

SJSC "LATVIJAS GAISA SATIKSME"

**ANNUAL REPORT FOR THE YEAR 2014
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

(Translation of the Latvian original)

SJSC "LATVIJAS GAISA SATIKSME"
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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	01.01.2014 – 31.12.2014
FINANCIAL STATEMENT USERS CURRENCY	EUR
CERTIFIED AUDITOR	Commandite "S. Vilcanes audits" Licence Nr.88 Certified Auditor of the Latvian Republic Sandra Vilcane Certificate No. 30

SJSC "LATVIJAS GAISA SATIKSME"
BOARD OF THE COMPANY

Name

Position

From June 16, 2012 till the financial statements signing day

Chairman of the Board	Davids Taurins
Member of the Board	Gints Freimanis
Member of the Board	Ilze Aleksandrovica
Member of the Board	Elmars Svede
Member of the Board	Baiba Broka

From January 28, 2014 till August 31, 2014

Chairman of the Board	Davids Taurins
Member of the Board	Gints Freimanis
Member of the Board	Ilze Aleksandrovica
Member of the Board	Elmars Svede

From September 1, 2014 till November 13, 2014

Chairman of the Board	Davids Taurins
Member of the Board	Gints Freimanis
Member of the Board	Ilze Aleksandrovica
Member of the Board	Elmars Svede
Member of the Board	Baiba Broka

From November 14, 2014 till January 7, 2015

Chairman of the Board	Davids Taurins
Member of the Board	Baiba Broka
Member of the Board	Ilze Aleksandrovica
Member of the Board	Elmars Svede

From January 8, 2015 till the financial statements signing day

Chairman of the Board	Davids Taurins
Member of the Board	Ilze Aleksandrovica
Member of the Board	Elmars Svede

SJSC "LATVIJAS GAISA SATIKSME" MANAGEMENT REPORT

Business

The core business activity of SJSC "Latvijas gaisa satiksme" (further referred to as LGS) is provision of air navigation services to all airspace users within the Riga Flight Information Region (FIR).

Management Structure

The Ministry of Transport of the Republic of Latvia is the sole shareholder of LGS. The company is managed by the Board acting in accordance with the legal acts, Articles of Association and decisions of the Shareholder. The Board organises LGS activities according to the EU and national law, international standards, recommendations and documents of the International Civil Aviation Organisation (ICAO).

During the reporting period the Board membership has changed – the Chairman of the Board remains Davids Taurins and two members of the Board remained in their positions through all the 2014. Baiba Broka holds her position as a Member of the Board till January 28 and returns in the same position on September 1. Gints Freimanis fulfils his obligations as a Member of the Board by November 13 of the 2014.

The structure of LGS remained fixed as well, consisting of five departments:

- Air Traffic Management
- Technical Department
- Administrative Department
- Development Department
- Quality Assurance Department

Air traffic and the main financial indicators in 2014

Despite of increase of uncertainty, in financial year 2014 there were 243 346 flights handled which is an increase of 6 840 flights (2,89%) compared to financial year 2013. This is the highest amount of traffic within a calendar year in history of the Company.

By achieving revenue and cost targets, the profit of the Company amounted to 215 068 EUR. Profitability was 0.87%.

Meanwhile the Company continued to decrease unit rate costs for the airspace users in accordance with the National Performance plan. The unit rate in financial year 2014 was 28.44 EUR, while in financial year 2013 it was 29.13 EUR.

Technical modernization as an on-going process

On-going technical modernization is prescribed by the European ATM Masterplan and is implemented through ESSIP as a planning, monitoring and reporting instrument. ESSIP guides LGS technological development and leads to harmonized and continuous equal development of European ANSPs.

Several technical projects were implemented during the reporting period and here are the most significant ones:

Modernization of the automated ATM System (ATRACC) allows implementation of new functions and enhancement of the existing functionality.

Voice Communication and Management system aiming at ensuring of operative access for the air traffic controllers to communication "ground-ground" and "air-ground" channels was launched on 2014. With this LGS will have an extended, modern and sustainable system.

Upgrade of the central part of the Advanced Surface Movement Guidance and Control System (A-SMGCS) started in 2014. The system provides routing, guidance and surveillance for the control of aircraft and vehicles in order to maintain the declared surface movement speed under all weather conditions on the aerodrome along with maintaining the required level of safety as well as connection with the runway lighting system control. It is planned to finish the project by the end of 2015.

Modernization of ANOF (AFTN/NOTAM/OPMET/FPMS) system was finished in 2014 by adding Aeronautical & Met Informer module, making aeronautical and met data available to a greater number of users. The system exchanges vital information for aircraft operations such as distress, urgency, flight safety, meteorological flight regularity and aeronautical administrative messages.

In 2013 a project was launched to replace the ATIS/VOLMET/D-ATIS/D-VOLMET system, procured in 2005 and not being supported by the system's supplier anymore. The system will provide continuous broadcast of a recorded aeronautical information in the terminal area and meteorological information for the aircraft in flight. The new system will be interconnected with other LGS systems providing a wide number of services. It will also be extendible allowing LGS to respond flexibly to the needs of regional airports and LGS regional units whenever necessary. The SAT was held and the system was installed in Riga in 2014 and it is planned to put it into operation by the autumn of 2015.

SJSC "LATVIJAS GAISA SATIKSME" MANAGEMENT REPORT

International cooperation

In 2014 LGS continued to contribute into international cooperation. LGS business development is mainly defined by SES and other international liabilities of the company. Therefore, LGS collaborates with European ANSPs within NEFAB as well as with the SE/DK FAB to develop a unified free routes airspace (NEFRA) for both FABs and to prepare the grounds for further collaboration. LGS has undertaken the leading role of the Steering Group within NEFRA that ensures operational management of the project.

During the reporting period LGS continued to participate in the Borealis Alliance to improve the cooperation among the European ANSPs. FRA project was launched to ensure free routes airspace concept realization within the air spaces controlled by the ANSPs involved in Borealis.

Professional skills and knowledge of LGS specialists are estimated by international aviation institutions. LGS representatives are in leading positions of high level international working groups – LGS Chairman of the Board is elected Chairman of EUROCONTROL ANSB; Head of ICAO ATMGE and a secretary of Aeronautical information management working group are LGS specialists, as well as NEFAB financial control is entrusted to the employee of LGS.

Further development

Further development of the company is defined by SES II. Main emphasis is flights' safety and raising of quality and efficiency of the services provided by LGS.

Signed:

Marupe region, April 30, 2015

Dauids Taurins, Chairman of the Board

Ilze Aleksandrovica, Member of the Board

Elmars Svede, Member of the Board



SJSC "LATVIJAS GAISA SATIKSME"
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 8 to page 26 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

Ilze Aleksandrova, Board member

Elmars Svede, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

	2014	2013	Notes
	EUR	EUR	
Net sales	24,631,294	24,221,413	2
Investment income	3,009	622	3
Other gains and losses	83,478	76,317	4
Employee benefits expense	(13,481,941)	(13,253,189)	5
Depreciation and amortization expenses	(5,012,385)	(4,667,553)	6
Other expenses	(5,952,293)	(5,852,750)	7
Other losses	(1,338)	(69,768)	8
Operating profit	269,824	455,092	
Finance income	8,638	5,138	9
Finance income	-	(15,677)	10
Profit before tax	278,462	444,553	
Income tax expense	(63,394)	(129,309)	11
Profit for the year	215,068	315,244	
Total comprehensive income for the year	215,068	315,244	
Number of shares	22,765,948	22,765,948	
Earnings per share	0.01	0.01	

The notes on pages 13 to 26 forms an integral part to this financial statements.

Davids Taurins, Chairman of the Board

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2014 AND 31 DECEMBER 2013

	December 31, 2014	December 31, 2013	Notes
ASSETS	EUR	EUR	
Non-current assets:			
Intangible assets			
Concessions, patents, licenses	-	-	12
Total Intangible assets:	-	-	
 Fixed assets			
Property, plant and equipment	21,598,266	21,448,712	13
Other investments	6,004	9,005	14
Total Fixed assets:	21,604,270	21,457,717	
Total non-current assets:	21,604,270	21,457,717	
 Current assets			
Inventories	85,473	67,902	15
Trade and other receivables	4,100,716	4,964,682	16
Cash and cash equivalents	4,379,249	3,927,865	17
Total current assets:	8,565,438	8,960,449	
Total assets	30,169,708	30,418,166	

The notes on pages 13 to 26 forms an integral part to this financial statements.

Davids Taurins, Chairman of the Board

Elmars Svede, Board member

Ilze Aleksandrovica, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2014 AND 31 DECEMBER 2013

	December 31, 2014	December 31, 2013	Notes
	EUR	EUR	
EQUITY AND LIABILITIES			
Equity			
Share capital	22,765,948	22,765,949	18
Share premium			
Revaluation reserve			
Other reserves	3,219,255	3,219,254	
Retained earnings	1,629,776	1,414,708	
Total equity:	27,614,979	27,399,911	
Liabilities:			
Non-current liabilities			
Deferred income tax liabilities	386,390	390,530	11
Other non-current liabilities	85,148	-	20
Total non-current liabilities:	471,538	390,530	
Current liabilities			
Borrowings	-	200,000	19
Trade and other payables	2,071,751	2,423,390	21
Deferred revenue	11,440	4,335	
Total current liabilities:	2,083,191	2,627,725	
Total liabilities:	2,554,729	3,018,255	
Total equity and liabilities:	30,169,708	30,418,166	

The notes on pages 13 to 26 forms an integral part to this financial statements.

Davids Taurins, Chairman of the Board

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

	Share Capital	Other Reserves	Retained earnings	Total
At 31 December 2012	22,765,949	3,219,254	1,099,464	27,084,667
Profit for the year	-	-	315,244	315,244
	-	-	-	-
At 31 December 2013	22,765,949	3,219,254	1,414,708	27,399,911
Profit for the year	-	-	215,068	215,068
Difference of denomination	(1)	1		
At 31 December 2014	22,765,948	3,219,255	1,629,776	27,614,979

Dauids Taurins, Chairman of the Board

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"

CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

	2014	2013	NOTES
	EUR	EUR	
Cash flow from operating activities			
From customers and subscribers to the money received	25,035,724	24,122,845	
Suppliers and employees paid in cash	(13,871,265)	(13,547,770)	
Taxes paid and social security charges	(4,665,410)	(5,289,093)	
Corporate income tax expenses	(73,479)	(379,967)	
Interest paid	(177)	(16,461)	
Net cash flow from operating activities	6,425,393	4,889,554	
Cash flow from investing activities			
Fixed assets and intangible assets	(5,788,285)	(4,781,730)	
Proceeds from sale of fixed assets	2,662	1,046	
Interest received	11,590	4,501	
Net cash used in investing activities	(5,774,033)	(4,776,184)	
Cash flow from financing activities			
Long-term debt repayments	(200,000)	(900,000)	19
Net cash outflow from financing activities	(200,000)	(900,000)	
Foreign exchange rate fluctuations	24	(74)	9, 10
Net cash and cash equivalents increase (decrease)	451,384	(786,704)	
Cash and cash equivalents at the beginning	3,927,865	4,714,569	
Cash and cash equivalents at end of year	4,379,249	3,927,865	

The notes on pages 13 to 26 forms an integral part to this financial statements.

Daivids Taurins, Chairman of the Board

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

30 April, 2015

SJSC "LATVIJAS GAISA SATIKSME"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

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, LV-1053, Latvia. The Company's primary activities are organisation of airspace use and air traffic of the Republic of Latvia.

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:

Amendment to IAS 1: Presentation of Items of Other Comprehensive Income. This Amendment requires profit or loss and OCI to be presented together as a single statement or a separate 'statement of profit or loss' and a 'statement of other comprehensive income'.

Amendments to IFRS 7: Financial Instruments: Disclosures. This Amendment requires information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

IFRS 13: Fair Value Measurement. This standard replaced the guidance on fair value measurement in the existing IFRS with a single standard.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 - unobservable inputs for the asset or liability.

b) Standards, amendments and interpretations effective from 1 January 2013, but not relevant for operations of the Company:

standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28), Amendment to IFRS 1 – Government Loans and IAS 19;

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

2. Foreign currencies

a) Functional and presentation currency

The accompanying financial statements are presented in the currency of Latvia, the euro ("EUR")

b) Transactions and balances

All transactions in foreign currency are converted into the euro based on the foreign currency exchange rates of the European Central Bank on transaction date. Foreign exchange gains and losses are recognized in the statement of profit and loss in the period in which they arise.

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

	December 31, 2014	December 31, 2013
	EUR	EUR
USD	1.21410	1.36467
GBP	0.77890	0.83370

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.28 dated January 3, 2012 Procedures for the Determination and Collection of the Charges for the Air Navigation Services Provided by the State Stock Company "Latvian Air Traffic". 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 revalued 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.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

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.

SJSC "LATVIJAS GAISA SATIKSME"
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

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.

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 recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 or 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 low-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.

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7. Other operating expenses	2014	2013
	EUR	EUR
Technical services, repair works and maintenance	1,193,193	966,177
Entry Fee EUROCONTROL	1,033,729	1,074,179
Payments to CAA	996,090	993,091
Business trip expenses	443,150	523,489
Electricity payments	344,428	341,774
Training expenses	292,109	316,911
Insurance	309,153	299,098
Communication expenses	219,224	233,071
Payments to the Accidents investigation bureau	172,879	155,719
Transport expenses	119,359	107,849
Rent of premises	96,049	95,960
Marketing and representation expenses	88,469	67,899
Expenses not directly related to the operating activities	86,344	72,547
Rent of land plot	74,555	86,646
Premises maintenance expenses	67,353	76,146
Provisions for doubtful debts	50,424	31,103
Legal and other professional services expenses	28,761	67,031
Spare parts, materials	27,455	28,672
Real estate tax on buildings and constructions	26,213	26,188
Real estate tax on land	13,185	13,196
Post and stationery expenses	12,502	14,888
Audit fee	5,500	5,499
Bank fees	4,146	6,195
Other expenses	248,023	249,422
	<u>5,952,293</u>	<u>5,852,750</u>
8. Other gains/(losses), net	2014	2013
	EUR	EUR
Net loss on forex and currency exchange rate	(1,338)	(69,768)
	<u>(1,338)</u>	<u>(69,768)</u>
9. Finance income	2014	2013
	EUR	EUR
Interest income on current bank accounts	8,614	5,138
Net profit on foreign exchange related to cash and cash equivalents	24	-
	<u>8,638</u>	<u>5,138</u>
Finance expenses	2014	2013
	EUR	EUR
Interest expenses paid to credit institutions	-	15,603
Net losses on foreign exchange related to cash and cash equivalents	-	74
	<u>-</u>	<u>15,677</u>
11. Corporate income tax		
a. Components of corporate income tax	2014	2013
	EUR	EUR
Corporate income tax for the year	(67,534)	-
Changes in deferred income tax	4,140	129,309
	<u>(63,394)</u>	<u>129,309</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:		
	2014	2013
	EUR	EUR
Profit before taxes	278,462	444,553
Theoretically calculated tax at 15% tax rate	<u>41,769</u>	<u>66,683</u>

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Tax effect on:

Tax losses carried forward for tax purposes	(16,336)	16,336
Non-deductible expenses for tax purposes	32,136	17,360
Tax discount (85% of donation amounts)	(850)	-
Changes in unrecognized deferred tax asset	6,675	28,930
Total tax charge	63,394	129,309

c. Movement and components of deferred tax

	2014	2013
	EUR	EUR
Deferred tax liabilities (asset) at the beginning of the financial year	390,530	261,221
Deferred tax charged to the income statement	(4,140)	129,309
Deferred tax liabilities (asset) at the end of the financial year	386,390	390,530

11. Corporate income tax (continued)

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):

	2014	2013
	EUR	EUR
Temporary difference on depreciation of fixed and intangible assets	757,424	757,913
Gross deferred tax liabilities	757,424	757,913
Temporary difference on accruals for annual leave	(87,993)	(85,263)
Temporary difference on provision for doubtful receivables	(283,041)	(282,120)
Gross deferred tax assets	(371,034)	(367,383)
Net deferred tax liabilities (assets)	386,390	390,530

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:

	2014	2013
	EUR	EUR
Deferred tax assets:		
deferred tax asset to be recovered after more than a year	(283,041)	(282,120)
deferred tax asset to be recovered within a year	(87,993)	(85,263)
	(371,034)	(367,383)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	757,424	757,913
	757,424	757,913
Net deferred tax liabilities (assets)	386,390	390,530

12. Intangible assets

EUR	Concessions, patents, licenses	Total
At 31 December 2012	124,308	124,308
Disposals	(67,096)	(67,096)
At 31 December 2013	57,212	57,212
Disposals	(7,947)	(7,947)
At 31 December 2014	49,265	49,265
Accumulated depreciation		
At 31 December 2012	(124,308)	(124,308)
Eliminated on disposals of assets	67,096	67,096
At 31 December 2013	(57,212)	(57,212)
Eliminated on disposals of assets	7,947	7,947
At 31 December 2014	(49,265)	(49,265)
Carrying amounts		
At 31 December 2012	-	-
At 31 December 2013	-	-
At 31 December 2014	-	-

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13. Property, plant and equipment

EUR	Land and buildings	Leasehold improvements	Equipment and machinery	Other fixed assets	PPE under construction	Advances for PPE	Total
Historical cost							
At 31 December							
2012	9,271,281	2,967,007	42,259,214	4,771,574	3,939,400	1,424,037	64,632,513
Additions	18,840	-	310,820	653,613	3,048,281	413,817	4,445,371
Disposals	-	(234,388)	(8,944,818)	(401,183)	-	-	(9,580,389)
Reclassified	22,406	-	4,689,311	660,425	(3,948,105)	(1,424,037)	-
At 31 December							
2013	9,312,527	2,732,619	38,314,527	5,684,429	3,039,576	413,817	59,497,495
Additions	21,426	-	403,023	501,661	3,327,216	914,554	5,167,880
Disposals	(29,809)	(37,090)	(115,360)	(128,236)	(2,231)	-	(312,726)
Reclassified	42,970	55,310	3,036,402	304,159	(3,025,024)	(413,817)	-
At 31 December							
2014	9,347,114	2,750,839	41,638,592	6,362,013	3,339,537	914,554	64,352,649
Accumulated depreciation							
At 31 December							
2012	(6,195,418)	(1,544,373)	(31,367,490)	(3,847,844)	-	-	(42,955,125)
Depreciation expense	(364,245)	(362,421)	(3,495,201)	(445,686)	-	-	(4,667,553)
Eliminated on disposals of assets	-	234,388	8,939,561	399,947	-	-	9,573,896
At 31 December							
2013	(6,559,663)	(1,672,406)	(25,923,130)	(3,893,583)	-	-	(38,048,782)
Depreciation expense	(360,320)	(338,111)	(3,616,984)	(696,970)	-	-	(5,012,385)
Eliminated on disposals of assets	29,476	37,090	113,715	126,504	-	-	306,785
At 31 December							
2014	(6,890,507)	(1,973,427)	(29,426,399)	(4,464,049)	-	-	(42,754,382)
Carrying amounts							
At 31 December							
2012	3,075,863	1,422,634	10,891,724	923,730	3,939,400	1,424,037	21,677,388
At 31 December							
2013	2,752,864	1,060,213	12,391,397	1,790,846	3,039,576	413,817	21,448,712
At 31 December							
2014	2,456,607	777,412	12,212,193	1,897,964	3,339,537	914,554	21,598,266

In year 2014 an amount of EUR 16 106 is included in the fixed assets depreciation calculation which is the depreciation of fixed assets that are not used in Company's operating activities (2013: EUR 9 345).

The Company has in its constant use the land, whose registered owner in Land Register is The Ministry of Transport of the Republic of Latvia.

The total area of the land is 24.21 ha (2013: 24.21 ha). The cadastral value of land amounts to EUR 878 986 (2013: EUR 879 652). During the year 2014 the Company has paid real estate tax on land in the amount of EUR 13 185 (2013: EUR 13 196).

As at December 31, 2014 included in the balance sheet are fully depreciated property, plant and equipment with a cost of EUR 16 312 107 (as at December 31, 2013: EUR 15 283 258).

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.

14. Other investments

	2014 EUR	2013 EUR
Investments in rental non-current assets	6,004	9,005
	<u>6,004</u>	<u>9,005</u>

Other investments consist of investments in rental non-current assets, which deduct future rent payments.

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15. Inventories	2014	2013
	EUR	EUR
Raw material and consumables	38,742	32,717
Working dress	31,394	19,442
Diesel	15,337	15,743
	<u>85,473</u>	<u>67,902</u>
16. Trade and other receivables	2014	2013
	EUR	EUR
Trade and other receivables	5,663,634	5,869,048
Provisions for doubtful debts	(1,886,939)	(1,880,798)
<i>Trade receivables, net</i>	<u>3,776,695</u>	<u>3,988,250</u>
Corporate income tax	-	546,164
Deferred expenses	195,573	223,179
Overpayment of VAT	88,729	135,369
Deferred VAT	31,666	64,150
Prepayments to vendors	1,087	901
Other receivables	6,966	6,669
	<u>4,100,716</u>	<u>4,964,682</u>

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.

	2014	2013
	EUR	EUR
Provisions at the beginning of the year	1,880,798	1,872,512
Provisions made during the year	50,424	31,103
Decrease of provisions from repaid receivables	(2,404)	(22,817)
Bad debts written off from provisions	(41,879)	-
	<u>1,886,939</u>	<u>1,880,798</u>

17. Cash and cash equivalents	2014	2013
	EUR	EUR
Cash at bank on current accounts	4,379,249	3,427,865
Cash at bank deposit accounts	-	500,000
	<u>4,379,249</u>	<u>3,927,865</u>

18. Equity

Share capital

As of 31 December 2014 the registered and fully paid share capital is 22 765 948 EUR, composed of 22 765 948 ordinary shares with a nominal value of 1 EUR each.

The share capital is denominated from the Latvian lats to euro in March 2014. The difference from denomination 0.97 EUR is included in other reserves.

The sole owner is the Republic of Latvia. State's shareholder is the Ministry of Transport of the Republic of Latvia

b. 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 for the use of the state capital", the Company should pay dividends in the amount of 90% of the retained net profit for the financial year. Regulations provide the possibility to determine a different percentage of profits payable out as dividends.

Dividends from the profit of 2013 in accordance with the Latvian Cabinet Order No. 314 dated June 20, 2014, were not paid and profit was redirected to ongoing and planned investments projects. Decision regarding the 2014 profit distribution will be decided by the meeting of shareholders.

19. Borrowings	2014	2013
	EUR	EUR
Loan from SEB Bank:		
current part	-	200,000
	<u>-</u>	<u>200,000</u>

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Movement of loans	2014 EUR	2013 EUR
At beginning of the year	200,000	1,099,999
Repaid borrowings in the year	(200,000)	(899,999)
At the end of the year	-	200,000

The last payment in accordance with the credit agreement with AS "SEB banka" from December 2008 for 5 million EUR, was made in January 2014 and the liabilities are settled.

Loan repayments should be made as follows:	2014 EUR	2013 EUR
Payments falling due within 1 year	-	200,000
Payments falling due in 2-5 year time	-	-
	-	200,000

20. Deferred revenue	2014 EUR	2013 EUR
Received pre-payment of the financial support	85,148	-
	85,148	-

According to the financial support decision of the European Commission on Community concerning the granting of Union financial aid for projects of common interests "ANSPs Interim Deployment Programme Implementation"- 2012-EU-40004-P-in the field of the trans-European transport network (TEN-T) (CPDLC project), received payment is 111 319 EUR, of which 16 171 EUR recognized in the current year revenues and 10 000 EUR recognized as short term liabilities.

21. Trade and other payables	2014 EUR	2013 EUR
Payables to vendors	273,765	635,913
Social security contributions and other taxes	624,707	634,556
Accrued liabilities	586,617	568,419
Salaries	581,124	560,003
Other payables	5,538	24,499
	2,071,751	2,423,390

22. Transactions with related parties

The Company is a State Joint Stock Company, the sole holder of which shares is the Ministry of Transportation of the 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

In accordance with the agreements concluded, as on 31.12.2014 the Company has undertaken to fulfill future liabilities for acquire of property, plant and equipment in amount of EUR 2 948 700 (2013: EUR 2 853 299).

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.

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.

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a. Market risk

I. Foreign exchange risks

The Company operates internationally and can be exposed to foreign currency risk arising from the currency fluctuations as to the euro. Foreign currency risks arise from future commercial transactions, recognized assets and liabilities. The main part of Company's purchases are made in euro, however immaterial part are made U.S. dollars and Norwegian kroner. Revenue is received in euro. Company's management regularly monitors currency fluctuations risks. Based on the evaluation of concluded and planned contracts, the risk is assessed as negligible.

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, while the main part of the Company's financial assets interest-free receivables, therefore the Company is exposed to floating interest rate risk.

	2014	2013
	EUR	EUR
Financial liabilities with variable interest rate, EUR .	-	(200,000)
Open position, net, EUR	-	(200,000)

b. Credit risk

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration are primarily trade receivables, other receivables 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.

	2014	2013
	EUR	EUR
Maximum exposure to credit risk		
Trade receivables, other receivables (net)	4,100,716	4,964,682
Other long term receivables	6,004	9,005
Cash and cash equivalents	4,379,249	3,927,865
Financial assets subject to credit risk	8,485,969	8,901,552
Aging of trade receivables		
	2014	2013
	EUR	EUR
Debts undue	3,772,489	3,983,711
Debts due till 30 days	3,753	3,388
Debts due from 31 to 90 days	426	1,059
Debts due over 91 days	27	92
Trade receivables, net	3,776,695	3,988,250

Movement of provision for doubtful receivables disclosed in Note 16.

. Liquidity risk

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

	Total	<1 Year
On 31 December, 2014	EUR	EUR
Long-term loans	85,148	85,148
Trade payables and other liabilities	2,083,191	2,083,191
	2,168,339	2,168,339
On 31 December, 2013	Total	<1 Year
	EUR	EUR
Long-term loans	-	-
Short-term loans	200,000	200,000
Trade payables and other liabilities	2,427,725	2,427,725
	2,627,725	2,627,725

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 policies or processes.

Company's management controls the net debt to total capital (gearing ratio).

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 2014.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of SJSC Latvijas Gaisa Satiksme

Report on the Financial Statements

We have audited the accompanying financial statements of SJSC Latvijas Gaisa Satiksme set out on pages 8 to 26 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2014 and the comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of SJSC Latvijas Gaisa Satiksme as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards adopted by the European Union.

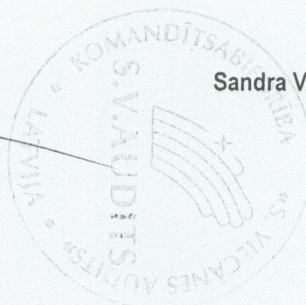
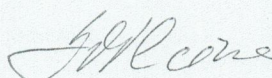
Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on pages 5 to 7 of the accompanying annual report and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2014.

Commandite "S.Vilcānes audits"
Audit company licence No. 88

Certified auditor of Latvia
Certificate Nr. 30

Riga, Latvia
April 30, 2015.



Sandra Vilcane