

SJSC „LATVIJAS GAISA SATIKSME”

ANNUAL REPORT

for the year ended 31 December 2015

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SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT

INFORMATION ABOUT THE COMPANY

Name of Company	SJSC "Latvijas Gaisa Satiksme"
Legal status of the Company	State Joint Stock Company
Registration number, place and date	Register of Enterprises Nr.40003038621 Riga, October 21, 1991 Commercial register Riga, October 11, 2004
Address (legal and postal)	KDP Building, International Airport "Riga", Mārupe region, LV-1053, Latvia
Core business activities	Airspace use and air traffic management in the Republic of Latvia
NACE code in compliance with the Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2:	5223 Service activities incidental to air transportation
Shareholder	Ministry of Transport of the Republic of Latvia (100%) 3, Gogoļa street, Riga, LV-1743, Latvia
Board of the Company	Dāvids Tauriņš – Chairman of the Board (from 26.03.2010.) Elmārs Švēde – Member of the Board (from 26.05.2010.) Gints Freimanis – Member of the Board (from 01.12.2011. till 13.11.2014.) Ilze Aleksandroviča – Member of the Board (from 16.06.2012.) Baiba Broka – Member of the Board (from 10.07.2009. till 27.01.2014. and from 01.09.2014. till 07.01.2015.) Iveta Virse - Member of the Board (from 24.03.2016.)
Financial year	January 1, 2015 – December 31, 2015
Monetary unit used in the Financial Statements	Euro (EUR)
Auditors' and Sworn auditors' name and address	Partnership „S.Vilcānes Audits” License No. 88 15, Pulkveža Brieža street, Riga, LV-1010, Latvia Sandra Vilcāne Sworn auditor Certificate No. 30

MANAGEMENT REPORT

Business

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

Management structure of LGS

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

During the reporting period the Board membership has changed – Chairman of the Board remains Davids Taurins and two members of the Board, Elmars Svede and Ilze Aleksandrovica remained in their positions through all the 2015. Baiba Broka was a Member of the Board till January 7. The structure of LGS remained fixed, consisting of five departments:

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

Air traffic movements and main financial indicators in financial year 2015

The core business of the Company is provision of air navigation services. 245 264 flights were handled in financial year 2015, that is 1 918 flights more than in financial year 2014. The reached level of handled flights is the highest in the history of the Company.

An increase in flights was driven by overflights during first 4 months of financial year 2015. Starting from May 2015 overflights started to decrease, however the flights to and from Riga showed a strong increase which allowed the total number of flights not to fall compared to financial year 2014, and in the end of the year flights even increased. The total increase of flights, compared to previous period, was 0.8%. Overflights have decreased immaterially by 0.2%, whilst flights to and from Riga increased by 3.5%. As a consequence overflights share in total amount of flights decreased to 71.7% compared to 72.3% a year earlier.

En-route unit rate reduction in accordance with NEFAB Performance Plan and EC Regulations can be mentioned as one of the main factors contributing to the positive air traffic flow. As a result of corrections prescribed by EC Regulation 391/2013 the unit rate has been lowered from 29.13 EUR in 2013 to 28.44 EUR in 2014 and further to 27.58 EUR in 2015. As a consequence the overall competitiveness of the Company increased in the Baltic region.

Income from air navigation service provision totaled 24 727 thousands EUR which is 1.3% higher than in 2014.

By achieving the planned levels of income and expense, the Company has earned 470 877 EUR. That is an increase in profits by 255 809 EUR or 118.9%, compared to 215 068 EUR earned in financial year 2014.

EBITDA ratio in financial year 2015 was 5 817 thousand EUR, up by 487 thousand from financial year 2014 levels.

Modernization as an on-going process

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

MANAGEMENT REPORT

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

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

Modernization of the automated ATM System (ATRACC) allows implementation of new functions and enhancement of the existing functionality. For example: implementation of FRA (Free Route Airspace) in the air space of Latvia above FL95 in collaboration with other members of NEFAB.

PENS (Pan-European Network Services) development is part of SWIM (System-Wide Information Management) project. Development of OLDI/FMTP connections with ATM centers in Malmo and Stockholm using PENS network and AMHS connections with the COM centers of Frankfurt and Bratislava were accomplished in 2015.

Upgrade of the central part of the Advanced Surface Movement Guidance and Control System (A-SMGCS) in Riga airport was continued in 2015.

International cooperation

In 2015 LGS continued to contribute into international cooperation. LGS business development is mainly defined by SES and other international liabilities of the company. Therefore, LGS collaborates with European ANSPs within NEFAB as well as with the SE/DK FAB to develop a unified free routes airspace (NEFRA) for both FABs and to prepare the grounds for further collaboration. LGS has undertaken the leading role of the Steering Group within NEFRA that ensures operational management of the project.

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

Professional skills and knowledge of LGS specialists are estimated by international aviation institutions. LGS representatives are in leading positions of high level international working groups – LGS Chairman of the Board is elected Chairman of EUROCONTROL ANSB by the end of December 2015; Head of ICAO ATMGE and a secretary of Aeronautical information management working group are LGS specialists, as well as NEFAB financial controller and communication manager responsibilities are entrusted to employees of LGS.

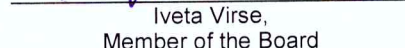
This report has been signed on behalf of the Company on April 20, 2016 by:



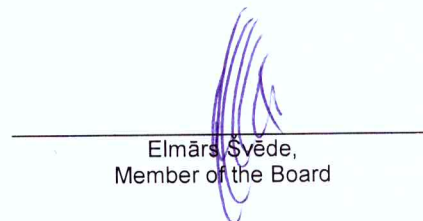
Dāvids Tauriņš,
Chairman of the Board



Ilze Aleksandroviča,
Member of the Board



Iveta Virse,
Member of the Board



Elmārs Svēde,
Member of the Board

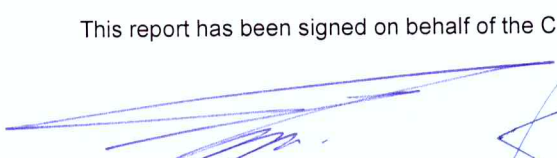
SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT


PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

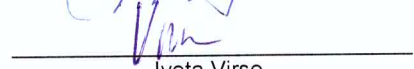
	Note	2015 EUR	2014 EUR
Net sales	2	24 965 354	24 631 294
Other operating income	3	62 774	83 478
Total operating income		25 028 128	24 714 772
Employee benefits expenses	4	(13 514 391)	(13 481 941)
Depreciation and amortization	10,11	(5 185 293)	(5 012 385)
Other operating expenses	5	(5 701 158)	(5 912 895)
Interest and similar income	6	5 309	11 623
Interest and similar expenses	7	(847)	(1 314)
Profit or losses before taxes		631 748	317 860
Corporate income tax for the financial year	8	(121 936)	(63 394)
Other taxes	9	(38 935)	(39 398)
NET PROFIT OR LOSSES		470 877	215 068

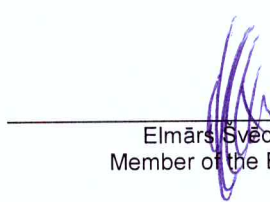
Notes on pages 11 to 23 are an integral part of these financial statements.

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Dāvids Tauriņš,
Chairman of the Board


Ilze Aleksandroviča,
Member of the Board


Iveta Virse,
Member of the Board


Elmārs Švede,
Member of the Board

SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT

BALANCE SHEET
AS AT DECEMBER 31, 2015

	Note	31.12.2015. EUR	31.12.2014. EUR
ASSETS			
Non-current assets			
Intangible assets	10	-	-
Fixed assets			
Land and buildings		2 178 856	2 456 607
Leasehold improvements		460 408	777 412
Equipment and machinery		8 946 364	12 212 192
Other fixed assets		1 600 351	1 897 964
Fixed assets under construction		5 578 339	3 339 537
Advances for fixed assets		1 018 251	914 554
Total fixed assets	11	19 782 569	21 598 266
Non-current financial investments			
Other non-current receivables	12	3 002	6 004
Total non-current financial investments		3 002	6 004
Total non-current assets		19 785 571	21 604 270
Current assets			
Inventory	13	61 429	85 473
Accounts receivable			
Trade accounts receivable	14	3 693 151	3 776 695
Other receivables	15	85 303	128 448
Deferred expenses	16	193 994	195 573
Total accounts receivable		3 972 448	4 100 716
Cash and cash equivalents	17	6 725 889	4 379 249
Total current assets		10 759 766	8 565 438
TOTAL ASSETS		30 545 337	30 169 708

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SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT

BALANCE SHEET
AS AT DECEMBER 31, 2015

	Note	31.12.2015. EUR	31.12.2014. EUR
EQUITY AND LIABILITIES			
Equity			
Share capital	18	22 765 948	22 765 948
Other reserves	19	3 219 255	3 219 255
Retained earnings:			
a) Profit for the previous years		1 629 776	1 099 464
b) Profit for the current year		470 877	215 068
Total equity		28 085 856	27 614 979
Non-current liabilities			
Deferred income	20	84 846	85 148
Deferred tax liabilities		136 822	386 390
Total non-current liabilities		221 668	471 538
Current liabilities			
Advances from customers	21	7 445	-
Trade accounts payable	22	128 633	273 765
Taxes and social security contributions	23	925 843	624 707
Other liabilities	24	590 836	586 662
Deferred income		9 713	11 440
Accrued liabilities	25	575 343	586 617
Total current liabilities		2 237 813	2 083 191
Total liabilities		2 459 481	2 554 729
TOTAL EQUITY AND LIABILITIES		30 545 337	30 169 708

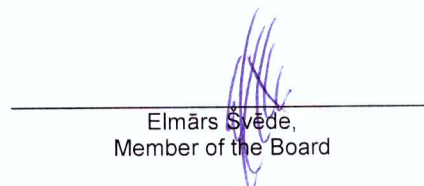
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SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

	Share capital	Other reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
As of December 31, 2013	22 765 949	3 219 254	1 414 708	27 399 911
Profit for the year	-	-	215 068	215 068
Difference of denomination	(1)	1		
As of December 31, 2014	22 765 948	3 219 255	1 629 776	27 614 979
Profit for the year	-	-	470 877	470 877
As of December 31, 2015	22 765 948	3 219 255	2 100 653	28 085 856


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SJSC "LATVIJAS GAISA SATIKSME" ANNUAL REPORT

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 EUR	2014 EUR
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	24 665 304	24 613 209
Cash receipts from other operating activities	317 368	414 570
Cash paid to suppliers and employees	(13 609 085)	(13 871 265)
Cash paid on taxes and social security contributions	(5 199 412)	(4 665 410)
Cash paid on income taxes	(120 382)	(73 479)
Interest paid	-	(177)
Penalties received	6 041	7 945
Net Cash Flow generated from operating activities	6 059 834	6 425 393
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of fixed assets and intangible assets	(3 725 410)	(5 788 285)
Cash receipts from sale of fixed assets	8 350	2 662
Interests received	3 828	11 590
Net Cash Flow generated from investing activities	(3 713 232)	(5 774 033)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash paid for loan repayment to financial institution	-	(200 000)
Net cash flow generated from financing activities	-	(200 000)
Net foreign exchange gains / losses	38	24
Net increase/(decrease) in cash and cash equivalents	2 346 640	451 384
Cash and cash equivalents at the beginning of the financial year	4 379 249	3 927 865
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	6 725 889	4 379 249

Notes on pages 11 to 23 are an integral part of these financial statements.

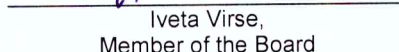
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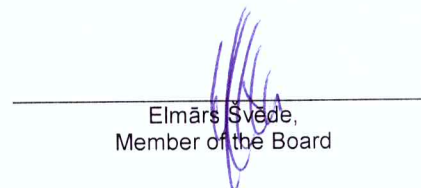
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. METHODS OF ACCOUNTING AND ASSESSMENT – GENERAL PRINCIPLES

(a) Basis for preparation of the financial statements

This 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 Organization of Accounting
5. 5.21.06.2011. Cabinet Regulations No.481 Regulations on Cash Flow Statement and Equity Changes Statement Content and Organization
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 2015 till 31 December 2015.

(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:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Income from services rendered – recognized in the period when services are rendered;
2. Interest income – recognized, based on accrual basis considering actual profitability of the asset.

(e) Monetary unit and foreign currencies

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

All transactions in foreign currency are converted into the euro based on the foreign currency exchange rates of the European Central Bank on transaction date. If the European Central Bank has not published specific euro foreign exchange rates for the euro, then the currency is converted in euro in accordance euro rates provided by global financial market information provider and published in the Financial Times.

Monetary assets and liabilities denominated in a foreign currency have been translated into euro based on the foreign exchange rates of the European Central Bank on the balance sheet date. If the European Central Bank has not published specific euro foreign exchange rates for the euro, then the currency is converted in euro in accordance euro rates provided by global financial market information provider and published in the Financial Times.

On 1 January 2014, on the day of the introduction of the euro in the Republic of Latvia, all monetary assets and liabilities have been translated into euro using the exchange rate laid down by the Council of the European Union.

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

Foreign currency rates

	EUR 31.12.2015.	EUR 31.12.2014.
USD	1,08870	1,21410
GBP	0,73395	0,77890

(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:

	Estimated useful life of fixed assets in years	Depreciation rates, %
Buildings and structures	10 - 50	2 - 10
Technological equipment	8 - 10	10 - 12.5
Computers, communications and other office equipment	2 - 4	25 - 50
Other fixed assets	3 - 10	10 - 33,33

Fixed assets with value over 150 EUR and useful life over 1 year are capitalized. Depreciation for improvements and low-value inventories with the value under 150 EUR 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 recognized 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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

subsequently measured at amortized 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 utilized.

(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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Notes to the statement of profit and loss

2. Net sales

	2015 EUR	2014 EUR
<i>Types of activity:</i>		
Income from air navigation services in transit and en-route to airports	21 883 838	21 643 002
Income from air navigation services in terminal zones	2 843 574	2 765 814
Total income from air navigation services	24 727 412	24 408 816
Income from rent of premises and fixed assets	167 813	166 212
Other income	70 129	56 266
Total	24 965 354	24 631 294

3. Other operating income

	2015 EUR	2014 EUR
Receipt of overpaid social security contributions	14 519	-
Receipt of EU funds	12 766	21 947
Receipt of fines and penalties	10 933	15 120
Income of prior period costs reduction	10 079	-
Income from sale of fixed assets	6 844	1 753
Receipt of VAT paid in European Union	5 705	6 670
Received insurance indemnity	1 269	-
Receipt of bad debts	299	2 404
Reimbursement of expenses	-	25 003
Employees' expenses accruals decrease	-	9 695
Other operating income	360	886
Total	62 774	83 478

4. Employee benefits expenses

	2015 EUR	2014 EUR
Salaries	9 955 550	9 698 241
Social Security contributions	2 450 347	2 354 811
Other personnel expenses	829 606	661 481
Employees' health insurance expenses	222 791	228 452
Bonuses paid to the Board	29 320	24 033
Accruals for unused vacations	26 471	508 067
Accruals for employees' expenses	306	6 856
Total	13 514 391	13 481 941

Including Board members:

	2015 EUR	2014 EUR
Remuneration	169 536	215 885
Social Security contributions	36 199	49 438
Total	205 735	265 323

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**5. Other operating expenses**

	2015 EUR	2014 EUR
Technical services, repair works and maintenance	1 098 691	1 193 193
Payments to income participants – CAA	996 090	996 090
Participation fee <i>Eurocontrol</i>	988 755	1 033 729
Business trip expenses	406 922	443 150
Electricity expenses	332 461	344 428
Training expenses	304 103	292 109
Insurance	273 519	309 153
Provision for doubtful debts	189 010	50 424
Communication expenses	186 270	219 224
Payments to income participants – TNGIIB	172 879	172 879
Transport expenses	103 761	119 359
Rent of premises and other objects	96 421	96 049
Expenses not directly related to the operating activities	85 232	86 344
Marketing and representation expenses	81 892	88 469
Expenses related to maintenance of premises	72 894	67 353
Rent of land	65 515	74 555
Spare parts, materials	30 021	27 455
Post and stationery expenses	12 839	12 502
Legal and other professional services	7 818	28 761
Audit expenses	6 500	5 500
Bank fees	3 159	4 146
Other expenses	186 406	248 023
Total	5 701 158	5 912 895

6. Interest and similar income

	2015 EUR	2014 EUR
Interest income on balances with bank accounts and deposits	5 309	11 623
Total	5 309	11 623

7. Interest and similar expenses

	2015 EUR	2014 EUR
Net losses from currency conversions	626	1 226
Net losses from foreign exchange rate fluctuations	221	88
Total	847	1 314

8. Corporate income tax**8. (a) Components of corporate income tax:**

	2015 EUR	2014 EUR
Corporate income tax for the financial year	(371 504)	(67 534)
Changes in deferred tax	249 568	4 140
Total	(121 936)	(63 394)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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:

	2015	2014
	EUR	EUR
Profit/(loss) before taxes	631 748	317 860
Real estate tax	(38 935)	(39 398)
Profit/(loss) before corporate income tax	<u>592 813</u>	<u>278 462</u>
Corporate income tax calculated at 15% tax rate	88 922	41 769
<i>Tax effects on:</i>		
Tax losses carried forward for tax purposes	-	(16 336)
Temporary differences	30 615	32 136
Changes in unrecognized deferred tax asset	2 399	6 675
Tax discount (85% of donation amounts)	-	(850)
Total	<u>121 936</u>	<u>63 394</u>

8. (b) Movement and components of deferred tax:

	31.12.2015.	31.12.2014.
	EUR	EUR
Deferred tax liabilities/(assets) at the beginning of year	386 390	390 530
Deferred tax charged to the statement of profit and loss	(249 568)	(4 140)
Deferred Tax liabilities/(assets) at the end of the financial year	<u>136 822</u>	<u>386 390</u>

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):

	31.12.2015.	31.12.2014.
	EUR	EUR
Temporary difference on depreciation of fixed and intangible assets	532 072	757 424
Gross deferred tax liabilities	<u>532 072</u>	<u>757 424</u>
Temporary difference on accrued expenses for unused vacations	(86 301)	(87 993)
Temporary difference on provisions for doubtful debts	(308 949)	(283 041)
Gross deferred tax assets	<u>(395 250)</u>	<u>(371 034)</u>
Net deferred tax liabilities/(assets)	<u>136 822</u>	<u>386 390</u>

9. Other taxes

	2015	2014
	EUR	EUR
Real estate tax on buildings	25 750	26 213
Real estate tax on land	13 185	13 185
Total	<u>39 935</u>	<u>39 398</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Notes to the balance sheet

10. Intangible assets – concessions, patents, licenses, trademarks and similar rights

	2015. EUR	2014. EUR
Historical cost at the beginning of year	49 265	57 212
Additions		
Disposals	(3 602)	(7 947)
Historical cost at the end of year	45 663	49 265
Accumulated depreciation at the beginning of year	49 265	57 212
Charge for the year		
Disposals	(3 602)	(7 947)
Accumulated depreciation at the end of year	45 663	49 265
Balance sheet value at the beginning of year	-	-
Balance sheet value at the end of year	-	-

11. Fixes assets

	Land and buildings	Leasehold improve- ments	Equipment and machinery	Other fixed assets	Fixed assets under construc- tion	Advances for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Historical cost							
31.12.2014.	9 347 114	2 750 839	41 638 592	6 362 013	3 339 537	914 554	64 352 649
Additions	53 743	14 392	289 276	172 736	1 830 603	1 018 251	3 379 001
Disposals	-	(50 283)	(277 131)	(280 540)	-	-	(607 954)
Reclassified	12 926	-	203 085	290 344	408 199	(914 554)	0
31.12.2015.	9 413 783	2 714 948	41 853 822	6 544 553	5 578 339	1 018 251	67 123 696
Accumulated depreciation							
31.12.2014.	6 890 507	1 973 427	29 426 400	4 464 049	-	-	42 754 383
Charge for the year	344 420	331 396	3 756 254	753 223	-	-	5 185 293
Disposals	-	(50 283)	(275 196)	(273 070)	-	-	(598 549)
31.12.2015.	7 234 927	2 254 540	32 907 458	4 944 202	-	-	47 341 127
Net book value as of							
31.12.2014.	2 456 607	777 412	12 212 192	1 897 964	3 339 537	914 554	21 598 266
31.12.2015.	2 178 856	460 408	8 946 364	1 600 351	5 578 339	1 018 251	19 782 569

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

In the year 2015 an amount of 16 684 EUR is included in the fixed assets depreciation which is the depreciation of fixed assets that are not used in Company's operating activities (2014: 16 106 EUR).

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 24.21 ha (2014: 24.21 ha). The cadastral value of land amounts to 878 983 EUR (2014: 878 983 EUR). During the year 2015 the Company has paid real estate tax on land in the amount of 13 185 EUR (2014: 13 185 EUR).

In the balance sheet as of 31 December 2015 included fully depreciated property, plant and equipment with a cost of 15 433 478 EUR (31 December 2014: 16 312 107 EUR).

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.

12. Other non-current receivables

	31.12.2015. EUR	31.12.2014. EUR
Leasehold improvements	3 002	6 004
Total	3 002	6 004

13. Inventory

	31.12.2015. EUR	31.12.2014. EUR
Raw materials and consumables	33 975	38 742
Fuel	14 643	15 337
Coveralls	12 811	31 394
Total	61 429	85 473

14. Trade accounts receivable

	31.12.2015. EUR	31.12.2014. EUR
Trade accounts receivable at book value	4 071 130	3 981 954
Provisions for bad debts	(377 979)	(205 259)
Total	3 693 151	3 776 695

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

15. Other receivables

	31.12.2015. EUR	31.12.2014. EUR
VAT overpayment (please see note 23)	55 247	88 729
Input VAT accepted	18 472	31 666
Advances paid to suppliers	972	1 087
Other receivables	10 612	6 966
Total	85 303	128 448

16. Deferred expenses

	31.12.2015. EUR	31.12.2014. EUR
Short term computer software licenses	94 271	76 109
Rent of land, maintenance of airport infrastructure	51 289	43 168
Insurance payments	28 085	39 711
Subscription fees	6 427	6 511
Training expenses	785	748
Hosting of security systems	-	6 679
Other expenses	13 137	22 647
Total	193 994	195 573

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**17. Cash and cash equivalents**

	31.12.2015. EUR	31.12.2014. EUR
Cash at bank in current accounts	4 725 889	4 379 249
Cash at bank in deposit accounts	2 000 000	-
Total	6 725 889	4 379 249

18. Share capital

As of 31 December 2015 the registered and fully paid share capital is 22 765 948 EUR, composed of 22 765 948 ordinary shares with a nominal value of 1 EUR each. The share capital is denominated from the Latvian lats to euro in March 2014. The sole owner is the Republic of Latvia. State's shareholder is the Ministry of Transport of the Republic of Latvia.

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

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

Dividends from the profit of 2014 in accordance with the Latvian Cabinet Order No. 375 dated July 10, 2015, were not paid and profit was redirected to ongoing and planned investments projects.

Decision regarding the 2015 profit distribution will be decided by the meeting of shareholders.

20. Deferred income

	31.12.2015. EUR	31.12.2014. EUR
Received pre-payment of the financial support	84 846	85 148
Total	84 846	85 148

75 362 EUR, according to the financial support decision of the European Commission on Community concerning the granting of Union financial aid for projects of common interests "ANSPs Interim Deployment Programme Implementation"- 2012-EU-40004-P-in the field of the trans-European transport network (TEN-T) (CPDLC project), received payment is 111 319 EUR, of which 27 442 EUR recognized in the years revenues and 8 515 EUR recognized as short term liabilities.

9 484 EUR, accordance to financial support decision of the project "Greenhouse gas emission reduction of SJSC "Latvijas Gaisa satiksme" the acquisition of new, industrially produced electric cars (KPFI-16/131), received payment is 11 880 EUR, of which 1 198 EUR recognized in the current year revenues and 1 198 EUR recognized as short term liabilities.

21. Loans from credit institutions

	31.12.2015. EUR	31.12.2014. EUR
Advances from customers	7 445	-
Total	7 445	-

22. Trade accounts payable

	31.12.2015. EUR	31.12.2014. EUR
Trade accounts payable	128 633	273 765
Total	128 633	273 765

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

23. Taxes and social security contributions

	Overpaid as of 31.12.2014	Payable as of 31.12.2014	Calculated	(Paid) / received	Overpaid as of 31.12.2015	Payable as of 31.12.2015
	EUR	EUR	EUR	EUR	EUR	EUR
Value added tax	(88 729)	-	(407 773)	441 255	(55 247)	-
Personal income tax	-	232 394	2 110 668	(2 097 520)	-	245 542
Social security contributions	-	338 884	3 552 175	(3 513 866)	-	377 193
Corporate income tax	-	51 859	371 504	(120 382)	-	302 981
Real estate tax on land	-	-	13 185	(13 185)	-	-
Real estate tax on buildings	-	-	25 750	(25 750)	-	-
Company car tax	-	1 440	2 158	(3 598)	-	-
Risk duty	-	130	1 535	(1 538)	-	127
Total	(88 729)	624 707	5 669 202	(5 334 584)	(55 247)	925 843

* Overpaid taxes are included in note No.15 „Other receivables”.

24. Other liabilities

	31.12.2015. EUR	31.12.2014. EUR
Salaries	580 883	581 124
Other liabilities	9 953	5 538
Total	590 836	586 662

25. Accrued liabilities

	31.12.2015. EUR	31.12.2014. EUR
Accrued expenses for unused vacations	534 538	508 067
Accruals for expenses	40 805	78 550
Total	575 343	586 617

26. Average number of employees

	2015	2014
Average number of people employed during the financial year	354	363

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

28. Commitments and contingencies**(a) Capital commitments**

In accordance with signed agreements as of 31 December 2015 the Company has undertaken to fulfil future liabilities for acquire of fixed assets in amount of 4 425 830 EUR (2014: 2 948 700 EUR).

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.

(a) Market risk**(i) Foreign currency exchange risk**

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

Company's management regularly monitors currency fluctuations risks. Based on the evaluation of concluded and planned contracts, the risk is assessed as negligible.

(ii) Interest rate 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, 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.

(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:

	31.12.2015.	31.12.2014.
	EUR	EUR
Trade receivable, other receivables, net	3 972 448	4 100 716
Other long term receivables	3 002	6 004
Cash and cash equivalents	6 725 889	4 379 249
Financial assets subject to credit risk	10 701 339	8 485 969

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Ageing of trade accounts receivable:

	31.12.2015. EUR	31.12.2014. EUR
Debts undue	3 691 357	3 772 489
Debts due till 30 days	1 773	3 753
Debts due from 31 to 90 days	21	426
Debts due over 91 days	-	27
Trade receivables, net	3 693 151	3 776 695

(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:

Loans from credit institutions	31.12.2015. EUR	31.12.2014. EUR
Payable within one year	-	-
Total	-	-
Trade accounts payable and other liabilities		
Payable within one year	2 237 813	2 083 191
Payable from one to two years	-	-
Payable from two to five years	84 846	85 148
Payable after five years	-	-
Total	2 322 659	2 168 339
Grand Total	2 322 659	2 168 339

(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.

30. Events after 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 2015.

This report has been signed on behalf of the Company on April 20, 2016 by:


 Dāvids Tauriņš,
Chairman of the Board


 Ilze Aleksandroviča,
Member of the Board

 Iveta Virse,
Member of the Board


 Elmārs Švēde,
Member of the Board

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 2015 of VAS "Latvijas gaisa satiksme" on pages 6 to 23. The audited annual report includes a balance sheet as at 31 December 2015, 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 2015 and of its financial performance and cash flow at the beginning of 2015 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 2015 on pages 4 to 5, and we did not detect any material discrepancies between that management report and financial information presented in the financial statements for the year 2015.

Commandite „S.Vilcānes audits”

Sworn Auditors Commercial Company /License No. 88/

Sworn Auditor /Certificate No. 30/, Director,

 Sandra Vilcāne

Rīga, Latvia
20 April 2016