

**SJSC "LATVIJAS GAISA SATIKSME"**

**ANNUAL REPORT FOR THE YEAR 2012  
PREPARED IN ACCORDANCE  
WITH INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

**ANNUAL REPORT FOR THE YEAR 2012**  
(Translation of the Latvian original)

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

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<b>NAME OF COMPANY</b>	SJSC "LATVIJAS GAISA SATIKSME"
<b>LEGAL STATUS</b>	State Joint Stock Company
<b>REGISTRATION NUMBER., PLACE AND DATE</b>	Company Register Nr.40003038621, Riga, 21 October 1991 Commercial Register, Riga, 11 October 2004
<b>ADDRESS (LEGAL AND MAIL)</b>	KDP building, International airport "Riga", Marupe district, LV-1053, Latvia
<b>PRIMARY BUSINESS TYPE</b>	Airspace use and air traffic management of the Republic of Latvia
<b>NAMES AND ADDRESS OF SHAREHOLDERS AND NUMBER OF SHARES AS %</b>	Ministry of Transport of the Republic of Latvia 3 Gogola street, Riga, LV-1743
<b>REPORTING YEAR</b>	01.01.2012 - 31.12.2012
<b>FINANCIAL STATEMENT USERS CURRENCY</b>	LVL
<b>CERTIFIED AUDITOR</b>	Commandite "S. Vilcanes audits" Reg.Nr.40003192915  Certified Auditor Sandra Vilcane Certificate No. 30

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

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**Name**

**Position**

From December 17, 2010 till November 30, 2011

Chairman of the Board  
Member of the Board  
Member of the Board  
Member of the Board  
Member of the Board

Davids Taurins  
Edmunds Kancevics  
Artis Birkmanis  
Elmars Svede  
Baiba Broka

From December 1, 2011 till June 15, 2012

Chairman of the Board  
Member of the Board  
Member of the Board  
Member of the Board  
Member of the Board

Davids Taurins  
Gints Freimanis  
Artis Birkmanis  
Elmars Svede  
Baiba Broka

From June 16, 2012 till the financial statements signing day

Chairman of the Board  
Member of the Board  
Member of the Board  
Member of the Board  
Member of the Board

Davids Taurins  
Gints Freimanis  
Ilze Aleksandrovica  
Elmars Svede  
Baiba Broka



## **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 Transfer 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 runway will be up to 30 sea miles shorter than the currently existing one and per each Q400 flight, CO2 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 "Ventpils" 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 "Liepāja", 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.

Signed:

Dauids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

Marupe region, May 16, 2013



**STATEMENT OF THE MANAGEMENT RESPONSIBILITY**

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

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 8 to page 27 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.

Davids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013

**SJSC "LATVIJAS GAISA SATIKSME"**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**

	2012	2011	Notes
	LVL	LVL	
Net sales	17,017,617	16,698,250	2
Investment income	12,579	35,531	3
Other gains and losses	633,450	122,226	4
Employee benefits expense	(9,095,074)	(8,045,933)	5
Depreciation and amortization expenses	(3,449,652)	(3,531,201)	6
Other expenses	(4,369,201)	(6,480,167)	7
Other gains/(losses), net	(116,564)	29,111	8
<b>Operating profit</b>	<b>633,155</b>	<b>(1,172,183)</b>	
Finance income	6,226	12,175	9
Finance income	(39,633)	(78,197)	10
<b>Profit before tax</b>	<b>599,748</b>	<b>(1,238,205)</b>	
Income tax expense	(140,279)	172,305	11
<b>Profit for the year</b>	<b>459,469</b>	<b>(1,065,900)</b>	
<b>Other comprehensive income</b>			
Net gain on available-for-sale financial assets during the year (reversal of impairment loss)	-	4,074	
Currency exchange of securities evaluation	-	1,362	
Deferred tax effect on changes in the fair value	-	(815)	11
<b>Total comprehensive income for the year</b>	<b>459,469</b>	<b>(1,061,279)</b>	
Number of shares	16,000,000	16,000,000	
Earnings per share (in santims)	<b>0.03</b>	<b>(0.07)</b>	

The notes on pages 13 to 27 forms an integral part to this financial statements.

Daivids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013

**SJSC "LATVIJAS GAISA SATIKSME"**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2012 AND 31 DECEMBER 2011**

	December 31, 2012	December 31, 2011	Notes
ASSETS	LVL	LVL	
<b>Non-current assets:</b>			
<b>Intangible assets</b>			
Concessions, patents, licenses	-	-	12
<b>Total Intangible assets:</b>	-	-	
<b>Fixed assets</b>			
Property, plant and equipment	15,234,956	16,125,195	13
Other investments	8,438	10,548	14
<b>Total Fixed assets:</b>	<b>15,243,394</b>	<b>16,135,743</b>	
<b>Total non-current assets:</b>	<b>15,243,394</b>	<b>16,135,743</b>	
<b>Current assets</b>			
Inventories	50,298	38,819	15
Trade and other receivables	2,877,534	3,111,380	16
Accrued income	8,507	-	
Cash and cash equivalents	3,313,418	2,781,516	17
<b>Total current assets:</b>	<b>6,249,757</b>	<b>5,931,715</b>	
<b>Total assets</b>	<b>21,493,151</b>	<b>22,067,458</b>	

The notes on pages 13 to 27 forms an integral part to this financial statements.

Dauids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013



**SJSC "LATVIJAS GAISA SATIKSME"**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2012 AND 31 DECEMBER 2011**

	December 31, 2012 LVL	December 31, 2011 LVL	Notes
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16,000,000	16,000,000	<b>18</b>
Other reserves	2,262,505	2,262,505	
Retained earnings	595,424	135,955	
<b>Total equity:</b>	<b>18,857,929</b>	<b>18,398,460</b>	
<b>Liabilities:</b>			
<b>Non-current liabilities</b>			
Borrowings	-	773,084	<b>19</b>
Deferred income tax liabilities	183,587	246,617	<b>11</b>
Other non-current liabilities	5,872	36	<b>20</b>
<b>Total non-current liabilities:</b>	<b>189,459</b>	<b>1,019,737</b>	
<b>Current liabilities</b>			
Borrowings	773,084	843,365	<b>19</b>
Trade and other payables	1,671,715	1,805,456	<b>21</b>
Deferred revenue	964	440	
<b>Total current liabilities:</b>	<b>2,445,763</b>	<b>2,649,261</b>	
<b>Total liabilities:</b>	<b>2,635,222</b>	<b>3,668,998</b>	
<b>Total equity and liabilities:</b>	<b>21,493,151</b>	<b>22,067,458</b>	

The notes on pages 13 to 27 forms an integral part to this financial statements.

Dauids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013

**SJSC "LATVIJAS GAISA SATIKSME"**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**

	Share Capital	Available for sale financial assets revaluation reserve	Other Reserves	Retained earnings	Total
<b>At 31 December 2010</b>	<b>16,000,000</b>	<b>(4,621)</b>	<b>2,262,505</b>	<b>1,201,855</b>	<b>19,459,739</b>
Loss for the year	-	-	-	(1,065,900)	(1,065,900)
Correction in presentation of financial assets available for sale	-	4,074	-	-	4,074
Correction in presentation of deferred income tax effect on financial assets revaluation	-	1,362	-	-	1,362
Correction in presentation of deferred income tax effect on financial assets revaluation	-	(815)	-	-	(815)
<b>At 31 December 2011</b>	<b>16,000,000</b>	<b>-</b>	<b>2,262,505</b>	<b>135,955</b>	<b>18,398,460</b>
Profit for the year	-	-	-	459,469	459,469
<b>At 31 December 2012</b>	<b>16,000,000</b>	<b>-</b>	<b>2,262,505</b>	<b>595,424</b>	<b>18,857,929</b>

Dauids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013



**SJSC "LATVIJAS GAISA SATIKSME"**
**CASH FLOW STATEMENT**
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011**

	<b>2012</b>	<b>2011</b>	<b>NOTES</b>
	<b>LVL</b>	<b>LVL</b>	
<b>Cash flow from operating activities</b>			
From customers and subscribers to the money received	17,739,407	16,007,319	
Proceeds from redemption of bonds	-	976,000	
Suppliers and employees paid in cash	(9,490,352)	(9,435,771)	
Taxes paid and social security charges	(3,647,930)	(3,196,735)	
Corporate income tax expenses	(184,198)	(189,586)	
Interest paid	(41,078)	(79,155)	
<b>Net cash flow from operating activities</b>	<b>4,375,849</b>	<b>4,082,072</b>	
<b>Cash flow from investing activities</b>			
Fixed assets and intangible assets	(3,023,179)	(2,241,565)	
Proceeds from sale of fixed assets	3,857	-	
Interest received	18,699	48,533	
<b>Net cash used in investing activities</b>	<b>(3,000,623)</b>	<b>(2,193,032)</b>	
<b>Cash flow from financing activities</b>			
Long-term debt repayments	(843,365)	(843,365)	<b>19</b>
Cash in Latvijas Krajbanka converted in receivables	-	(1,251,610)	
Received state-guaranteed compensation for deposit in Latvijas Krajbanka	-	70,046	
<b>Net cash outflow from financing activities</b>	<b>(843,365)</b>	<b>(2,024,929)</b>	
Foreign exchange rate fluctuations	41	(402)	<b>9, 10</b>
<b>Net cash and cash equivalents increase (decrease)</b>	<b>531,902</b>	<b>(136,291)</b>	
<b>Cash and cash equivalents at the beginning</b>	<b>2,781,516</b>	<b>2,917,807</b>	
<b>Cash and cash equivalents at end of year</b>	<b>3,313,418</b>	<b>2,781,516</b>	

The notes on pages 13 to 27 forms an integral part to this financial statements.

Davids Taurins, Chairman of the Board

Baiba Broka, Board member

Ilze Aleksandrovica, Board member

Elmars Svede, Board member

Gints Freimanis, Board member

16 May, 2013

**I. GENERAL INFORMATION**

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

**II. ACCOUNTING POLICIES****1. Basis of preparation**

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

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

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

IAS 12, Income Taxes

Amendment to IAS 12 - Deferred Tax: Recovery of Underlying Assets. The Amendments apply to all entities with investment properties, property, plant, equipment, intangible assets and other assets and liabilities measured using a fair value or revaluation model. The Amendments become effective for annual periods beginning on or after 1 January 2012.

*b) Standards, amendments and interpretations that adopts by European Union in the reporting period, effective from 1 January 2014, but not relevant for operations of the Company:*

standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011));

IFRS 13, IFRIC 20, amendments to IFRS 1 (hyperinflation and fixed dates), IFRS 7/IAS 32 (offsetting)

**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, 2012	December 31, 2011
	LVL	LVL
1 USD	0.531	0.544
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.28 dated January 3, 2012 Procedures for the Determination and Collection of the Charges for the Air Navigation Services Provided by the State Stock Company "Latvian Air Traffic". Charge on en-route air navigation services is directly proportional to the weight of aircraft and the distance flown, while charge on terminal air navigation services is directly proportional to the weight of aircraft.

Income is recognized according to the following principles:

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

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

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

**5. Intangible assets**

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

	Years
Licences	5

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

**6. Property, plant and equipment**

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

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

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

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



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

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

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

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

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

## **7. Inventory**

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

## **8. Financial assets**

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

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

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

### **a) Available-for-sale financial asset**

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

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

**b) Loans and receivables**

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

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

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

**9. Cash and cash equivalents**

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

**10. Operating leases**

**a) The Company as a lessee**

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

**b) The Company as a lessor**

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

**11. Payments for the use of state capital**

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

**12. Taxation**

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

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

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



### **13. Borrowings**

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

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

### **14. Provisions**

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

### **15. Accrued liabilities for unused annual leave**

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

### **16. Income tax**

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

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

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

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

### **17. Earnings per share**

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

### **18. Related parties**

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

### **19. Critical accounting estimates and judgements**

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

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

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**1. Segment information**

**a. Operation and reportable segment**

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

**b. Geographical markets**

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

**2. Revenue**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Revenues from air navigation services in relation to transit flights and routes to the airports	14,836,333	14,527,342
Revenues from air navigation services in airport control zones	1,980,000	2,033,661
<i>Total revenues from air navigation</i>	<i>16,816,333</i>	<i>16,561,003</i>
Revenue from rental service	88,487	-
Revenue from fixed assets rental service	63,086	121,791
Revenue from other services	49,711	15,456
	<u>17,017,617</u>	<u>16,698,250</u>

**3. Investment income**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Interest income on deposits	12,579	27,584
Interest income from securities	-	7,947
	<u>12,579</u>	<u>35,531</u>

**4. Other gains and losses**

<b>Receipt of bad debts</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Receipt of bad debts	493,369	-
Receipt of surcharge and penalties	128,397	108,947
VAT paid back from EU	6,251	8,816
Gain from fixed assets disposal	3,163	-
Receipt of overpaid social security contributions from budget	-	711
Other operating income	2,270	3,752
	<u>633,450</u>	<u>122,226</u>

**5. Employee benefits expense**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Salaries	6,669,190	5,868,006
Social security contributions	1,652,175	1,452,568
Accrued unused annual leave	338,377	296,801
Employees' health insurance expenses	122,948	118,751
Accrued personal expenses	7,992	-
Provisions for performance bonuses of the Board	601	6,290
Other personnel expenses	303,791	303,517
	<u>9,095,074</u>	<u>8,045,933</u>



**including Board members**

salaries and bonuses	145,494	148,542
social security contributions	35,050	35,784
	<u>180,544</u>	<u>184,326</u>

<b>Average number of employees during the reporting year</b>	<b>362</b>	<b>349</b>
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**6. Depreciation and amortisation**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Depreciation of technical equipment	2,607,612	2,696,332
Depreciation of other property, plant and equipment	327,231	314,407
Depreciation of buildings	257,455	270,152
Long term leasehold improvements	257,354	249,092
Amortisation of intangible assets	-	1,218
	<u>3,449,652</u>	<u>3,531,201</u>

**7. Other operating expenses**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Payments to CAA	886,000	1,186,986
Entry 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 the Accidents investigation bureau	106,090	130,000
Transport expenses	90,418	86,630
Rent of premises	66,299	64,458
Rent of land plot	61,485	42,487
Marketing and representation expenses	60,720	42,313
Expenses not directly related to the operating activities	51,242	47,483
Premises maintenance expenses	45,483	35,508
Legal and other professional services expenses	38,304	28,153
Provisions for doubtful debts	30,606	365,846
Real estate tax on buildings and constructions	18,417	18,111
Spare parts, materials	16,642	25,441
Post and stationery expenses	13,451	14,341
Real estate tax on land	11,107	12,025
Audit fee	6,649	6,649
Bank fees	4,616	8,525
Administrative cost adjustment EUROCONTROL	242	118,487
Provision for doubtful debts on Latvijas Krajbanka saving a/c	-	1,181,891
Net losses on foreign exchange	-	91,737
Other expenses	153,329	166,997
	<u>4,369,201</u>	<u>6,480,167</u>

<b>8. Other gains/(losses), net</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Net gains (loss) on forex and currency exchange rate	(116,564)	29,111
	<u>(116,564)</u>	<u>29,111</u>
<b>9. Finance income</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Interest income on current bank accounts	6,185	12,175
Net profit on foreign exchange related to cash and cash equivalents	41	-
<b>Net profit on foreign exchange related to cash and cash equivalents</b>	<u>6,226</u>	<u>12,175</u>
<b>10. Finance expenses</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Interest expenses paid to credit institutions	39,633	77,795
Net losses on foreign exchange related to cash and cash equivalents	-	402
	<u>39,633</u>	<u>78,197</u>
<b>11. Corporate income tax</b>		
<b>a. Components of corporate income tax</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Corporate income tax for the year	203,309	137,333
Changes in deferred income tax	(63,030)	(309,638)
	<u>140,279</u>	<u>(172,305)</u>
<b>b. Reconciliation of accounting profit to income tax charges</b>		
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:		
	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Profit before taxes	599,748	(1,238,205)
<b>Theoretically calculated tax at 15% tax rate</b>	<u><b>89,962</b></u>	<u><b>(185,731)</b></u>
<b>Tax effects on:</b>		
Non-deductible expenses for tax purposes	19,432	13,426
Changes in unrecognized deferred tax asset	30,885	-
<b>Total tax charge</b>	<u><b>140,279</b></u>	<u><b>(172,305)</b></u>
<b>c. Movement and components of deferred tax</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Deferred tax liabilities (asset) at the beginning of the financial year	246,617	555,440
Deferred tax charged to the income statement	(63,030)	(309,638)
Changes in deferred tax recognised in revaluation reserves of available -for-sale financial assets	-	815
<b>Deferred tax liabilities (asset) at the end of the financial year</b>	<u><b>183,587</b></u>	<u><b>246,617</b></u>

**11. Corporate income tax (continued)**

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

	<b>2012</b> <b>LVL</b>	<b>2011</b> <b>LVL</b>
Temporary difference on depreciation of fixed and intangible assets	446,472	574,645
<b>Gross deferred tax liabilities</b>	<b>446,472</b>	<b>574,645</b>
Temporary difference on accruals for annual leave	(65,484)	(52,815)
Temporary difference on provision for doubtful receivables	(197,401)	(275,213)
<b>Gross deferred tax assets</b>	<b>(262,885)</b>	<b>(328,028)</b>
<b>Net deferred tax liabilities (assets)</b>	<b>183,587</b>	<b>246,617</b>

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:

	<b>2012</b> <b>LVL</b>	<b>2011</b> <b>LVL</b>
<b>Deferred tax assets:</b>		
deferred tax asset to be recovered after more than a year	(197,401)	(275,213)
deferred tax asset to be recovered within a year	(65,484)	(52,815)
	<b>(262,885)</b>	<b>(328,028)</b>
<b>Deferred tax liabilities:</b>		
deferred tax liabilities to be recovered within a year	446,472	574,645
	<b>446,472</b>	<b>574,645</b>
<b>Net deferred tax liabilities (assets)</b>	<b>183,587</b>	<b>246,617</b>

**12. Intangible assets**

<b>LVL</b>	<b>Koncesijas, patenti, licences</b>	<b>Total</b>
<b>At 31 December 2010</b>	<b>93,874</b>	<b>93,874</b>
Disposals	(5,201)	(5,201)
<b>At 31 December 2011</b>	<b>88,673</b>	<b>88,673</b>
Disposals	(1,309)	(1,309)
<b>At 31 December 2012</b>	<b>87,364</b>	<b>87,364</b>
<b>Accumulated depreciation</b>		
<b>At 31 December 2010</b>	<b>(92,656)</b>	<b>(92,656)</b>
Depreciation expense	(1,218)	(1,218)
Eliminated on disposals of assets	5,201	5,201
<b>At 31 December 2011</b>	<b>(88,673)</b>	<b>(88,673)</b>
Eliminated on disposals of assets	1,309	1,309
<b>At 31 December 2012</b>	<b>(87,364)</b>	<b>(87,364)</b>
<b>Carrying amounts</b>		
<b>At 31 December 2010</b>	<b>1,218</b>	<b>1,218</b>
<b>At 31 December 2011</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2012</b>	<b>-</b>	<b>-</b>



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**13. Property, plant and equipment**

<b>LVL</b>	<b>Land and buildings</b>	<b>Leasehold improvements</b>	<b>Equipment and machinery</b>	<b>Other fixed assets</b>	<b>PPE under construction</b>	<b>Advances for PPE</b>	<b>Total</b>
<b>Historical cost</b>							
<b>At 31 December 2010</b>	<b>6,375,911</b>	<b>2,048,699</b>	<b>31,146,531</b>	<b>3,027,709</b>	<b>1,123,368</b>	<b>594,054</b>	<b>44,316,272</b>
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)	-
<b>At 31 December 2011</b>	<b>6,435,725</b>	<b>2,081,956</b>	<b>32,450,691</b>	<b>3,248,021</b>	<b>502,689</b>	<b>1,355,277</b>	<b>46,074,359</b>
Additions	70,170	-	112,183	134,632	1,245,549	1,000,819	2,563,353
Disposals	-	(11,419)	(2,994,863)	(207,301)	(140)	-	(3,213,723)
Reclassified	9,998	14,687	131,933	178,130	1,020,529	(1,355,277)	-
<b>At 31 December 2012</b>	<b>6,515,893</b>	<b>2,085,224</b>	<b>29,699,944</b>	<b>3,353,482</b>	<b>2,768,627</b>	<b>1,000,819</b>	<b>45,423,989</b>
<b>Accumulated depreciation</b>							
<b>At 31 December 2010</b>	<b>(3,827,323)</b>	<b>(633,163)</b>	<b>(20,050,056)</b>	<b>(2,383,640)</b>	<b>-</b>	<b>-</b>	<b>(26,894,182)</b>
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
<b>At 31 December 2011</b>	<b>(4,096,709)</b>	<b>(838,834)</b>	<b>(22,432,119)</b>	<b>(2,581,502)</b>	<b>-</b>	<b>-</b>	<b>(29,949,164)</b>
Depreciation expense	(257,455)	(257,354)	(2,607,612)	(327,231)	-	-	(3,449,652)
Eliminated on disposals of assets	-	10,797	2,994,534	204,452	-	-	3,209,783
<b>At 31 December 2012</b>	<b>(4,354,164)</b>	<b>(1,085,391)</b>	<b>(22,045,197)</b>	<b>(2,704,281)</b>	<b>-</b>	<b>-</b>	<b>(30,189,033)</b>
<b>Carrying amounts</b>							
<b>At 31 December 2010</b>	<b>2,548,588</b>	<b>1,415,536</b>	<b>11,096,475</b>	<b>644,069</b>	<b>1,123,368</b>	<b>594,054</b>	<b>17,422,090</b>
<b>At 31 December 2011</b>	<b>2,339,016</b>	<b>1,243,122</b>	<b>10,018,572</b>	<b>666,519</b>	<b>502,689</b>	<b>1,355,277</b>	<b>16,125,195</b>
<b>At 31 December 2012</b>	<b>2,161,729</b>	<b>999,833</b>	<b>7,654,747</b>	<b>649,201</b>	<b>2,768,627</b>	<b>1,000,819</b>	<b>15,234,956</b>

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

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

The total area of the land is 24.70 ha (2011: 24.70 ha). The cadastral value of land amounts to LVL 740 854 (2011: LVL 802 776). During the year 2012 the Company has paid real estate tax on land in the amount of LVL 11 113 (2011: 12 025).

**13. Property, plant and equipment (continued)**

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

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 19 for details).

**14. Other investments**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Investments in rental non-current assets	8,438	10,548
	<u>8,438</u>	<u>10,548</u>

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

**15. Inventories**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Raw material and consumables	32,670	23,694
Diesel	9,841	10,115
Working dress	7,787	5,010
	<u>50,298</u>	<u>38,819</u>

**16. Trade and other receivables**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Trade and other receivables	3,957,371	4,580,921
Provisions for doubtful debts	(1,316,009)	(1,834,755)
<i>Trade receivables, net</i>	<u>2,641,362</u>	<u>2,746,166</u>
Deferred expenses	122,016	126,214
Prepayments to vendors	11,324	142,931
Overpayment of VAT	64,063	65,832
Deferred VAT	27,954	25,774
Other receivables	10,815	4,463
	<u>2,877,534</u>	<u>3,111,380</u>

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

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

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Provisions at the beginning of the year	1,834,755	287,018
Provisions made during the year	(55,983)	-
Decrease of provisions from repaid receivables	(493,369)	-
Provisions made during the year	<u>30,606</u>	<u>1,547,737</u>
	<u>1,316,009</u>	<u>1,834,755</u>



<b>17. Cash and cash equivalents</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Cash at bank on current accounts	3,313,418	1,797,590
Cash at bank deposit accounts	-	983,926
	<u>3,313,418</u>	<u>2,781,516</u>

**18. Equity****a. Share capital**

As at December 31, 2012 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. 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.

<b>19. Borrowings</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
<b>Loan from SEB Bank:</b>		
non-current part	-	773,084
current part	773,084	843,365
	<u>773,084</u>	<u>1,616,449</u>

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

<b>Movement of loans</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
At beginning of the year	1,616,449	2,459,814
Repaid borrowings in the year	(843,365)	(843,365)
<b>At the end of the year</b>	<u>773,084</u>	<u>1,616,449</u>

On 8 December 2008, the Company has signed a credit agreement with SEB Bank, the limit of the granted credit is EUR 6 000 000. The repayments are set to be in parts 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 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:**

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Payments falling due within 1 year	773,084	843,365
Payments falling due in 2-5 year time	-	773,084
	<u>773,084</u>	<u>1,616,449</u>

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<b>20. Deferred revenue</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
<b>Received pre-payment of the financial support</b>	<u>5,872</u>	<u>36</u>
	<u>5,872</u>	<u>36</u>

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.

<b>21. Trade and other payables</b>	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Payables to vendors	283,102	687,335
Social security contributions and other taxes	518,803	378,381
Accrued liabilities	436,559	352,100
Salaries	399,949	348,576
Other payables	<u>33,302</u>	<u>39,064</u>
	<u>1,671,715</u>	<u>1,805,456</u>

**22. Transactions with related parties**

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

**23. Financial commitments**

**a. Capital commitments**

In accordance with the agreements concluded, as on 31.12.2012 the Company has undertaken to fulfill future liabilities for acquire of property, plant and equipment in amount of LVL 2 110 900 (2011: LVL 2 199 800).

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

For the financing of capital commitments the Company plans to use financial resources that will be generated from operating activities.

**b. Operating lease commitments**

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

**24. Risk and capital management**

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



**a. Market risk***I. Foreign exchange risks*

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 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:

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Financial assets, EUR	11,409,735	12,246,340
Financial liabilities, EUR	(1,266,180)	(3,107,201)
Open position EUR, net	<u>10,143,555</u>	<u>9,139,139</u>
Open position EUR calculated in lats, net	<u>7,128,931</u>	<u>6,423,023</u>
Financial assets, USD	140,814	97,639
Financial liabilities, USD	(249)	(240)
Open position USD, net	<u>140,565</u>	<u>97,399</u>
Open position USD calculated in lats, net	<u>74,640</u>	<u>52,108</u>
Financial assets, GBP	-	2,168
Open position GBP, net	-	2,168
Open position GBP calculated in lats, net	-	1,160

*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 19), 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.

	<b>2012</b>	<b>2011</b>
	<b>LVL</b>	<b>LVL</b>
Financial liabilities with variable interest rate, EUR calculated in LVL	(773,084)	(1,616,449)
<b>Open position, net, LVL</b>	<u>(773,084)</u>	<u>(1,616,449)</u>

**b. Credit risk**

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

Maximum exposure to credit risk	2012 LVL	2011 LVL
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
<b>Financial assets subject to credit risk</b>	<b>6,207,897</b>	<b>5,903,444</b>

Aging of trade receivables	2012 LVL	2011 LVL
Debts undue	2,632,247	2,476,183
Debts due till 30 days	784	151,721
Debts due from 31 to 90 days	401	116,916
Debts due over 91 days	7,930	1,346
<b>Trade receivables, net</b>	<b>2,641,362</b>	<b>2,746,166</b>

Movement of provision for doubtful receivables disclosed in Note 16.

### c. Liquidity risk

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

On 31 December, 2012	Total LVL	<1 Year LVL	1-2 Years LVL	2-5 Years LVL	>5 Years LVL
Short-term loans	773,084	773,084	-	-	-
Trade payables and other liabilities	1,678,551	1,678,551	-	-	-
	2,451,635	2,451,635	-	-	-
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	-	-	-
	3,422,381	2,649,297	773,084	-	-

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).

### 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 2012.



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 7 to 27 of **SJSC "Latvijas gaisa satiksme"** which comprise the statement of financial position as of 31 December 2012 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.

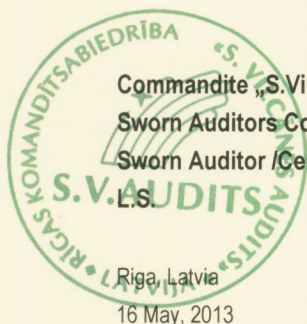
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*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 2012, 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 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.



Commandite "S. Vilcānes audits"

Sworn Auditors Commercial Company /License No. 88/

Sworn Auditor /Certificate No. 30/, Director



Sandra Vilcāne

Rīga, Latvia

16 May, 2013