 |
| Long term leasehold improvements | 249,092 | 254,416 |
| Amortisation of intangible assets | 1,218 | 10,900 |
| | <u>3,531,201</u> | <u>3,659,419</u> |
| 7. Other operating expenses | 2011 | 2010 |
| | LVL | LVL |
| Payments to CAA | 1,186,986 | 1,099,953 |
| Provision for doubtful debts on Latvijas Krajbanka saving a/c | 1,181,891 | - |
| Training expenses | 688,398 | 676,136 |
| Entry Fee EUROCONTROL | 610,453 | - |
| Technical services, repair works and maintenance | 606,814 | 595,312 |
| Business trip expenses | 332,771 | 277,457 |
| Provisions for doubtful debts | 365,846 | 244,616 |
| Insurance | 221,832 | 217,861 |
| Electricity payments | 207,164 | 191,665 |
| Administrative cost adjustment EUROCONTROL | 118,487 | - |
| Communication expenses | 138,667 | 140,734 |
| Legal and other professional services expenses | 28,153 | 113,109 |
| Payments to the Accidents investigation bureau | 130,000 | 106,090 |
| Net losses on foreign exchange | 91,737 | - |
| Transport expenses | 86,630 | 70,760 |
| Rent of premises | 64,458 | 63,474 |
| Expenses not directly related to the operating activities | 47,483 | 58,690 |
| Marketing and representation expenses | 42,313 | 51,102 |
| Rent of land plot | 42,487 | 42,025 |
| Premises maintenance expenses | 35,508 | 34,884 |
| Spare parts, materials | 25,441 | 30,729 |
| Post and stationery expenses | 14,341 | 17,736 |
| Real estate tax on buildings and constructions | 18,111 | 17,041 |
| Real estate tax on land | 12,025 | 11,995 |
| Bank fees | 8,525 | 5,907 |
| Audit fee | 6,649 | 6,649 |
| Other expenses | 166,997 | 119,057 |
| | <u>6,480,167</u> | <u>4,192,982</u> |
| 8. Other gains/(losses), net | 2011 | 2010 |
| | LVL | LVL |
| Net gains on forex and currency exchange rate | 29,111 | 155,996 |
| | <u>29,111</u> | <u>155,996</u> |
| 9. Finance income | 2011 | 2010 |
| | LVL | LVL |
| Interest income on current bank accounts | 12,175 | 17,527 |
| | <u>12,175</u> | <u>17,527</u> |

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

| 10. Finance expenses | 2011 | 2010 |
|---|---------------|----------------|
| | LVL | LVL |
| Interest expenses paid to credit institutions | 77,795 | 113,461 |
| Net losses on foreign exchange related to cash and cash equivalents | 402 | 133 |
| | <u>78,197</u> | <u>113,594</u> |

11. Corporate income tax

| a. Components of corporate income tax | 2011 | 2010 |
|--|------------------|----------------|
| | LVL | LVL |
| Corporate income tax for the year | 137,333 | 93,622 |
| Changes in deferred income tax | (309,638) | (101,764) |
| | <u>(172,305)</u> | <u>(8,142)</u> |

b. Reconciliation of accounting profit to income tax charges

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

| | 2011 | 2010 |
|---|-------------------------|----------------------|
| | LVL | LVL |
| Profit before taxes | (1,238,205) | 207,602 |
| Theoretically calculated tax at 15% tax rate | <u>(185,731)</u> | <u>31,140</u> |

Tax effects on:

| | | |
|--|-------------------------|-----------------------|
| Non-deductible expenses for tax purposes | 13,426 | 126,411 |
| Tax losses for previous years | - | (63,929) |
| Changes in unrecognized deferred tax asset | - | (101,764) |
| Total tax charge | <u>(172,305)</u> | <u>(8,142)</u> |

c. Movement and components of deferred tax

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| | LVL | LVL |
| Deferred tax liabilities (asset) at the beginning of the financial year | 555,440 | 647,788 |
| Deferred tax charged to the income statement | (309,638) | (101,764) |
| Changes in deferred tax recognised in revaluation reserves of available -for-sale financial assets | 815 | 9,416 |
| Deferred tax liabilities (asset) at the end of the financial year | <u>246,617</u> | <u>555,440</u> |

The deferred income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

| | 2011 | 2010 |
|---|-------------------------|------------------------|
| | LVL | LVL |
| Temporary difference on depreciation of fixed and intangible assets | 574,645 | 647,159 |
| Gross deferred tax liabilities | <u>574,645</u> | <u>647,159</u> |
| Temporary difference on accruals for annual leave | (52,815) | (47,851) |
| Temporary difference on provision for doubtful receivables | (275,213) | (43,053) |
| Temporary difference on change of fair value of financial assets | - | (815) |
| Gross deferred tax assets | <u>(328,028)</u> | <u>(91,719)</u> |
| Net deferred tax liabilities (assets) | <u>246,617</u> | <u>555,440</u> |

**SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

11. Corporate income tax (continued)

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

| | 2011 | 2010 |
|---|-------------------------|------------------------|
| | LVL | LVL |
| Deferred tax assets: | | |
| deferred tax asset to be recovered after more than a year | (275,213) | (43,053) |
| deferred tax asset to be recovered within a year | (52,815) | (48,666) |
| | <u>(328,028)</u> | <u>(91,719)</u> |
| Deferred tax liabilities: | | |
| deferred tax liabilities to be recovered after more than a year | - | - |
| deferred tax liabilities to be recovered within a year | 574,645 | 647,159 |
| | <u>574,645</u> | <u>647,159</u> |
| Net deferred tax liabilities (assets) | <u>246,617</u> | <u>555,440</u> |

12. Intangible assets

| LVL | Concessions, patents, licenses | Total |
|-----------------------------------|---|------------------------|
| At 31 December 2009 | <u>105,319</u> | <u>105,319</u> |
| Disposals | (11,445) | (11,445) |
| At 31 December 2010 | <u>93,874</u> | <u>93,874</u> |
| Disposals | (5,201) | (5,201) |
| At 31 December 2011 | <u>88,673</u> | <u>88,673</u> |
| Accumulated depreciation | | |
| At 31 December 2009 | <u>(93,201)</u> | <u>(93,201)</u> |
| Depreciation expense | (10,900) | (10,900) |
| Eliminated on disposals of assets | 11,445 | 11,445 |
| At 31 December 2010 | <u>(92,656)</u> | <u>(92,656)</u> |
| Depreciation expense | (1,218) | (1,218) |
| Eliminated on disposals of assets | 5,201 | 5,201 |
| At 31 December 2011 | <u>(88,673)</u> | <u>(88,673)</u> |
| Carrying amounts | | |
| At 31 December 2009 | <u>12,118</u> | <u>12,118</u> |
| At 31 December 2010 | <u>1,218</u> | <u>1,218</u> |
| At 31 December 2011 | <u>-</u> | <u>-</u> |

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

13. Property, plant and equipment

| LVL | Land and buildings | Leasehold improvements | Equipment and machinery | Other fixed assets | PPE under construction | Advances for PPE | Total |
|---|--------------------|------------------------|-------------------------|--------------------|------------------------|------------------|---------------------|
| Historical cost | | | | | | | |
| At 31 December 2009 | 6,382,214 | 2,008,159 | 31,753,166 | 3,008,416 | 1,265,660 | 64,249 | 44,481,864 |
| Additions | 2,910 | - | 103,735 | 165,463 | 452,948 | 589,695 | 1,314,751 |
| Disposals | (5,957) | (30,988) | (17,103) | (69,126) | - | - | (123,174) |
| Reclassification of prior period mistakes | - | 71,528 | 481,002 | 102,600 | (595,240) | (59,890) | - |
| | (3,256) | - | (1,174,269) | (179,644) | - | - | (1,357,169) |
| At 31 December 2010 | 6,375,911 | 2,048,699 | 31,146,531 | 3,027,709 | 1,123,368 | 594,054 | 44,316,272 |
| Additions | 9,484 | - | 265,308 | 95,445 | 1,078,811 | 789,016 | 2,238,064 |
| Disposals | (1,484) | (43,421) | (316,574) | (118,498) | - | - | (479,977) |
| Reclassified | 51,814 | 76,678 | 1,355,426 | 243,365 | (1,699,490) | (27,793) | - |
| At 31 December 2011 | 6,435,725 | 2,081,956 | 32,450,691 | 3,248,021 | 502,689 | 1,355,277 | 46,074,359 |
| Accumulated depreciation | | | | | | | |
| At 31 December 2009 | (3,554,002) | (395,791) | (18,428,835) | (2,332,823) | - | - | (24,711,451) |
| Expensed on disposals of assets | (282,503) | (254,416) | (2,812,428) | (299,172) | - | - | (3,648,519) |
| Reclassification of prior period mistakes | 5,926 | 17,044 | 16,938 | 68,711 | - | - | 108,619 |
| | 3,256 | - | 1,174,269 | 179,644 | - | - | 1,357,169 |
| At 31 December 2010 | (3,827,323) | (633,163) | (20,050,056) | (2,383,640) | - | - | (26,894,182) |
| Expensed on disposals of assets | (270,152) | (249,092) | (2,696,332) | (314,407) | - | - | (3,529,983) |
| | 766 | 43,421 | 314,269 | 116,545 | - | - | 475,001 |
| At 31 December 2011 | (4,096,709) | (838,834) | (22,432,119) | (2,581,502) | - | - | (29,949,164) |
| Carrying amounts | | | | | | | |
| At 31 December 2009 | 2,828,212 | 1,612,368 | 13,324,331 | 675,593 | 1,265,660 | 64,249 | 19,770,413 |
| At 31 December 2010 | 2,548,588 | 1,415,536 | 11,096,475 | 644,069 | 1,123,368 | 594,054 | 17,422,090 |
| At 31 December 2011 | 2,339,016 | 1,243,122 | 10,018,572 | 666,519 | 502,689 | 1,355,277 | 16,125,195 |

In year 2011 an amount of LVL 5 473 is included in the fixed assets depreciation calculation which is the depreciation of fixed assets that are not used in Company's operating activities (2010: LVL 4 812).

**SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

13. Property, plant and equipment (continued)

Republic of Latvia. The total area of the land is 24.70 ha (2010: 24.14ha). The cadastral value of land amounts to LVL 802 776 (2010: LVL 801 946). During the year 2011 the Company has paid real estate tax on land in the amount of LVL 12 025 (2010: 11 995).

As at December 31, 2011 included in the balance sheet are fully depreciated property, plant and equipment with a cost of LVL 10 110 300 (as at December 31, 2010: LVL 9 871 504).

The Company leases out an insignificant part of its premises under the cancellable operating lease terms. The rental income is included in "Revenue" in the income statement.

Part of the Company's assets are pledged as a collateral on the loan obtained from SEB Banka (see Note 20 for details).

14. Other non-current assets

Investments in subsidiaries

| Name and Address | Participating interest | | Equity | | Profit/(loss) | |
|--|------------------------|------------|------------|------------|---------------|------------|
| | 31/12/2010 | 31/12/2011 | 31/12/2010 | 31/12/2011 | 31/12/2010 | 31/12/2011 |
| | % | % | | | | |
| "LGS Macibu Centrs" Ltd. Int. Airport "Riga", KDP building, Marupe district composes 100% of share capital. Share Capital of "LGS Macibu Centrs" Ltd. composes of 50 000 shares of LVL 1 face value each. | 100 | - | 1,294 | - | (576) | - |

At the end of the year 2010 it was decided on "LGS Macibu Centrs" Ltd. extraordinary general meeting to terminate Company's operating activity and to initiate the liquidation process.

"LGS Macibu Centrs" Ltd. was liquidated on April 20, 2011.

Other investments consist of investments in rental non-current assets, which deduct future rent payments (2011: LVL 10 548, 2010: LVL 12 658).

15. Inventories

| | 2011 | 2010 |
|------------------------------|---------------|---------------|
| | LVL | LVL |
| Raw material and consumables | 23,694 | 36,227 |
| Diesel | 10,115 | 9,965 |
| Working dress | 5,010 | 452 |
| | <u>38,819</u> | <u>46,644</u> |

16. Trade and other receivables

| | 2011 | 2010 |
|-------------------------------|------------------|------------------|
| | LVL | LVL |
| Trade and other receivables | 4,580,921 | 2,575,954 |
| Provisions for doubtful debts | (1,834,755) | (287,018) |
| <i>Trade receivables, net</i> | <u>2,746,166</u> | <u>2,288,936</u> |
| Deferred expenses | 126,214 | 79,825 |
| Prepayments to vendors | 142,931 | 202,018 |
| Overpayment of VAT | 65,832 | 55,934 |
| Deferred VAT | 25,774 | 17,113 |
| Other receivables | 4,463 | 7,326 |
| | <u>3,111,380</u> | <u>2,651,152</u> |

**SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

16. Trade and other receivables (continued)

Provisions for impairment of debtors are accounted under "Other operating expenses" in Income statement.

Provision for doubtful debts are created for 100% on the principal amount.

After the reporting year end, the doubtful debtor RYANAIR partially paid its debt for the services provided in 2010. Doubtful debts have been adjusted for the amount received EUR 201 154 (LVL 141,372) and are reflected as revenue in the year 2012. RYANAIR debt for the services provided in 2011 and 2012 are not covered, so the debt of the air company is recognized as a doubtful debts till the court decision made or settlement concluded.

| | 2011 | 2010 |
|---|------------------|----------------|
| | LVL | LVL |
| Provisions at the beginning of the year | 287,018 | 77,592 |
| Provisions made during the year | 1,547,737 | 244,616 |
| Decrease of provisions from repaid receivables | - | (1,864) |
| Bad debts written off from provisions | - | (33,403) |
| Changes in value from foreign exchange rate fluctuations, net | - | 77 |
| | <u>1,834,755</u> | <u>287,018</u> |

17. Available-for-sale financial assets

| | 2011 | 2010 |
|------------------------------------|-------------|------------------|
| | LVL | LVL |
| Mortgage securities market price | - | 1,065,679 |
| Mortgage securities accrued income | - | 5,518 |
| | <u>-</u> | <u>1,071,197</u> |

From the year 2004 the Company owns mortgage bonds with a nominal value of 2 000 000 USD, which market value as on 31-12-2010 was 1 991 924 USD and accrued income of 10 313 USD. (total USD 2 002 237 or LVL 1 071 197).

Securities are classified as available-for-sale financial assets, the fair value changes of these financial assets were included in "Financial instruments revaluation reserves" within the equity, based on quoted market prices.

At the maturity date, 15 August 2011, securities were reclassified as held to maturity and reevaluated at its nominal value.

Securities cleared, the nominal value of USD 2 000 000 (EUR 976,000) and accrued income received 17.08.2011.

18. Cash and cash equivalents

| | 2011 | 2010 |
|----------------------------------|------------------|------------------|
| | LVL | LVL |
| Cash at bank on current accounts | 1,797,590 | 2,144,723 |
| Cash at bank deposit accounts | 983,926 | 773,084 |
| | <u>2,781,516</u> | <u>2,917,807</u> |

19. Equity

a. Share capital

As at December 31, 2011 the registered and fully paid share capital is LVL 16 000 000, composed of 16 000 000 ordinary shares with a nominal value of LVL 1 each.

b. Reserves

The use and the renewal order of the Company's reserve capital are decided by the Company's shareholders' meeting. After the approval of the annual report, the shareholders' meeting decides on the profit allocation to the reserve capital.

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

c. Dividends (payments for the use of state capital)

Based on the regulations of the Cabinet of Ministers of 15 December 2009 No. 1471 "The order of determining and paying into the state budget the distributable profit share"), the Company should pay out dividends in the amount of 90% of the retained net profit for the reporting year. The payment for the use of the state capital from the retained net profit of 2010 was not paid according to the order of the Cabinet of ministers No.407 of 29 August 2011.

| 20. Borrowings | 2011 | 2010 |
|----------------------------|------------------|------------------|
| | LVL | LVL |
| Loan from SEB Bank: | | |
| non-current part | 773,084 | 1,616,449 |
| current part | 843,365 | 843,365 |
| | <u>1,616,449</u> | <u>2,459,814</u> |

The carrying value of borrowings does not materially differ from their fair value.

| Movement of loans | 2011 | 2010 |
|-------------------------------|------------------|------------------|
| | LVL | LVL |
| At beginning of the year | 2,459,814 | 3,303,179 |
| Repaid borrowings in the year | (843,365) | (843,365) |
| At the end of the year | <u>1,616,449</u> | <u>2,459,814</u> |

000 000. The repayments are set to be in parts with the maturity date of 8 December 2014. Interest rate is set to be 3 month EURIBOR + 3% fixed rate per annum. In December 2009 the loan repayment was started. On 28 January 2010 amendments were signed to the agreement stating that EUR 1 000 000 amount from the total available amount is not issued, therefore credit maximum limit is reduced to EUR 5 000 000. On 26 January 2011, the Company signed an agreement on changes of value added tax rate, annual rate 2.2%.

The commercial pledge contract was concluded with SEB Bank. As per terms of the commercial pledge contract, the Company pledges its pre-determined fixed assets affirmed in the list, and the maximal amount of collateral is set to be in the amount of LVL 5 481 871.

| Loan repayments should be made as follows: | 2011 | 2010 |
|---|------------------|------------------|
| | LVL | LVL |
| Payments falling due within 1 year | 843,365 | 843,365 |
| Payments falling due in 2-5 year time | 773,084 | 1,616,449 |
| | <u>1,616,449</u> | <u>2,459,814</u> |

| 21. Trade and other payables | 2011 | 2010 |
|---|------------------|------------------|
| | LVL | LVL |
| Payables to vendors | 687,335 | 529,290 |
| Social security contributions and other taxes | 378,381 | 439,802 |
| Accrued liabilities | 352,100 | 319,004 |
| Salaries | 348,576 | 311,147 |
| Other payables | 39,064 | 47,881 |
| | <u>1,805,456</u> | <u>1,647,124</u> |

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

22. Transactions with related parties

Republic of Latvia. The Company has transactions with other companies controlled by State as well as with agencies. Most material transactions are with JSC "Air Baltic Corporation", SJSC "Starptautiskā lidosta Rīga", State SIA "Latvijas Vides, ģeoloģijas un meteoroloģijas aģentūra", SJSC "Latvenergo", SIA "Lattelecom", SIA "Latvijas Mobilais Telefons" and others. The transactions are related to the operating activities of both parties and not considered as related party transactions according to the law "On corporate income tax".

23. Financial commitments

a. Capital commitments

As well in connection to the accession into EUROCONTROL, the Company will have additional expenses for technical integration in fields of CRCO and CFMU (full technical integration date is set to be 1 January 2011), payment of membership fee and other related expenses.

For the financing of capital commitments the Company plans to use financial resources that will be generated from operating activities and through a credit line facility with maximum limit of EUR 2 millions, according to the signed credit line agreement with AS DNB bank.

b. Operating lease commitments

The Company leases cars in accordance with revocable operating lease agreements. The Company must inform the lessor one month in advance, when the Company plans to revoke the agreements. Lease payments are included in the Income statement under "Other operating expenses".

24. Risk and capital management

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position.

a. Market risk

I. Foreign exchange risks

fluctuations as to the euro and other currencies fixed to the euro. Foreign currency risks arises from future commercial transactions, recognized assets and liabilities. The main part of purchases, which the Company makes in foreign currency, are made in euro and U.S. dollars. Revenue mainly is formed from euro.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for lats against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

The Company's significant open currency positions:

| | 2011 | 2010 |
|---|------------------|------------------|
| | LVL | LVL |
| Financial assets, EUR | 12,246,340 | 8,386,766 |
| Financial liabilities, EUR | (3,107,201) | (4,078,577) |
| Open position EUR, net | <u>9,139,139</u> | <u>4,308,189</u> |
| Open position EUR calculated in lats, net | <u>6,423,023</u> | <u>3,027,812</u> |
| Financial assets, USD | 97,639 | 2,005,123 |
| Financial liabilities, USD | (240) | (32,295) |
| Open position USD, net | <u>97,399</u> | <u>1,972,828</u> |
| Open position USD calculated in lats, net | <u>52,985</u> | <u>1,055,463</u> |

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

| | | |
|---|--------------|----------|
| Financial assets, GBP | 2,168 | - |
| Financial liabilities, GBP | - | - |
| Open position GBP, net | <u>2,168</u> | <u>-</u> |
| Open position GBP calculated in lats, net | <u>1,821</u> | <u>-</u> |

II. Interest rate risks

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (see Note 20), while the main part of the Company's financial assets interest-free receivables (except for available-for-sale financial assets), therefore the Company is exposed to floating interest rate risk.

| | 2011 | 2010 |
|--|--------------------|--------------------|
| | LVL | LVL |
| Financial assets with variable interest rate, USD calculated in LVL | - | 1,071,197 |
| Financial liabilities with variable interest rate, EUR calculated in LVL | (1,616,449) | (2,459,814) |
| Open position, net, LVL | <u>(1,616,449)</u> | <u>(1,388,617)</u> |

b. Credit risk

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration are primarily trade receivables, other receivables, available-for-sale financial assets and cash and its equivalents. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company constantly monitors debtor balances in order to mitigate non-payment risk. The partners of the Company for the bank transactions and transactions with available-for-sale financial assets are only the local financial institutions with appropriate ranking.

| | 2011 | 2010 |
|--|------------------|------------------|
| | LVL | LVL |
| Maximum exposure to credit risk | | |
| Trade receivables, other receivables (net) | 3,111,380 | 2,651,152 |
| Other long term receivables | 10,548 | 12,658 |
| Available-for-sale financial assets | - | 1,071,197 |
| Cash and cash equivalents | 2,781,516 | 2,917,807 |
| Financial assets subject to credit risk | <u>5,903,444</u> | <u>6,652,814</u> |

| | 2011 | 2010 |
|-------------------------------|------------------|------------------|
| | LVL | LVL |
| Aging of trade receivables | | |
| Debts undue | 2,476,183 | 1,962,588 |
| Debts due till 30 days | 151,721 | 324,727 |
| Debts due from 31 to 90 days | 116,916 | 865 |
| Debts due over 91 days | 1,346 | 756 |
| Trade receivables, net | <u>2,746,166</u> | <u>2,288,936</u> |

Movement of provision for doubtful receivables disclosed in Note 16.

c. Liquidity risk

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit lines provided by banks. At the end of the reporting year total available credit facilities amount is LVL 0. 19 July 2010 opened AS DNB bank credit line with maximum limit of EUR 2 millions. Company's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Company's liabilities are short-term. Management believes that the Company will have sufficient amount of financial resources that will be generated from operating activities and through a credit line facilities.

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

| On 31 December, 2011 | <1 gadu LVL | 1-2 gadi LVL | 2-5 gadi LVL | >5 gadi LVL | LVL |
|--------------------------------------|---------------------------|-------------------------|-------------------------|---------------------------|------------|
| Long-term loans | 773,084 | - | 773,084 | - | - |
| Short-term loans | 843,365 | 843,365 | - | - | - |
| Trade payables and other liabilities | 1,805,932 | 1,805,932 | - | - | - |
| | <u>3,422,381</u> | <u>2,649,297</u> | <u>773,084</u> | <u>-</u> | <u>-</u> |
| On 31 December, 2010 | <1 gadu LVL | 1-2 gadi LVL | 2-5 gadi LVL | >5 gadi LVL | LVL |
| Long-term loans | 1,616,449 | - | 843,365 | 773,084 | - |
| Short-term loans | 843,365 | 843,365 | - | - | - |
| Trade payables and other liabilities | 1,648,040 | 1,648,040 | - | - | - |
| | <u>4,107,854</u> | <u>2,491,405</u> | <u>843,365</u> | <u>773,084</u> | <u>-</u> |

All trade receivables are short - term, with a maturity 1 year or less.

d. Capital management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

Company's management controls the net debt to total capital (gearing ratio). During the reporting year this figure has decreased by 4% (2010 - 1%), that confirms the stability of the Company. The positive trend in 2010 is also the increased proportion of equity to total assets up to 83% (31.12.2010 -81%, 31.12.2009 -77%).

| | 2011 LVL | 2010 LVL |
|---|--------------------------|--------------------------|
| Total borrowings (current and non-current loans from banks) | 1,616,449 | 2,459,814 |
| Less cash and its equivalents | 2,781,516 | 2,917,807 |
| Net debt | <u>4,397,965</u> | <u>5,377,621</u> |
| Equity | 18,398,460 | 19,459,739 |
| Total capital | <u>22,796,425</u> | <u>24,837,360</u> |
| Total assets | 22,067,458 | 24,123,033 |
| Gearing ratio | 24% | 28% |
| Equity ratio on total assets | 83% | 81% |

25. Contingent tax liabilities

The State Revenue Office may after the tax audit impose additional tax charges and penalties within 3 years subsequent to the reported tax year. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

26. Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2011.