SJSC „LATVIJAS GAISA SATIKSME"
ANNUAL REPORT FOR YEAR ENDED
31 DECEMBER 2019

According to International Financial Reporting Standards as adopted by the EU

Marupe, 2 March 2020

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

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Business Overview

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

Management Structure

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

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

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

Key Financial Results of the Company and the Industry

The core business activity of LGS is provision of air navigation services. In 2019 a 302 049 flights were served. That was 9 574 flights more than in 2018 (3.27%).

Income from air navigation services in 2019 was EUR 30 488 439, which was 2,27% or EUR 678 046 more than in 2018. Income from air navigation services comprises 99.1% of Net Turnover.

Company's net profit for 2019 amounted to EUR 2 457 240. In 2018 annual profit was EUR 3 238 725.

Main Activities and Projects

New Air traffic control tower design and ATM system ATRACC modernization projects continued in 2019. ANOF system modernization and Aerodrome video surveillance system projects were successfully completed.

In 2019 initial training of the first group of new ATCO's (6 trainees) has been completed. Unit training at LGS was started in the fourth quarter of 2019. Initial training of the second group of new ATCO's (14 trainees) commenced in August 2019.
In 2019, procurement procedures finished and relevant contracts were signed for the following major projects: Modernization of the "air-ground" mobile communication system and extension and modernization of the VOR / DME network.

As part of its institutional development activities, in 2019 LGS provided participation in a number of EUROCONTROL, CANSO, NEFAB and Borealis meetings and working groups.

To ensure quality management, the ISO 9001: 2015 Standard recertification audit was successfully completed in 2019.

In 2019, a survey airspace users' satisfaction survey on the quality of service provided by LGS was carried out. No objections from respondents.

In 2019, a number of meetings with representatives of the NAF Air Forces and Lielvarde Military Airfield were held related to common cooperation issues.

Future development

In 2020, LGS will continue to improve its communications, navigation, surveillance and aeronautical meteorological services, both to comply with regulatory requirements and to maintain the high level of service and safety.

One of LGS most significant development projects is the construction of a new air traffic control tower. In 2020, the design and construct project documentation of the tower complex extension will be completed and construction procurement process will begin.

In 2020, LGS will complete another round of upgrades to the ATM system ATRACC (ATRACC 2018+). The modernization and extension of MSS-W RIX Territorial Surveillance System (WAMRIX) will be launched in 2020, within the framework of which expansion of the surveillance coverage to the whole Riga FIR area is planned. Coverage at the Liepaja airport area will be included as well as other regional airports, including Lielvarde. The project will increase the availability and safety of surveillance coverage throughout the Latvian airspace.

The most important activity in the field of navigation services in 2020, is the implementation of the VOR/DME network extension and modernization project with the aim of providing PBN - high precision navigation (RNAV1 and RNAV5 level) in Riga FIR. The project will increase capacity of Latvian airspace as well as will increase flight safety.

In the field of communications services, modernization of the "air-ground" aviation mobile communications system will continue in 2020. The purpose of aviation mobile voice communication network is to provide flight crews with information essential to the safe and efficient operation of flight control by transmitting route change information that may affect flight safety.

In the field of human resources planning, the initial training of 14 new controllers within the framework of the signed agreement will be continued in 2020 in order to ensure the competitiveness of the company.

Auditors

The audit of financial statements set out on pages 9 to 35 was carried out by the audit company "*S. Vilcānes audits*" in accordance with the legislation of the Republic of Latvia and International Standards on Auditing.

Events after the Balance Sheet Date

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2019. New member of Council Andris Ozoliņš was appointed on 7 February 2020.

Dāvids Tauriņš
(Chairman of the Board)

2 March 2020

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

MANAGEMENT BOARD RESPONSIBILITY FOR THE ANNUAL REPORT

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

The financial statements on pages 9 to 35 have been prepared on the basis of the accounting records and source documents, and present fairly the financial position of the Company at 31 December 2019, and its performance and cash flows for 2019.

The above – mentioned financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU on a going concern basis. In preparing these financial statements, the Management made prudent and reasonable judgments and estimates.

The Management Board is responsible for maintaining proper accounting records, safeguarding the Company's assets, and preventing and detecting fraud or other irregularities in the Company. The Management is also responsible for compliance with the laws of the Republic of Latvia.

Dāvids Tauriņš
(Chairman of the Board)

2 March 2020

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(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

SUPERVISORY COUNCIL

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

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

Currently, he is Deputy State Secretary on sectoral issues at the Ministry of Transport of Latvia, as well as has been Member of the Board at "Eiropas dzelzceļa līnijas" Ltd. Previous experience: Deputy Director, Director of the Energy Department at the Ministry of Economics, Head of the Energy Market Division of the Energy Department at the Ministry of Economics, Head of the Electricity and Gas Market Division of the Energy Department at the Ministry of Economics.

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

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

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

Edmunds Beļskis Member of Council of LGS since 21 November 2016 – 31 October 2019.

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

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

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

MANAGEMENT BOARD

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

He has obtained Bachelor's Degree in Law at the University of Latvia and the State University of Tbilisi. He received his Doctoral Degree in Law at the Institute of State and Law of the Academy of Sciences in Moscow. In November 2018, he completed his studies at IATA (International Air Transport Association) and earned with distinction Air Navigation Services Management Diploma.

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

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

Elmārs Švēde Board member of LGS since 26 May 2010.

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

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

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

Ilze Aleksandroviča Board member of LGS since 16 June 2012.

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

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

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

MANAGEMENT BOARD

Iveta Virse Board member of LGS since 24 March 2016.

Responsible for the Administrative Department. She has Bachelor's Degree of Law from the University of Latvia.

Mrs Virse has attended different training courses, such as "The Single European Sky," "EU Aviation Law" organized by IATA etc.

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

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 EUR	2018 EUR
Net turnover	3	30 764 473	30 208 288
Other operating income	4	341 834	148 927
Total revenue		**31 106 307**	**30 357 215**
Employee costs	5	(17 417 720)	(16 733 392)
Depreciation and amortization expenses	6	(4 215 930)	(4 062 592)
Other operating expenses	7	(7 015 676)	(6 323 247)
Other income/(expenses), net		132	(197)
Profit from operating activities		**2 457 113**	**3 237 787**
Finance income		2 262	2 605
Finance cost	8	(2 134)	(1 667)
Profit before tax		**2 457 241**	**3 238 725**
Corporate income tax		-	-
Profit for the year		**2 457 241**	**3 238 725**
Other comprehensive income for the year		-	-
Total comprehensive income		**2 457 241**	**3 238 725**
Earnings per share	9	0.108	0.142

Notes on pages 14 to 35 form an integral part of these financial statements.

Dāvids Tauriņš
(Chairman of the Board)

2 March 2020

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

Inese Mežapuķe
(Deputy Head of Finance division)

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019. EUR	31.12.2018. EUR
ASSETS			
Long-term investments			
Intangible assets	10	348 280	439 135
Property, plant and equipment	11	27 055 320	22 267 965
Right of use assets	12	2 904 259	-
Advances for fixed assets		1 837 477	1 610 402
Total long-term investments		**32 145 336**	**24 317 502**
Current assets			
Inventories		83 157	98 068
Trade receivables	13	4 496 036	4 681 497
Corporate income tax receivable	19	-	686
Prepaid expenses, prepayments and other debtors	14	647 675	578 389
Cash and cash equivalents	15	6 435 364	8 738 237
Total current assets		**11 662 232**	**14 096 877**
TOTAL ASSETS		**43 807 568**	**38 414 379**

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Inese Mežapuķe
(Deputy Head of Finance division)

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2019. EUR	31.12.2018. EUR
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	9	22 765 948	22 765 948
Other reserves		3 219 255	3 219 255
Retained earnings		11 163 939	8 706 698
Total shareholders equity		**37 149 142**	**34 691 901**
Long-term liabilities			
Lease liabilities	12	2 801 821	-
Deferred income	16	359 669	349 350
Total long-term liabilities		**3 161 490**	**349 350**
Current liabilities			
Corporate income tax liabilities	19	70	-
Prepayments received		842	821
Lease liabilities	12	132 605	-
Trade and Other payables	17	3 261 334	3 234 054
Deferred income	16	102 085	138 253
Total current liabilities		**3 496 936**	**3 373 128**
Total liabilities		**6 658 426**	**3 722 478**
TOTAL EQUITY AND LIABILITIES		**43 807 568**	**38 414 379**

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2 March 2020

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STATEMENT OF CASH FLOW

	Notes	2019 EUR	2018 EUR
Cash flow from operating activities			
Profit before tax		2 457 241	3 238 725
Adjustments:			
Depreciation and amortization	6	4 215 930	4 062 592
Proceeds from sale of property, plant and equipment		(75)	5 557
Interest income		(7 544)	(3 723)
Profit from operating activities before changes in working capital		**6 665 552**	**7 302 213**
Changes in accounts receivable		116 528	(287 929)
Changes in inventories		(2 826)	(21 063)
Changes in accounts payable		120 036	634 181
Gross operating cash flow		**6 899 290**	**7 627 402**
Corporate income tax paid		(411)	(235 856)
Net cash flow from operating activities		**6 898 879**	**7 391 546**
Cash flow from investing activities			
Purchase of non-current assets		(9 017 281)	(5 522 403)
Proceeds from sale of fixed and intangible assets		18 967	-
Interest received		8 218	3 409
Net cash flow from investing activities		**(8 990 096)**	**(5 518 994)**
Cash flow from financing activities			
Repayments related to leased assets		(211 656)	-
Net cash flow from financing activities		**(211 656)**	-
Net increase in cash and cash equivalents		**(2 302 873)**	**1 872 552**
Cash and cash equivalents at the beginning of the year		**8 738 237**	**6 865 685**
Cash and cash equivalents at the end of the year	15	**6 435 364**	**8 738 237**

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Inese Mežapuķe
(Deputy Head of Finance division)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance at 31 December 2017	**22 765 948**	**3 219 255**	**5 467 973**	**31 453 176**
Profit for the financial year	-	-	3 238 725	**3 238 725**
Balance at 31 December 2018	**22 765 948**	**3 219 255**	**8 706 698**	**34 691 901**
Profit for the financial year	-	-	2 457 241	**2 457 241**
Balance at 31 December 2019	**22 765 948**	**3 219 255**	**11 163 939**	**37 149 142**

Notes on pages 14 to 35 form an integral part of these financial statements.

Dāvids Tauriņš
(Chairman of the Board)

2 March 2020

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Inese Mežapuķe
(Deputy Head of Finance division)

1. GENERAL INFORMATION

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

LGS was registered in Commercial Register of the Republic of Latvia in Riga on 21 October 1991 with the registration No. 40003038621. The legal address of the Company is Muzeju Street 3, Airport "Rīga", Marupe Municipality , LV-1053, Latvia. The Company's primary activities are organisation of airspace use and air traffic of the Republic of Latvia.

2. ACCOUNTING AND VALUATION POLICIES

Basis of Preparation

The annual report is prepared in accordance with the law "On Annual Reports and Consolidated Annual Reports" applying a going concern principle. Based on this law, such state joint stock company, which based on this law classifies as large state joint stock company, can prepare its financial statements, based on International Financial Reporting Standards as adopted by EU (IFRS). As such, these financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. All International Financial Reporting Standards issued by the International Accounting Standards Board, which are applicable for the period covered by these financial statements, are approved for use in the European Union pursuant to the procedure of approval (endorsement) stated by the European Commission. The financial statements have been prepared on a historical cost. The statement of comprehensive income is compiled according to the cost function. Indirect method is used for cash flow preparation.

Financial statements for the period from 1 January – 31 December 2019 have been approved by the Board of the LGS on 2 March 2020. Financial statements are further approved in shareholder meeting, which is called by LGS Board once approval from auditor and supervisory council has been received.

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

The following new and amended IFRS and interpretations entered into force in 2019, and have impact on the operations of the Company and these financial statements:

IFRS 16 Leases. The new standard sets out the principles for the recognition, measurement and disclosure of leases. All leases provide the lessee with the right to use the asset and, if the lease payments are made within a specified period of time, include the financing component. Accordingly, IFRS 16 excludes the classification of leases as operating or finance leases as defined in IAS 17. Instead, IFRS 16 introduces a single tenant accounting model. The lessee recognizes in its accounting: (a) assets and liabilities from all leases with a lease term of more than 12 months, except for leases of low value assets; and (b) the cost of depreciation of leased assets separately from the cost of the lease liability.

Other new and amended IFRSs and Interpretations that became effective in 2019 had no effect on these financial statements.

A number of new standards and interpretations have been published and are effective for financial years beginning on or after 1 January 2020, or are not yet endorsed by the European Union. The Company's management is still evaluating the potential effect, however, it is currently believed that these new standards and interpretations will not have a material impact on the Company's financial statements.

Recognition of Income and Net Turnover

Revenue is recognised to the extent it is possible to reasonably estimate the amount and there is a basis to expect that the Company will receive related economic benefits. Revenue is measured at the fair value of the consideration received, net of discounts and value added tax. The following conditions for recognition must be met before revenue can be recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, usually at the time when the goods are delivered to the final consumer. Non-transferable goods are accounted for as consignment goods and revenue is recognized only when the goods are sold to final consumers.

Services provided

The Company generates revenue from the provision of services. These services are provided for a fee that depends on the amount of time and material consumed, determined by a fixed price contract or by law. Revenue is usually recognized based on the degree of service delivery. Revenue is recognized at the time the invoice is issued, according to the service rendered and the corresponding period.
Income is generated mainly from air navigation services to all airspace users within the Riga Flight Information Region, pursuant to Section 28, Paragraph one of the Law On Aviation Air Navigation Services Provided by the State Stock Company "Latvian Air Traffic" issued on 3 January 2012. The charge for en-route air navigation services is calculated taking into account aircraft weight and distance it has covered within the Riga Flight Information Region. The charge for the air navigation services within the terminal only relates to aircraft weight factor.
If circumstances arise that may change the initial estimates of revenue, costs or service completion, these estimates are reviewed. Such a revision may result in an increase or decrease in estimated income or expense and shall be recognized in revenue in the period in which management became aware of the circumstances that led to the need to revise the estimates.

Interest income and expenses

For all financial instruments carried at amortized cost, interest income or expense is measured using the effective interest rate, which is the rate that actually discounts estimated future cash receipts through the useful life of the financial instrument or, as the case may be, shorter the carrying amount of the asset or liability. Interest income is included in the statement of comprehensive income "Financial income".

Other income

Income from penalties are recognized as income only when payment is received. Penalties are comprised of late payment charges related to delayed payments or default on payments.

Cash Unit and Transactions in Foreign Currencies

All amounts shown in these financial statements are presented in euro (EUR).
All transactions denominated in foreign currencies are converted into euro at the European Central Bank rate of exchange prevailing on the beginning of the day when the transaction took place. If the European Central Bank has not published a particular reference rate against euro, in order to recalculate the amounts in foreign currencies into euro, the Company uses currency rate that is published on its webpage by the internationally recognised financial information provider *Financial Times*. All monetary assets and liabilities denominated in foreign currency are translated at the year end into euro using exchange rate

published by either European Central Bank or Financial Times and which is in force as at the last date of the financial yea

Exchange rates

Foreign currency	EUR 31.12.2019.	EUR 31.12.2018.
USD	1,12340	1,14500
GBP	0,85080	0,89453

Property, Plant and Equipment and intangible assets

Fixed assets are initially measured at cost. Acquisition cost includes costs directly related to the acquisition of an intangible asset or an item of property, plant and equipment. In the financial statements, intangible assets and property, plant and equipment are stated at cost less depreciation.

Depreciation is calculated on a straight-line basis using the following annual management rates for intangible assets and fixed assets depreciation based on their estimated useful lives:

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

The Company capitalizes fixed assets over EUR 150 if their useful life exceeds 1 year. Depreciation for improvements and other items not exceeding EUR 150 is calculated at 100% after commissioning.

If there is sufficient evidence that in the future fixed assets repair or reconstruction work will yield economic benefits that exceed the initially determined usage value of fixed assets, such costs are capitalized as additional value of fixed assets. When capitalizing installed cost of spare parts, the residual value of the replaced part is written off in the income statement. All other costs of repair and maintenance of property, plant and equipment are included in the income statement of the period in which they are incurred.

Net gains or losses on the disposal of property, plant and equipment are calculated as the difference between the carrying amount of property, plant and equipment and the revaluation surplus of the property, plant and equipment and the proceeds from the sale and are included in the income statement in the period in which these are incurred.

If there are any events or circumstances that could lead to the conclusion that the carrying amount of an item of property, plant and equipment or intangible assets may be greater than its recoverable amount, the value of the fixed asset or intangible asset concerned is reduced to its recoverable amount. The recoverable amount is determined as the higher of an investment's fair value less costs to sell or value in use.

Leasehold Improvements

The costs, which are related to leasehold improvements, are capitalized and recognized as fixed assets. Depreciation is calculated for the whole lease period by using the linear method.

Operating lease - The Company is the lessor

Assets leased out under operating leases are stated as part of property, plant and equipment at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. Rental income from operating leases and prepayments received from customers are included in the income statement over the lease term on a straight-line basis.

The Company leases unused buildings, constructions, land and other fixed assets. Lease is for an insignificant part of buildings and land, so these fixed assets are not reclassified to investment property. There are no significant irrevocable operating lease payments or income arising from transactions where the Company is the lessor.

Operating lease - The Company is the lessee (policy effective until 31 December 2018, the new accounting policy for leases is presented within Accounting and valuation policies section "First-time adoption of IFRS 16")

Where fixed assets are leased out without rights to repurchase a the end of lease term, lease payments and prepayments for lease are included in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are valued at the lower of net realizable value and cost of acquisition or production. Acquisition cost consists of the purchase price and overheads incurred in valuing inventories at their present value and condition. Value of inventory balances is calculated using the FIFO method. If the net realizable value of inventories is lower than their cost, the difference is accounted for as a provision for impairment.

Financial instruments

The Company classifies its financial assets in the following categories: financial assets at amortised cost and financial liabilities at amortised cost.

Classification of debt instruments within financial assets category depends on the purpose for which the financial assets were acquired, as well as nature of expected future cash flows. The management of the Company determines the classification of its financial assets at initial recognition. Classification is changed only if the purpose for which the financial asset was acquired changes.

The purchase and sale of financial assets is recognised on a trade date, which is the date when the Company commits to purchase or to sell financial asset.

<u>Financial assets carried at amortized cost</u>

Financial assets carried at amortized cost are recognized when cash is advanced to borrowers. Financial assets are derecognised when the rights to receive cash from the financial assets have expired or have been transferred and the entity has transferred substantially all the risks and rewards of ownership.

Financial assets carried at amortized cost are financial assets that the Company intends to hold to full settlement and does not intend to sell. The future cash flows of these assets consist mainly of repayment of principal and repayment of interest. They are included in current assets, except for maturities greater than 12 months. If the maturity is more than 12 months, they are classified as long-term investments. Financial assets carried at amortized cost are mainly trade receivables, other receivables and term deposits with credit institutions.

Financial assets carried at amortized cost are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment.

Deposits with credit institutions are assets that can only be redeemed after a fixed term. Deposits without such a time limit or for a maximum of 24 hours or one business day, even if they yield interest income, are recorded as cash and cash equivalents.

Financial liabilities carried at amortized cost

Financial liabilities carried at amortized cost are initially recognized at fair value. In subsequent periods, these debts are carried at amortized cost using the effective interest rate. Financial liabilities carried at amortized cost are classified as current when the payment term is one year or less. If the maturity date is more than one year, they are recognized as non-current liabilities. Financial liabilities carried at amortized cost consist mainly of accounts payable and other financial liabilities.

Impairment of financial assets at amortized cost

The expected credit loss (ECL) model is used to recognize impairment. The model has a three-step approach based on changes in the credit quality of a financial asset from its initial recognition. The Company shall recognize an immediate loss equal to the 12-month ECL at initial recognition of the financial asset, even if the financial asset is free from impairment (for trade receivables their lifetime ECL should be recognised). In the event of a significant increase in credit risk, impairment is measured using the asset's lifetime ECL rather than the 12-month ECL. The model includes operational relief for trade receivables.

The Company has applied the IFRS 9 operational relief for the valuation of trade and other receivables, which are grouped according to their credit quality and the number of days overdue, applying a percentage of expected credit loss to each group. ECL rates have been estimated based on the payment history of the last three years, adjusting this figure to take into account information on present and future projections.

Related party receivables as well as related party loans are treated as a separate group, ECL for which is calculated by taking into account not only past experience, but also the credit rating of their ultimate owner being the Republic of Latvia and forecasts of future development.

An allowance for impairment is recognized in a separate allowance account and the loss is recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease may be related objectively to an event occurring after the impairment was recognized (for example, the debtor's credit rating improves), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Accrued Liabilities

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

Accrued Liability for Unused Vacation

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

Income Taxes

Corporate income tax expense for the reporting year is included in the statement based on management calculations in accordance with Latvian tax legislation.

Starting with the tax year 2018, corporate income tax is calculated on distributed profits (20/80 of the net amount payable to shareholders). The Company's tax on distributed profits is recognized when the Company's shareholders decide on the distribution of profit.

Income tax for the period is calculated in accordance with Latvian tax legislation, where the tax rate is 20 percent of the calculated tax base divided by a factor of 0.8 prior to the application of the tax rate.

Corporate income tax from the deemed profit distributions is recognized under 'Other operating expenses' as it is not a corporate income tax within the meaning of IAS 12 Income Taxes.

Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise bank balances and other short-term liquid financial assets with a maturity of up to 90 days.

Related Parties

Related parties include related companies, member of the board, their close family members and corporations in which the persons have control or significant influence.

Employee benefits

Social security and pension contributions

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

Government grants and EU funds

Government grants and EU funds are recognized at the fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants and EU funds related to assets (property, plant and equipment) are recorded as "Deferred income" and periodically recognized in Statement of comprehensive income proportionately to assets (property, plant and equipment items) depreciation over their estimated useful life.

Significant estimates and assumptions

In preparing its financial statements, the Company makes estimates and assumptions concerning the future. Given their nature, estimates rarely match actual results. The financial statements do not include items that are subject to highly subjective or complex estimates. The valuation of several items of the Company has been based on assumptions and estimates that have a material effect on the financial statements:

(a) estimates of the useful lives of property, plant and equipment as described in the descriptions of the relevant accounting and valuation methods;
(b) the assumption that, by introducing depreciation for each significant component of buildings separately in 2005, it is impracticable to apply the change in depreciation method retrospectively and, therefore, it applied prospectively;
(c) in determining the lease term, management takes into account all facts and circumstances that give an economic incentive to use the option to extend the lease or not to exercise the option to terminate the lease. The option to extend the lease (or periods after the lease expires) is included in the lease

term if there is reasonable certainty that the lease will be extended (or not terminated). The assessment is reviewed at any material event or material change in circumstances that affects the assessment and is within the lessee's control;

(d) estimates of the recoverable amount of receivables are made for each customer separately. In case individual approach to each client is not possible due to the large number of clients, only significant debtors are evaluated individually. Non-individually assessed debtors are grouped into groups with similar credit risk characteristics and are collectively measured based on past loss experience.

First-time adoption of IFRS 16 in the current year

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. The Company has applied the relief provided in IFRS 16 for ease of initial application and has chosen not to restate comparative information. As a result, comparative information is disclosed in accordance with the Company's previous accounting policy.

At the date of transition to IFRS 16, the Company recognized a lease liability that was previously classified as an operating lease in accordance with IAS 17. The Company has opted not to apply IFRS 16 to contracts that have not previously been designated as leases under IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease". The Company has previously classified operating leases as operating leases or finance leases based on the assessment of risks and rewards of ownership, related to the lease of an asset. In accordance with IFRS 16, lease liabilities are measured at the present value of the remaining lease payments, discounted at the lessee's interest rate at 1 January 2019.

Classification of Leases

When the contract is signed, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease, or contains a lease, where the contract gives the right to control the use of an identifiable asset for a specified period of time in exchange for consideration. To assess whether the contract is a lease or contains a lease, the Company assesses whether:

- The contract provides for the use of an identifiable asset - the asset may be directly or indirectly identifiable, and it must be either separate physical asset or it must represent the full capacity of the separate physical asset. If the supplier has a significant right to replace the asset, the asset is not identifiable;
- The Company has the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- The Company has the right to determine the use of the identifiable asset. The Company has the right to determine the manner in which the asset will be used, when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Company should evaluate whether they have the right to directly use the asset or direct the way how the asset is used, or the Company has developed an asset in a manner that predetermines how and for what purpose the asset will be used.

At initial measurement or in the case of reassessment of a lease that contains a lease component or several lease components, the Company attributes each of the lease components based on their relative individual price.

Lease accounting for the lessee

Leases are recognized as the right to use the asset and the corresponding lease liability at the date when the leased asset is available to the Company for use. The cost of the right to use an asset consists of:

- the initial value of the lease liability;
- any lease payments made on or before the commencement date minus any lease incentives received;
- any initial direct costs.

The right to use an asset is amortized on a straight-line basis from the inception date to the end of the useful life of the underlying asset. Depreciation is calculated on a straight-line basis from the date of commencement of the lease until the end of the lease term, unless it is contemplated that the asset will be redeemed. The right to use the asset is periodically reduced for impairment losses, if any, and adjusted for any remeasurement of the lease liability.

Assets and liabilities arising from leases at their initial recognition date are measured at the present value of the remaining lease payments, discounted at the Company's implicit interest rate. Lease liabilities include the present value of the following lease payments:

- fixed lease payments (including in principle fixed lease payments) less rental incentives;
- variable rent payments that are index or rate dependent;
- payments due by the lessee under the residual value guarantees;
- the exercise price of the call option, if there is sufficient reason to believe that the lessee will exercise the option; and
- penalty payments for termination of the lease if the term of the lease reflects the use of the option by the lessee to terminate the lease.

Lease liabilities are revalued if there is a change in future lease payments due to changes in the index or rate used to determine these payments, when the Company's estimate of expected payments changes, or when the Company changes its estimate of call option, extension or termination. When a lease liability is revalued, the corresponding adjustment is made to the carrying amount of the right of use asset or recognized in the income statement if the carrying amount of the right of use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease liability. Interest expense on lease liabilities is recognized in the income statement over the lease term to form a constant periodic rate of interest on the remaining lease liability for each period.

Short-term and low-value leases

Lease payments related to short-term or low-value leases are recognized as an expense in the income statement on a straight-line basis. Short-term lease is a lease with a term of 12 months or less at the commencement date.

Description of the Company's lease transactions

The Company has concluded a number of premises lease agreements, mainly for the lease of administrative buildings, vehicles and other assets. As at 31 December 2018, the Company one month rental expenses of approximatly of EUR 4,961. The Company has used a single discount rate of 2.76% for the entire lease portfolio. As at 1 January 2019, the total undiscounted lease liability of the Company was EUR 1,088,251.

Leases are usually for a fixed term of 1 to 20 years, but may include options to extend the lease term. In determining the lease term, management takes into account facts and circumstances that may affect the lease term. The estimate is reviewed for any material event or significant change in circumstances that is within the lessee's control.

As of 1 January 2019, the Company has recognized the right to use assets of EUR 740 148 and lease liabilities of EUR 740 148, adjusted for lease payments of EUR 348 103. Each lease payment is apportioned between the lease liability and the finance cost. Finance costs are included in the income statement over the lease term to obtain a constant periodic rate of interest on the remaining balance of the liability. The right to use the asset is depreciated over the lease term on a straight-line basis. In 2019, the amortization of the rights-of-use asset to the Company amounted to EUR 133 283 (Note 6).

Effects of the implementation of IFRS 16 on the entity's statement of financial position as at 1 January 2019

NOTES TO THE FINANCIAL STATEMENTS

	Balance as of 31 December 2018 before corrections	IFRS 16 effects	Corrected balance as of 1 January 2019
ASSETS			
Long-term investments			
Intangible assets	439 135	-	439 135
Property, plant and equipment	22 267 965	-	22 267 965
Right of use assets	-	740 148	740 148
Advances for fixed assets	1 610 402	-	1 610 402
Total long-term investments	**24 317 502**	**740 148**	**25 057 650**
Total current assets	**14 096 877**	**-**	**14 096 877**
TOTAL ASSETS	**38 414 379**	**740 148**	**39 154 527**
EQUITY AND LIABILITIES			
Shareholders equity			
Total shareholders equity	**34 691 901**	**-**	**34 691 901**
Long-term liabilities			
Lease liabilities	-	682 066	682 066
Deferred income	349 350	-	349 350
Ilgtermiņa saistības kopā	**349 350**	**682 066**	**1 031 416**
Current liabilities			
Prepayments received	821	-	821
Lease liabilities	-	58 082	58 082
Trade and Other payables	3 234 054	-	3 234 054
Deferred income	138 253	-	138 253
Total Current liabilities	**3 373 128**	**58 082**	**3 431 210**
Total liabilities	**3 722 478**	**740 148**	**4 462 626**
TOTAL EQUITY AND LIABILITIES	**38 414 379**	**740 148**	**39 154 527**

3. NET TURNOVER

	2019 EUR	2018 EUR
Revenue from operating activities (IFRS 15):		
Revenues from air navigation services in relation to transit flights and routes to the airports	25 708 465	25 597 231
Revenues from air navigation services in airport control zones	4 779 974	4 213 162
	30 488 439	**29 810 393**
Revenue from rent of fixed assets	79 896	100 526
Revenue from rent of premises	23 340	74 905
Revenue from other services	172 798	222 464
Total	**30 764 473**	**30 208 288**

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

4. OTHER OPERATING INCOME

	2019 EUR	2018 EUR
Recognition of EU funds income	147 279	69 547
Receipt of surcharge and penalties	15 354	11 179
Other income	179 201	69 201
Total	**341 834**	**148 927**

5. EMPLOYEE COSTS

	2019 EUR	2018 EUR
Salaries	12 647 478	12 072 148
Social security contributions	3 273 603	3 121 630
Employees health insurance expenses	241 899	235 598
Accrued liability for performance bonuses of the Board and Council	59 388	38 220
Accrued liability for unused annual leave	25 927	118 313
Other personnel expanses	1 169 425	1 147 483
Total	**17 417 720**	**16 733 392**
including Board members and Supervisory Council members		
salaries and bonuses	424 491	378 717
social security contributions	101 558	90 513
Total	**526 049**	**469 230**
Average number of employees during the reporting year	**363**	**352**

6. DEPRECIATION AND AMORTIZATION EXPENSES

	2019 EUR	2018 EUR
Depreciation of technical equipment	2 593 812	2 636 664
Depreciation of other property, plant and equipment	918 766	941 794
Depreciation of buildings	383 806	384 639
Depreciation charge for right to use assets	133 283	-
Long term leasehold improvements	95 408	84 352
Amortization of intangible assets	90 855	15 143
Total	**4 215 930**	**4 062 592**

7. OTHER OPERATING EXPENSES

	2019 EUR	2018 EUR
Technical services, repair works and maintenance	1 578 593	1 412 708
Membership Fee EUROCONTROL	1 008 469	997 938
Payments to CAA	976 000	976 090
Training expenses	851 125	354 526
Business trip expenses	479 418	448 569
Electricity payments	422 403	430 276
Communication expenses	382 782	285 513
Rent, maintenance and utilities costs	237 303	261 950
Payments to TNGIIB	185 000	185 000
Insurance	163 579	135 685
Marketing and representation expenses	77 921	74 221
Expense relating to variable lease payments not included in lease liabilities	74 280	-
Provisions for doubtful debts	47 781	2 606
Transport expenses	46 291	103 714
Real estate tax	39 493	39 494
Rent of land plot	12 569	84 674
CIT from deemed profit distributions	1 167	2 458
Other expenses	431 502	527 825
Total	**7 015 676**	**6 323 247**

8. FINANCE COSTS

	2019 EUR	2018 EUR
Net loss on foreign exchange related to cash and cash equivalents	(2 877)	(1 996)
Net profit/(loss) on foreign exchange related to cash and cash equivalents	743	329
Total	**(2 134)**	**(1 667)**

9. EARNINGS PER SHARE, SHARE CAPITAL AND DIVIDENDS

	2019	2018
Profit for the year	2 457 241	3 238 725
Number of shares	22 765 948	22 765 948
Earnings per share (EUR)	0,108	0,142

As of 31 December 2019 the registered and fully paid share capital is 22 765 948 EUR, comprised of 22 765 948 ordinary shares with a nominal value of 1 EUR each.
The sole owner is the Republic of Latvia. State's shareholder is the Ministry of Transport of the Republic of Latvia.

Dividends (payments for the use of state capital)

Based on the Order No 501 of the Cabinet of Ministers of the Republic of Latvia dated 13 September 2017, the Company was granted a different dividend payout rate and no dividend from the profit for the year 2016 was requested, ensuring that the requirements of the European Parliament and Commission regulation dated 10 March 2004 No 550/2004 on the provision of air navigation services in the Single European Sky are complied with and profit is used for the capital investments required for the provision of air navigation services. In accordance with the approved Company's medium-term strategy prepared in accordance with the national and European Union regulatory enactments, the Company asked the Cabinet of Ministers of the Republic of Latvia to determine different dividend payout ratio (0%). The decision on the distribution of profit for 2017 - 2019 is stipulated in the Cabinet of Ministers of the Republic of Latvia Order No.64 of 21 February 2018 "On the Profit Share of the State Joint Stock Company" Latvia's Air Traffic "to be paid out in dividends"

10. INTANGIBLE ASSETS

	Concessions, licenses EUR	Other intangible assets EUR	Total EUR
Acquisition value At 31 December 2017	**3 959**	**63 694**	**67 653**
Additions	-	390 584	**390 584**
Disposals	-	-	-
Acquisition value At 31 December 2018	**3 959**	**454 278**	**458 237**
Additions	-	-	-
Disposals	(3 324)	-	(3 324)
Acquisition value At 31 December 2019	**3 959**	**454 278**	**458 237**
Accumulated amortization At 31 December 2017	**3 959**	**-**	**3 959**
Amortization expense	-	15 143	**15 143**
Amortization of disposals	-	-	-
Accumulated amortization At 31 December 2018	**3 959**	**15 143**	**19 102**
Amortization expense	-	90 855	**90 855**
Amortization of disposals	(3 324)	-	**(3 324)**
Accumulated amortization At 31 December 2019	**635**	**105 998**	**106 633**
Net book value			
At 31 December 2017	**-**	**63 694**	**63 694**
At 31 December 2018	**-**	**439 135**	**439 135**
At 31 December 2019	**-**	**348 280**	**348 280**

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Machinery and equipment	Other fixed assets	Fixed assets under construction	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition value At 31 December 2017	**10 393 607**	**578 448**	**46 478 139**	**8 397 920**	**5 300 804**	**71 148 918**
Additions	91 814	78 337	189 076	495 391	4 048 888	**4 903 506**
Disposals	(109 037)	-	(68 964)	(421 764)	-	**(599 765)**
Reclassified	-	25 859	1 262 102	157 508	(1 416 481)	**28 988***
Acquisition value At 31 December 2018	**10 376 384**	**682 644**	**47 860 353**	**8 629 055**	**7 933 211**	**75 481 647**
Additions	151 331	129 012	440 713	502 640	7 578 326	**8 802 022**
Disposals	-	(109 102)	(864 512)	(433 590)	-	**(1 407 204)**
Reclassified	41 237	57 620	2 931 559	342 971	(3 373 387)	-
Acquisition value At 31 December 2019	**10 568 952**	**760 174**	**50 368 113**	**9 041 076**	**12 138 150**	**82 876 465**
Accumulated depreciation At 31 December 2017	**7 941 608**	**191 113**	**35 908 239**	**5 719 481**	-	**49 760 441**
Depreciation expense	384 639	84 352	2 636 664	941 794	-	4 047 449
Depreciation of disposals	(109 037)	-	(63 823)	(421 348)	-	(594 208)
Accumulated depreciation At 31 December 2018	**8 217 210**	**275 465**	**38 481 080**	**6 239 927**	-	**53 213 682**
Depreciation expense	383 806	95 408	2 593 812	918 766	-	3 991 792
Depreciation of disposals	-	(109 102)	(862 715)	(412 512)	-	(1 384 329)
Accumulated depreciation At 31 December 2019	**8 601 016**	**261 771**	**40 212 177**	**6 746 181**	-	**55 821 145**
Net book value						
At 31 December 2017	**2 451 999**	**387 335**	**10 569 900**	**2 678 439**	**5 300 804**	**21 388 477**
At 31 December 2018	**2 159 174**	**407 179**	**9 379 273**	**2 389 128**	**7 933 211**	**22 267 965**
At 31 December 2019	**1 967 936**	**498 403**	**10 155 936**	**2 294 895**	**12 138 150**	**27 055 320**

*Reclassification was made from Advances for fixed assets.

EUR 2 446 (2018: EUR 9 460) included into depreciation expense for 2019 are related to fixed assets that are not used in operating activities.

As at 31 December 2019 the cost of fixed assets that are fully depreciated is EUR 24 815 334 (31.12.2018: EUR 24 711 003).

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

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

Total area of this land is 17.61 ha and cadastral value of this land is EUR 874 363 (2018: EUR 874 363).
Real estate tax for this property paid in 2019 amounted to EUR 13 115 (2018: EUR 13 116).

12. LEASES

RIGHT-OF–USE-ASSETS

	2019 EUR
Net book value at the beggining of the year	-
Initial recognition as of 1 January 2019	740 148
Recognised changes in rent agreements	2 297 394
Depreciation recognised in Profit and Loss	(133 283)
Net book value at the end of the year	**2 904 259**

LEASE LIABILITY

	2019 EUR
Net book value at the beggining of the year	-
Initial recognition as of 1 January 2019	740 148
Recognized changes in lease agreements	2 223 115
Decrease of lease liabilities	(103 117)
Recognised interest expense (Note 7)	74 280
Net book value at the end of the year	**2 934 426**
Current lease liabilities	2 801 821
Non-current lease liabilities	132 605
Undiscounted lease payments	4 112 614
Expected interest payments	(1 178 188)
Net book value at the end of the year	**2 934 426**

13. TRADE RECEIVABLES

	31.12.2019 EUR	31.12.2018 EUR
Trade receivables	6 421 094	6 607 248
Allowance for bad debtors	(1 925 058)	(1 925 751)
Total	**4 496 036**	**4 481 497**

Movement on allowance for bad debt:

	2019 EUR	2018 EUR
Balance at the beginning of year	1 925 751	1 999 254
Charged to profit or loss during the year	47 697	2 606
Reduction (paid back)	(48 390)	(17 984)
Debts written - off	-	(58 125)
Balance at the end of year	**1 925 058**	**1 925 751**

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

Trade receivable aging analysis (net):

	2019 EUR	2018 EUR
Not due	4 470 968	4 673 561
Overdue:		
Less than 30 days	20 474	7 557
30-90 days	661	320
90 and more days	3 934	59
Total	**4 496 036**	**4 681 497**

To make sure that receivables are collected on a timely basis, management pays significant attention to risk management and constant debtor monitoring. Bad debtor analysis is done on a yearly basis and 100% allowance is made for old and outstanding debtors.

Based on agreement with EUROCONTROL, fees for air navigation services are collected and managed by EUROCONTROL. EC extended committee oversees all the activities, especially ones related to recovery of air navigation fees in accordance with EC Extended committee decisions.

In order to estimate the expected impairment, receivables were grouped according to their risk profile and days of delay. Expected loss rates are based on historical repayment rates, which are defined as the ratio of debt to eligible income over the past 36 months (as of 31 December 2019 or 31 December 2018, respectively). Historical loss ratios were adjusted to reflect current and projected macroeconomic factors affecting the ability of customers to settle accounts with the Company. GDP forecasts are considered to be the most important factor, as they have the most direct impact on changes in bad receivables.

As a result of these calculations as at 31 December 2019 and 31 December 2018, provisions for trade and other receivables that have not been past due or past due for less than 6 months have been immaterial, therefore the amounts recognised within financial statements are zero.

Similar calculations have been made for other debtors as well as cash and cash equivalents, but were not based on historical experience, rather on external credit rating agency defaults for similar borrowers or groups of borrowers. This approach has been chosen because the Company does not have any historical loss data for these classes of financial assets. As a result of the calculations, it was concluded that the credit quality of the said assets is good, therefore the expected credit losses on 31 December 2019 and 31 December 2018 are not significant, thus they were recognized as zero.

14. PREPAID EXPENSES, PREPAYMENTS AND OTHER DEBTORS

	31.12.2019 EUR	31.12.2018 EUR
Prepaid expenses	296 768	304 944
VAT overpayment	250 448	190 827
Deferred VAT	34 381	27 601
Other debtors	66 078	55 017
Total	**647 675**	**578 389**

15. CASH AND CASH EQUIVALENTS

	31.12.2019 EUR	31.12.2018 EUR
Cash at banks	4 435 364	5 865 685
Short-term bank deposits	2 000 000	1 000 000
Total	**6 435 364**	**6 865 685**

15. DEFERRED INCOME

Long-term deferred income	31.12.2019 EUR	31.12.2018 EUR
Income received from EU funds	359 669	349 350
Total	**359 669**	**349 350**

Short-term deferred income	31.12.2019 EUR	31.12.2018 EUR
Income received from EU funds	102 085	138 253
Total	**102 085**	**138 253**

Movement of deferred income during the year:

Project name	Total amount received EUR	Recognized in previous years EUR	Recognized during the year EUR	Short term part EUR	Long term part 1-5 years EUR
CPDLC	96 208	27 442	2 847	17 084	48 835
KPFI -16/131	11 880	4 792	1 198	1 198	4 692
Borealis FRA Part-1	268 579	213 927	48 202	6 450	-
Borealis FRA Part-2	64 589	30 966	33 623	-	-
A-CDM Riga	178 734	45 887	7 768	36 345	88 734
CPDLC II	185 036	13 892	33 860	18 833	118 451
DLS Impl. Path.1	138 694	5 017	18 962	18 962	95 753
DLS Impl. Path.2	9 546	2 310	819	3 213	3 204
			Total	**102 085**	**359 669**

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

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

"BOREALIS Free Route Airspace" - establishment of free route airspace in nine northern European countries. Free route airspace will allow airspace users to significantly reduce flight times as well as reduce

DEFERRED INCOME (continued)

fuel consumption therefore lowering their total costs. At the same time fragmentation of European airspace is reduced and the effectiveness of air traffic control increased.

1) *Borealis FRA Part-1 (SF5)* – Free route airspace establishment in NEFAB countries. The total amount of co-financing received is EUR 268 579.
2) *Borealis FRA Part-2 (SF6)* – development of interface that will lead to creation of Free route airspace in other Borealis alliance countries. The total amount of co-financing received is EUR 64 589.

A-CDM Riga (SF7) - the aim of the project is to increase the throughput of Riga airport and to increase efficiency of coordination processes for all parties involved in flight servicing. Introduction of CDM procedures will lead to more effective decision making process by means of exchanging with more precise and timely information. As a result of project execution the quality and safety of the services will be increased through more precise planning of take-off times therefore lowering stand-by time of aircraft at terminal as well as on runway (especially during peak hours). As a result that will lead to cost savings to users as well as yield positive results for the environment. The total amount of co-financing received so far is EUR 178 734.

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

1) *CPDLC* services implementation in Riga LIR *(SF8.1)* - project to ensure adequate air service provider infrastructure. Within this project, it is planned to purchase ATN G-G router and FEP (Front End Processor). The total amount of co-financing received so far is EUR 185 036.
2) *DLS Implementation Project Path 1 "Ground stakeholder" (SF8.2)* - The project aims to connect and integrate the LGS ATM (ATRACC) system to the ATN Global Network. To ensure the VDL-M2 coverage Riga LIR, take VDL-M2 infrastructure, as well as the interface creation with ATN global network of communications service providers (CSP - Communication Service Provider), thus providing the best performance ratio in order to increase air flow and avoid frequency overload. The co-financing received is EUR 138 694.

3) *"DLS Implementation Project Path 2" (SF8.3)* –) the aim of this project is to support the SESAR SDM by providing a comprehensive and complete project execution copy and monitoring in accordance with ELSA recommendations and SDM requirements, identifying key measures and implementation of operational solutions. Co-financing received is EUR 9 546.

17. TRADE AND OTHER PAYABLES

	31.12.2019 EUR	31.12.2018 EUR
Social security contributions and other taxes	760 711	732 233
Accrued liabilities	882 489	903 225
Salaries	705 047	661 433
Payables to vendors	623 279	582 300
Other payables	289 808	354 863
Total	**3 261 334**	**3 234 054**

18. RELATED PARTY TRANSACTIONS

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 Ltd. "Latvijas Vides, ģeoloģijas un meteoroloģijas centrs", SJSC "Latvenergo", Ltd. "Tet", Ltd. "Lattelecom", Ltd. "Latvijas Mobilais Telefons" and others. The transactions are related to the operating activities of both parties and not considered as related party transactions according to the law "On corporate income tax".

Information on transactions with the members of the Management Board and the Supervisory Council of the Company is provided in Note 5.

19. TAXES AND SOCIAL SECURITY PAYMENTS

Type of tax	31.12.2018 EUR	Calculated EUR	(Paid)/ received back EUR	31.12.2019 EUR
VAT	(190 827)	(814 959)	755 338	(250 448)
Personal income tax	259 588	2 636 910	(2 627 711)	268 787
Social contributions	470 893	4 812 765	(4 795 221)	488 437
Corporate income tax	(686)	1 167	(411)	70
Real estate tax	-	39 493	(39 493)	-
Company car tax	1 624	3 038	(1 310)	3 352
Customs duties	-	1 180	(1 180)	-
Risk duties	128	1 579	(1 572)	135
Total	**540 720**	**6 681 173**	**(6 711 560)**	**510 333**
Tax surplus	(191 513)			(250 448)
Tax liabilities	732 233			760 781

20. FUTURE COMMITMENTS

(a) Future Payments for Fixed Assets

In accordance with concluded agreements as of 31 December 2019, the Company has undertaken to fulfil future liabilities for property, plant and equipment acquisition. Total amount of such liabilities as of 31 December 2019 is EUR 6 771 870 (2018: EUR 6 379 140).
Once LGS joined EUROCONTROL, there have been additional payments made for Eurocontrol membership fees, technical integration and other related expenses.
For financing capital investments, Company is planning to use finances obtained from its operating activities.

(b) Future Lease Commitments

The Company has cars under cancellable operating lease agreements. As such, the Company needs to inform leasing company one month in advance before lease cancellation. Operating lease payments are included in Statement of Comprehensive income under "Other operating expenses". In case of lease agreement cancellation, there would not be any major effect on Company's financial results.

21. FINACE RISK MANAGEMENT

The Company's activities are exposed to various financial risks: market risk (that relates to foreign exchange risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position.

(a) Market Risk

Foreign exchange risk

The Company operates internationally and can be exposed to foreign currency risk arising from the currency fluctuations as to the euro. Foreign currency risks arise from future commercial transactions, recognized assets and liabilities. The main part of Company's purchases are made in euro (EUR), however immaterial part is made in U.S. dollars (USD) and Great Britain pounds (GBP). Revenue is received in euro. Company's management regularly monitors currency fluctuations risks. Based on the evaluation of concluded and planned contracts, the risk is assessed as negligible.

(b) Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables (Note 13), cash at bank and short-term bank deposits (Note 15). The carrying amount of the above instruments represents the maximum credit exposure of the Company. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client separately. The Company constantly monitors debtor balances in order to mitigate non-payment risk. The partners of the Company for the bank transactions and transactions with financial assets and cash are only the local financial institutions with appropriate credit history.

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

	2019 EUR	**2018 EUR**
Belgium	4 136 607	4 409 266
Latvia	2 050 500	2 003 434
Ireland	74 464	62 915
Hungary	20 211	18 671
Russia	24 347	32 242
Norway	52 242	20 700
Germany	11 337	19 251
Finland	10 925	9 152
Other	40 449	31 617
Allowance for bad debt	(1 925 058)	(1 925 751)
Total	**4 496 036**	**4 681 497**

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

	2019 EUR	2018 EUR
Corporate customers	6 421 094	6 607 248
Allowance for bad debt	(1 925 058)	(1 925 751)
Total	**4 496 036**	**4 681 497**

Cash deposits

In accordance with Company's financial management policies, credit risks arising from the Company's cash deposits are managed by Company's Finance division. Based on this policy the Company's free resources are invested only in deposits or money market funds. The Company's finance division evaluates credit rating of the bank and offered interest rates before such investment decisions are made.

Credit ratings according to Moody's applied credit rates used by the Company and outstanding cash/deposit balances were as follows:

	2019 EUR	2018 EUR
Ba1	2 888 737	2 873 660
Baa2	2 653 831	1 000 000
Aa2	800 026	4 727 296
A2	92 770	137 281
Total	**6 435 364**	**8 738 237**

The maximum exposure to credit risk for financial instruments:

	2019		2018	
	EUR	EUR	EUR	EUR
	Gross	Net	Gross	Net
Neither past due nor impaired:				
Trade receivables, other receivables	4 562 114	4 562 114	4 736 514	4 736 514
Cash and cash equivalents	6 435 364	6 435 364	8 738 237	8 738 237
Past due and impaired:				
Trade receivables, other receivables	1 925 058	25 069	1 933 687	7 936
Total	**12 922 536**	**11 022 547**	**15 408 438**	**13 482 687**

(c) Liquidity Risk

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

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

31.12.2019.	Total EUR	< 6m. EUR	6-12m. EUR	>12 m. EUR
Financial liability				
Lease liabilities	2 934 426	66 805	65 800	2 801 821
Trade payables	582 300	582 300	-	-
Other payables	355 684	355 684	-	-
Total	**3 848 355**	**980 734**	**65 800**	**2 801 821**

31.12.2018.	Total EUR	< 6m. EUR	6-12m. EUR	>12 m. EUR
Financial liability				
Trade payables	582 300	582 300	-	-
Other payables	355 684	355 684	-	-
Total	**937 984**	**937 984**	-	-

22. CAPITAL RISK MANAGEMENT

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

23. FAIR VALUES

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the market assumptions.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

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

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques. All of the Company's financial assets and liabilities fair values are measured at Level 3.

The fair values of financial assets and liabilities do not differ materially from their carrying amounts. As at 31 December 2019, all financial assets and liabilities of the Company are stated at amortized cost.

24. EVENTS AFTER REPORTING PERIOD

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2019. New member of Council Andris Ozoliņš was appointed on 7 February 2020.

S. Vilcānes Audits KS

KS "S. Vilcānes audits". Zvērinātu revidentu komercsabiedrības licence Nr. 88. Vienotais reģistrācijas numurs 40003192915.
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Independent Auditor's Report

To the shareholder of SJSC "Latvijas gaisa satiksme"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of **SJSC "Latvijas gaisa satiksme"** ("the Company") set out on pages 9 to 35 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December, 2019,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of **SJSC "Latvijas gaisa satiksme"** as at 31 December 2019, and of its financial performance and its cash flows for the year then ended with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

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

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

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

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on pages 5 to 8 of the accompanying Annual Report,
- The Management Report, as set out on page 3 to 4 of the accompanying Annual Report.

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

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

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

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

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

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

Sandra Vilcāne

Riga, Latvia
March 2, 2020