

SJSC „LATVIJAS GAISA SATIKSME”

**ANNUAL REPORT FOR YEAR ENDED
31 DECEMBER 2016**

*According to International Financial Reporting Standards
as adopted by the EU*

Marupe, 30 March 2017

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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MANAGEMENT REPORT

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 as well, consisting of five departments:

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

Key Finance Results for the Company

The core business activity of LGS is provision of air navigation services to all airspace users within the Riga Flight Information Region (FIR). In 2016 total of 246 999 flights were served. That was 1 735 flights more than in 2015.

Income from air navigation services in 2016 was 24 251 thousand EUR, which was 1.96% less than in year of 2015.

By achieving planned numbers of income and expenses, Company's profit for year was EUR 335 738, which comparing to 2015 was by 28.7% lesser. Once Company's budget was planned, Board considered inconsistency for industry overall. The actual profit for 2016 was larger than planned by EUR 176 738.

The Company's EBITDA for the year was 5 239 thousand EUR.

Important Activities and Projects

In 2016 Latvia fulfilled performance indicators (KPI) for safety, environment, capacity and cost-effectiveness stipulated in the NEFAB Performance Plan.

LGS equipped working positions and implemented a set of procedures in order to provide the air traffic control services at the modernized airport "Liepaja". In 2016 a modernization project of the main air traffic control system ATRACC 2014+ was completed, it has improved the system effectiveness, ensuring the free route processing and control.

The aerodrome multilateration surveillance system modernization was completed, it included the increase of number of sensors and the modernization of a central processing/transmitter stations. As a result the aerodrome observation system was upgraded providing Mode-S transceiver equipped aircraft as well as SQB Mode-S transmitters installed in the vehicles with the information regarding the exact positioning within the International Airport "Riga" maneuvering area as well as on aprons 1, 2, and 3.

To impart knowledge, skills and attitude in the ICAO phraseology and work-related domains, the training for the search and rescue personnel of the State Border Guard was provided. The RTF (radiotelephony) and Aviation English courses were conducted for the National Armed Forces pilots and air traffic controllers.

MANAGEMENT REPORT

Future development

In 2016 an agreement for a concept development for a new air traffic control tower construction was signed. The study works have been performed to develop a detailed project plan, indicating the best location for a new tower building, as well as a set of technical requirements including design issues. The main factors supporting the need in construction of a new tower building are as follows: the sophisticated technologies and infrastructure availability, development plans of the International Airport “Riga” and LGS and the requirements of the regional airports.

Activities on the project of CPDLC implementation have been triggered in order to create the air-ground digital broadcasting infrastructure. This project is an EU regulation requirement and it is leading to further digital data transmission services development.

In 2016 the Connecting Europe Facility (CEF) co-financed project in collaboration with SJSC International Airport “Riga” was launched. The project aims at a platform for co-operation and procedures development enhancing the effectiveness of the air traffic flow and capacity management both on ground and en-route.

Besides that in 2016 the 2nd phase of a Performance Based Navigation (PBN) system development was launched. It is a key project focused on safety and efficiency, leading to the reduction of a fuel consumption, emissions and noise level and, as far as possible, it will ensure continuity of routes. The project is focused on the optimization of arriving and departing operations and on the safety issues connected with horizontal and vertical separation.

Auditors

The audit of financial statements set out on pages 9 to 32 was carried 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 2016.

Dāvids Tauriņš
(Chairman of the Board)

30 March 2017

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 must fairly present the Company’s financial position at the end of the reporting year, its financial performance and cash flows for the reporting year. The Management Board confirms that appropriate accounting principles have been applied consistently in the preparation of the 2016 financial statements set out on pages 9 to 32, and that estimates and forecasts have been made prudently.

The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed, and that the financial statements have been prepared on a going concern basis.

The Management Board is responsible for maintaining proper accounting records and taking measures to safeguard the Company’s assets, preventing and identifying any fraud or other irregularities.

Dāvids Tauriņš
(Chairman of the Board)

30 March 2017

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
(Board member)

Iveta Virse
(Board member)

SUPERVISORY COUNCIL

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

He has obtained a Master Degree of Social Sciences in Law and a Master 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 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.

Has 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 Zaslauks”.

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 Bachelour Degree in Law at the University of Latvia and the State University of Tbilisi. He received his Doctor Degree in Law at the Institute of State and Law of the Academy of Sciences in Moscow.

Mr.Taurins is also a Board 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 Geneve.

Elmārs Švēde Board member of LGS since 26 May 2010.

Mr.Svede is in charge for 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 Degree in International and EU Law at Riga Graduate School of Law, Bachelor 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 Studiesfaculty 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 Bachelours 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	2016 EUR	2015 EUR
Net turnover	3	24 526 860	24 965 354
Other operating income	4	249 879	67 084
Total revenue		24 776 739	25 032 438
Employee costs	5	(13 969 967)	(13 514 391)
Depreciation expenses	6	(4 794 144)	(5 185 293)
Other operating expenses	7	(5 607 562)	(5 740 093)
Other income/(losses), net		27 841	(468)
Profit from operating activities		432 907	592 193
Finance income/(costs), net	8	(3 241)	620
Profit before tax		429 666	592 813
Corporate income tax	9	(93 928)	(121 936)
Profit for the year		335 738	470 877
Other comprehensive income for the year		-	-
Total comprehensive income		335 738	470 877
Earnings per share	10	0.015	0.021

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš
(Chairman of the Board)

30 March 2017

Ilze Aleksandroviča
(Board member)

Elmārs Švēde
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Iveta Virse
(Board member)

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016. EUR	31.12.2015. EUR
ASSETS			
Long-term investments			
Property, plant and equipment	11	21 604 432	18 764 318
Advances for fixed assets		216 036	1 018 251
Other investments	12	-	3 002
Total long-term investments		21 820 468	19 785 571
Current assets			
Inventories		104 776	61 429
Trade receivables	13	3 838 188	3 693 151
Corporate income tax receivable		366 336	-
Prepaid expenses, prepayments and other debtors	14	342 417	279 297
Cash and cash equivalents	15	4 815 180	6 725 889
Total current assets		9 466 897	10 759 766
TOTAL ASSETS		31 287 365	30 545 337

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30 March 2017

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(Board member)

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016. EUR	31.12.2015. EUR
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	10	22 765 948	22 765 948
Reserves		3 219 255	3 219 255
Retained earnings:			
a) Retained earnings accumulated		2 100 653	1 629 776
b) Profit for the reporting period		335 738	470 877
Total shareholders equity		28 421 594	28 085 856
Long-term liabilities			
Deferred income	16	92 164	84 846
Deferred tax liability	9	224 465	136 822
Total long-term liabilities		316 629	221 668
Current liabilities			
Corporate income tax liabilities		-	302 981
Prepayments received		1 045	7 445
Trade and Other payables	17	2 431 048	1 917 674
Deferred income	16	117 049	9 713
Total current liabilities		2 549 142	2 237 813
Total liabilities		2 865 771	2 459 481
TOTAL EQUITY AND LIABILITIES		31 287 365	30 545 337

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(Chairman of the Board)

30 March 2017

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(Board member)

Iveta Virse
(Board member)

STATEMENT OF CASH FLOW

		2016	2015
	Notes	EUR	EUR
Cash flow from operating activities			
Money received from customers and subscribers		24 212 609	24 665 304
Money received from other operating activities		692 670	317 368
Payments to suppliers, employees, other operating expenses		(14 086 602)	(13 609 085)
Payments made for other taxes and social contributions		(5 323 373)	(5 199 412)
Penalties received		3 829	6 041
Gross operating cash flow		5 499 133	6 180 216
Corporate income tax paid		(675 602)	(120 382)
Net cash flow from operating activities		4 823 531	6 059 834
Cash flow from investing activities			
Purchase of non-current assets		(6 738 500)	(3 725 410)
Proceeds from sale of fixed and intangible assets		-	8 350
Interest received		4 339	3 828
Net cash flow from investing activities		(6 734 161)	(3 713 232)
Result of foreign exchange rate fluctuations		(79)	38
Net increase/(decrease) in cash and cash equivalents		(1 910 709)	2 346 640
Cash and cash equivalents at the beginning of the year		6 725 889	4 379 249
Cash and cash equivalents at the end of the year	15	4 815 180	6 725 889

Notes on pages 14 to 32 form an integral part of these financial statements.

Dāvids Tauriņš
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30 March 2017

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Iveta Virse
(Board member)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance at 31 December 2014	22 765 948	3 219 255	1 629 776	27 614 979
Profit for the financial year	-	-	470 877	470 877
Balance at 31 December 2015	22 765 948	3 219 255	2 100 653	28 085 856
Profit for the financial year	-	-	335 738	335 738
Balance at 31 December 2016	22 765 948	3 219 255	2 436 391	28 421 594

Notes on pages 14 to 32 form an integral part of these financial statements.

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(Chairman of the Board)

30 March 2017

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(Board member)

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(Board member)

Iveta Virse
(Board member)

NOTES TO THE FINANCIAL STATEMENTS

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 KDP Building, International airport “Rīga”, Marupes parish, LV-1053, Latvia. The Company’s primary activities are organisation of airspace use and air traffic of the Republic of Latvia.

2. STATEMENT OF ACCOUNTING POLICIES

Basis of Preparation

The annual report is prepared in accordance with the laws “On Annual Reports and Consolidated Annual Reports”. The income statement has been prepared according to the turnover cost function method. Based on this law, State Joint Stock Companies, which based on this law classifies as large state joint stock company, can prepare financials, based on EU-approved International Financial Reporting Standards (IFRS). As such, these Financial Statements have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS) as adopted by the EU. All International Financial Reporting Standards issued by the International Accounting Standards Board, which are applicable for the period covered by these Financial Statements, are approved for use in the European Union pursuant to the procedure of approval (endorsement) stated by the European Commission. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets at fair value.

The financials for the period from 1 January – 31 december, 2016 have been approved by the Board of the LGS on March 30, 2017. Financial statements have been approved in shareholder meeting, which has been 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 became effective in 2016, but have no significant impact on the operations of the Company and these financial statements:

Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

NOTES TO THE FINANCIAL STATEMENTS

Amendments to IAS 1 “Presentation of financial statements” regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in associates and joint ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Annual improvements to IFRS’s 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

- IFRS 5 “Non-current assets held for sale and discontinued operations”,
- IFRS 7 “Financial instruments: Disclosures” with consequential amendments to IFRS 1,
- IAS 19 “Employee benefits”, and
- IAS 34 “Interim financial reporting”.

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).

Annual improvements to IFRS’s 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 “Share-based payment”,
- IFRS 3 “Business Combinations”,
- IFRS 8 “Operating segments”,
- IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”, and
- IAS 24 “Related party disclosures”.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2017 or later periods or are not yet endorsed by the EU:

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 10 “Consolidated financial statements”, IAS 28 “Investments in associates and joint ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);

IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

Amendments to IAS 12 “Income taxes” - recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IAS 7 “Statement of Cash Flows” – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

NOTES TO THE FINANCIAL STATEMENTS

Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial statements” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Annual improvements to IFRS’s 2016. The amendments include changes that affect 3 standards: IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU), IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IAS 40 “Investment Property” - Transfers (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

The Company’s management is evaluating impact on the financial statements.

Recognition of Income and Net Turnover

Income from the sale of goods is recognized as soon as the substantial property rights and risks related to the goods are transferred to the customer, and the compensation may be substantially evaluated.

Income is mainly from air navigation services to all airspace users within the Riga Flight Information Region, based on 3 January 2012 issued pursuant to Section 28, Paragraph one of the Law On Aviation Air Navigation Services Provided by the State Stock Company “Latvian Air Traffic”. The charge for en-route air navigation services relates to aircraft weight factor and distance covered within the Riga Flight Information Region. The charge for the air navigation services within the terminal relates to aircraft weight factor.

Revenue is recognized in following ways:

1. Services provided – Revenue from services is recognised when services are rendered
2. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Cash Unit and Transactions in Foreign Currencies

All amounts shown in these financial statements are presented in euro (EUR). Starting from 1 January 2014 transactions denominated in foreign currencies are converted into euro at the European Central Bank rate of exchange prevailing on the previous day before the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. At the year end foreign currency financial assets and liabilities are translated at the European Central Bank rate of exchange, which is in force at 31 December, and all associated exchange differences are dealt with through the income statement – Other income/(loss).

Exchange rates

NOTES TO THE FINANCIAL STATEMENTS

Foreign currency	EUR 31.12.2016.	EUR 31.12.2015.
USD	1,05410	1,08870
GBP	0,85618	0,73395

Property, Plant and Equipment

Fixed assets and intangible investments are recognized at their purchase value, less depreciation. Fixed assets shall include the purchased assets whose value exceeds 150 EUR or useful life is over 1 year.

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful lives as follows:

	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

Gains or losses from the sale of fixed assets are recognized in the income statement of the respective period. Costs of repair and renovation works, which increase the useful time of fixed assets or their value, shall be capitalized and written off during the valid life time of fixed assets. Other repair and renovation costs are recognized in the losses of the reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use, recognising impairment loss as an expense in the profit or loss. Review for impairment is carried out at the end of the reporting period.

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. Loan costs, which are directly related to establishment of fixed assets and work in progress, are capitalized if they are fairly recognizable and are directly related to them. Loan costs are capitalized until commissioning of fixed assets.

Operating Lease

Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Inventories

Cost price of inventories is accounted by using the FIFO method. Inventories are valued to purchase value or lowest market value at the date of balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

Financial Assets

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

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

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

Loans and receivables

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

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

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

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 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 reception of goods and services.

Accrued Liability for 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.

Due to changes in regulations starting from 1 January, 2016, Regulation of the Cabinet of Ministers No. 775 that relates to "Annual Reports and consolidated annual reports", Article 164 states that provision for unused vacation should be classified as accrued liabilities for vacation. As such, these changes were booked through profit and loss accounts that resulted in other income of EUR 534 538.

NOTES TO THE FINANCIAL STATEMENTS

Trade and Other Payables

Trade payables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The carrying value of trade and other payables approximate their fair values due to their short maturity. A financial liability is removed from the statement of financial position, when the obligation specified in the contract is discharged or cancelled or expires.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment and accrued expenses.

Cash and Cash Equivalents

Cash is cash in hand and non-cash in payment accounts and deposit accounts.

Cash equivalents are short-term investments, which can be converted to cash in a short period of time, and exist negligible possibility that the value of it could change materially (e.g. short term investments, for which the residual maturity till the clearance and redemption in 3 months or less).

Related Parties

A related party is a person or an entity that is related to the reporting Company.

Application of Assumptions

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to revenue recognition, depreciation, allowance for bad debts and inventories, and impairment evaluation, as well as provisions. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity are described below.

NOTES TO THE FINANCIAL STATEMENTS

- (a) Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned.
- (b) The Company makes allowances for doubtful accounts receivable. Estimates based on historical experience are used in determining the level of debts that management believes will not be collected.

Reclass

Due to changes in laws “On Annual Reports and consolidated annual reports”, there is impact on annual report for year ended 31 December, 2015. Reclass was made, based on EU-approved International Financial Reporting Standards (IFRS).

In Annual report for year ended 2016, impact for reclass for year ended 2015 was following:

Statement of Financial Position	31.12.2015		31.12.2015
	Before reclass	Reclass	After reclass
ASSETS			
Property, plant and equipment	19 782 569	(1 018 251)	18 764 318
Advances for fixed assets	-	1 018 251	1 018 251
TOTAL ASSETS	30 545 337	-	30 545 337

EQUITY AND LIABILITIES

Trade and other payables	2 220 655	(302 981)	1 917 674
Corpotate income tax liabilities	-	302 981	302 981
TOTAL EQUITY AND LIABILITIES	30 545 337	-	30 545 337

Statement of Comprehensive income

Other income/(loss)	(885)	417	(468)
Finance income/(expenses)	1 037	(417)	620
Total Comprehensive income for the year	470 877	-	470 877

NOTES TO THE FINANCIAL STATEMENTS

3. NET TURNOVER

	2016 EUR	2015 EUR
Revenue from main operating activities:		
Revenues from air navigation services in relation to transit flights and routes to the airports	21 404 437	21 883 838
Revenues from air navigation services in airport control zones	2 846 459	2 843 574
	24 250 896	24 727 412
Revenue from rental service	100 526	100 526
Revenue from fixed assets rental service	60 056	67 287
Revenue from other services	115 382	70 129
Total	24 526 860	24 965 354

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

4. OTHER OPERATING INCOME

	2016 EUR	2015 EUR
Receipt of EU funds income	158 359	12 766
Recovery of Bad Debt expenses	36 379	299
Income of prior period costs reduction	13 432	10 079
Receipt of overpaid social security contributions	11 044	14 519
Receipt of surcharge and penalties	4 750	10 933
Interest income on investment	2 119	4 310
Other income	23 796	14 178
Total	249 879	67 084

5. EMPLOYEE COSTS

	2016 EUR	2015 EUR
Salaries	10 215 682	9 955 550
Social security contributions	2 559 314	2 450 347
Employees health insurance expenses	219 882	222 791
Accrued liability for unused annual leave	67 157	-
Provision for unused annual leave	-	26 471
Provisions for performance bonuses of the Board	44 786	29 320
Other personnel expenses	863 146	829 912
Total	13 969 967	13 514 391
including Board members and Supervisory Council members		
salaries and bonuses	235 891	169 536
social security contributions	55 647	36 199
Total	291 538	205 735

Average number of employees during the reporting year	353	354
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NOTES TO THE FINANCIAL STATEMENTS

6. DEPRECIATION EXPENSES

	2016 EUR	2015 EUR
Depreciation of technical equipment	3 454 460	3 756 254
Depreciation of other property, plant and equipment	760 367	753 223
Depreciation of buildings	344 458	344 420
Long term leasehold improvements	234 859	331 396
Total	4 749 144	5 185 293

7. OTHER OPERATING EXPENSES

	2016 EUR	2015 EUR
Technical services, repair works and maintenance	1 169 503	1 117 258
Membership Fee EUROCONTROL	1 054 360	988 755
Payments to CAA	976 090	996 090
Electricity payments	388 391	332 461
Business trip expenses	387 351	406 922
Training expenses	278 289	304 103
Rent, maintenance and utilities costs	205 600	213 991
Communication expenses	198 593	186 270
Apdrošināšana	185 790	273 519
Payments to TNGIIB	172 879	172 879
Marketing and representation expenses	105 110	81 892
Transport expenses	104 639	103 761
Rent of land plot	82 718	65 515
Real estate tax	38 893	38 935
Provisions for doubtful debts	4 221	189 010
Other expenses	255 135	268 732
Total	5 607 562	5 740 093

8. FINANCE INCOME/(COSTS), NET

	2016 EUR	2015 EUR
Interest income on current bank accounts	1 214	999
Net loss on foreign exchange related to cash and cash equivalents	(4 376)	(417)
Net profit/(loss) on foreign exchange related to cash and cash equivalents	(79)	38
Total	(3 241)	620

NOTES TO THE FINANCIAL STATEMENTS

9. CORPORATE INCOME TAX

	2016 EUR	2015 EUR
Current income tax expense	6 285	371 504
Deferred tax (income) / expense	87 643	(249 568)
Total	93 928	121 936

Reconciliation of accounting and taxable profit and analysis of the tax charge:

	2016 EUR	2015 EUR
Profit before tax	429 666	592 813
Tax calculated at 15%	64 450	88 922
Adjusted for tax effect of:		
Expenses non deductible for tax purposes	27 127	30 615
Previous year asset adjustment	2 351	2 399
Total	93 928	121 936

Movement in the deferred income tax account is as follows:

	2016 EUR	2015 EUR
At the beginning of the year	136 822	386 390
Released to the profit or loss	87 643	(249 568)
At the end of the year	224 465	136 822

Deferred tax amounts shown in the statement of financial position relate to temporary differences arising from the tax bases and carrying amounts of assets and liabilities as follows:

	2016 EUR	2015 EUR
To be recovered after more than 12 months:		
Property, plant and equipment temporary differences	536 187	532 072
To be recovered within 12 months:		
Accrual for Bad debt temporary differences	(301 812)	(308 949)
Provision temporary differences	(9 910)	(86 301)
Total Deferred tax liability, net	224 465	136 822

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

	2016	2015
Profit for the year	335 738	470 877
Number of shares	22 765 948	22 765 948
Earnings per share (EUR)	0,015	0,021

As of 31 December 2016 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 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)

Dividends from the profit of 2015 in accordance with the Order No. 463 of the Cabinet of Ministers dated 22 August, 2016, were not paid due to EU Parliament and Supervisory Council issued regulation No. 550/2004 (issued on 10 March, 2004), on the provision of air navigation services in the single European

Sky. As such, profit was redirected to ongoing and planned investments projects.

Due to approved mid term strategic plan, Company is planning to ask for separate share of dividend payment (0%). Decision regarding the 2016 profit distribution will be decided in the meeting of shareholders.

NOTES TO THE FINANCIAL STATEMENTS

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 2014	9 347 114	2 750 839	41 638 592	6 362 013	3 339 537	63 438 095
Additions	53 743	14 392	289 276	172 736	1 830 603	2 360 750
Disposals	-	(50 283)	(277 131)	(280 540)	-	(607 954)
Reclassified	12 926	-	203 085	290 344	408 199	914 554*
Acquisition value	9 413 783	2 714 948	41 853 822	6 544 553	5 578 339	66 105 445
At 31 December 2015						
Additions	24 400	-	364 990	589 054	5 644 740	6 623 184
Disposals	(10 783)	(1 257 582)	(190 366)	(299 133)	-	(1 757 864)
Reclassified	500 328	-	5 107 580	354 712	(4 944 369)	1 018 251*
Acquisition value	9 927 728	1 457 366	47 136 026	7 189 186	6 278 710	71 989 016
At 31 December 2016						
Accumulated depreciation						
At 31 December 2014	6 890 507	1 973 427	29 426 400	4 464 049	-	42 754 383
Depreciation expense	344 420	331 396	3 756 254	753 223	-	5 185 293
Depreciation of disposals	-	(50 283)	(275 196)	(273 070)	-	(598 549)
Accumulated depreciation	7 234 927	2 254 540	32 907 458	4 944 202	-	47 341 127
At 31 December 2015						
Depreciation expense	344 458	234 859	3 454 460	760 367	-	4 794 144
Depreciation of disposals	(10 783)	(1 257 582)	(183 852)	(298 470)	-	(1 750 687)
Accumulated depreciation	7 568 602	1 231 817	36 178 066	5 406 099	-	50 384 584
At 31 December 2016						
Net book value						
At 31 December 2014	2 456 607	777 412	12 212 192	1 897 964	3 339 537	20 683 712
At 31 December 2015	2 178 856	460 408	8 946 364	1 600 351	5 578 339	18 764 318
At 31 December 2016	2 359 126	225 549	10 957 960	1 783 087	6 278 710	21 604 432

*Reclass was made from Advances for fixed assets.

In the amount of Depreciation expense for the year ended 2016, amount of EUR 14 082 (2015: EUR 16 684) relates to fixed assets that are not used in operating activities.

In the Company's operations are used fixed assets which are completely depreciated and which net carrying value is zero. The cost value of those fixed assets as of 31 December 2016 is 21 459 100 EUR (31.12.2015: 15 433 478 EUR).

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 constant use land, whose registered user in Land Register is The Ministry of Transport of the Republic of Latvia.

Total area of this land is 24.21 ha (2015: 24.21 ha) and cadastral value of the land is EUR 878 983 (2015: EUR 878 983). Real estate tax for this property was paid EUR 13 185 in 2016 (2015: EUR 13 185).

NOTES TO THE FINANCIAL STATEMENTS

12. OTHER INVESTMENTS

	31.12.2016 EUR	31.12.2015 EUR
Investment in rented property	-	3 002
Total	-	3 002

13. TRADE RECEIVABLES

	31.12.2016 EUR	31.12.2015 EUR
Trade receivables	5 850 267	5 752 810
Allowance for bad debtors	(2 012 079)	(2 059 659)
Total	3 838 188	3 693 151

Movement on allowance for bad debt:

	2016 EUR	2015 EUR
Balance at the beginning of year	2 059 659	1 886 939
Charged to profit or loss during the year	4 221	189 010
Reduction (paid back)	(36 379)	(299)
Debts written - off	(15 422)	(15 991)
Balance at the end of year	2 012 079	2 059 659

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

Trade receivable ageing analysis (net):

	2016 EUR	2015 EUR
Not due	3 837 337	3 691 357
Overdue:		
Less than 30 days	319	1 773
30-90 days	532	21
90 and more days	-	-
Total	3 838 188	3 693 151

To make sure that receivables are collected on a timely basis, management has established high rate of debtor collection. 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. As such credit risk is minimised.

NOTES TO THE FINANCIAL STATEMENTS

14. PREPAID EXPENSES, PREPAYMENTS AND OTHER DEBTORS

	31.12.2016 EUR	31.12.2015 EUR
Prepaid expenses	272 017	193 994
VAT overpayment	32 090	55 247
Deferred VAT	22 029	18 472
Other debtors	16 281	11 584
Total	342 417	279 297

15. CASH AND CASH EQUIVALENTS

	31.12.2016 EUR	31.12.2015 EUR
Cash at banks	4 815 180	4 725 889
Short-term bank deposits	-	2 000 000
Total	4 815 180	6 725 889

16. DEFERRED INCOME

Long-term deferred income	31.12.2016 EUR	31.12.2015 EUR
Income received from EU funds	92 164	84 846
Total	92 164	84 846

Short-term deferred income	31.12.2016 EUR	31.12.2015 EUR
Income received from EU funds	117 049	9 713
Total	117 049	9 713

Movement of deferred income within a 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	111 319	27 442	-	-	83 877
KPFI -16/131	11 880	1 197	1 198	1 198	8 287
Borealis FRA Part-1	147 242	-	117 522	29 720	-
Borealis FRA Part-2	30 966	-	21 808	9 158	-
A-CDM Riga	90 000	-	13 027	76 973	-
Total				117 049	92 164

NOTES TO THE FINANCIAL STATEMENTS

DEFERRED INCOME (continued)

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 111 319.

KPFI -16/131 (SF4) - in accordance with the project “Reduction of greenhouse gas emissions of SJSC “Latvijas gaisa satiksme” by obtaining new, industrially manufactured electromobility” (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 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 147 242.
- 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 30 966.

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 90 000.

17. TRADE AND OTHER PAYABLES

	31.12.2016 EUR	31.12.2015 EUR
Social security contributions and other taxes	701 693	622 862
Accrued liabilities	667 760	575 343
Salaries	587 487	580 883
Payables to vendors	462 877	128 633
Other payables	11 231	9 953
Total	2 431 048	1 917 674

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 SIA "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 not considered as related party transactions according to the law “On corporate income tax”.

NOTES TO THE FINANCIAL STATEMENTS

19. TAXES AND SOCIAL SECURITY PAYMENTS

Type of tax	31.12.2015 EUR	Calculated EUR	Penalty EUR	(Paid)/ received back EUR	31.12.2016 EUR
VAT	(55 247)	(485 880)	12	509 025	(32 090)
Personal income tax	245 542	2 173 645	-	(2 158 822)	260 365
Social contributions	377 193	3 705 665	-	(3 641 659)	441 199
Corporate income tax	302 981	6 285	-	(675 602)	(366 336)
Real estate tax	-	38 893	-	(38 893)	-
Company car tax	-	2 890	-	(2 890)	-
Risk duties	127	1 528	-	(1 526)	129
Total	870 596	5 443 026	12	(6 010 367)	303 267
Tax surplus	(55 247)				(398 426)
Tax liabilities	925 843				701 693

20. FUTURE COMMITMENTS

(a) Future Payments for Fixed Assets

In accordance with concluded agreements as of 31 December 2016, the Company has undertaken to fulfill future liabilities for property, plant and equipment acquisition. Total amount of such liabilities as of 31 December, 2016 is EUR 2 645 300 (2015: EUR 4 425 830).

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 from obtained from operating activities

(b) Operating 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 major effect on Company’s financial results.

21. FINANCE AND CAPITAL RISK MANAGEMENT

The Company’s activity is 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.

NOTES TO THE FINANCIAL STATEMENTS

(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 are made U.S. dollars (USD) and United Kingdom, 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 available-for-sale financial assets are only the local financial institutions with appropriate ranking.

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

	2016 EUR	2015 EUR
Belgium	3 748 153	3 663 643
Latvia	1 942 128	1 926 706
Ireland	48 920	54 942
Hungary	26 439	15 149
Russia	23 335	34 961
Norway	14 362	7 161
Germany	10 317	12 358
Finland	7 887	8 757
Other	28 726	29 134
Allowance for bad debt	(2 012 079)	(2 059 659)
Total	3 838 188	3 693 151

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

	2016 EUR	2015 EUR
Corporate customers	5 850 267	5 752 810
Allowance for bad debt	(2 012 079)	(2 059 659)
Total	3 838 188	3 693 151

NOTES TO THE FINANCIAL STATEMENTS

The maximum exposure to credit risk for financial instruments:

	2016		2015	
	EUR	EUR	EUR	EUR
	Gross	Net	Gross	Net
<i>Neither past due nor impaired:</i>				
Trade receivables, other receivables	4 546 090	4 546 090	3 970 654	3 970 654
Other long term investments	-	-	3 002	3 002
Cash and cash equivalents	4 815 180	4 815 180	6 725 889	6 725 889
<i>Past due and impaired:</i>				
Trade receivables, other receivables	2 012 930	851	2 061 453	1 794
Total	11 374 200	9 362 121	12 760 998	10 701 339

(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:

31.12.2016.	Total EUR	< 6m. EUR	6-12m. EUR	>12 m. EUR
Financial liability				
Trade payables	462 877	462 877	-	-
Other payables	12 276	12 276	-	-
Total	475 153	475 153	-	-

31.12.2015.	Total EUR	< 6m. EUR	6-12m. EUR	>12 m. EUR
Financial liability				
Trade payables	128 633	128 633	-	-
Other payables	17 398	17 398	-	-
Total	146 031	146 031	-	-

22. CAPITAL MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS

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.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2016 EUR		2015 EUR	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables, other receivables	4 546 941	4 546 941	3 972 448	3 972 448
Other long term investments	216 036	216 036	1 021 253	1 021 253
Cash and cash equivalents	4 815 180	4 815 180	6 725 889	6 725 889
Trade payables and other liabilities	(2 432 093)	(2 432 093)	(2 228 100)	(2 228 100)

All financial assets and liabilities held by the Company are carried 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 2016.

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 32 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December, 2016,
- 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 2016, 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' Code of Ethics for Professional Accountants (IESBA Code) 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 IESBA Code 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 management is responsible for the other information. The other information is the Management Report, as set out on pages 3 to 4 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other 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, 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.

Commandite "S.Vilcānes audits"

Sword Auditors Commercial Company /Licence No. 88/

Sword Auditor /Certificate No. 30/, Director

L.S.



Sandra Vilcāne

Riga, Latvia
30 March, 2017