SJSC "LATVIJAS GAISA SATIKSME"

ANNUAL REPORT

2012

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Information about the Company

Company name	*SJSC "Latvijas Gaisa Satiksme"*
Legal status of the Company	*State Joint-Stock Company*
Registration number, place and date	*No.40003038621 in the Register of Enterprises, 21 October, 1991, Riga* *Commercial Register, 11 October, 2004, Riga*
Address (legal and postal)	*KDP Building, International Airport "Riga" Marupe region, LV-1053, Latvia*
Core business activities	*Airspace use and air traffic management in the Republic of Latvia*
Names and positions of the Board	***Davids Taurins** – Chairman of the Board (from 26.03.2010)* ***Baiba Broka** – Member of the Board (from 10.07.2009)* ***Elmars Svede** – Member of the Board (from 26.05.2010)* ***Artis Birkmanis** – Member of the Board (from 17.12.2010 till 15.06.2012)* ***Gints Freimanis** - Member of the Board (from 01.12.2011)* ***Ilze Aleksandrovica** - Member of the Board (from 16.06.2012)*
Shareholders' full names, shareholding interest and addresses	*Ministry of Transport of the Republic of Latvia (100%)* *3 Gogola Street, Riga, LV-1743, Latvia*
Financial year	*01/01/2012 – 31/12/2012*
The monetary unit used in the financial statements	*LVL*
Sworn auditor	Partnership "S.Vilcānes Audits" Reg. No.40003192915 Sworn Auditor Sandra Vilcane Certificate No.30

MANAGEMENT REPORT

Business

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

"LGS" Management Structure

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

The company is managed by the Board which is acting in accordance with the legal acts, Articles of Association and decisions of the Shareholder. The Board organises the work of the company according to the international standards, regulations and directives (International Civil Aviation Organisation (ICAO), European Civil Aviation Conference (ECAC), European Organisation for the Safety of Air Navigation (Eurocontrol), Civil Air Navigation Services Organisation (CANSO), as well as is responsible for the business activities of "LGS" and proper accountancy in compliance with the legal acts. The Ministry of Transport performed changes in the Board Membership of "LGS" on June 15, 2012, replacing Board Member Mr. Artis Birkmanis with Ms. Ilze Aleksandroviča. On July 9, 2012 the Ministry of Transport re-appointed Baiba Broka as a Board Member.

No structural changes have taken place during the reporting period and the company structure consists of five departments.

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

The main areas of the Company activities during the reporting period

Best practice

Services provided by "LGS" are evaluated by customers as very qualitative and it is confirmed by the fact that during the reporting period the customers have submitted no complaints or claims regarding the provision of air navigation services. With a purpose of also ensuring the further provision of high quality services, in 2012 the existing safety level of air navigation services was maintained and the number of air traffic management safety incidents were minimised.
For the purpose of ensuring efficient cooperation and implementation of the customer's wishes as much as possible in its everyday work, "LGS" has arranged several official meetings between air navigation management experts and representatives of the national airline "airBaltic", hence facilitating the sharing of experience.

Membership of the international organisations

One of the most important objectives during the reporting period was the active participation in the establishment of NEFAB (North European Functional Airspace Block). On June 4, 2012 an inter-governmental agreement on the establishment of NEFAB was signed in Tallinn, which entered into force on December 23, 2012.

In order to increase the efficiency of the air traffic management services providers, "LGS" is taking part in Borealis Alliance. It contributes to NEFAB activities in an economic sense and in relation with commercially-based projects. Borealis Alliance includes ANSP's of Denmark, Estonia, Finland, Iceland, Ireland, Latvia, Norway, Sweden and the United Kingdom. In total these countries ensure the provision of air traffic services to 3.5 millions flights annually. Among them the largest portion of flights comprises the main European transatlantic routes.

Thanks to the membership of "LGS" in the European Organisation for the Safety of Air Navigation (Eurocontrol), the employees of the Company have regularly participated in professional skills improvement events and some employees have also organised training with other European air traffic services providers.

Project AMBER

"LGS" has been involved in the development of more efficient procedures with an aim to reduce the amount of emissions, fuel consumption and increase efficiency. The project Arrival Modernisation for Better Efficiency in Riga (AMBER) is being implemented by the national airline of Latvia "airBaltic" jointly with consortia partners "Quovadis" and "LGS". Its objective is the commencement of a new project aimed to ensure the first green flights with propjets in Europe. During project AMBER new arrival procedures will be developed in Riga airport by shortening flight routes and improving flight paths so as to avoid densely populated areas and to decrease the impact of noise to the population, as well as reducing fuel consumption and the amount of emissions.

This project is fully compatible with the objectives of "LGS". One of NEFAB's objectives is the reduction of fuel consumption and emissions. Project AMBER is one of ways towards reaching the objective set by NEFAB.

The new path in the direction of the runaway will be up to 30 sea miles shorter than the currently existing one and per each Q400 flight, CO_2 emissions will be reduced by up to 300 kg.

Tukums Airport

In 2012 work was continued in relation to the implementation of the Tukums Airport project. Within the framework of this project many different level meetings of stakeholders (Tukums Airport, Ministry of Transport, CAA, "LGS") took place. Project activities were focused on the launching of instrumental flights at the beginning of 2013 and the provision of air traffic management services in Tukums airport.

Technical modernisation

Several significant technical projects were implemented during the reporting period. The relocation of the ultra-short wave facility "Rēzekne" to "Viļāni", the relocation of the ultra-short wave facility "Ventspils" to a new location, the modernisation of the data transmission network with Tallinn ATMC. Modernisation of AWOS software in the airports "Riga" (with the replacement of computer equipment) and "Liepaja", replacement of the emergency ultra-short wave radio-station in the ATM Centre; within the framework of the project "ATRACC modernisation" ATRACC working places (computers, monitors, software) were replaced, measures were performed for the improvement of VOR/DME "Daugavpils" functionality, modernisation of the HiPath 4500 telephone exchange, as well as the construction of the high-speed network (in "Riga" airport) and the modernisation of the "LGS" computer network.

Further development of the Company

In its further development "LGS" will focus on the goals set out in the National Performance Improvement Plan in accordance with the European Union legal acts.

The work related to the implementation of NEFAB's operational aspects will proceed as well. One of the principal areas of NEFAB activities will be the optimisation of the route structure, the implementation and carrying out of the "Free Route Airspace" concept, including technological and performance aspects; closer cooperation with Danish and Swedish functional airspace block actors will also be required.

Circumstances and events after the balance sheet date

In the time period between the reporting year end date and the date the financial statements are signed by the Board, there have been no significant or extraordinary events that could influence on annual results and Company's financial situation.

Proposal of profit distribution

In accordance with the Law "On the annual report", distribution of the Company's profit shall be determined after approval of these financial statements.

Davids Taurins
Chairman of the Board

Gints Freimanis
Member of the Board

Baiba Broka
Member of the Board

Ilze Aleksandroviča
Member of the Board

Elmārs Svede
Member of the Board

Riga, 16 May, 2013

Profit and Loss Statement for 2012

(by the period cost method)

No.	NAME OF INDICATORS	Note	2012 LVL	2011 LVL
1	2	3	4	5
1	Net sales	1	17 017 617	16 698 250
2	Other operating income	2	633 450	122 226
3	Employee benefit expenses	3	(9 095 074)	(8 045 933)
4	Depreciation and amortization	9,10	(3 449 652)	(3 531 201)
5	Other operating expenses	4	(4 339 677)	(6 358 294)
6	Interest and similar income	5	18 764	80 891
7	Interest and similar expenses	6	(156 156)	(168 572)
8	**Profit or loss before taxes**		**629 272**	**(1 202 633)**
9	Corporate income tax for the financial year	7	(140 279)	171 490
10	Other taxes	8	(29 524)	(30 136)
11	**Net profit or losses**		**459 469**	**(1 061 279)**

Notes on pages 12 to 28 make an integral part of these financial statements.

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Member of the Board

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Elmars Svede
Member of the Board

Riga, 16 May, 2013

Balance Sheet as at 31 December 2012

Assets	Note	2012	2011
Non-current assets			
Intangible assets	9	**0**	**0**
Concessions, patents, licenses, trademarks and similar rights			
Total intangible assets			-
Fixed assets	10		
Land and buildings		2 161 729	2 339 016
Leasehold improvements		999 833	1 243 122
Equipment and machinery		7 654 747	10 018 572
Other fixed assets		649 201	666 519
Fixed assets under construction		2 768 627	502 689
Advances for fixed assets		1 000 819	1 355 277
Total fixed assets		**15 234 956**	**16 125 195**
Non-current financial investments			
Other non-current receivables	11	8 438	10 548
Total non-current financial investments		**8 435**	**10 548**
Total non-current assets		**15 243 394**	**16 135 743**
Current assets			
Inventory			
Raw materials and consumables	12	50 298	38 819
Total inventory		**50 298**	**38 819**
Accounts receivable			
Trade accounts receivable	13	2 641 362	2 746 166
Other receivables	14	114 156	239 000
Deferred expenses	15	122 016	126 214
Accrued income	16	8 507	-
Total account receivables		**2 886 041**	**3 111 380**
Cash and cash equivalents	17	**3 313 418**	**2 781 516**
Total current assets		**6 249 757**	**5 931 715**
Total assets		**21 493 151**	**22 067 458**

Notes on pages 12 to 28 make an integral part of these financial statements.

Balance Sheet as of 31 December, 2012

Equity and Liabilities	Note	2012	2011
Equity			
Share capital	18	16 000 000	16 000 000
Reserves:			
other reserves	19	2 262 505	2 262 505
Retained earnings:			
a) profit for the previous years		135 955	1 197 234
b) profit for the year		459 469	(1 061 279)
Total equity		**18 857 929**	**18 398 460**
Liabilities			
Non-current liabilities			
Loans from credit institutions		-	773 084
Deferred income	20	5 872	36
Deferred tax liabilities		183 587	246 617
Total non-current liabilities		**189 459**	**1 019 737**
Current liabilities			
Loans from credit institutions	21	773 084	843 365
Trade accounts payable	22	283 102	687 335
Taxes and social security contributions	23	518 803	378 381
Other liabilities	24	433 251	387 640
Deferred income		964	440
Accrued liabilities	25	436 559	352 100
Total current liabilities		**2 445 763**	**2 649 261**
Total liabilities		**2 635 222**	**3 668 998**
Total equity and liabilities		**21 493 151**	**22 067 458**

Notes on pages 12 to 28 make an integral part of these financial statements.

Davids Taurins
Chairman of the Board

Gints Freimanis — *Member of the Board*
Baiba Broka — *Member of the Board*
Ilze Aleksandrovica — *Member of the Board*
Elmars Svede — *Member of the Board*

Riga, 16 May, 2013

Cash Flow Statement

(prepared by direct method)

Indicators	2012	2011
I. Cash flow from operating activities		
Cash receipts from customers	17 384 298	15 717 139
Cash receipts from other operating activities	232 738	239 641
Income from cancelled securities	-	976 000
Cash paid to suppliers and employees	(9 490 352)	(9 435 771)
Cash paid on taxes and social security contributions	(3 647 930)	(3 196 735)
Cash paid on income taxes	(184 198)	(189 586)
Interest paid	(41 078)	(79 155)
Penalties received	122 371	50 539
Net cash flow generated from operating activities	***4 375 849***	***4 082 072***
II. Cash flow from investing activities		
Purchases of fixed assets and intangible assets	(3 023 179)	(2 241 565)
Receipt from sale of fixed assets	3 857	-
Interest received	18 699	48 533
Net cash flow generated from investing activities	***(3 000 623)***	***(2 193 032)***
III. Cash flow from financing activities		
Cash paid for non-current loan repayment	(843 365)	(843 365)
Cash in Latvijas Krajbanka converted in receivables	-	(1 251 610)
Received state-guaranteed compensation for deposit in Latvijas Krajbanka	-	70 046
Net cash flow generated from financing activities	***(843 365)***	***(2 024 929)***
IV. Net foreign exchange gains / losses	**41**	**(402)**
V. Net increase / decrease in cash and cash equivalents	**531 902**	**(136 291)**
VI. Cash and cash equivalents at the beginning of the financial year	**2 781 516**	**2 917 807**
VII. Cash and Cash equivalents at the end of the financial year	**3 313 418**	**2 781 516**

Notes on pages 12 to 28 make an integral part of these financial statements.

Davids Taurins
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Member of the Board

Riga, 16 May, 2013

Statement of Changes in Equity

	Fixed capital	Reserves	Deferred profit	Total
	1	*3*	*2*	*4*
As of 31 December 2010	**16 000 000**	**2 262 505**	**1 197 234**	**19 459 739**
Profit (loss) for the year			(1 061 279)	(1 061 279)
As of 31 December 2011	**16 000 000**	**2 262 505**	**135 955**	**18 398 460**
Profit for the year			459 469	459 469
As of 31 December 2012	**16 000 000**	**2 262 505**	**595 424**	**18 857 929**

Notes on pages 12 to 28 make an integral part of these financial statements.

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Riga, 16 May, 2013

Notes to the financial statements

Methods of accounting and assessment – general principles

(a) Basis of preparation of the financial statements

The report is prepared in accordance with:

1. 14.10.1992. Law on Accounting
2. 14.10.1992. Annual Accounts Law
3. 06.05.2010. Document Legal Force Law
4. 21.10.2003. Cabinet Regulations No.585 Regulation Regarding the Conduct and Organisation of Accounting
5. 5.21.06.2011. Cabinet Regulations No.481 Regulations on Cash Flow Statement and Equity Changes Statement Content and Organisation
6. 21.06.2011. Cabinet Regulations No.488 Regulations on Annual Accounts Law Implementation
7. 28.09.2010 Cabinet Regulations No.916 Regulations on Documents Elaboration and Execution, and Accounting standards of the Republic of Latvia and International regulations.

The financial statements are prepared on a historical cost basis.

The profit and loss statement is prepared in accordance with the period cost method.

The cash flow statement is prepared using the direct method.

Valuation principles are consistent with the prior year.

(b) Financial year

Financial year covers 12 months period from 1 January 2012 till 31 December 2012.

(c) Accounting principles applied

The annual report has been prepared in accordance with the following policies:

1) going concern assumption – the Company will continue as a going concern;

2) evaluation principles are consistent with the prior year;

3) items have been valued in accordance with the principle of prudence, i.e.:

a) the annual report reflects only the profit generated till the date of the balance sheet.

b) all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period from the balance sheet date and date the management has signed these financial statements;

c) all impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit;

4) income and expenses incurred during the financial year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses have been matched with revenue for the financial year;

5) asset and liability items have been valued separately;

6) the opening balance sheet matches the prior year closing balance sheet;

7) annual report contains all items, that have considerable influence in evaluation and economic decision making;

Minor positions that do not change significantly the financial statements but make them more detailed are not disclosed. The balance sheet, statement of profit and loss, statement of cash flows and statement of changes in equity include aggregated positions, which are disclosed in the notes of these financial statements.

8) business transactions are recorded taking into account their economic content and substance, not merely the legal form.

Deviations from accounting principles are explained in the notes, disclosing the impact on the Company's assets and liabilities, financial situation and performance.

(d) Income recognition and net sales

Net sales represent the total of goods and services sold during the year net of discounts and value added tax. Income mainly comprises charges of air navigation services which are calculated in accordance with the regulations No.28 "Procedures for the Determination and Collection of the Charges for the Air Navigation Services Provided by the State Stock Company "Latvian Air Traffic" issued by Cabinet of Ministers of Republic of Latvia dated January 3, 2012.The charge on en-route air navigation services is directly proportional to the weight of aircraft and the distance flown, while the charge on terminal air navigation services is directly proportional to the weight of aircraft.
Income is recognized according to the following principles:
Income from services rendered – recognized in the period when services are rendered;
Interest income – recognized, based on accrual basis considering actual profitability of the asset.

(e) Foreign currencies

The accompanying financial statements are presented in the national currency of Latvia, the lat ("LVL").
Lat is freely convertible against all currencies and is recognized as a convertible currency in accordance with the guidelines of the International Monetary Fund. Transactions denominated in foreign currencies are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the financial year.

	31.12.2012	**31.12.2011**
USD	0,531	0,544
EUR	0,702804	0,702804
GBP	0,857	0.84

Foreign exchange gains and losses are recognized in the statement of profit and loss in the period in which they arise.

(f) Intangible assets and fixed assets

Intangible assets and fixed assets are initially recognized at the historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.
Intangible assets and fixed assets are stated in the financial statements at historical cost less accumulated depreciation.
Depreciation is calculated using the straight-line method applying the following annual depreciation rates based on the estimated useful life of intangible assets and fixed assets:

Licences	20%
Buildings	5 – 10%
Technological equipment	12,5 – 14,3%
Other machinery and equipment, transport vehicles	20 – 33,3%

Fixed assets with value over 100 LVL and useful life over 1 year are capitalized. Depreciation for improvements and other low cost items with the value less than 100 LVL is recognized in full after it's ready for use.
Depreciation for improvements and low-value inventories with the value under 100 LVL are 100% expensed after they are put into operation.

In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item beyond its originally assessed standard of performance, such expenses are capitalized as an additional cost of property, plant and equipment.
Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the statement of profit and loss. All other repair and maintenance costs are charged to the statement of profit and loss during the financial period in which they are incurred.

Net gains or losses from disposal of intangible or fixed assets is calculated, as the difference between the carrying amount of the fixed asset, the revaluation reserve (if any) write-off of related assets and proceeds from sale, and recognized in the statement of profit and loss in the period when disposal incurred.

If events or changes in circumstances exist that indicate that the carrying amount of an asset may not be recoverable, the carrying amount of respective fixed assets or intangible assets are written down to its recoverable amount. The recoverable amount is highest of its value if sold (less selling costs) and its value in use.

(g) Leasehold improvements

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the leasehold improvement and the term of the lease.

(h) Lease without redemption rights (operating lease)

In cases, when fixed assets are leased under operating lease terms, lease payments and advance payments for lease are included in statement of profit and loss according to linear method during the lease term.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise purchase price and those overheads that have been incurred in bringing the inventories to their present value and condition.
Cost is calculated using the FIFO method. When the net realizable value of inventories is lower than its cost, the difference is recognized as provisions for the decrease in value.

(j) Financial instruments

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

The purchase and sale of financial assets is recognized on a trade-day – the date on which the Company commits to purchase or to sell financial assets. Loans issued and receivables are recognized, when the money is transferred to the borrower. The financial assets are derecognized, when the rights to receive cash flows from financial assets have expired or the Company has transferred substantially all risks and rewards of ownership. Financial assets available-for-sale are initially recognised at fair value, all transaction expenses are recognized in the statement of profit and loss.

Loans issued 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 those with maturities greater than 12 months. These are classified as non-current assets. Loans issued and receivables are classified as trade receivables and other receivables.

Financial assets available-for-sale

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

Changes in the fair value of monetary and non-monetary assets classified as financial assets available-for-sale are recognized in the equity.

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 significant. If any such evidence exists, the loss from impairment of financial asset is recognized in the statement of profit and loss.

Issued loans and receivables

Loans issued 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 intended to sell immediately or in the nearest future, which are recognized as assets held for trading, and investments, which are classified as financial assets available-for-sale. Initially loans issued and receivables are measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Loans issued and receivables mainly consist of trade receivables, other receivables and term deposits at credit institutions.

Term deposits at credit institutions are assets, which may be withdrawn after definite term. Deposits with no such term limitations or where maturity does not exceed 24 hours or one working day, even if they are interest bearing are classified as demand deposits.

(k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(l) Accrued expenses for unused vacations

Accrued expenses for unused vacations are calculated by multiplying the average employee earnings for last 6 months by the number of unused vacation days at the end of the year.

(m) Taxation

Corporate income tax for the financial year 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 tax basis. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different fixed asset depreciation rates, from revaluation of assets and from tax losses carried forward. When an overall deferred tax asset arises, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(n) Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash at bank and other current liquid financial assets with original maturity up to 90 days.

(o) Related parties

Related parties are considered to be group companies, members of the board and council, their close relatives and companies, where the above mentioned persons have control or significant influence.

(p) Use of estimates and critical accounting judgments

When preparing the financial statements, the Company makes estimates and assumptions concerning the future. Considering their nature, such estimates rarely equal to the related actual results. These financial statements do not include items that are affected by highly subjective or complex estimates. Assumptions and estimates with significant impact on the financial statements were used in assessing certain items of the Company as follows:

(a) estimates regarding useful lives of the property, plant and equipment as described in the relevant accounting policy;

(b) Assumption that as from year 2005, when the Company applied depreciation for each substantial part of building separately, it was practically impossible to adjust the comparative period error retrospectively, it was done prospectively.

(c) estimates regarding recoverable value of debtors, which is performed for each client individually. In case an individual estimate cannot be performed for each of the clients because of the significant number of clients, only substantial debtors are estimated individually. Debtors not estimated individually are grouped by similar credit risk indicators and are estimated jointly considering the experience of past loss. Experience of past loss is adjusted based on current data to present the impact of currently existing condition, which did not exist during the period of the development of past loss and to prevent the impact of past condition, which does not exist currently.

Notes to the statement of profit and loss

(1) Net sales

Net sales by activity:

Types of activity	**2012**	**2011**
Income from air navigation services and transit flights en-route and to airports	14 836 333	14 527 342
Income from air navigation services in terminal zones	1 980 000	2 033 661
Total income from air navigation services	*16 816 333*	*16 561 003*
Income from rent of fixed assets	158 916	121 791
Other income	42 368	15 456
Total	**17 017 617**	**16 698 250**

(2) Other operating income

	2012	**2011**
Receipt of bad debt	493 369	-
Receipt of fines and penalties	128 397	108 947
Receipt of VAT paid in European Union	6 251	8 816
Receipt of overpaid social security contributions from budget	-	711
Receipt from sale of fixed assets	3 163	-
Other operating income	2 270	3 752
Total	**633 450**	**122 226**

The previous tax year doubtful debtor Ryanair has refunded debt in full amount of LVL 490 643, which is recognized as the taxable year revenues

(3) Employee benefit expenses

	2012	**2011**
Salaries	6 669 190	5 868 006
Social security contributions	1 652 175	1 452 568
Accruals for unused vacation	338 377	296 801
Other personnel expenses	303 791	303 517
Employees' health insurance	122 948	118 751
Accruals for employee's expenses	7 992	-
Bonuses paid to the Board	601	6 290
Total	**9 095 074**	**8 045 933**
Including remuneration for the members of the Board:		
Board members' remuneration	145 494	148 542
Board members' social security contributions	35 050	35 784
Total	**180 544**	**184 326**

(4) Other operating expenses

	2012	2011
Payments to income participants – CAA	886 000	1 186 986
Participation fee EUROCONTROL	725 458	610 453
Technical services, repair works and maintenance	641 504	606 814
Training expenses	371 679	688 398
Business trip expenses	370 973	332 771
Insurance	227 405	221 832
Electricity payments	226 695	207 164
Communication expenses	144 387	138 667
Payments to income participants – Transport accident and incident investigation bureau	106 090	130 000
Transport expenses	90 418	86 630
Rent of premises and other objects	66 299	64 458
Land rent	61 485	42 487
Marketing and representation expenses	60 720	42 313
Expenses not directly related to the operating activities	51 242	47 483
Maintenance expenses of premises	45 483	35 508
Legal and other professional services	38 304	28 153
Provisions for doubtful debts	30 606	365 846
Spare parts, materials	16 642	25 441
Post and stationery expenses	13 451	14 341
Audit expenses	6 649	6649
Bank fees	4 616	8 525
Administrative cost adjustment EUROCONTROL	242	118 487
Provision for doubtful debts on "Latvijas Krajbanka"	-	1 181 891
Other expenses	153 329	166 997
Total	**4 339 677**	**6 358 294**

(5) Interest and similar income

	2012	2011
Interest income on balances with bank accounts and deposits	18 764	39 759
Net gains from sale of foreign currency	-	29 111
Interest income from securities	-	7 947
Net gains from increase in value of securities	-	4 074
Total	**18 764**	**80 891**

(6) Interest and similar expenses

	2012	2011
Net losses from the currency conversion	112 361	-
Interest expenses on loans from financial institutions	39 633	77 795
Net losses from foreign exchange rate fluctuations	4 162	90 777
Total	**156 156**	**168 572**

(7) Corporate income tax

	2012	2011
a) Components of corporate income tax		
Corporate income tax for the financial year	203 309	137 333
Deferred tax for the financial year	(63 030)	(308 823)
Total	**140 279**	**(171 490)**

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

	2012	2011
Profit before taxes	629 272	(1 202 633)
Real estate taxes	(29 524)	(30 136)
Profit before corporate income tax	***599 748***	***(1 232 769)***
Theoretically calculated tax at 15% tax rate	**89 962**	**(184 915)**
Tax effects on:		
Temporary differences	19 432	12 610
Changes of unrecognized deferred tax asset	30 885	815
Total corporate income tax expenses	**140 279**	**(171 490)**
b) Movement and components of deferred tax		
Deferred tax liabilities / (asset) at the beginning of the financial year	246 617	555 440
Deferred tax charged to the statement of profit and loss	(63 030)	(308 823)
Deferred tax liabilities / (asset) at the end of the financial year	**183 587**	**246 617**

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):

	31.12.2012	31.12.2011
Temporary difference on depreciation of fixed and intangible assets	446 472	574 645
Gross deferred tax liabilities	**446 472**	**574 645**
Temporary difference on accrued expenses for unused vacations	(65 484)	(52 815)
Temporary difference on provisions for doubtful receivables	(197 401)	(275 213)
Gross deferred tax assets	**(262 885)**	**(328 028)**
Net deferred tax liability (assets)	**183 587**	**246 617**

(8) Other taxes

	2012	2011
Real estate tax for land	11 107	12 025
Real estate tax for buildings	18 417	18 111
Total	**29 524**	**30 136**

Notes to the balance sheet

(9) Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Total
Historical cost		
31.12.2011	88 673	88 673
Additions in year 2012	-	-
Disposals in year 2012	(1 309)	(1 309)
31.12.2012	87 364	87 364
Accumulated amortization		
31.12.2011	88 673	88 673
Charge for the year 2012	-	-
Disposals in year 2012	(1 309)	(1 309)
31.12.2012	87 364	87 364
Net book value as of 31.12.2011	**0**	**0**
Net book value as of 31.12.2012	**0**	**0**

(10) Fixed assets
Fixed assets movement table

	Land and buildings	Leasehold improvements	Equipment and machinery	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Total
Historical cost							
31.12.2011	6 435 725	2 081 956	32 450 691	3 248 021	502 689	1 355 277	**46 074 359**
Additions in year 2012	70 170	-	112 183	134 632	1 245 549	1 000 819	2 563 353
Disposals in year 2012	-	(11 419)	(2 994 863)	(207 301)	(140)	-	(3 213 723)
Transferred in year 2012	9 998	14 687	131 933	178 130	1 020 529	(1 355 277)	0
31.12.2012	6 515 893	2 085 224	29 699 944	3 353 482	2 768 627	1 000 819	**45 423 989**
Accumulated depreciation							
31.12.2011	4 096 709	838 834	22 432 119	2 581 502	x	x	**29 949 164**
Charge for the year 2012	257 455	257 354	2 607 612	327 231	x	x	3 449 652
Disposals in year 2012	-	(10 797)	(2 994 534)	(204 452)	x	x	(3 209 783)
31.12.2012	4 354 164	1 085 391	22 045 197	2 704 281	x	x	**30 189 033**
Net book value as of 31.12.2011	**2 339 016**	**1 243 122**	**10 018 572**	**666 519**	**502 689**	**1 355 277**	**16 125 195**
Net book value as of 31.12.2012	**2 161 729**	**999 833**	**7 654 747**	**649 201**	**2 768 627**	**1 000 819**	**15 234 956**

In the year 2012 an amount of 4 817 LVL is included in the fixed assets depreciation which is the depreciation of fixed assets that are not used in Company's operating activities (2011: 5 473LVL).

The Company has in its constant use the land and the registered owner in Land Register is The Ministry of Transport of the Republic of Latvia. Total area of the land is 24.70 ha (2011: 24.70 ha). The cadastral value of land amounts to 740 854 LVL (2011: 802 776 LVL). During the year 2012 the Company has paid real estate tax on land in the amount of 11 113 LVL (2011: 12 025 LVL).

In the balance sheet as of 31 December 2012 included fully depreciated property, plant and equipment with a cost of 10 111 251 LVL (31 December 2011: 10 110 300 LVL).

The Company leases out insignificant part of its premises under the operating lease terms. The rental income is included in „Net sales" in the statement of profit and loss.

Part of the Company's assets is pledged as collateral on the loan obtained from SEB Banka (Note 21).

(11) Other non-current receivables

	2012	2011
Leasehold improvements	8 438	10 548
Total	**8 438**	**10 548**

Other non-current receivable includes the cost of the leasehold improvements made by the Company, which will be used to offset the lease liabilities in the future.

Current assets

(12) Raw materials and consumables

	2012	2011
Raw materials and consumables	32 670	23 694
Fuel	9 841	10 115
Coveralls	7 787	5 010
Total	**50 298**	**38 819**

(13) Trade accounts receivable

	2012	2011
Trade accounts receivables book value	2 775 480	3 399 030
Provisions for bad and doubtful debts	(134 118)	(652 864)
Balance sheet value	**2 641 362**	**2 746 166**

Provisions for bad and doubtful debts have been made 100 % of their book value.

(14) Other receivables

	2012	2011
VAT overpayment (Note 23)	64 063	65 832
Input VAT accepted	27 954	25 774
Advances paid to suppliers	11 324	142 931

Other receivables	10 815	4 463
Total	**114 156**	**239 000**

(15) Deferred expenses

	2012	**2011**
Short-term computer software licences	44 800	43 293
Rent of land, maintenance of airport infrastructure	34 668	35 022
Prepayments of insurance	29 055	41 700
Subscription fees	4 653	4 197
Trainings for employees	2 754	1 192
Other expenses	6 086	810
Total	**122 016**	**126 214**

(16) Accrued income

	2012	**2011**
Income for services of the taxable year	8 507	-
Total	**8 507**	**-**

(17) Cash and cash equivalents

	2012	**2011**
Cash at bank on current accounts	3 313 418	1 797 590
Cash at bank deposit accounts	-	983 926
Total	**3 313 418**	**2 781 516**

Equity

(18) Share capital

As of 31 December 2012 the registered and fully paid share capital is 16 000 000 LVL, composed of 16 000 000 ordinary shares with a nominal value of 1 LVL each.

(19) Other reserves and payments for the use of state capital

Based on the regulations of the Cabinet of Ministers of 15 December 2009 No. 1471 "The order of determining and paying into the state budget the distributable profit share for the use of the state capital", the Company should pay out dividends in the amount of 90% of the retained net profit for the financial year. Regulations provide the possibility to determine also a different portion of profits payable out as dividends.

(20) Deferred income

	2012	**2011**
Received pre-payment of the financial support	5 872	36
Kopā	**5 872**	**36**

According to the decision of the European Commission on Community financial support to the projects of common interest "Coordination of Air Navigation Service Providers (ANSP) in

IDSG Group" - 2011-EU-93055-S in Trans-European transport network (TEN-T) area, received 50 % advance payment from the amount of 16 709.00 EUR foreseen in the decision.

(21)Loans from credit institutions

	2012	2011
Non-current		
Loan from SEB Bank, non-current part	-	773 084
Total	**-**	**773 084**
Current		
Loan from SEB Bank, current part	773 084	843 365
Total	**773 084**	**843 365**

On 8 December 2008, the Company has signed a credit agreement with SEB Bank, the limit of the granted credit is 6 000 000 EUR. The repayments are set to be on deferred basis with the maturity date of 8 December 2013. 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 1 000 000 EUR amount from the total available amount is not issued, therefore credit maximum limit is reduced to 5 000 000 EUR. On 26 January 2011 amendment was signed to the agreement stating a change of interest rate to 2.2% per annum.

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 5 481 871 LVL.

(22) Trade accounts payables

	2012	2011
Trade accounts payables	283 102	687 335
Total	**283 102**	**687 335**

(23) Taxes and social security contributions

Type of tax	Balance as of 31.12.11.	Calculated in 2012	Paid in 2012	Transferred to other taxes	Balance as of 31.12.12.
Value added tax	(65 832)	(286 136)	12 683	275 222	(64 063)
Personnel income tax	127 760	1 533 825	(1 486 343)	-	175 242
Social security contributions	208 384	2 490 558	(2 141 410)	(275 222)	282 310
Corporate income tax	41 369	203 309	(184 198)	-	60 480
Property tax (land)	-	11 107	(11 113)	-	(6)
Property tax (buildings)	-	18 417	(18 417)	-	-
Company Car Tax	-	4 341	(3 662)	-	679
Natural resource tax	781	142	(923)	-	-
Risk duty	87	1 090	(1 085)	-	92

Total	**312 549**	**3 976 653**	**(3 834 468)**	**0**	**454 734**
Hereof:					
Overpaid (Note 14)	**(65 832)**				**(64 069)**
Payable	**378 381**				**518 803**

(24) Other liabilities

	2012	2011
Salaries	399 949	348 576
Other liabilities	33 302	39 064
Total	**433 251**	**387 640**

(25) Accrued liabilities

	2012	2011
Accrued expenses for unused vacations	338 377	296 801
Accruals for expenses	98 182	55 299
Total	**436 559**	**352 100**

(26) Average number of employees

	2012	2011
Average number of people employed during the financial year	362	349

(27) Transactions with related parties

The Company is a State Joint Stock Company, the sole holder of which shares is the Ministry of Transportation of the Republic of Latvia. The Company has transactions with other companies controlled by State as well as with agencies. Most material transactions are with JSC „Air Baltic Corporation", SJSC „Starptautiskā lidosta Rīga", SLLC „Latvijas Vides, ģeoloģijas un meteoroloģijas centrs", SJSC „Latvenergo", SIA „Lattelecom", SIA „Latvijas Mobilais Telefons" and others. The transactions are related to the operating activities of both parties and do not constitute as related party transactions in the terms of the Law on Corporate Income Tax.

(28) Commitments and contingencies

a) Capital commitments

In accordance with signed agreements as of 31 December 2012 the Company has undertaken to fulfil future liabilities for acquire of fixed assets in amount of 2 110 900 LVL (2011: 2 199 800 LVL).

After joining the European Organization for the Safety of Air Navigation (Eurocontrol), the Company will have additional expenses as Eurocontrol membership payments, technical integration and other related expenses.

To finance the capital investment, the Company plans to use financial resources from its business operations.

b) Operating lease agreements

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 statement of profit and loss under „Other operating expenses".

(29) Financial and capital risk 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.

(30) (a) Market risk

(i) Foreign currency risk

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar's fluctuations as to the euro and other currencies fixed to the euro. Foreign currency risks arise from future commercial transactions, recognized assets and liabilities. The main parts 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 Latvian lats against euro, i.e. 0.702804, and ensures 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:

	2012	**2011**
Financial assets, EUR	11 409 735	12 246 340
Financial liabilities, EUR	(1 266 180)	(3 107 201)
Open position in EUR, net	*10 143 555*	*9 139 139*
Open position in EUR translated into Latvian lats, net	**7 128 931**	**6 423 023**

	2012	**2011**
Financial assets, USD	140 814	97 639
Financial liabilities, USD	(249)	(240)
Open position in USD, net	*140 565*	*97 399*
Open position in USD translated into Latvian lats, net	**74 640**	**52 985**

(ii) Interest rate risk

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note 21), while the main part of the Company's financial assets interest-free receivables (except for financial assets available-for-sale), therefore the Company is exposed to floating interest rate risk.

	2012	**2011**
Financial liabilities with variable interest rate, EUR translated into LVL	(773 084)	(1 616 449)
Open position, net, LVL	**(773 084)**	**(1 616 449)**

(b) Credit risk

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration, are primarily trade receivables, other receivables, cash and cash 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 financial assets are only the local financial institutions with appropriate ranking.

Maximum exposure to credit risk

	2012	**2011**
Trade receivables, other receivables (net)	2 886 041	3 111 380
Other long term receivables	8 438	10 548
Cash and cash equivalents	3 313 418	2 781 516
Financial assets subject to credit risk	**6 207 897**	**5 903 444**

Ageing of trade accounts receivable

	2012	**2011**
Debtors not due	2 632 247	2 476 183
Debtors due less than 30 days	784	151 721
Debtors due from 31 to 90 days	401	116 916
Debtors due 91 days and more	7930	1 346
Total trade receivables, net	**2 641 362**	**2 746 166**

(c) Liquidity risk

Company considers a prudent liquidity risk management and maintains a sufficient quantity of cash. 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.

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

As of 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 account payables and other liabilities	1 805 932	1 805 932	-	-	-
	3 422 381	**2 649 297**	**773 084**	-	-

As of 31 December 2012	**Kopā LVL**	**<1gadu LVL**	**1-2gadi LVL**	**2-5gadi LVL**	**>5 years LVL**
Long-term loans	-	-	-	-	-
Short-term loans	773 084	773 084	-	-	-
Trade account payables and other liabilities	1 678 551	1 678 551	-	-	-
	2 451 635	**2 451 635**	-	-	-

All trade accounts 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 financial year there were no changes in capital management objectives, policies or processes.

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

(31) Events after the balance-sheet date

During the period between the balance sheet date and the date of signing this report there have been no significant events that would have a material impact on the Company's financial statements as of 31 December 2012.

Davids Taurins
Chairman of the Board

Gints Freimanis — *Member of the Board*
Baiba Broka — *Member of the Board*
Ilze Aleksandrovica — *Member of the Board*
Elmars Svede — *Member of the Board*

Riga, 16 May, 2013

Financial statements have been approved on the Shareholder's meeting on 7 Juke , 2013

Audits

INDEPENDENT SWORN AUDITOR'S REPORT

To the shareholder of VAS "Latvijas gaisa satiksme", Reg. No. 40003038621

Audit of Financial Statements

We have audited the financial statements and management report included in the annual report for the year 2012 of **VAS "Latvijas gaisa satiksme"** on pages 7 to 28. The audited annual report includes a balance sheet as at 31 December 2012, profit and loss account, statement of changes in ownership capital and cash flow statement, as well as a summary of the accounting principles and other explanatory information attached.

Responsibility of management for the preparation of financial statements
The company's management is responsible for the preparation of these financial statements and a true view of information included therein in accordance with the Republic of Latvia Law of Annual Reports. The said responsibility covers the creation, introduction and maintenance of such internal control system, which assures the preparation of financial statements, which are free from fraud or material misstatement caused by errors, and a true view, selection and application of due accounting policies, as well as preparation of the financial statements, which are appropriate to the company's circumstances.

Responsibility of auditors
We are responsible for the opinion, which we form, based on our audit, on those financial statements. We conducted our audit in accordance with International Auditing Standards admitted in Latvia. It is stipulated in the Standards that we have to comply with the ethics requirements and conduct an audit so as to obtain sufficient assurance that the financial statements are free from material misstatement.
An audit includes procedures to be carried out in order to obtain evidences of the amounts and information presented and disclosed in the financial statements. The procedures are selected on the basis of the auditors' professional assessment, including material misstatement of the risk estimate in the financial statements caused by fraud or errors. Estimating the said risk, the auditor has regard to the internal control created for the assurance of the preparation of financial statements and giving a true view of information presented therein, with the purpose to determine auditing procedures to be appropriate to the circumstances, and not to give an opinion of the control efficiency. An audit also includes an assessment of appropriation of the applied accounting principles and significant assumptions made by the management, as well as general assessment of information presented in those financial statements.
We consider that our obtained evidences are sufficient and adequate to our opinion.

Opinion
In our opinion above financial statements give a true and fair view of **VAS "Latvijas Gaisa Satiksme"** financial standing as at 31 December 2012 and of its financial performance and cash flow at the beginning of 2012 in accordance with the Republic of Latvia Law of Annual Reports.

Opinion on management report compliance

We also got familiarized with the management report for the year 2012 on pages 4 to 6, and we did not detect any material discrepancies between that management report and financial information presented in the financial statements for the year 2012.

Commandite „S.Vilcānes audits"
Sworn Auditors Commercial Company /License No. 88/
Sworn Auditor /Certificate No. 30/, Director **Sandra Vilcāne**

RĪGAS KOMANDĪTSABIEDRĪBA "S. VILCĀNES AUDITS" S.V.AUDITS LATVIJA

Riga, Latvia
16 May 2013