SJSC „LATVIJAS GAISA SATIKSME"

ANNUAL REPORT FOR YEAR ENDED 31 DECEMBER 2017

According to International Financial Reporting Standards as adopted by the EU

Marupe, 01 March 2018

This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of financial statements takes precedence over this translation.

CONTENT

MANAGEMENT REPORT

Business Overview

The core business activity of SJSC „Latvijas gaisa satiksme" (hereinafter 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).

The structure of LGS remained fixed without major changes during the year, consisting of five departments:

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

Key Finance Results for the Company

The core business activity of LGS is provision of air navigation services to all airspace users within the Riga Flight Information Region (FIR). In 2017, a total of 268 967 flights were served. That was 21 968 flights more than in 2016.

Income from air navigation services in 2017 was EUR 27 415 thousand, which was 13.1% more than in 2016.

Exceeding the planned amount of revenue, as well as controlling the amount of expenses, tha Company's annual profit amounted to EUR 3 031 582 which is eight times more than in 2016. The main reason for the increase in net profit lies in the fact that majority of costs are fixed – budgeted expenses, that do not change as service grows or decreases.

Important Activities and Projects

In 2017, a call for sketch design competition for the new air traffic control tower in Riga airport was launched, and implementation of the following investment projects continued: implementation of high-precision navigation (PBN) in Riga FIR; deployment of the Controller Pilot Data Link Communications (CPDLC) functionality, enabling data link service for data transmission and communication between air traffic controllers and aircraft pilots; in cooperation with Riga Airport, the implementation of the A-CDM Riga project will continue. The modernization of the Multilateral Surveillance System in Riga Airport during 2016-2017 was an important contribution to the quality of services, increasing the number of system sensors and modernizing central processing and transmitting stations.

Within the framework of institutional development activities, LGS continued membership in international organizations as per obligations by the Republic of Latvia or LGS, including participation in NEFAB and Borealis Alliance. In addition, the Borealis Alliance continued implementation of the Free Route Airspace – Part II in 2017.

Future development
In 2017 LGS introduced the Business Process Management System. The work was commenced on the design and data input into the system for the structural presentation of the company processes. The aim is to overall improve the quality management system and present a detailed information on LGS functional systems and processes, and on the fulfilment of the goals by individual units.

The indicators and objectives characterizing LGS performance are currently set out in the Performance Plan for the 2nd reference period 2015-2019. The Performance Plan for the 3rd Reference period shall enter into force on 1 January 2020, thus its development will be launched in due time.

In 2018, LGS will continue to improve the communication, navigation, surveillance and meteorological services, complying with the regulatory requirements and maintaining a high-level service. In order to promote the availability of up-to-date aviation meteorological information, LGS plans to introduce a modern wind measurement system in the 3D environment in 2018 that will provide wind direction and velocity measurements at altitudes in landing and take-off trajectories, as well as automatic alerts for winding offs at low altitudes, facilitating landing procedures at the Riga airfield.

By the end of 2018, it is planned to complete several procurement procedures related to the launch of the construction of the new air traffic control tower. After the results of the sketch design competition, documentation will be prepared and a tower technical design project will be launched.

Auditors
The audit of financial statements set out on pages 9 to 32 was carried out by the audit company "*S. Vilcānes audits*" in accordance with the legislation of the Republic of Latvia and International Standards on Auditing.

Events after the Balance Sheet Date
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 2017.

Dāvids Tauriņš
(Chairman of the Board)

01 March 2018

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

MANAGEMENT BOARD RESPONSIBILITY FOR THE ANNUAL REPORT

The Management of JSC "Latvijas gaisa satiksme" (hereinafter referred to as – the "Company" or LGS) is responsible for preparing the Financial Statements of LGS.

The financial statements must fairly present the Company's financial position at the end of the reporting year, its financial performance and cash flows for the reporting year. The Management Board confirms that appropriate accounting principles have been applied consistently in the preparation of the 2017 financial statements set out on pages 9 to 32, and that estimates and forecasts have been made prudently.

The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed, and that the financial statements have been prepared on a going concern basis.

The Management Board is responsible for maintaining proper accounting records and taking measures to safeguard the Company's assets, preventing and identifying any fraud or other irregularities.

Dāvids Tauriņš
(Chairman of the Board)

01 March 2018

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

SUPERVISORY COUNCIL

Dins Merirands Chairman of Council of LGS since 21 November 2016.

He has obtained a Master's Degree of Social Sciences in Law and a Master's Degree of Humanities in Baltic Sea Region Studies of the University of Latvia.

Currently, he is Deputy State Secretary on sectoral issues at the Ministry of Transport of Latvia, as well as has been Member of the Board at "Eiropas dzelzceļa līnijas" Ltd.

Previous experience: Deputy Director, Director of the Energy Department at the Ministry of Economics, Head of the Energy Market Division of the Energy Department at the Ministry of Economics, Head of the Electricity and Gas Market Division of the Energy Department at the Ministry of Economics.

Zinta Zālīte – Rukmane Member of Council of LGS since 21 November 2016.

She has obtained a lawyer's qualification in law at the Faculty of Law at the University of Latvia, furthered her education through the professional development education programme in financial management at "Zygon Baltic Consulting" and the business management programme at "Kvalitātes vadība", Ltd.

Currently, she is Director of the Human Resources Department at State JSC "Latvijas Pasts".

Previous experience: Attorney-at-Law, Advisor to the Council of State JSC "Latvijas Pasts", Head of the Administrative Department at State JSC "Latvijas Pasts", Deputy State Secretary at the Ministry of Transport, Chairperson of the Board at State JSC "Latvijas gaisa satiksme", certified insolvency administrator, Director of the Financial Department at State Agency "Maksātnespējas administrācija", Director of "Audita un konsultāciju sabiedrība "SENSO"" Ltd.

Edmunds Beļskis Member of Council of LGS since 21 November 2016.

Has has obtained a Master's Degree in Social Sciences from the University of Latvia, as well as a Bachelor's Degree in Automatization of Technological Processes and Manufacturing and a Master's of Engineering Degree in Mechanical Engineering Technologies from the Riga Technical University.

Currently, he is Deputy State Secretary in charge of information and communication technologies at the Ministry for Environmental Protection and Regional Development of Latvia, as well as Member of the Council at JSC "VRC Zasulauks".

Previous experience: Director of the Communications Department at the Ministry of Transport, Authorised Representative of the capital shareholder in state joint stock company "Latvijas Pasts", Member of the Board at "LGS Mācību centrs" Ltd., Director of the Entrepreneurship and Industry Department at the Ministry of Economics, Director of State Agency "Latvijas Nacionālais akreditācijas birojs", Quality System Auditor at "Det Norske Veritas" Ltd., Director of "Personāla sertifikācijas institūts" Ltd.

MANAGEMENT BOARD

Dāvids Tauriņš Chairman of the Board of LGS since 26 March 2010.

He has obtained Bachelor's Degree in Law at the University of Latvia and the State University of Tbilisi. He received his Doctoral Degree in Law at the Institute of State and Law of the Academy of Sciences in Moscow.

Mr.Taurins is also a Chairman of the Member of the North European Functional Airspace Block (NEFAB) as well as Board Member of Borealis Alliance. From 2014 to 2015 he was elected as Chairman of the EUROCONTROL Air Navigation Services Board (ANSB) which prepares decisions on behalf of air navigation stakeholders and aligns the business planning and budgetary processes at different levels in the Agency.

Before becoming LGS Chairman, Mr Taurins held a number of senior positions at Ministry of Finance: Deputy State Secretary on Tax Policy issues, Interim State Secretary and representative of the Ministry of Finance in Liepaja Special Economic Zone. Mr.Taurins has a senior level management experience at different enterprises and banking sector. He was a Head of Secretariat and Legal Department at International Road Transport Organisation (IRTO) in Geneva.

Elmārs Švēde Board member of LGS since 26 May 2010.

Mr.Svede is in charge of the Technical Department and investments policy of the LGS.

He has obtained Master's Degree in Math at the University of Latvia.

For 10 years he held a position of a Deputy Director of the State Statistics Computing Centre. Mr.Svede has been member of council of JSC „Latvijas Dzelzceļš" and board member of SJSC „Valsts nekustamie īpašumi". Currently he is member of council of SJSC „Latvijas Valsts meži".

Ilze Aleksandroviča Board member of LGS since 16 June 2012.

Ms.Aleksandrovica is responsible for the Development Department in charge for development plans and training process maintenance, international co-operation coordination and development projects monitoring.

She obtained Master's Degree in International and EU Law at Riga Graduate School of Law, Bachelor's Degree Summa Cum Laude in International Business Administration at the Concordia International University in Estonia, specialized in International Finance. She has also studied Social Sciences, International Relations at European Studies faculty of Rīga Stradiņš University. She has got a grant for studies at Wycombe Abbey School in Great Britain and graduated from Riga School of Commerce.

Ms.Aleksandrovica is a Deputy State Secretary of the Ministry of Transport of Latvia. She has been member of council of the National airline "Air Baltic Corporation" and a board member of SJSC „Latvijas Pasts". For almost eight years she worked at the Ministry of Finance of Latvia in the EU Funds planning department on project monitoring issues, management systems and EU Funds planning.

MANAGEMENT BOARD

Iveta Virse Board member of LGS since 24 March 2016.

Responsible for the Administrative Department.

She has Bachelor's Degree of Law from the University of Latvia. Mrs Virse has attended different training courses, such as "The Single European Sky," "EU Aviation Law" organized by IATA etc.

She has been a Deputy Head of the Administrative Department and Head of the Legal Unit in LGS. Mrs Virse has work experience as a Deputy State secretary, Ministry of Welfare of the Republic of Latvia, deputy director and director of the Legal Department of the Employment State Agency and other positions in different public authorities.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 EUR	2016 EUR
Net turnover	3	27 742 559	24 526 860
Other operating income	4	217 255	249 879
Total revenue		**27 959 814**	**24 776 739**
Employee costs	5	(14 734 286)	(13 969 967)
Depreciation expenses	6	(4 126 774)	(4 794 144)
Other operating expenses	7	(5 905 063)	(5 607 562)
Other income/(losses), net		3 437	27 841
Profit from operating activities		**3 197 128**	**432 907**
Finance income		892	1 214
Finance cost	8	(2 931)	(4 455)
Profit before tax		**3 195 089**	**429 666**
Corporate income tax	9	(387 972)	(93 928)
Income from changes in deferred tax liability	9	224 465	-
Profit for the year		**3 031 582**	**335 738**
Other comprehensive income for the year		-	-
Total comprehensive income		**3 031 582**	**335 738**
Earnings per share	10	0.133	0.015

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš
(Chairman of the Board) /signature/

01 March 2018

Ilze Aleksandroviča
(Board member) /signature/

Elmārs Švēde
(Board member) /signature/

Iveta Virse
(Board member) /signature/

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2017. EUR	31.12.2016. EUR
ASSETS			
Long-term investments			
Intangible assets	11	63 694	-
Property, plant and equipment	12	21 388 477	21 604 432
Advances for fixed assets		1 430 649	216 036
Total long-term investments		**22 882 820**	**21 820 468**
Current assets			
Inventories		77 005	104 776
Trade receivables	13	4 409 942	3 838 188
Corporate income tax receivable	19	-	366 336
Prepaid expenses, prepayments and other debtors	14	561 701	342 417
Cash and cash equivalents	15	6 865 685	4 815 180
Total current assets		**11 914 333**	**9 466 897**
TOTAL ASSETS		**34 797 153**	**31 287 365**

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš
(Chairman of the Board) /signature/

01 March 2018

Ilze Aleksandroviča
(Board member) /signature/

Elmārs Švēde
(Board member) /signature/

Iveta Virse
(Board member) /signature/

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2017. EUR	31.12.2016. EUR
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	10	22 765 948	22 765 948
Reserves		3 219 255	3 219 255
Retained earnings:			
a) Retained earnings accumulated		2 436 391	1 629 776
b) Profit for the reporting period		3 031 582	335 738
Total shareholders equity		**31 453 176**	**28 421 594**
Long-term liabilities			
Deferred income	16	435 632	92 164
Deferred tax liability	9	-	224 465
Total long-term liabilities		**435 632**	**316 629**
Current liabilities			
Corporate income tax liabilities	19	232 712	-
Prepayments received		742	1 045
Trade and Other payables	17	2 553 373	2 431 048
Deferred income	16	121 518	117 049
Total current liabilities		**2 908 345**	**2 549 142**
Total liabilities		**3 343 977**	**2 865 771**
TOTAL EQUITY AND LIABILITIES		**34 797 153**	**31 287 365**

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš (Chairman of the Board) /signature/ 01 March 2018

Ilze Aleksandroviča (Board member) /signature/

Elmārs Švēde (Board member) /signature/

Iveta Virse (Board member) /signature/

STATEMENT OF CASH FLOW

	Notes	2017 EUR	2016 EUR
Cash flow from operating activities			
Profit before tax		3 195 089	429 666
Adjustments:			
Depreciation	6	4 126 774	4 794 144
Proceeds from sale of property, plant and equipment		2 907	7 104
Interest income		(1 284)	(3 333)
Profit from operating activities before changes in working capital		**7 323 486**	**5 227 581**
Changes in accounts receivable		(424 269)	(206 161)
Changes in inventories		27 771	(43 347)
Changes in accounts payable		500 745	312 281
Gross operating cash flow		**7 427 733**	**5 290 354**
Corporate income tax paid		(155 260)	(675 602)
Net cash flow from operating activities		**7 272 473**	**4 614 752**
Cash flow from investing activities			
Purchase of non-current assets		(5 223 403)	(6 529 800)
Proceeds from sale of fixed and intangible assets		584	-
Interest received		851	4 339
Net cash flow from investing activities		**(5 221 968)**	**(6 525 461)**
Net increase/(decrease) in cash and cash equivalents		**2 050 505**	**(1 910 709)**
Cash and cash equivalents at the beginning of the year		**4 815 180**	**6 725 889**
Cash and cash equivalents at the end of the year	15	**6 865 685**	**4 815 180**

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš (Chairman of the Board) /signature/ 01 March 2018

Ilze Aleksandroviča (Board member) /signature/

Elmārs Švēde (Board member) /signature/

Iveta Virse (Board member) /signature/

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance at 31 December 2015	**22 765 948**	**3 219 255**	**2 100 653**	**28 085 856**
Profit for the financial year	-	-	335 738	**335 738**
Balance at 31 December 2016	**22 765 948**	**3 219 255**	**2 436 391**	**28 421 594**
Profit for the financial year	-	-	3 031 582	**3 031 582**
Balance at 31 December 2017	**22 765 948**	**3 219 255**	**5 467 973**	**31 453 176**

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš (Chairman of the Board) /signature/ 01 March 2018

Ilze Aleksandroviča (Board member) /signature/

Elmārs Švēde (Board member) /signature/

Iveta Virse (Board member) /signature/

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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 Muzeju Street 3, Airport "Rīga", Marupe Municipality , LV-1053, Latvia. The Company's primary activities are organisation of airspace use and air traffic of the Republic of Latvia.

2. STATEMENT OF ACCOUNTING POLICIES

Basis of Preparation

The annual report is prepared in accordance with the law "On Annual Reports and Consolidated Annual Reports". Based on this law, State Joint Stock Companies, which based on this law classifies as large state joint stock company, can prepare financials, based on EU-approved International Financial Reporting Standards (IFRS). As such, these 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 on a historical cost basis as modified by reassessing available-for-sale financial assets at fair value. The statement of comprehensive income is compiled according to the cost function. Starting from 2017. indirect method is used for cash flow preparation.

The financials for the period from 1 January – 31 december, 2017 have been approved by the Board of the LGS on March 01, 2018. Financial statements have been approved in shareholder meeting, which has been called by LGS Board once approval from auditor and supervisory council has been received.

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.

The following new and amended IFRS and interpretations entered into force in 2017, but have no significant impact on the operations of the Company and these financial statements:

Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the Company's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement however which are held in a portfolio with the aim of both collection and sale of asset cash flow may be classified as FVOCI.
- Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The main change is that Company will be required to report on the impact of changes in its own credit risk on financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU).

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018);

Annual improvements to IFRS's 2016. The amendments include changes that affect 3 standards:

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRS 17 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 40 "Investment Property" – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 3 - "Business Combinations",
- IFRS 11 - "Joint Arrangements"
- IAS 12 - "Income taxes"
- IAS 23 - "Borrowing costs".

The Company's management is evaluating impact on the financial statements.

Recognition of Income and Net Turnover

Income from the sale of goods is recognized as soon as the substantial property rights and risks related to the goods are transferred to the customer, and the compensation may be substantially evaluated.

Income is mainly from air navigation services to all airspace users within the Riga Flight Information Region, based on 3 January 2012 issued pursuant to Section 28, Paragraph one of the Law On Aviation Air Navigation Services Provided by the State Stock Company "Latvian Air Traffic". The charge for en-route air navigation services relates to aircraft weight factor and distance covered within the Riga Flight Information Region. The charge for the air navigation services within the terminal relates to aircraft weight factor.

Revenue is recognized in following ways:

1. Services provided – Revenue from services is recognised when services are rendered
2. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Cash Unit and Transactions in Foreign Currencies

All amounts shown in these financial statements are presented in euro (EUR).
All transactions denominated in foreign currencies are converted into euro at the European Central Bank rate of exchange prevailing on the previous day before the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. At the year end foreign currency financial assets and liabilities are translated at the European Central Bank rate of exchange, which is in force at 31 December, and all associated exchange differences are dealt with through the income statement – Other income/(loss).

Exchange rates

Foreign currency	EUR 31.12.2017.	EUR 31.12.2016.
USD	1,19930	1,05410
GBP	0,88720	0,85618

Property, Plant and Equipment

Fixed assets and intangible investments are recognized at their purchase value, less depreciation. Fixed assets shall include the purchased assets whose value exceeds 150 EUR or useful life is over 1 year.

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful lives as follows:

	Useful lives years	Depreciation rates, %
Buildings	10 - 50	2 - 10
Technological equipment	7 - 10	10 – 14.3
Office equipment and motor vehicles	2 - 10	10 – 50

Gains or losses from the sale of fixed assets are recognized in the income statement of the respective period. Costs of repair and renovation works, which increase the useful time of fixed assets or their value, shall be capitalized and written off during the valid life time of fixed assets. Other repair and renovation costs are recognized in the losses of the reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use, recognising impairment loss as an expense in the profit or loss. Review for impairment is carried out at the end of the reporting period.

Leasehold Improvements

The costs, which are related to leasehold improvements, are capitalized and recognized as fixed assets. Depreciation is calculated for the whole lease period by using the linear method. Loan costs, which are directly related to establishment of fixed assets and work in progress, are capitalized if they are fairly recognizable and are directly related to them. Loan costs are capitalized until commissioning of fixed assets.

Operating Lease

Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Inventories

Cost price of inventories is accounted by using the FIFO method. Inventories are valued to purchase value or lowest market value at the date of balance sheet.

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.

<u>Loans and receivables</u>
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.

Accrued Liabilities

The position "Accrued liabilities" contains certain amounts of liabilities towards trade payables for the goods and services that are received in the reporting period, but for which at the balance date the corresponding settlement document (invoice) has not been received yet. The amount of liabilities is estimated based on corresponding contract price and supporting documents of actual reception of goods and services.

Accrued Liability for Vacation

The amount of accrued liabilities is estimated 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.

Trade and Other Payables

Trade payables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The carrying value of trade and other payables approximate their fair values due to their short maturity. A financial liability is removed from the statement of financial position, when the obligation specified in the contract is discharged or cancelled or expires.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the profit of loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.
Due to the changes of Corporate in, Company is not recognizing Deferred tax liability anymore (in accordance with the laws "On Annual Reports and Consolidated Annual Reports" should be recognized based on EU-approved International Financial Reporting Standards (IFRS)). As such, Deferred tax liability is recognized as Income from changes in deferred tax liability in Statement of Comprehensive. Prior year amounts are not changed.

Cash and Cash Equivalents

Cash is cash in hand and non-cash in payment accounts and deposit accounts.

Cash equivalents are short-term inventments, which can be converted to cash in a short period of time, and exist negligible possibility that the value of it could change materially (e.g. short term investments, for which the residual maturity till the clearance and redemption in 3 months or less).

Related Parties

A related party is a person or an entity that is related to the reporting Company.

Employee benefits

Social security and pension contributions

The Company pays social security contributions for state pension insurance to the state funded pension scheme in compliance with the Latvian legislation. The state funded pension scheme is a fixed-contribution pension plan whereby the Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its liabilities towards employees. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

Application of Assumptions

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to revenue recognition, depreciation, allowance for bad debts and inventories, and impairment evaluation, as well as provisions. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity are described below.

(a) Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned.

(b) The Company makes allowances for doubtful accounts receivable. Estimates based on historical experience are used in determining the level of debts that management believes will not be collected.

3. NET TURNOVER

	2017 EUR	2016 EUR
Revenue from main operating activities:		
Revenues from air navigation services in relation to transit flights and routes to the airports	23 915 936	21 404 437
Revenues from air navigation services in airport control zones	3 499 203	2 846 459
	27 415 139	**24 250 896**
Revenue from rental service	100 526	100 526
Revenue from fixed assets rental service	54 394	60 056
Revenue from other services	172 500	115 382
Total	**27 742 559**	**24 526 860**

The Company is operating in territory of the Republic of Latvia when providing air navigation services to flights en-route, to and from airport "Riga". Other Company's income from rental and other services are not significant and are included in the "Net turnover".

4. OTHER OPERATING INCOME

	2017 EUR	2016 EUR
Receipt of EU funds income	92 491	158 359
Recovery of Bad Debt expenses	21 133	36 379
Income of prior period costs reduction	11 660	13 432
Receipt of overpaid social security contributions	3 137	11 044
Receipt of surcharge and penalties	8 704	4 750
Interest income on investment	392	2 119
Other income	79 738	23 796
Total	**217 255**	**249 879**

5. EMPLOYEE COSTS

	2017 EUR	2016 EUR
Salaries	10 807 657	10 215 682
Social security contributions	2 718 678	2 559 314
Employees health insurance expenses	222 694	219 882
Provisions for performance bonuses of the Board and Council	65 267	44 786
Accrued liability for unused annual leave	-	67 157
Other personnel expanses	919 990	863 146
Total	**14 734 286**	**13 969 967**
including Board members and Supervisory Council members		
salaries and bonuses	330 166	235 891
social security contributions	84 963	55 647
Total	**445 129**	**291 538**
Average number of employees during the reporting year	**357**	**353**

6. DEPRECIATION EXPENSES

	2017 EUR	2016 EUR
Depreciation of technical equipment	2 845 687	3 454 460
Depreciation of other property, plant and equipment	792 898	760 367
Depreciation of buildings	373 006	344 458
Long term leasehold improvements	115 183	234 859
Total	**4 126 774**	**4 749 144**

7. OTHER OPERATING EXPENSES

	2017 EUR	2016 EUR
Technical services, repair works and maintenance	1 319 516	1 169 503
Membership Fee EUROCONTROL	988 219	1 054 360
Payments to CAA	976 090	976 090
Electricity payments	428 310	388 391
Business trip expenses	413 212	387 351
Training expenses	239 688	278 289
Rent, maintenance and utilities costs	231 755	205 600
Communication expenses	198 970	198 593
Apdrošināšana	133 044	185 790
Payments to TNGIIB	185 000	172 879
Marketing and representation expenses	65 113	105 110
Transport expenses	105 141	104 639
Rent of land plot	83 738	82 718
Real estate tax	39 102	38 893
Provisions for doubtful debts	67 274	4 221
Other expenses	430 892	255 135
Total	**5 905 063**	**5 607 562**

8. FINANCE COSTS

	2017 EUR	2016 EUR
Net loss on foreign exchange related to cash and cash equivalents	(2 527)	(4 376)
Net profit/(loss) on foreign exchange related to cash and cash equivalents	(404)	(79)
Total	**(2 931)**	**(4 455)**

9. CORPORATE INCOME TAX

	2017 EUR	2016 EUR
Current income tax expense	387 972	6 285
Deferred tax (income) / expense*	-	87 643
Total	**387 972**	**93 928**

*On July 28, 2017 the Parliament passed the new Corporate Income Tax Law whereby all temporary differences between the financial accounting value of assets and liabilities and the tax base are abolished. This means that the deferred tax liabilities incurred as a result of temporary differences of fixed assets will no longer be recognized in the Company's financial statements. The Company partially writes off deferred tax liabilities to reserves and partially to the profit or loss account, recognizing them as income.

Reconciliation of accounting and taxable profit and analysis of the tax charge:

	2017 EUR	2016 EUR
Profit before tax	**3 195 089**	**429 666**
Tax calculated at 15%	479 263	64 450
Adjusted for tax effect of:		
Expenses non deductable for tax purposes	45 456	27 127
Temporary differences	(136 747)	2 351
Total	**387 972**	**93 928**

Movement in the deferred income tax account is as follows:

	2017 EUR	2016 EUR
At the beginning of the year	224 465	136 822
Released to the profit or loss	(224 465)	87 643
At the end of the year	-	**224 465**

Deferred tax amounts shown in the statement of financial position relate to temporary differences arising from the tax bases and carrying amounts of assets and liabilities as follows:

	2017 EUR	2016 EUR
To be recovered after more than 12 months:		
Property, plnat and equipment temporary differences	-	536 187
To be recovered within 12 months:		
Accrual for Bad debt temporary differences	-	(301 812)
Provision temporary differences	-	(9 910)
Total Deferred tax liability, net	-	**224 465**

10. EARNINGS PER SHARE

	2017	2016
Profit for the year	3 031 582	335 738
Number of shares	22 765 948	22 765 948
Earnings per share (EUR)	0,133	0,015

As of 31 December 2017 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 sole owner is the Republic of Latvia. State's shareholder is the Ministry of Transport of the Republic of Latvia.

Dividends (payments for the use of state capital)

Dividends from the profit of 2016 in accordance with the Order No. 501 of the Cabinet of Ministers dated 13 September, 2017, were not paid due to EU Parlament and Supervisory Council issued regulation No. 550/2004 (issueed on 10 March, 2004), on the provision of air navigation services in the single European Sky. As such, profit was redirected to ongoing and planned investments projects.
Due to approved mid term strategic plan, Company is planning to ask for separate share of dividend payment (0%). Decision regarding the 2017 profit distribution was accepted in the sitting of Cabinet of Ministers on 20 February, 2018 (Prot.No.11,16§).

11. INTANGIBLE ASSETS

Intangible asset amount of 63 694 EUR consists of unfinished development expenses for creation/connection of ATN/VDL Mode2 multifrequency infrastructure to ATN network.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Machinery and equipment	Other fixed assets	Fixed assets under construction	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition value						
At 31 December 2015	**9 413 783**	**2 714 948**	**41 853 822**	**6 544 553**	**5 578 339**	**66 105 445**
Additions	24 400	-	364 990	589 054	5 644 740	**6 623 184**
Disposals	(10 783)	(1 257 582)	(190 366)	(299 133)	-	**(1 757 864)**
Reclassified	500 328	-	5 107 580	354 712	(4 944 369)	**1 018 251***
Acquisition value At 31 December 2016	**9 927 728**	**1 457 366**	**47 136 026**	**7 189 186**	**6 278 710**	**71 989 016**
Additions	32 213	198 295	492 764	275 449	2 699 553	**3 698 274**
Disposals	-	(1 155 887)	(3 118 751)	(479 770)	-	**(4 754 408)**
Reclassified	433 666	78 674	1 968 100	1 413 055	(3 677 459)	**216 036***
Acquisition value At 31 December 2017	**10 393 607**	**578 448**	**46 478 139**	**8 397 920**	**5 300 804**	**71 148 918**
Accumulated depreciation						
At 31 December 2015	**7 234 927**	**2 254 540**	**32 907 458**	**4 944 202**	-	**47 341 127**
Depreciation expense	344 458	234 859	3 454 460	760 367	-	4 794 144
Depreciation of disposals	(10 783)	(1 257 582)	(183 852)	(298 470)	-	(1 750 687)
Accumulated depreciation At 31 December 2016	**7 568 602**	**1 231 817**	**36 178 066**	**5 406 099**	-	**50 384 584**
Depreciation expense	373 066	115 183	2 845 687	792 898	-	4 126 774
Depreciation of disposals	-	(1 155 887)	(3 115 514)	(479 516)	-	(4 750 917)
Accumulated depreciation At 31 December 2017	**7 941 608**	**191 113**	**35 908 239**	**5 719 481**	-	**49 760 441**
Net book value						
At 31 December 2015	**2 178 856**	**460 408**	**8 946 364**	**1 600 351**	**5 578 339**	**18 764 318**
At 31 December 2016	**2 359 126**	**225 549**	**10 957 960**	**1 783 087**	**6 278 710**	**21 604 432**
At 31 December 2017	**2 451 999**	**387 335**	**10 569 900**	**2 678 439**	**5 300 804**	**21 388 477**

*Reclass was made from Advances for fixed assets.

In the amount of depreciation expense for the year ended 2017, amount of EUR 13 046 (2016: EUR 14 082) relates to fixed assets that are not used in opeating activities.

In the Company's operations are used fixed assets which are compleately depreciated and which net carrying value is zero. The cost value of those fixed assets as of 31 December 2017 is EUR 22 587 324 (31.12.2016: EUR 21 459 100).

Company is leasing out some of their properties. Income from lease is included in rental income that is part of "Net turnover".
Company doesn't have pledged fixed asssets.

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

Total area of this land is 17.61 ha (2015: 24.21 ha) and cadastral value of the land is EUR 874 363 (2016: EUR 878 983). Real estate tax for this property was paid EUR 13 115 in 2017 (2016: EUR 13 185).

13. TRADE RECEIVABLES

	31.12.2017 EUR	31.12.2016 EUR
Trade receivables	6 409 196	5 850 267
Allowance for bad debtors	(1 999 254)	(2 012 079)
Total	**4 409 942**	**3 838 188**

Movement on allowance for bad debt:

	2017 EUR	2016 EUR
Balance at the beginning of year	2 012 079	2 059 659
Charged to profit or loss during the year	67 274	4 221
Reduction (paid back)	(21 133)	(36 379)
Debts written - off	(58 966)	(15 422)
Balance at the end of year	**1 999 254**	**2 012 079**

Amount of charge for year is included in Comprehensive income statement as "Other operating expenses".

Trade receivable aging analysis (net):

	2017 EUR	2016 EUR
Not due	4 392 087	3 837 337
Overdue:		
Less than 30 days	15 421	319
30-90 days	2 430	532
90 and more days	4	-
Total	**4 409 942**	**3 838 188**

To make sure that receivables are collected on a timely basis, managament has established high rate of debtor collection. Bad debtor analysis is done on a yearly basis and 100% allowance is made for old and outstanding debtors.

Based on agreement with EUROCONTROL, fees for air navigation services are collected and managed by EUROCONTROL. As such credit risk is minimised.

14. PREPAID EXPENSES, PREPAYMENTS AND OTHER DEBTORS

	31.12.2017 EUR	31.12.2016 EUR
Prepaid expenses	303 069	272 017
VAT overpayment	212 960	32 090
Deferred VAT	25 335	22 029
Other debtors	20 337	16 281
Total	**561 701**	**342 417**

15. CASH AND CASH EQUIVALENTS

	31.12.2017 EUR	31.12.2016 EUR
Cash at banks	5 865 685	4 815 180
Short-term bank deposits	1 000 000	-
Total	**6 865 685**	**4 815 180**

16. DEFERRED INCOME

Long-term deferred income	31.12.2017 EUR	31.12.2016 EUR
Income received from EU funds	435 632	92 164
Total	**435 632**	**92 164**

Short-term deferred income	31.12.2017 EUR	31.12.2016 EUR
Income received from EU funds	121 518	117 049
Total	**121 518**	**117 049**

Movement of deferred income within a year:

Project name	Total amount received EUR	Recegnized in previous years EUR	Recognized during the year EUR	Short term part EUR	Long term part 1-5 years EUR
CPDLC	96 208	27 442	-	-	68 766
KPFI -16/131	11 880	2 396	1 198	1 198	7 088
Borealis FRA Part-1	269 506	117 523	48 202	48 202	55 579
Borealis FRA Part-2	30 966	21 808	9 158	-	-
A-CDM Riga	90 000	13 027	23 504	53 469	-
CPDLC II	185 036	-	7 470	1 000	176 566
DLS Impl. Path.1	138 694	-	1 061	10 000	127 633
DLS Impl. Path.2	9 546	-	1 897	7 649	-
			Total	**121 518**	**435 632**

DEFERRED INCOME (continued)

CPDLC (SF3) – in accordance with the Commission Decision regarding the granting of Union financial aid for the Action entitled "ANSPs coordination within the Interim Deployment Steering Group"- 2012-EU-40004-P (CPDLC project) the total amount of co-financing received is EUR 96 208.

KPFI -16/131 (SF4) - in accordance with the project "Reduction of greenhouse gas emissions of SJSC "Latvijas gaisa satiksme" by obtaining new, industrially manufactured electromobiles" (KPFI-16/131), the total amount of co-financing received is EUR 11 880.

"BOREALIS Free Route Airspace" - establishment of free route airspace in nine northern European countries. Free route airspace will allow airspace users to significantly reduce flight times as well as reduce fuel consumption therefore lowering their total costs. At the same time fragmentation of European airspace is reduced and the effectiveness of air traffic control increased.

1) *Borealis FRA Part-1 (SF5)* – Free route airspace establishment in NEFAB countries. The total amount of co-financing received is EUR 269 506.
2) *Borealis FRA Part-2 (SF6)* – development of interface that will lead to creation of Free route airspace in other Borealis alliance countries. The total amount of co-financing received is EUR 30 966.

A-CDM Riga (SF7) - the aim of the project is to increase the throughput of Riga airport and to increase efficiency of coordination processes for all parties involved in flight servicing. Introduction of CDM procedures will lead to more effective decision making process by means of exchanging with more precise and timely information. As a result of project execution the quality and safety of the services will be increased through more precise planning of take-off times therefore lowering stand-by time of aircraft at terminal as well as on runway (especially during peak hours). As a result that will lead to cost savings to users as well as yield positive results for the environment. The total amount of co-financing received so far is EUR 90 000.

CPDLC (SF8) - The project has been restarted to implement Commission Regulation (EC) No. Regulation (EC) No 29/2009 of the European Parliament and of the Council of 16 January 2009 laying down requirements for the provision of data transmission services in the Single European Sky and Commission Implementing Regulation (EU) 2015/310 of 26 February 2015 amending Regulation EC) No 29/2009. The project is implemented by INEA co-financing:

1) *CPDLC* services implementation in Riga LIR *(SF8.1)* - project to ensure adequate air service provider infrastructure. Within this project, it is planned to purchase ATN G-G router and FEP (Front End Processor). The total amount of co-financing received so far is EUR 185 036.
2) *DLS Implementation Project Path 1 "Ground stakeholder" (SF8.2)* - The project aims to connect and integrate the LGS ATM (ATRACC) system to the ATN Global Network. To ensure the VDL-M2 coverage Riga LIR, take VDL-M2 infrastructure, as well as the interface creation with ATN global network of communications service providers (CSP - Communication Service Provider), thus providing the best performance ratio in order to increase air flow and avoid frequency overload. The co-financing received is €138 694.
3) *"DLS Implementation Project Path 2" (SF8.3)* –) the aim of this project is to support the SESAR SDM by providing a comprehensive and complete project execution copy and monitoring in accordance with ELSA recommendations and SDM requirements, identifying key measures and implementation of operational solutions. Co-financing received is EUR 9 546.

17. TRADE AND OTHER PAYABLES

	31.12.2017 EUR	31.12.2016 EUR
Social security contributions and other taxes	691 020	701 693
Accrued liabilities	675 273	667 760
Salaries	626 621	587 487
Payables to vendors	482 890	462 877
Other payables	77 569	11 231
Total	**2 553 373**	**2 431 048**

18. RELATED PARTY TRANSACTIONS

The Company is a State Joint Stock Company, the sole shareholder of which 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 Ltd. "Latvijas Vides, ģeoloģijas un meteoroloģijas centrs", SJSC "Latvenergo", Ltd. "Lattelecom", Ltd. "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".

19. TAXES AND SOCIAL SECURITY PAYMENTS

Type of tax	31.12.2016	Calculated	Penalty	(Paid)/ received back	Reclassed	31.12.2017
	EUR	EUR	EUR	EUR		EUR
VAT	(32 090)	(602 141)	48	421 223	-	(212 960
Personal income tax	260 365	2 318 920	2	(2 323 159)	-	256 12
Social contributions	441 199	3 941 542	-	(3 581 642)	(366 336)	434 76
Corporate income tax	(366 336)	387 972	-	(155 260)	366 336	232 71
Real estate tax	-	39 102	-	(39 102)	-	
Company car tax	-	3 387	-	(3 387)	-	
Risk duties	129	1 555	-	(1 555)	-	12
Customs duty	-	21	-	(21)	-	
Total	**303 267**	**6 090 358**	**50**	**(5 682 903)**	**-**	**710 77**
Tax surplus	(398 426)					(212 960)
Tax liabilities	701 693					923 732

20. FUTURE COMMITMENTS

(a) Future Payments for Fixed Assets

In accordance with concluded agreements as of 31 December 2016, the Company has undertaken to fulfill future liabilities for property, plant and equipment acquisition. Total amount of such liabilities as of 31 December, 2017 is EUR 3 864 800 (2016: EUR 2 645 300).

Once LGS joined EUROCONTROL, there have been additional payments made for Eurocontrol membership fees, technical integration and other related expenses.

For financing capital investments, Company is planning to use finances obtained from operating activities

(b) Operating Lease Commitments

The Company has cars under cancellable operating lease agreements. As such, the Company needs to inform leasing company one month in advance before lease cancellation. Operating lease payments are included in Statement of Comprehensive income under "Other operating expenses".

In case of lease agreement cancellation, there would not be any major effect on Company's financial results.

21. FINACE AND CAPITAL RISK MANAGEMENT

The Company's activity is exposed to various financial risks: market risk (that relates to foreign exchange 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

Foreign exchange risk

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 (EUR), however immaterial part are made U.S. dollars (USD) and United Kingdom, Pounds (GBP). 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.

(b) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables (Note 13), cash at bank and short-term bank deposits (Note 15). The carrying amount of the above instruments represents the maximum credit exposure of the Company. 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.

The maximum exposure to credit risk for trade and other receivables (current and non-current), which are financial instruments by geographic region was:

	2016 EUR	**2016 EUR**
Belgium	4 168 841	3 748 153
Latvia	2 038 437	1 942 128
Ireland	59 553	48 920
Hungary	38 922	26 439
Russia	27 828	23 335
Norway	13 915	14 362
Germany	15 839	10 317
Finland	8 440	7 887
Other	37 421	28 726
Allowance for bad debt	(1 999 254)	(2 012 079)
Total	**4 409 942**	**3 838 188**

Maximum exposure to credit risk for trade and other receivables (current and non-current), which are financial instruments by type of counterparty:

	2017 EUR	2016 EUR
Corporate customers	5 850 267	5 850 267
Allowance for bad debt	(2 012 079)	(2 012 079)
Total	**3 838 188**	**3 838 188**

The maximum exposure to credit risk for financial instruments:

	2017		2016	
	EUR Gross	EUR Net	EUR Gross	EUR Net
Neither past due nor impaired:				
Trade receivables, other receivables	4 971 643	4 971 643	4 546 090	4 546 090
Cash and cash equivalents	6 865 685	6 865 685	4 815 180	4 815 180
Past due and impaired:				
Trade receivables, other receivables	2 017 109	17 855	2 012 930	851
Total	**13 854 437**	**11 855 183**	**11 374 200**	**9 362 121**

(c) Liquidity Risk

Appropriate treasury policies are in place to ensure that the Company has sufficient liquidity and is able to finance their operations without funding constraints.

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

31.12.2017.	**Total EUR**	**< 6m. EUR**	**6-12m. EUR**	**>12 m. EUR**
Financial liability				
Trade payables	462 877	462 877	-	-
Other payables	12 276	12 276	-	-
Total	**475 153**	**475 153**	-	-

31.12.2016.	**Total EUR**	**< 6m. EUR**	**6-12m. EUR**	**>12 m. EUR**
Financial liability				
Trade payables	482 890	482 890	-	-
Other payables	78 311	78 311	-	-
Total	**560 459**	**560 459**	-	-

22. 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.

23. FAIR VALUES

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the market assumptions. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2017 EUR		2016 EUR	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Trade receivables, other receivables	4 971 643	4 971 643	4 546 941	4 546 941
Other long term investments	1 430 649	1 430 649	216 036	216 036
Cash and cash equivalents	6 865 685	6 865 685	4 815 180	4 815 180
Trade payables and other liabilities	(2 786 827)	(2 786 827)	(2 432 093)	(2 432 093)

All financial assets and liabilities held by the Company are carried at amortized cost.

24. EVENTS AFTER REPORTING PERIOD

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 2017.

S. Vilcānes Audits KS

KS "S. Vilcānes audits", Zvērinātu revidentu komercsabiedrības licence Nr. 88, Vienotais reģistrācijas numurs 40003192915.
Biroja adrese: Rīgā, Lībagu ielā 14, LV-1002. Tālr. 67220449, mob. 29222562, fakss 67283038, e-pasts: s.vilcane2@gmail.com

Independent Auditor's Report

To the shareholder of SJSC "Latvijas gaisa satiksme"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of **SJSC "Latvijas gaisa satiksme"** ("the Company") set out on pages 9 to 32 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December, 2017,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of **SJSC "Latvijas gaisa satiksme"** as at 31 December 2017, and of its financial performance and its cash flows for the year then ended with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

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

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

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

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises of the Management Report, as set out on pages 3 to 4 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

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

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

Commandite "S.VILCĀNES AUDITS"
Sword Auditors Commercial Company /Licence No. 88/
Sword Auditor /Certificate No. 30/, Director
L.S.

Sandra Vilcāne

Riga, Latvia
1st March 2018