

SJSC "LATVIJAS GAISA SATIKSME"

**ANNUAL REPORT FOR THE YEAR 2011
PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

ANNUAL REPORT FOR THE YEAR 2011
(Translation of the Latvian original)

SJSC "LATVIJAS GAISA SATIKSME"
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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	01.01.2011 - 31.12.2011
FINANCIAL STATEMENT USERS CURRENCY	LVL
CERTIFIED AUDITOR	Commandite "S. Vilcanes audits" Reg.Nr.40003192915 Certified Auditor Sandra Vilcane Certificate No. 30

SJSC "LATVIJAS GAISA SATIKSME"
BOARD OF THE COMPANY

Name

Position

From July 10, 2009 till March 25, 2010

Chairman of the Council	Arturs Kokars
Member of the Council	Vadims Prudnikovs
Member of the Council	Aldis Murnieks
Member of the Council	Evija Leitlande
Member of the Council	Baiba Broka

From March 26, 2010 till May 25, 2010

Chairman of the Board	Davids Taurins
Member of the Board	Vadims Prudnikovs
Member of the Board	Bergholcs Arturs
Member of the Board	Baiba Broka

From December 17, 2010 till November 30, 2011

Chairman of the Board	Davids Taurins
Member of the Board	Edmunds Kancevics
Member of the Board	Artis Birkmanis
Member of the Board	Elmars Svede
Member of the Board	Baiba Broka

From December 17, 2010 till November 30, 2011

Chairman of the Board	Davids Taurins
Member of the Board	Edmunds Kancevics
Member of the Board	Artis Birkmanis
Member of the Board	Elmars Svede
Member of the Board	Baiba Broka

From December 1, 2011 till the financial statements signing day

Chairman of the Board	Davids Taurins
Member of the Board	Gints Freimanis
Member of the Board	Artis Birkmanis
Member of the Board	Elmars Svede
Member of the Board	Baiba Broka

Company discontinued the Council from 25.06.2009

SJSC "LATVIJAS GAISA SATIKSME" MANAGEMENT REPORT

Business

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

LGS Management Structure

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

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

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

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

Main projects of the Company in 2011

Joining the EUROCONTROL

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

Certification

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

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

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

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

EURASIA RVSM ATM WG/8

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

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

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

NEFAB

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

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

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

e-AIP

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

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

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

Technical modernisation

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

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

SJSC "LATVIJAS GAISA SATIKSME" MANAGEMENT REPORT

Ongoing and new projects:

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

SC “Latvijas Krājbanka” insolvency

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

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

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

Further development of the company

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

Davids Taurins
Chairman of the Board

Gints Freimanis
Member of the Board

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

Artis Birkmanis
Member of the Board

Baiba Broka
Member of the Board


STATEMENT OF THE MANAGEMENT RESPONSIBILITY

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


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

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


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

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

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

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

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

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SJSC "LATVIJAS GAISA SATIKSME"

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010**

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

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

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

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

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

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Riga, 12 April, 2012.

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

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

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

Dauids Taurins
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Riga, 12 April, 2012.

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

I. GENERAL INFORMATION

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

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

II. ACCOUNTING POLICIES

1. Basis of preparation

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

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

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

IFRS 7, Financial Instruments: Disclosures

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

IAS 1, Presentation of Financial Statements

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

IAS 24, Related Party Disclosures

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

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

IFRS 1, First-time Adoption of IFRS

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

IAS 34, Interim Financial reporting

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

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

2. Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

3. Segment disclosure

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

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

4. Income recognition

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

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

Income is recognized according to the following principles:

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

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

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

5. Intangible assets

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

	Years
Licences	5

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

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

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.

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

7. Inventory

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

8. Financial assets

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

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

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

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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.

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12. Taxation

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

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

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

13. Borrowings

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

14. Provisions

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

15. Accrued liabilities for unused annual leave

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

16. Income tax

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

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

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

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

17. Earnings per share

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

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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.

1. Segment information**a. Operation and reportable segment**

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

b. Geographical markets**2. Revenue**

	2011	2010
	LVL	LVL
Revenues from air navigation services in relation to transit	14 527 342	13 158 698
Revenues from air navigation services in airport control zones	2 033 661	2 026 643
<i>Total revenues from air navigation</i>	<i>16 561 003</i>	<i>15 185 341</i>
Revenue from rental service	121 791	136 136
Revenue from other services	15 456	24 579
	<u>16 698 250</u>	<u>15 346 056</u>

3. Investment income

	2011	2010
	LVL	LVL
Interest income on deposits	27 584	24 172
Interest income from securities	7 947	13 719
	<u>35 531</u>	<u>37 891</u>

4. Other gains and losses

	2011	2010
	LVL	LVL
Receipt of surcharge and penalties	108 947	23 375
VAT paid back from EU	8 816	2 744
Receipt of overpaid social security contributions from budget	711	1 961
Eurocontrol administrative expenses – correction	-	4 159
Receipt of bed debt	-	1 864
Other operating income	3 752	1 641
	<u>122 226</u>	<u>35 744</u>

5. Employee benefits expense

	2011	2010
	LVL	LVL
Salaries	5 868 006	5 468 520
Social security contributions	1 452 568	1 328 995
Other personnel expenses	303 517	230 950
Accrued unused annual leave	296 801	289 779
Employees' life and health insurance expenses	118 751	98 547
Provisions for performance bonuses of the Board	6 290	2 826
	<u>8 045 933</u>	<u>7 419 617</u>

including Board members

salaries and bonuses	148 542	161 046
social security contributions	35 784	38 796
	<u>184 326</u>	<u>199 842</u>

Average number of employees during the reporting year

349

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

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10. Finance expenses

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

11. Corporate income tax

a. Components of corporate income tax

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

b. Reconciliation of accounting profit to income tax charges

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

	2011	2010
	LVL	LVL
Profit before taxes	(1,238,205)	207,602
Theoretically calculated tax at 15% tax rate	<u>(185,731)</u>	<u>31,140</u>
Tax effects on:		
Non-deductible expenses for tax purposes	13,426	126,411
Tax losses for previous years	-	(63,929)
Changes in unrecognized deferred tax asset	-	(101,764)
Total tax charge	<u>(172,305)</u>	<u>(8,142)</u>

c. Movement and components of deferred tax

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

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

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

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11. Corporate income tax (continued)

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

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

12. Intangible assets

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

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13. Property, plant and equipment

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

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

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13. Property, plant and equipment (continued)

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

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

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

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

14. Other non-current assets

Investments in subsidiaries

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

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

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

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

15. Inventories

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

16. Trade and other receivables

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

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16. Trade and other receivables (continued)

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

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

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

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

17. Available-for-sale financial assets

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

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

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

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

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

18. Cash and cash equivalents

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

19. Equity

a. Share capital

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

b. Reserves

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

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

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

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

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

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

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

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

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

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

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22. Transactions with related parties

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

23. Financial commitments

a. Capital commitments

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

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

b. Operating lease commitments

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

24. Risk and capital management

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

a. Market risk

1. Foreign exchange risks

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

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

The Company's significant open currency positions:

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

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Financial assets, GBP	2,168	-
Financial liabilities, GBP	-	-
Open position GBP, net	2,168	-
Open position GBP calculated in lats, net	1,821	-

II. Interest rate risks

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

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

b. Credit risk

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

Maximum exposure to credit risk	2011	2010
	LVL	LVL
Trade receivables, other receivables (net)	3,111,380	2,651,152
Other long term receivables	10,548	12,658
Available-for-sale financial assets	-	1,071,197
Cash and cash equivalents	2,781,516	2,917,807
Financial assets subject to credit risk	5,903,444	6,652,814
Aging of trade receivables	2011	2010
	LVL	LVL
Debts undue	2,476,183	1,962,588
Debts due till 30 days	151,721	324,727
Debts due from 31 to 90 days	116,916	865
Debts due over 91 days	1,346	756
Trade receivables, net	2,746,166	2,288,936

Movement of provision for doubtful receivables disclosed in Note 16.

c. Liquidity risk

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

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

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

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

d. Capital management

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

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

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

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25. Contingent tax liabilities

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

26. Subsequent events

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

INDEPENDENT SWORN AUDITOR'S REPORT**To the shareholder of SJSC "Latvijas gaisa satiksme", Reg. No. 40003038621****Report on the Financial Statements**

We have audited the accompanying financial statements on pages 9 to 31 of **SJSC "Latvijas gaisa satiksme"** which comprise the statement of financial position as of 31 December 2011 and the statements of 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 the 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 the **SJSC "Latvijas gaisa satiksme"** as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 5 to 8 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

Commandite „S.Vilcānes audits”

Sworn Auditors Commercial Company /License No. 88/

Sworn Auditor /Certificate No. 30/, Director

L.S.



Sandra Vilcāne

Riga, Latvia

12 April, 2012