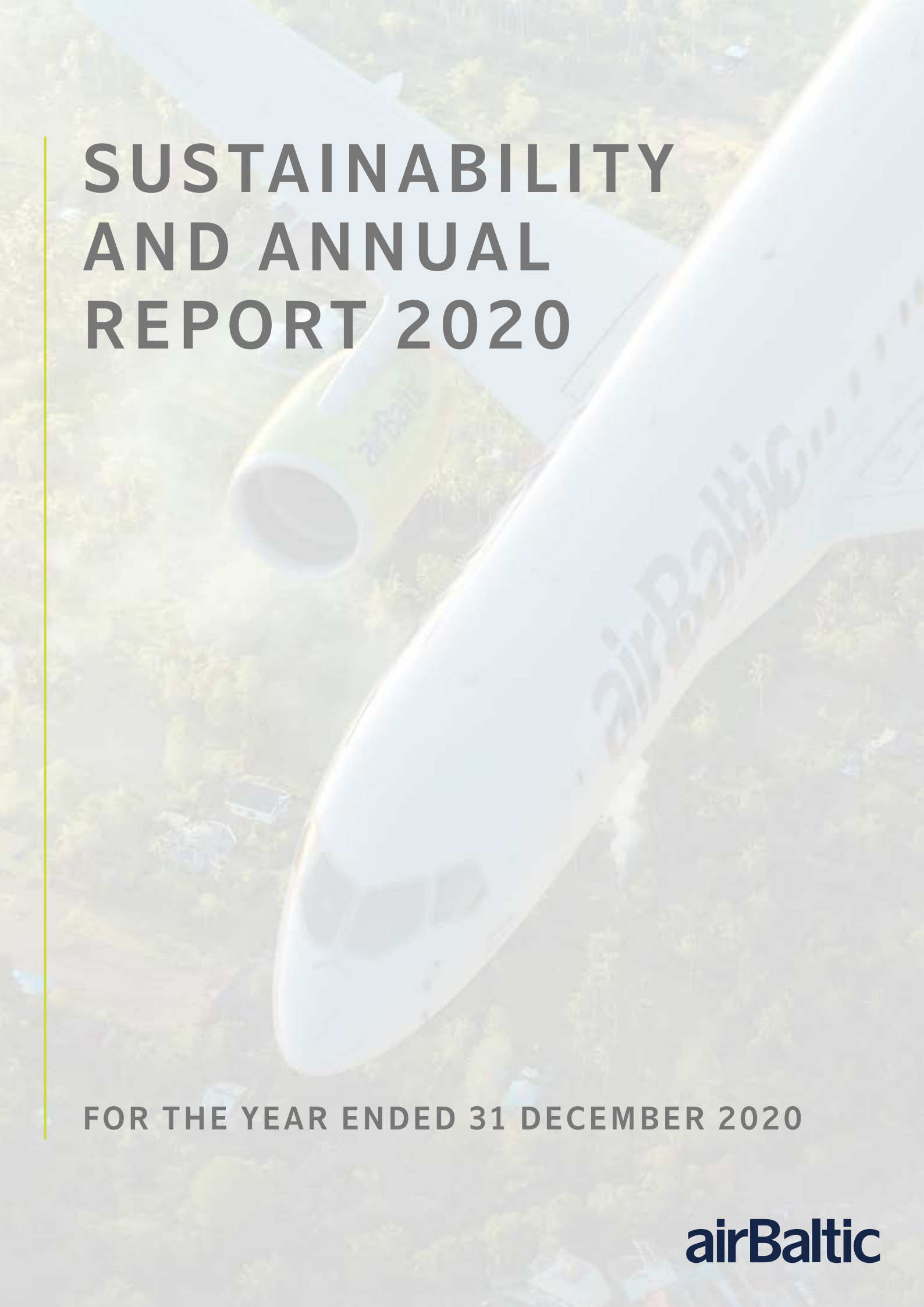


An aerial, high-angle photograph of an airBaltic aircraft in flight, viewed from above and slightly to the side. The aircraft is white with yellow accents on the tail and engine nacelles. The word "airBaltic" is visible on the fuselage and the engine. The background is a dense, green forest. The overall image has a soft, slightly faded appearance.

SUSTAINABILITY AND ANNUAL REPORT 2020

FOR THE YEAR ENDED 31 DECEMBER 2020

airBaltic

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GENERAL INFORMATION ON THE GROUP'S PARENT COMPANY

NAME OF THE PARENT COMPANY	Air Baltic Corporation	
LEGAL STATUS OF THE PARENT COMPANY	Joint stock company	
REGISTRATION NUMBER, PLACE AND DATE	40003245752 Riga, 8 February 1995	
MAIN ACTIVITIES	Passenger and cargo aviation transportation	
REGISTERED OFFICE	Riga International airport, Tehnikas Street 3, Marupe municipality, Latvia, LV-1053	
SHAREHOLDERS	Republic of Latvia Aircraft Leasing 1 SIA Other	96.14% 3.86% 0.0002%
EXECUTIVE BOARD MEMBERS	Martin Alexander Gauss Vitolds Jakovļevs Pauls Cālītis Martin Sedlacky	Chairman of the Board Member of the Board Member of the Board since 1 March 2020 Member of the Board till 29 February 2020
SUPERVISORY BOARD MEMBERS	Nikolajs Sigurds Bulmanis Kaspars Āboliņš Lars Thuesen Toms Siliņš Kaspars Briškens	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board since 26 April 2020 Member of the Supervisory Board Member of the Supervisory Board since 26 April 2020 Deputy Chairman of the Supervisory Board till 25 April 2020
FINANCIAL YEAR	1 January 2020 – 31 December 2020	
AUDITORS	Certified auditor company: PricewaterhouseCoopers SIA Certified auditor license No. 5 Kr. Valdemāra Street 21 – 21 Riga, LV-1010, Latvia	Certified auditor in charge: Jana Smirnova Latvian Certified auditor Certificate No. 188

GLOSSARY

AVIATION TERMINOLOGY

IATA International Air Transport Association

IACO International Civil Aviation Organization

ASK available seat-kilometre denotes one seat offered flown for one kilometre

RPK revenue passenger-kilometre denotes one paying passenger transported for one kilometre

CASK denotes the operating expenses divided by available seat kilometres.

RASK denotes the revenue divided by available seat kilometres

YIELD average traffic revenue earned per unit of output; calculated passenger revenue per revenue passenger kilometre flown

FINANCIAL TERMINOLOGY

EBITDAR¹ earnings before interest, taxes, depreciation, amortization and rent costs, as well as before the release/charge of provisions for legal disputes

EBITDAR² earnings before interest, taxes, depreciation, amortization and rent costs as well as before the release/charge of provisions for legal disputes and net impairment charges on right-of-use assets

EBIT earnings before interest and taxes as well as before the release/charge of provisions for legal disputes

OPERATING RESULT¹ before release/charge of provisions for legal disputes

OPERATING RESULT² before release/charge of provisions for legal disputes and net impairment /charges on right-of-use assets

NET DEBT financial indicator denoting borrowings, including lease liabilities less cash and cash equivalents



Independent Practitioner's Assurance Report on the Sustainability Report

To the Executive Board of Air Baltic Corporation AS

We have undertaken a limited assurance engagement in respect of the Sustainability report of Air Baltic Corporation AS ('the Company') and its subsidiaries ('Air Baltic Corporation Group') for the year ended 31 December 2020 on pages 9 to 92 of the Sustainability and Annual report 2020 of Air Baltic Corporation AS ('the Sustainability report 2020').

Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the Sustainability report 2020, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands (the "reporting criteria"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the Sustainability Report 2020 that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Sustainability report 2020 is not prepared, in all material respects, in accordance with the reporting criteria.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance about whether the Sustainability report 2020 is free from material misstatement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's and Air Baltic Corporation Group's sustainability performance and activities. We permit the disclosure of this report within the Sustainability and Annual report 2020.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report.

Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.



Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the Sustainability report 2020. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2020 in accordance with the GRI guidelines.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2020;
- Verifying the information included in the Sustainability report 2020 through inquiries to the relevant management personnel of the Company and its subsidiaries;
- Testing data included in the Sustainability report 2020 on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the Sustainability report 2020 to the financial statements 2020 of Air Baltic Corporation Group; and
- Evaluating the overall format and content of the Sustainability report 2020, taking into account the compliance of the disclosed information with the applicable criteria.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Inherent Limitations

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets included in the Sustainability report 2020.



Limited Assurance Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the Sustainability report 2020 is not prepared, in all material respects, in accordance with the reporting criteria.

A blue ink signature in cursive script, appearing to read 'E. Jansen-Diener'.

Eva Jansen-Diener
Persona per procura

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A blue ink signature in cursive script, appearing to read 'Jana Smirnova'.

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
13 April 2021

ABOUT THE REPORT

Air Baltic Corporation AS, registration number 40003245752 is a capital company registered in Latvia and its transferable securities in the form of bonds are traded on a regulated market (Euronext Dublin).

This Sustainability Report 2020 (hereinafter – the Sustainability Report) is prepared in accordance with Global Reporting Initiative (hereinafter – GRI) Standard G4 Disclosures including indicators for the respective Sector Disclosures – The Airport Operator sector. GRI is governed by the Global Sustainability Standards Board (hereinafter – GSSB), which has sole responsibility for setting the world's first globally accepted standards for sustainability reporting and has been actively engaged in the process to advance the European Union's Directive on the disclosure of non-financial and diversity information, also widely known as the Non-Financial Reporting Directive (Directive 2014/95/EU). It supplements management report of the annual report, corporate governance statement and includes information on the key elements of Air Baltic Corporation AS non-financial performance by indicating its operational impact on environment, social and employment aspects; its anti-corruption measures, wider community engagement and support and other non-financial elements.

The Sustainability Report of Air Baltic Corporation AS discloses sustainability information of Air Baltic Corporation AS along with its subsidiaries: Air Baltic Training SIA, Loyalty Services SIA, Baltijas Kravu Centrs SIA and Aviation Crew Resources AS (altogether hereinafter – airBaltic, the Group, the Company, airline).

The Sustainability Report covers the period from January 1st until December 31st, 2020, and it is a part of the Air Baltic Corporation AS Group Consolidated Annual Report and Air Baltic Corporation AS Annual Report.

Please send any questions or suggestions regarding the Sustainability Report to: **sustainability@airbaltic.lv**

The report made public on the 15th April 2021. Previous report was made public on the 30th of September 2020.

FOREWORD

airBaltic has been driving progress in various fields in Latvia and beyond, not only helping economic development of the region, but also promoting sustainable business, workplace diversity and corporate transparency.

Sustainability is an integral part of our daily life and future, and it is not only about clean air. At airBaltic, we are focusing on environmental, economic and social sustainability. The annual Sustainability Report of airBaltic is our long-term commitment for being transparent to our stakeholders and the general public.

Notably, the Company's management has actively promoted a sustainable mind-set, enabling the Company's departments to propose and develop new initiatives that further decreases the Company's impact on the environment.

At the same time, airBaltic continues to enforce zero discrimination recruitment and human resources management strategy and is committed to an environment where the best people work. In addition, it has been crucial for the Company to increase female participation at the management level, which now has reached 50%.

Coronavirus caused the largest crisis in aviation history, because of which airBaltic was forced to take some tough decisions in 2020. Still, the Company attempted to do it in an open, transparent manner, while providing daily updates and weekly CEO staff briefings to its employees and regular information to the public. The employees, whose contracts were terminated, were provided with a significant social package and a limited rehiring guarantee.

Sustainability as a global issue will become even stronger. It will drive all of us for the next 20-30 years, because that is the key that helps to make our planet a better place. Airlines will have to focus even more on sustainability, when they are coming back from the crisis. The future winners will be those who execute strongest on sustainability. We want to take airBaltic as an example of what we do in the world. We think greener, we fly greener.

MARTIN ALEXANDER GAUSS,
CHAIRMAN OF THE MANAGEMENT BOARD
CHIEF EXECUTIVE OFFICER



AIRBALTIC AT THE GLANCE

airBaltic is the leading airline in Latvia and Estonia which operates direct flights out of all capitals of the Baltic states – Riga (Latvia), Vilnius (Lithuania) and Tallinn (Estonia). airBaltic is a hybrid airline taking the best practices both from traditional network airlines and low-cost carriers. Being a network airline allows airBaltic to establish Riga as a connecting hub. Total direct and indirect impact of airBaltic on the Latvian economy reached 2.5% of gross domestic product (GDP) and indirectly supported close to 30 000 jobs as measured by a 2019 Roland Berger study.

VISION sees airBaltic becoming a sustainable carrier in the EU aviation market, while maintaining a continuous growth path and innovative improvement of passenger experience and developing the Baltic states as one of the key European business centres.

MISSION is to ensure vital connectivity between the Baltic States and the world and deliver a significant contribution to the economy.

VALUES:



WE DELIVER

Consistent excellence in every aspect of our business is what we strive for every day. We are strongly committed to deliver top-notch quality in all areas of our operations. We make sure that travel is safe, punctual and smooth for our customers. We are a reliable partner for everyone we cooperate with. By connecting people and places, we bring benefit to the whole society.



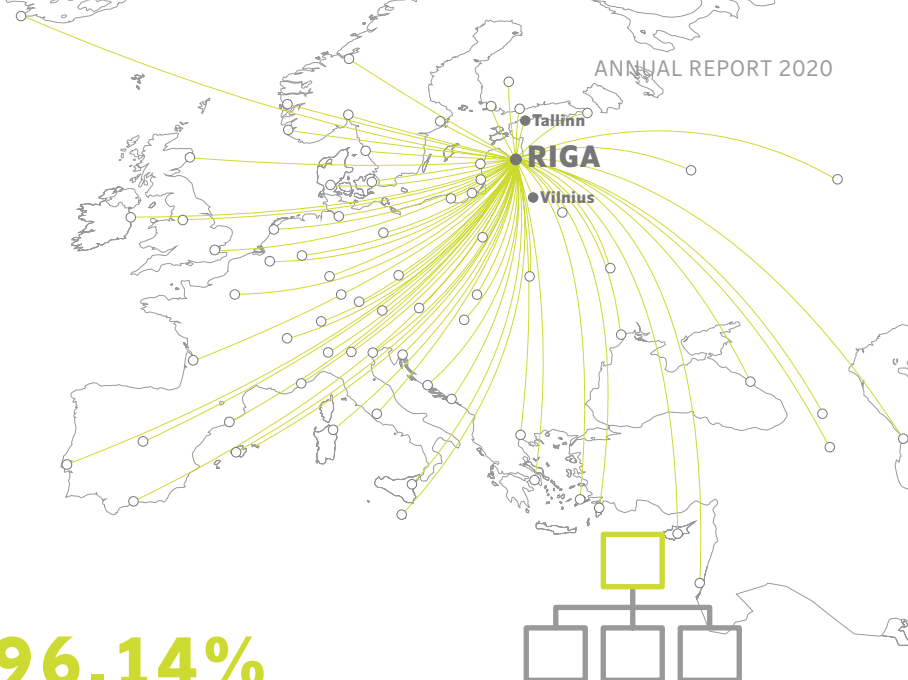
WE CARE

We love what we do and our passion for aviation inspires others. We build long-lasting relationships with our passengers, anticipating their needs and offering the best service possible. Sustainability is at the core of all the ways we work – how we do business, how we interact with people, how we care about environment, introducing green practices wherever we can.



WE GROW

We see challenges as opportunities to develop. We innovate, improve and move forward in order to be ahead of the industry. We are a team of the best professionals in the field who are constantly working to stay on top. We believe in the balance of thinking fast and smart – true leaders are flexible visionaries and take clear decisions to adapt to change and create a better future.



BACKGROUND:

1995

FOUNDED: in 1995

RIGA

HEADQUARTERS: in
Riga (Latvia)

96.14%

OWNERS: Latvian state (96.14% of the shares), Lars Thuesen through his fully owned Aircraft Leasing 1 SIA (3.86% of the shares), and other minority shareholders.

SUBSIDIARIES:
Air Baltic Training, SIA;
Loyalty Services, SIA;
Baltijas Kravu Centrs,
SIA and Aviation Crew
Resources, AS.

SCOPE AND ACHIEVEMENTS IN 2020 (AT THE END OF THE YEAR):

55 & 76

**55 DESTINATIONS
ACROSS 76 ROUTES**
(55 from Riga, 11 from Tallinn
and 10 from Vilnius)
during the year

37%

MARKET SHARE in
the capitals of the Baltics,
including 57% in Riga (2019:
59%), 27% in Tallinn (2019:
21%) and 14% in Vilnius
(2019: 9%)

25

**25 AIRCRAFT
IN SERVICE**
(2019: 39)

2 776 344

SEAT CAPACITY
(2019: 6 855 218)

2.36 M

2.36 million airBaltic Club
**LOYALTY PROGRAMME
MEMBERS**
(2019: 2.8)

1 195

1 195 EMPLOYEES
(2019: 1 716)

FLEET:

Fleet plan (at the end of year)	2019	2020
A220	22	25
B733	4	0
Q400	12	12*
TOTAL:	39	37

* grounded, not operating



RESULTS AND FOOTPRINT IN 2020:

**1.34 M**

million of passengers
(2019: 5.05)

**7.5 M**

million kg of freight
(2019: 14.8 million kg)

**22 341**

total flights
(2019: 62 748)

**52%**

load factor
(2019: 75.8%)

**99.8%**

regularity rate
(2019: 99.6%)

**84.82%**

3 MIN punctuality rate
(2019: 68.78%)

**94.61%**

15 MIN punctuality rate
(2019: 86.28%)

**75**

index points retention rate
among private customers,
expressing customer
satisfaction and loyalty (based
on survey among
3 095 respondents)
(2019: 78)

**143 M**

million EUR of revenue
(2019: 509)

**152 M**

million EUR of EBITDAR¹
(2019: 126)

**264.6 M**

million EUR of net loss
(2019: 9.1 EUR of net loss)

**51 M**

million EUR paid in salaries
(2019: 66.5)

**20.7 M**

million EUR taxes
paid in Latvia
(2019: 31)

**58 255**

tonnes of fuel consumed
(2019: 172 178)

**183 460**

tonnes of CO₂ emissions
(2019: 542 360)

**ZERO**

serious occupational
accidents / fatalities
(2019: 0)

**53 904**

hours of training provided for
employees (flight deck, cabin
crew and technicians)
(2019: 53 714)

**52% / 48%**

share of men/women
in the Group
(2019: 53%/47%)

25 YEARS IN THE SKY

In 2020, airBaltic celebrated its 25th birthday. During this time, airBaltic has had a number of significant milestones that the airline proudly highlighted to the wider public. airBaltic had experienced a tremendous growth in the Baltics, as well as internationally.

- **1995:**
In October, airBaltic performs its first commercial flight, from Riga to Stockholm.
- **1996:**
The first airBaltic AVRO RJ70 is introduced.
- **1997:**
airBaltic opens Cargo department.
- **1998:**
The first airBaltic Fokker 50 is introduced.
- **1999:**
airBaltic introduces operations in compliance with common European aviation operational standards (JAR Ops).
- **2000:**
airBaltic receives Latvian Quality Award 2000 for Business excellence.
- **2001:**
airBaltic carries its one millionth passenger.
- **2002:**
airBaltic opens direct routes from Riga to eight destinations in eastern and Western Europe.
- **2003:**
airBaltic launches online ticket sales. First Boeing 737 is introduced.
- **2004:**
airBaltic introduces new corporate livery. Starts direct flights from Vilnius.
- **2005:**
For the first time airBaltic carries over one million passengers in a single year.
- **2006:**
airBaltic closes the year with 4.305 m LVL (6.11 million EUR) net profit.

- 
- **2007:**
airBaltic launches online check-in system. airBaltic begins training Boeing 737 pilots in a simulator at its home base in Riga.
 - **2008:**
airBaltic announces fleet expansion by adding Bombardier Q400 NextGen and Boeing 757 aircraft to its fleet.
 - **2009:**
airBaltic opens travel agency on internet airBalticTravel.com.
 - **2010:**
airBaltic launches airBaltic Training centre in Riga.
 - **2011:**
Latvian government increases its shareholding in airBaltic to 99.8%.
 - **2012:**
airBaltic is recognized as the top employer in Latvia.
 - **2013:**
airBaltic introduces a food ordering system that allows travelers to customize their in-flight meal.
 - **2014:**
airBaltic becomes the world's first airline to accept Bitcoin as a payment option.
 - **2015:**
airBaltic recognized as the most punctual airline in the world by OAG.
 - **2016:**
airBaltic becomes the global launch customer of Airbus A220-300 (then – Bombardier CS300).
 - **2017:**
airBaltic Pilot Academy opens application process.
 - **2018:**
airBaltic presents a gift to Latvia on its centenary – a special livery of Airbus A220-300 aircraft. airBaltic is the official air carrier for Pope Francis and the papal delegation during their official visit to the Baltic states.
 - **2019:**
airBaltic receives ATW Market Leader award for the second straight year. airBaltic carries more than five million passengers.
 - **2020:**
airBaltic begins operating a single-type fleet consisting only of the modern Airbus A220-300 aircraft.

KEY MILESTONES AND HIGHLIGHTS IN 2020

In early 2020, airBaltic continued its growth path, carrying 19% more passengers in January and 16% more in February than in respective months of 2019. However, by early March the Coronavirus pandemic had reached Europe, and, following a decision from the Government of Latvia to temporarily ban all international travel, the airline suspended its scheduled operations for 62 days. Therefore, more than 75 destinations, which were available before the pandemic to and from the Baltics, unfortunately were not restored in full during the 2020.

During this time, the airline swiftly adjusted to the new reality. The Company introduced new safety and health measures, performed more than 70 repatriation flights and special cargo flights, providing Latvian authorities with the necessary personal protective equipment.

Seeing a significant disruption to the demand for air travel, the Company decreased its costs and revised its business plan Destination 2025 CLEAN. airBaltic decided to push forward the plan to introduce a single type fleet of the most efficient Airbus A220 aircraft. Based on the revised business plan, Latvian state as the largest shareholder of the Company invested EUR 250 million in airBaltic's equity to contribute to overcome the economic crisis caused by COVID-19 and resume growth.

airBaltic gradually resumed its operations in mid-May, starting with seven routes and adding additional routes to the schedule with each upcoming week. By July, the airline was performing 50 routes from the Baltic capitals and had launched a small number of new routes from both Vilnius and Riga.

The management of the Company continued to revise schedule on a regular basis in order to follow the various and changing restrictions in place as well as fluctuating passenger demand. By autumn, as the second wave of infection hit Europe, the airline significantly decreased its schedule for the winter season, while still maintaining essential connectivity for the Baltic region.



KEY MILESTONES IN 2020 MONTH BY MONTH:

JANUARY

airBaltic carries 19% more passengers' year-on-year during January.

FEBRUARY

airBaltic establishes an action group C19AG to work on different scenarios in order to prepare for the upcoming crisis.

MARCH

airBaltic Pilot Academy opens a new aircraft hangar in Liepaja.

APRIL

Business plan Destination 2025 CLEAN adjusted.

MAY

airBaltic adds new health measures in operations and on its resumed flights.

JUNE

airBaltic joins EASA programme to monitor COVID-19 operations in practice.

JULY

airBaltic receives Five-Star Punctuality Rating from OAG.

AUGUST

airBaltic launches new program with PIKC Liepaja State Technical School to offer practical knowledge for new specialists.

SEPTEMBER

airBaltic takes part at Riga Aviation Forum's Scientific Conference to focus on sustainable development of the industry.

OCTOBER

airBaltic signs a memorandum, committing to active cooperation in the prevention of human trafficking.

NOVEMBER

airBaltic celebrates the First ALFA Trainers Inauguration.

DECEMBER

airBaltic completes Boeing 737 phase out, receives its 24th and 25th Airbus A220-300.

RECOGNITIONS RECEIVED IN 2020

In March 2020, Latvian airline airBaltic was recognized as **the best employer in the transport and logistics sector for the ninth year in a row** following a nationwide survey carried out by the recruitment agency CV-Online Latvia.

An international air transport rating organization Skytrax after performing a thorough audit in December **2020 awarded airBaltic a five-star COVID-19 safety rating**. Thus, airBaltic became the first airline to receive the highest COVID-19 Safety Rating.



STRATEGY AND MANAGEMENT APPROACH

STRATEGIC BUSINESS PLAN

As explained in the Management report, to counteract the COVID-19 crisis, in April, the airline developed a new business plan – Destination 2025 CLEAN. The new business plan, Destination 2025 CLEAN, focuses on the impact of the Coronavirus crisis and adjustments that had to be made to the existing five-year strategy.

The new plan foresees a reduced fleet for the upcoming years where operations were resumed with 22 Airbus A220-300 aircraft. The new plan takes into account the reduced capacity for the years 2020 and 2021, while at the same time foresees return to growth with up to 50 Airbus A220-300 aircraft by the end of 2023.

Based on the new plan, airline decided to discontinue the operations of Boeing 737 fleet and Q400 fleet and transition fully to Airbus A220-300 aircraft. This plan and full transitioning to modern and efficient A220-300 aircraft fleet is also significant sustainability milestone. It means that airBaltic intends to become cleaner from environmental perspective.

Business plan Destination 2025 was originally presented in May 2018 and relies on expansion of routes from all three Baltic countries – Latvia, Estonia and Lithuania, covering the main European hubs. The strategy also foresees airBaltic achieving a significant increase in passenger numbers and its revenue by 2025.

Adding a concept of CLEAN to the name of the business plan also signifies how high role environmental aspects play in the future agenda and development of airBaltic.

MEGATRENDS

Additionally, to direct factors that influence the airline sector (e.g. regulatory changes, direct market demand), wider social, health and economic megatrends exist that also affect the operations of airBaltic in the longer term. Some of the major tendencies that airlines need to consider in strategic and operational planning are as follows:

- **Recovery from impact of covid-19**
- **Emphasis on safety and health of employees, passengers**
- **Further digitalization and innovation**
- **Sustainability and environmental awareness**
- **Need for connectivity with the world to restore economy**

OWNERSHIP AND SHAREHOLDERS

airBaltic is a capital company, which was established under the laws of the Republic of Latvia on 8 February 1995. Its majority shareholder is the Republic of Latvia with 96.14% of shares, while Lars Thuesen with his wholly owned SIA "Aircraft Leasing 1" and the rest minority shareholders own the remaining 3.86%.

ORGANIZATIONAL AND MANAGEMENT STRUCTURE

The management model of airBaltic is based on the best practices of corporate governance and regulatory framework. To emphasize, one of the priorities of the Company is to ensure effective corporate governance. This includes maintaining a flawless decision making and striving achievement of all established goals.

Detailed information about airBaltic management structure – Shareholders, Supervisory Board, Executive Board, Top Management Team and Audit Committee can be found in the Corporate Governance Statement on page 85.



STAKEHOLDER ENGAGEMENT

airBaltic impacts a wide network of stakeholders, such as employees, shareholders, creditors, numerous suppliers and other cooperation partners. In order to ensure credibility in its stakeholders' relations, the Company strives to maintain good governance principles as described in the Corporate Governance Statement. Another key aspect of stakeholder engagement management is open communication regarding the Company's results, progress, daily life and plans and is of significant importance to the Company and its engagement with stakeholders.

Since 2013, the Company has been implementing a strategy of continuous listening and regularly conducting employee engagement surveys, as well as collecting feedback on other specific activities, changes, etc. processes. The engagement index is a summary assessment that shows the level of employee satisfaction, involvement, retention, loyalty and motivation at work. Overall, the Group's employees show a moderately high level of involvement. Starting from 2019, employee engagement surveys are conducted on a regular quarterly basis to monitor dynamics and make immediate decisions in the event of deviations.

This principle of transparent, regular and open communication became especially important during 2020 with the unprecedented impact of the COVID-19 pandemic, especially on the aviation sector. In regular employee briefings as well as through updates on the Company's Intranet, the CEO and managers updated all employees about the effect of the pandemic on the Company, its plans and efforts to minimize the impact of the pandemic, as well as the applicable safety and epidemiological measures to help the government limit the spread of the pandemic. This regular and transparent communication helped achieving one of the best employee engagement results ever received in the Company.



In the middle of 2020, airBaltic revised its Core values. To make sure that the Company emphasized the values that reveal airBaltic identity in a fuller scope, it was decided to involve stakeholders. There were invited experts, trade union representatives, and suppliers from various business fields as well as customers to take part in shaping Core values throughout their experience and vision of airBaltic's beliefs, philosophies and principles that drive the business. After engagement of the employees, stakeholders and frequent flying customers the survey gave a better understanding of how stakeholders see airBaltic reflecting its Core values, identity and behaviours.

airBaltic highly values its commitments towards its creditors and tries to deliver on its partners' expectations as well as promptly addresses any concerns that they may have. Concerns with respect to how the Company has dealt with the COVID-19 pandemic have become especially topical. Since the Company's bonds are listed on Euronext Dublin, the Company must report all the required information to the Euronext Dublin and to the respective authorities. Regular and transparent communication with the Company's partners, for instance, aircraft lessors and other creditors is of utmost importance to the Company and proved to be particularly essential during the COVID-19 pandemic in 2020 and further on when dealing with its aftermath.

airBaltic's Corporate Communications (PR) Unit makes sure that the public is updated with all the relevant and latest information regarding the Company.

SUSTAINABILITY IN AIRBALTIC

As airBaltic is a major airline in the Baltic region, the Company has essential impact on the community. Growing expectations of stakeholders, changing public policy and legislation and increasing public attention to the greater role of the business sector – this all encourages the Company to manage its social and environmental impact more consciously than ever before. Among consumers too, green factors are becoming more dominant criteria next to service quality and punctuality.

THE WIDER SOCIETAL ROLE OF AIRBALTIC LIES IN FOUR PILLARS:

1. **CONNECTIVITY AND IMPACT TO THE ECONOMY: CONNECTING ITS HOME MARKETS, BALTICS TO THE WORLD.**

airBaltic ensures vital connectivity from Latvia and the Baltics and under normal circumstances (in year 2019) connects to more than 80 destinations worldwide. Annually, airBaltic brings millions of visitors to Latvia, Estonia, and Lithuania, enables developing foreign business relations, provides connections to outgoing travellers and unites families living abroad. Latvia, Estonia and Lithuania are geographically rather remote from the heart of Europe – 10+ hours' drive from the closest major capitals, without proper railway connections to the rest of the Europe and nearby to Nordics, but separated with the Baltic sea.

Due to globalization, supply chains are now spanning the whole world. Air connectivity is instrumental in facilitating essential travel linked to these supply chains, especially it was noticed during the pandemic, when demand for certain goods and services had to be met on very short notice. airBaltic continued providing excellent world-wide connectivity with its code-share partners through key European hubs (such as Amsterdam, Paris, London, Copenhagen and others). As non-stop flights were hard to come by, these hub connections were the only remaining way to reach their end-destinations for many travelers. It was also an important lifeline for cargo business.

2. **SERVICE AND HIGH HEALTH STANDARDS: DEVELOPING THE SERVICE WITH THE HIGHEST CARE AND ATTENTION.**

In 2020 one of the top priorities of airBaltic were passengers' health and safety. Hence extra measures were taken to ensure high health standards. The aircraft cabin disinfection was done with increased regularity. All passengers on board of airBaltic aircraft were provided with a complimentary basic care kit consisting of a protective face mask and disinfection wipes. As a result of all procedures in place, the biggest achievement was that Skytrax awarded Latvian airline with a five-star COVID-19 safety rating. After performing a thorough audit in December 2020, airBaltic has become the first airline to receive the highest COVID-19 Safety Rating.

3 ■ ENVIRONMENTAL FOOTPRINT: REDUCING ITS ENVIRONMENTAL FOOTPRINT, ESPECIALLY IN AIRLINE OPERATIONS.

Climate change is one of the biggest challenges of our time. As the counterbalance to the positive effects of the airline industry, flying does have an impact on the environment – mostly related to the fuel consumption. The aviation industry produces around 2.5% of all human-induced CO2 emissions globally. Therefore, it is important to take solid steps in minimizing the footprint of the industry. Being an innovative airline, airBaltic is strongly committed to reduce its impact on the environment. As one of the first and most impactful step, airBaltic has taken the path to operate with one type fleet Airbus A220-300, which at the moment is one of the greenest commercial aircraft in the world.

4 ■ EMPLOYMENT: APPLYING RESPONSIBLE BUSINESS PRACTICE IN RELATIONS TO ITS EMPLOYEES AND OTHER STAKEHOLDERS.

Given that airBaltic plays a major role in Latvia's economy and development, airBaltic's employees and their well-being is a very important aspect that the Company takes into consideration daily. Despite the impact of COVID-19 on the aviation sector and on airBaltic in 2020 – the Company was forced to lay off around 700 employees during 2020 – by the end of 2020 the Company employed nearly 1200 people and still remains one of the largest employers in Latvia and in the transport and travel sector – the largest in the Baltics. Even during the pandemic and when dealing with its effects, the Company strives to make sure that its employees are satisfied at their workplace. Similarly, to other airlines, diversity and inclusion are important for airBaltic.

For several years, airBaltic has implemented different initiatives towards more sustainable business operations but since 2019 airBaltic places great emphasis on a conscious approach to sustainability topics.

In 2020, the Company appointed a Sustainable Workplace Manager who is working alongside with the Sustainability Coordinator. This new position holder also works closely with several departments and with the Company's management to carry out and further develop airBaltic's sustainability and corporate responsibility projects.

The Company has a clear growth plan for the future, and sustainability builds an important part of the Company's future development.



Think green
Fly green

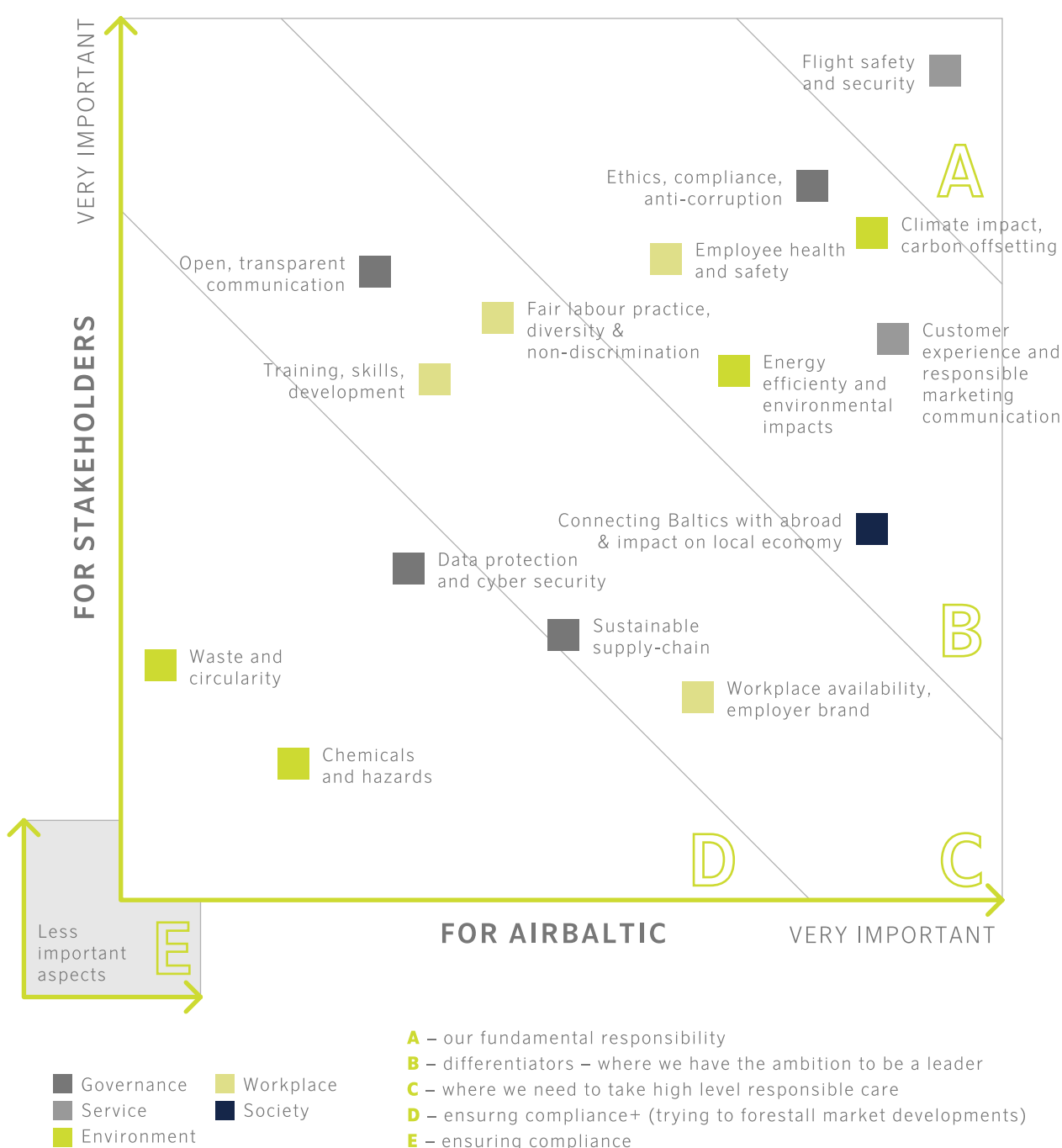


SUSTAINABILITY FOCUS TOPICS

airBaltic started analysing its material sustainability aspects more carefully in 2019. The aim of this step was to initiate internal and external discussions around sustainability, dedicate the organization and its partners more to the topic, and find out the expectations and suggestions for improvements from relevant stakeholders.

Through online survey and the meeting of major external stakeholders around 120 corporate customers, suppliers, regulators and policy makers, aviation sector professionals from Latvia and abroad, financiers, NGOs, environmental organizations, and educational institutions were involved. Additionally, labour unions and all employees were invited to share their thoughts through two surveys and a dedicated event, the result of which was almost 300 contributions. In the end of the analysis, the Executive Board and Top management team of airBaltic formed its view based on strategic relevance of sustainability aspects.

As a result of the above-mentioned process, 15 material sustainability aspects were defined. The matrix presents the priority of these for stakeholders and from the point of the top management team of the Company.



These aspects define the direction and scope for working with its societal impact and responsibility of airBaltic. Most importantly, the ambition of the Company is carried by the following most relevant aspects of sustainability and responsible business conduct:

- flight safety as the fundamental responsibility;
- the impact that flight connections have on local economy and job creation;
- employee health and safety;
- climate impact and energy efficiency;
- customer experience and responsibility in the communication with the stakeholders and wider public.

The Sustainability Report discloses management approach, guiding principles, and performance data across all of these 15 focus topics.

Through responsible management of all material impact areas, airBaltic aims to make an important contribution to the United Nation's 17 sustainable development goals in connection with its activities.

CONTRIBUTION TO UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDG)

At the end of the year 2019 airBaltic set quite ambitious goals related to sustainability and corporate responsibility, however, by the end of February 2020 the direction of the planned path completely changed and the Company as a whole needed to adapt to the new situation and to find solutions on how to stay in the market. Due to the unpredictable impact of the pandemic, airBaltic needed to focus on the main goal – to survive the unforeseen crises and be ready to start operations again. Nevertheless, during this time airBaltic found its way to set UN SDG as one of the priorities and contribute to five of SDG. Based on the materiality matrix with priority of sustainability aspects the results of which were set by airBaltic employees, stakeholders and management, airBaltic came to the conclusion that even though through responsible management of all material impact areas, airBaltic aims to make an important contribution to all 17 UN's SDG. AirBaltic decided to set focus on five most relevant for its business, which are the following: decent work and economic growth (8), industry innovation and infrastructure (9), responsible consumption and production (12), climate action (13), and peace, justice, and strong institutions (16).

In order to promote the goals for a wider audience, commencing from October 2020 airBaltic started an innovative idea - airBaltic Sustainability Calendar. The primary goal is for a one-year period to dedicate each month to one of the five selected Sustainable Development Goals. Each month there also is set one particular international day or week, which is taken as a base point for implementing a particular goal during the month. During the last three-month of 2020 airBaltic did achieve quite impressive goals. Goals and achievements in more detail are indicated here: <https://www.airbaltic.com/sustainability/?lang=en> (section 6).

RESPONSIBLE GOVERNANCE

ETHICS AND TRANSPARENCY

BUSINESS ETHICS AND CONFLICTS OF INTEREST

airBaltic's Business Ethics and Corporate Culture is part of the Personnel Handbook, which is made available to all airBaltic's employees on airBaltic's Intranet. According to the Personnel Handbook airBaltic's Business Ethics and Corporate Culture is based on generally accepted norms of ethics, legislation, core competencies and company values, such that airBaltic improves its sustainability path and maintains a continuous growth path and innovative improvement of passenger experience.

airBaltic's Business Ethics principles guide employees' relations among each other at work, in business relationships and with business partners around the world. These principles apply to all company departments and must be followed by all employees.

airBaltic's Personnel Handbook provides guidance on the acceptable code of conduct among the Company's management, employees and with business partners to avoid any cases of conflict of interest that might occur, as well as on how to report them.

With respect to business opportunities, employees are obliged to notify the Company immediately when he/she becomes aware of the fact that airBaltic is about to enter or has entered into a business transaction with the employee's spouse or close relative, or that the Company is fully or partly owned by the employee, employee's spouse, or other relative. Whereas with respect to airBaltic's business partners, an employee cannot conduct any company business with any member of their own family or with any individual or organization with which they or their families are in any way associated.

Employees must provide information to Human Resources department about their positions, shares or other relations with any of current or potential suppliers or business partners.

CUSTOMER RELATIONS

According to airBaltic's Business Ethics principles, all customers shall be served with respect and consideration for their individual needs and wishes. Attitude towards customers is characterized by quality in all aspects, especially regarding safety, punctuality and service commitment.

Mutual respect, high emotional intelligence, positive attitude and service orientation are vital, both, when serving customers and for creating a favorable working climate.

MARKETING

The highest possible transparency is applied when advertising services of the airline. airBaltic takes full responsibility for transparent pricing and clear ticket rules, product availability in all channels, user-friendly internet booking engine and available customer service. airBaltic is becoming more transparent regarding data collection and processing ensuring that data subjects have comprehensive information on how airBaltic processes its data.

PURCHASING POLICY

Transparency is also one of the key principles of airBaltic's Purchasing Policy, which requires that all tender documents must provide all the necessary information to facilitate submission of appropriate and competitive offers and ultimately – to ensure a fair competition.

The Company's Purchasing Policy provides that personal gifts or benefits worth more than EUR 50 must never be accepted. In case of any doubt as to whether or not to accept, VP Procurement and Administration must be consulted and decide on the matter.

SANCTIONS LAWS

Aviation industry is not isolated from the international politics; hence, airBaltic fully respects all applicable sanctions laws as the airline operates internationally, performs transactions in many currencies and has cooperation partners worldwide. airBaltic adheres with Latvian sanctions laws, which provide that airBaltic has to comply also with sanctions laws of EU and NATO countries. Additionally, airBaltic itself and cooperation partners require compliance with relevant sanctions laws contractually.

Taken into account that the sanctions compliance is very topical in order to run decent business without interruptions, airBaltic has developed internal Sanctions Policy, which helps employees from various departments to ensure the compliance with sanctions laws and the Company's contractual obligations. Sanctions Policy provides explanation on what are sanctions, what activities are considered illegitimate and guidelines are provided on how to check the cooperation partners. In the course of contracting a cooperation partner, airBaltic's responsible employee follows the Sanctions Policy and uses different tools to check the sanctions compliance. One of the most used elements in sanctions compliance with cooperation partners from countries where Sanctions Policy may have an impact (e.g., cooperation in Russia, Ukraine) is the widely known tool of KYC, also known as know your client questionnaire, which provides quite detailed information on the cooperation partner. Time to time employees have training on sanctions compliance, but apart from that Sanctions Policy is a part of Personnel Handbook, on the content of which employees' obligations is to be up to date.

ANTI-CORRUPTION

airBaltic places a lot of value on ensuring compliance with anti-corruption measures and takes all appropriate steps to safeguard that compliance. There are two documents containing the main anti-corruption measures of the Company – Purchasing Policy (for all corporate purchases) and Continuing Airworthiness Management and Maintenance Organization Exposition (CAMMOE) – specific for aircraft related technical purchases.

airBaltic currently is not subject to any investigations, nor it is part of any proceedings initiated by Corruption Prevention and Combating Bureau or any other anti-corruption authority. There have been no incidents during the reporting year.

Pursuant to the Company's Purchasing Policy, the internal principles must be adhered to in all tender processes. Following these principles, tender documents must be prepared and the tender process carried out:

FAIR COMPETITION	The Company must treat all participants with fairness and ensure that they are given the same level of information.
CONFLICT OF INTEREST	Situations of conflict of interest with the business of the Company must be declared to Human Resources department.
COST EFFECTIVENESS	Offers must be evaluated not only on competitiveness in pricing but also factors such as quality and other predetermined criteria.
TRANSPARENCY	To ensure transparency, tender documents must provide all the necessary information to facilitate submission of appropriate and competitive offers.

Tender committee carries out tender evaluation depending on expected annual purchase value. Tender committee selects the most competitive and cost-effective offer among the eligible participants by evaluation according to the pre-set assessment criteria. For contracts involving higher costs or requiring higher standards in technology and service areas, a scoring system should be adopted for giving scores in terms of tender price, participant's reputation, risk management, track-records and management quality, as well as the professional and technical standard of staff for implementation of the project/service.

In order to manage risks efficiently, financial, fiscal, social and legal situations of potential suppliers are taken into account. As per the Purchasing Policy, responsible employees must evaluate and decide about necessity of supplier liability insurance and the Company avoids accounting for more than 30% of a supplier's turnover. Responsible employees are required to have a contingency plan with alternative suppliers and/ or sourcing solutions to ensure continuous provisioning of services or supply of goods in emergency situations (supplier failure, political or social events etc.).

airBaltic also ensures that charitable donations and sponsorships (financial and in-kind) that are made to other organizations are not used as a disguised form of bribery. Recipients of charitable donations and sponsorships (financial and in-kind) are screened and approved by the Company's management.

When employees join the organization, they are acquainted with the Personnel Handbook, the Purchasing Policy and other applicable internal manuals, thus ensuring compliance with anti-corruption measures.

FAIR COMPETITION

airBaltic is committed to maintain fair competition both in respect of its own behavior on the market, as well as in relation to the tender processes it organizes, recruitment process etc.

The Company therefore adheres to the requirements of the Latvian Competition Law and applicable provisions harmonized at EU level, as well as has ensured for the principles of fair competition to be observed when selecting potential suppliers in its Purchasing Policy. airBaltic has a Competition Compliance Policy and carries out extensive competition law trainings for its management and employees.

airBaltic is currently not subject to any investigations, nor it is part of any proceedings initiated by the Latvian Competition Council nor any other competition authority, except the 12-year old litigation against AB flyLAL-Lithuanian Airlines which is reflected in more detail in airBaltic's Annual Report for 2020¹.

With respect to tender processes, airBaltic is committed to a fair and open tender process pursuant to its Purchasing Policy. Tender participants who consider themselves being treated unfairly can file a complaint. Respective Tender committee with possible involvement of internal auditor and/or lawyer is responsible for handling of such complaint.

Moreover, all purchasing activities of the Company must be conducted in a professional manner, demonstrating sound ethics, high moral standards and in accordance with applicable legislation. All information concerning purchasing, potential tenderers or suppliers must be held confidential in the interests of fair competition.

SUPPLY CHAIN

airBaltic has close to 2000 suppliers that provides different services and products. The Company's supply chain is mostly centred around aircraft operations, such as aircraft and engine manufacturers, airport and air navigation service providers, technical maintenance suppliers, fuel suppliers. However, very important are also catering suppliers, IT suppliers, regional production partners, financial services. However, very important are also catering suppliers, IT suppliers, regional production partners, financial services.

¹Para. 30(b) of the Annual Report.

KEY TYPES OF PROCUREMENT

KEY TYPES OF PROCUREMENT	SHARE
Fuel	32%
Ground services and irregularities	14%
Government charges	14%
Aircraft maintenance	12%
Other operating expenses	10%
Selling and advertising costs	7%
Leasing costs	5%
Distribution	5%
Catering	1%
TOTAL:	100%

Source: Management Profit/Loss Statement

Note: Excluding personnel costs, Financial items, Interest and Extraordinary items

airBaltic suppliers are mainly located in the geographical areas where airBaltic routes are being operated or in Latvia. For technical maintenance related purchases majority of our suppliers are located outside Latvia – manufacturers of aircraft parts and equipment.

In line with the Company's operational model, airBaltic is increasingly outsourcing ground handling, customer services to external suppliers. Our supplier specifications are continuously reviewed and the most critical suppliers are identified.

PERCENTAGE OF PRODUCTS AND SERVICES PURCHASED

PRODUCTS AND SERVICES PURCHASED	SHARE
Locally	9%
Non-locally	91%
TOTAL	100%

Note: According to the summary of Cash flow outgoing payments in 2020

The airBaltic Corporate Management Manual and airBaltic Purchasing Policy cover all purchasing activities within airBaltic. In addition, the Company maintains special database for agreements. In order to conclude any agreement of the necessary service or product supplier, every responsible employee needs to fill special forms, which afterwards are reviewed and approved by different department representatives. The Company is reviewing and updating the Corporate Management Manual and other manuals if needed.

airBaltic is responsible for ensuring that sustainability issues are addressed appropriately, regardless of which supplier provides the product or service. The governance model established in airBaltic clarifies supply chain responsibilities, risks and improvement areas as well as how potential deviations are handled. There is a goal set to update the procurement procedure by including a sustainable procurement section.

The airBaltic Purchasing Policy is established to ensure effective, efficient and targeted use of the Company's capital by securing the lowest cost and minimizing the commercial risks entailed by purchasing. airBaltic Purchasing Policy includes all types of external purchases performed by airBaltic. The main objective is to secure the lowest cost and minimize the commercial risks entailed by purchasing. This is achieved by maintaining firm control of suppliers and product flows, maximizing the Company's purchasing power and coordinating purchasing activities through optimum use of capital. Cost reductions are to be obtained through competition stimulation, extensive standardization, binding general contracts and close cooperation with selected suppliers.

General Responsibilities Procurement Manager has functional responsibility for all purchasing activities within the Company and for adherence to Purchasing Policy. This includes coordination of joint purchasing activities within the Company and related entities. Each employee shall comply with purchasing policy and procedure. Purchasing procedures are described in the Purchasing Procedure paragraph of the Corporate Management Manual and Financial Handbook of airBaltic. Aero technical purchases shall be performed according to the Continuing Airworthiness Management and Maintenance Organization Exposition (CAMMOE) paragraph 0.2.5. Aero technical purchases and aero technical purchases will be given priority over general supply purchases.

Technical maintenance related purchases are strictly reglamented by EASA and IOSA rules. These organizations describe all requirements to suppliers and products they set forth, e.g., regarding health and safety requirments. As parts could be purchased from particulary certified organizations only, the Company is not so flexible in its choice to purchase from more environmentally friendly companies.



FLIGHT SAFETY AND SECURITY

airBaltic is strongly committed to deliver top-notch quality in all areas of the operations and makes sure that travel is safe, punctual and smooth for all customers. A comprehensive and integrated safety management system enables compliance with the regulations and guidelines set out by International Civil Aviation Organization (ICAO), International Air Transport Association (IATA), Civil Aviation Agency and any specific legislation applicable to the countries airBaltic operates.

SAFETY

airBaltic safety management system covers all aspects of flight safety: policy, risk management, training and safety promotion, continuous compliance evaluation of operations and the assessment of the potential impact of new factors in the operating environment.

For the purposes of safety monitoring and objective control all of operation, all of the airBaltic fleet has been equipped with quick access data recorders for quick and smooth transfer and analysis of safety relevant data, known as the Flight Data Monitoring (FDM) programme. Digital data recorders are connected to the aircraft “black box” and various control systems allowing continuous recording and storage of most relevant flight parameters, such as air speed, throttle and flight control position, various engine parameters and equipment technical conditions. For example, on A220 fleet over 2600 parameters are recorded for every flight. Most safety critical parameters are immediately transmitted to the aircraft manufacturer and airBaltic from the flight, while majority of the parameters are less time-critical and are transmitted during the ground stops. In 2020 the data capture rate allowed for precise review and analysis of 97.4% of all of the airBaltic flights. Results of the flight data analysis are used for individual case analysis (providing flight animations, panel views and approach trajectories based on collected flight data) or trend detection and statistics to show underlying patterns of operation.

While flight data monitoring provides the objective image of what has happened to the aircraft during the flight, no digital recorder will ever be able to explain why it happened the way it did. Therefore, it is of the utmost importance to obtain the human inputs of the encountered operational events or deviations. To support this, the Company encourages its personnel and subcontractors to report any events they come across that could potentially compromise safety. Within last year over 6000 reports received and investigated, including those related to safety (85 flight safety and 158 cabin safety reports, as well as 36 bird incident reports and 1270 voluntary pilot reports). Each report is analyzed, classified, and assessed for risk, followed by necessary corrective or preventive actions. In addition, the internal Quality team is performing a series of internal audits, analyzing all of the safety critical and regulated activities, to ensure the overall compliance to the safety standards. During 2020, there were 98 nonconformities identified from over 220 audits and inspections, each offering an opportunity for correction and prevent to minimize the likelihood of repetitive deviation from the published procedures. Such compliance monitoring is not only mandated by the aviation regulations, but also offers a rigid element of internal control, ensuring resources are devoted to the continuous monitoring and improvement of the operational processes.

Being an IATA member airBaltic is a subject to a thorough audit every two years against the IATA Operational Safety Audit (IOSA) standards, to remain on the IOSA registry. airBaltic has been IOSA registered since 2006.



In September 2020, comprehensive safety audit on the compliance with the International Air Transport Association's (IATA) Operations Safety standards was carried out by accredited audit organization Aviation Quality Services GmbH. The audit was conducted by a team of five experienced auditors and lasted for five days, allowing detailed review of 927 standards and recommended practices across eight operational areas contributing towards safe and reliable passengers and cargo transportation on airBaltic network. airBaltic completed the audit extending the IOSA Registration for another two years, until 10 December 2022.

airBaltic aircraft fleet is young, modern and reliable and the Company has a strong safety culture. A cross-functional safety meetings are held twelve times a year, involving both senior management as well as operational staff, and reviews any issues that have arisen in the previous months and the actions taken as a consequence. In addition to this, the Company collects detailed data from all aspects of its flight operations in order to identify trends and relevant personnel from the Company's operations. Respective and relevant personnel from the Company's operations department meets every week to discuss any trends identified and how they are being dealt with.

Objective monitoring of the Company's operations, continuous development and implementation of improvement measures, as well as open dialogue with the authorities guarantee safe and high-quality airline operations.

SECURITY

airBaltic is committed to provide sufficient resources to promote security awareness and establish security culture within the Company ensuring compliance with applicable security regulations, standards and internal procedures. Security objectives and performance standards are regularly reviewed to ensure continual improvement of Security Management and Compliance Manual (Security Program), which forms security as fundamental operational priority in the whole Group.

The objective is to:

- contribute to a high level of operational and delivery reliability;
- promote security awareness and the establishment of security culture within airBaltic;
- prevent injuries that can threaten operations and/or the security of the employees;
- prevent unauthorized access to airBaltic operations and illegal use of information about airBaltic operations.

The scope of the Security policy, which is part of the Security Program, covers all assets (e.g. equipment, aircraft), information and knowledge with the purpose to protect staff, passengers and airBaltic operations.

The main security goals are:

- no acts of unlawful interference;
- number of penalized inadmissible passengers does not exceed 1 per 5000 passengers at the Company's level.

In addition, each station/department/unit may have individual goals, which are higher than the Company's overall security performance targets.

To ensure continuing relevance to the Company, the Security Policy is reviewed not less than once per year, during Operational group's meetings or Management Evaluation process.

If purchasing and installing any security equipment (cameras, proxy card system, other security equipment), the Security and Emergency Response Division must be involved. In case if cameras or other security equipment are not working or if there are any interferences in their operations, Security and Emergency Response Division must be informed immediately.

All employees are an important resource and the greatest asset of a security organization by bringing knowledge and creating an environment of co-operation. All employees can contribute to an overall level of security within his/her place of work.

Security policy is communicated to all employees using all available means: published in employee manuals, on Intranet, included in training presentations, etc.

The work of security shall contribute to secure working conditions. These conditions and protection of airBaltic employees and their operations enable the prerequisites to have the confidence of the external environment.

The level of security against risk and threats with the aim of causing damage to the Company shall continually be assessed and economically motivated. The basis of valuation of airBaltic customers and partners shall be included.

The level of protection shall be reasonable since unrealistic demands or an overestimate of risks and threats can result in a decreased level of confidence in the work of security.

Detailed description of requirements for application of security procedures implemented to achieve the objective is given in airBaltic Security Program.

The provisions contained in the program shall be in compliance with national and international regulations, international standards and practices, requirements adapted by the state agency Civil Aviation Agency of the Republic of Latvia.

The provisions contained in airBaltic Security Program shall be applied in the territory of the Republic of Latvia and during flights. When an airBaltic aircraft is on the ground at an airport of a foreign state, airBaltic personnel shall comply with the security regulations and procedures of that state.

Taking into account threat assessment, additional and extraordinary security measures can be implemented as outlined in the program.

As a result of measure taken no reportable security incidents were registered in the Company during 2020.

EMERGENCY RESPONSE

airBaltic has developed an Emergency Response Organization (hereinafter – ERO) - a formation of the Company employees who are aware of the Emergency Response Manual and procedures that would take place in case of emergency and possible crisis situation within the Company, which could affect the well-being of the airline, while at the same time, permit the continuation of normal operations with minimal disruption.

airBaltic continuously improves the Emergency Response Manual and Emergency Response Procedures with a purpose to serve as a guide for handling any emergency and possible crisis by:

- saving lives and minimizing the trauma to those directly involved, including passengers and crew, their relatives and friends, airline staff and others who are involved with the incident;
- minimizing any negative effect on the image of the airline; and
- minimizing disruption to the continued day-to-day operation of the airline.

In the event of an aircraft accident, incident or any other emergency situation involving property, which airBaltic uses in its operations, it is the Company's policy to:

- co-operate closely with the authorities and organizations involved, to preserve human lives and the property of airBaltic;
- release accurate and coordinated information as soon as possible to next of kin (a person's closest living relative or relatives), media and other parties involved;
- assist all authorities concerned with investigation of the cause of the occurrence;
- fulfil the Company's obligations towards involved crew, passengers, cargo and postal consignors;
- limit the economic consequences and allow business to continue. This means that the Company continues its daily operations, except employees who are involved in Emergency Response activities. In case the employee's daily responsibilities involve any managerial or supervisory functions, replacement shall be nominated according to Corporate Manual or management decision.

Year 2020 with its unusual events resulted in ERO Partial activation due to COVID-19 crisis and many important changes in the Emergency Response Organization. Upon request of Chairman Executive Officer Partial ERO was activated, Team leaders gathered, and COVID-19 Action Group was formed to take over the ongoing long-term crisis management.

airBaltic has taken the next steps towards integrated and solid ERO organization development by engaging and training all airBaltic employees as ERO members. New ERO organizational policy has been implemented where each employee has a role in the ERO structure as an active member. Taking into account the above, each employee:

- receives ERO introduction training for better overall understanding of what is ERO and how the Company responds to emergency situations;
- receives Training according to individuals team specifics;

- is included in the Company's notification system and receives information and is aware if the Company faces emergency situation;
- is invited to 1-2 practical exercises per year which always have been recognized as interesting and useful from participants;
- is aware how to be useful for the Company in case of emergency situations.

It is also worth outlining that a new Special Assistance Team full day training has been implemented. All Special Assistance Team members receive full day training, which consists of ERO Introduction, ERO Special Assistance Team duties and psychological theory and practical training. This course is organized by ERO Coordinator and Mental Health and Personality Assessment Specialist for a group of maximum 20 employees per session to provide professional psychological theoretical and practical training of crisis communication basics.



SERVICE AND CUSTOMER EXPERIENCE

AirBaltic believes that satisfied and happy customers are one of the key drivers of business success and growth. Customer service is one of the core values of airBaltic, and its development and improvement (from the flight reservation until arrival at the desired destination) is one of the main goals of the Company. To emphasize, during COVID-19 pandemic airBaltic provided additional flexibility to its customers by introducing a new temporary policy.

PUNCTUALITY

Considering the importance of airBaltic provided services in Latvia and the Baltics, the top priorities of airBaltic operations are safety, punctuality and provided customer service, even more during COVID-19 times. Nowadays it is clear that safety and quality of provided services for the passengers and the health and safety of employees are the most important aspects of the business. Only after ensuring the most essential requirements of flight safety and human health, then the responsibility of the airBaltic is to fulfil its promises of operations regularity and on-time punctuality.

Having punctuality and regularity as fundamental aspects for the ability to deliver passenger transport on time and as planned, that is not just limited to arriving at a place at the right time, it is also about taking actions at the right time.

The Company works continuously to monitor and improve not only punctuality and regularity, but also the efficiency, which is highly valued by airBaltic customers. Punctuality is also of high importance for reducing emissions, which is a pivotal moment for a sustainable future of aviation industry. Throughout the last few years, the Company had carried out various projects with the aim to increase fuel efficiency and decreasing CO2 and other emissions.

One of the main targets for airBaltic is to ensure that 99% of all planned flights are performed within scheduled times and high standard customer service is provided.

In 2020 airBaltic cancellation or regularity rate was 99.9% (2019: 99.6%) which is extremely high and an excellent achievement by the team of airBaltic. In 2020 airBaltic 15-minutes punctuality rate was 94.6% (2019: 88.3%).

In 2020 flight operations were heavily reduced due to COVID-19 crisis and at this point is very hard to compare with previous operationally hectic years. To highlight that 2019 becoming the most punctual airline in Europe and is the second most punctual in the world according to the OAG analysts. airBaltic has been on the top of the global on-time performance ranking for the past five consecutive years.

Due to high punctuality rate airBaltic can provide to its passengers consistent and product wise stable transfer passenger flow via hub base in Riga.

To deliver such high result, it requires top performance of each one of the team, as well as smooth cooperation among teams as well as external partners.

RESPONSIBLE MARKETING COMMUNICATIONS

At airBaltic, relationships with customers and mutual trust are always one of the main focuses. In order to reach over 1.34 million customers, however, in normal circumstances around 5 million customers in more than 120 countries, the Company uses a combination of various marketing channels.

airBaltic believes it is their responsibility to make sure that communication with customers follows consistent principles and standards. All marketing activities of airBaltic are always legal, decent, honest and truthful.

When advertising the Company's services, the highest possible transparency is applied. It means that airBaltic takes full responsibility for transparent pricing and clear ticket rules, product availability in all channels, user-friendly internet booking engine and customer service. Customer service is available on social media – airBaltic pages in Facebook, Twitter and LinkedIn, and in call centre. Here we help our customers with information about airBaltic products/services and also answer specific enquiries about bookings. Call centre employees speak seven languages and airBaltic's social media team is available for customers 24/7. Furthermore, all brand managers follow a specific tone of voice to keep the marketing communication friendly, focused and easy to understand.

Since the safety and health of airBaltic passengers is top priority in addition to everyday safety and health measures, as of the start of COVID-19, airBaltic has introduced even stronger health measures and the new flight operations followed the recommendations issued by authorities. The same applies to everyday communication with customers through different channels – newsletters, webpushes on airBaltic.com web page, on airBaltic blog, on social media. airBaltic constantly reminds about health measures before and during the flight, shares the latest news about destinations and restrictions. Inspirational messages are being sent if the destination is safe to travel to.



Within the last couple of years, airBaltic has taken digital marketing to the next level to meet its ambitious business and corporate targets. With a strong presence in home markets (Baltics) and strong need to grow sales and brand awareness outside its core market, airBaltic is using the most modern digital tools, on-demand customer intelligence, and marketing platforms. Mobile is the main device generating traffic to airBaltic.com with 57.54% share (+8.86 points vs 2019). Although the majority of customers still book on desktop, during the travel planning phase mobile phones and tablets lead – ~58% of customers plan their travel using mobile devices.

Within last years airBaltic has been in strategic partnership with Facebook and has had an opportunity to utilize its newest targeting possibilities and creative formats. The Company started with tailored retargeting messages with Facebook Flight ads and won an official Facebook success story for that (<https://www.facebook.com/business/success/airbaltic>). This was followed by scaling up the sales with prospecting ads (<https://www.facebook.com/business/success/2-airbaltic>) and last year airBaltic added the creativity layer and was one of the first companies to use innovative Augmented Reality ads both for engagement and direct sales (<https://www.facebook.com/business/success/2-airbaltic>).

Digital media is also powerful Human Resources tool for airBaltic. We have created dedicated websites and landing pages to build our employer brand and attract best employees. airBaltic is also using different social media channels to find new employees for very specific roles. For example, airBaltic was awarded „the best online campaign“ in Estonian Digital Awards for finding new roles to IT department with advanced targeting and creative combination in LinkedIn.

airBaltic.com accounts for 63% (+12 points vs 2019) of all airBaltic flight bookings, thus digital marketing and e-commerce play a crucial role for B2C sales and the Company's revenue stream. As customer habits are changing, each year the number of people that purchase their flight tickets on mobile devices grows significantly. 69% of bookings are made on desktop, while 31% (+6 points vs 2019) on mobile phones and tablets. The mobile conversion rate has reached 14.34% (+13 points vs 2019).

Flight metasearch websites play an important role in digital sales. For many years, airBaltic is cooperating with the most important flight metasearch websites such as Skyscanner, Kayak, Momondo, Aviasales and others. In 2020, every 9th booking on the Company's website came from a metasearch engine. In total, metasearch partners brought to airBaltic more than 47 000 bookings.

As in metasearch websites airBaltic flights appear along other airline offers, the main task is to be competitive and visible enough to encourage people choose particular product. To ensure this airBaltic received a 5* COVID safety rating and Greener Choice recognition by the airline's biggest metasearch partner Skyscanner – both awards now appear near airBaltic flights in the search engine.

As a result of measures taken there were no non-compliance regarding marketing communications in 2020.

DATA PROTECTION AND CYBER SECURITY

airBaltic respects the privacy of its customers and is committed to ensuring that personal details and other information provided by clients is processed appropriately. Special attention in the Company is paid to appropriate data protection – airBaltic works to comply with the applicable regulatory enactments and applies data protection regulations to everyday work.

airBaltic is subject to the General Data Protection Regulation No. 679/2016 (GDPR) of the European Parliament and of the Council as well as relevant national regulatory enactments, which impose obligations to ensure appropriate processing and protection of personal data.

In 2020, airBaltic has updated the privacy policy several times in order to reflect topical data processing aspects, in particular those related to COVID-19 pandemic and measures for containment of such pandemic situation. Thus, airBaltic wants to highlight transparency and provide individuals with comprehensive information on their data processing aspects.

COVID-19 pandemic situation has improved digitalization processes within airBaltic's everyday work, for example, improvements in infrastructure to ensure secure and efficient remote work. When airBaltic was considering the remote work, security was one of top priorities.

airBaltic values data protection and aims to ensure ongoing:

- transparency – airBaltic aims to become more transparent about data collection and processing so that data subjects have comprehensive information on how airBaltic processes their data. This information is communicated with data subjects through privacy policies, which are updated when necessary to reflect topical data processing activities carried out by airBaltic;
- lawfulness – airBaltic respects data protection and privacy laws and aims to comply with obligation provided by such laws;
- security – airBaltic believes that security is a cornerstone to maintain a trust of customers. airBaltic aims to protect personal data pursuant to the industry standards, including having access control in place and encryption solutions, as well as updating security measures when necessary to comply with industry standards. Security is cornerstone to maintain trust of customers.

airBaltic has taken organizational measures to ensure the above mentioned. This includes the established Privacy Program, appointed Data Protection Officer, implemented appropriate policies and procedures, established a notification process for data security incidents, and conducting training for its employees on data protection rules to support compliance with the applicable regulatory enactments. Privacy Program within airBaltic is managed by Data Protection Officer, who reports directly to top management of airBaltic. airBaltic strongly believes that employees need to be trained and provided with the latest information in the specific field.



During year 2020, Data Protection Officer organized 7 training sessions for airBaltic employees, some of trainings were taking place in a remote regime, which allowed participation of more employees.

airBaltic's IT infrastructure is maintained according to the applicable regulations and industry best practices, with regular internal and external audits executed in order to ensure high levels of security. Cyber security culture in the Company is promoted through an on-boarding process for new employees that ensures familiarity with airBaltic IT security requirements and regular IT security trainings.

During year 2020, the Company has started the process on implementation of ISO 27001 Standard on Information Security Management, since our aim is to ensure that our information security management practices comply with this standard. Besides, the Company has reviewed and significantly improved internal policies, for example, acceptable use policy and access rights policy.

In 2020, airBaltic did not receive any material and substantiated complaints about privacy, most of the requests are of a general nature, such as deleting data, accessing data and complying with GDPR requirements and providing the necessary information to passengers.

SERVICE QUALITY AND PASSENGER EXPERIENCE

The Company's staff are dedicated to ensuring that customers always experience a safe and enjoyable journey. airBaltic core values "We care. We deliver. We grow" are deeply integrated in the airline services and activities.

Special discount fares, best offers and lowest prices are always available via airBaltic website.

To improve its offering and as a response to COVID-19 pandemic created reality, airBaltic in 2020 introduced new flexible ticket types - GREEN, GREEN plus, GREEN classic or Business class tickets tailored to better suit each traveler's needs.

For Customers, who are looking to receive more personal service, are calling to airBaltic Call Center or are visiting its Riga Airport Ticket Office, and the Company always looks for the best deal to propose.

airBaltic takes all reasonable measures necessary to avoid any irregularities during passenger's journey; however, if something still goes wrong despite its best efforts, the Company will do everything possible to fix the problem as quickly as possible.

In the event of a flight cancellation or a delay of more than 30 minutes customers are notified about the disruption and all the necessary and important information is provided via SMS to the phone number(s) provided in customers' booking. If the ticket is booked via travel agency, and no contact number exists in the Company's system, airBaltic Call Center Sales and Service Advisors contact passenger's travel agency. The Company also ensures that the information is available on airport information boards and can be also received from airBaltic ground staff and cabin crew, at Call Center, Riga Airport Ticket Office and Transfer center.

Call Center agents provide service for passengers in seven languages – Latvian, English, Russian, German, Lithuanian, Estonian, Finnish – daily from 6.00 to 23:00 and can be reached via phone, e-mails or online contact forms. The special phone line is open 24 h for all irregularity's cases, this number is shown on all boarding passes. However, if the situation cannot be resolved immediately, Customer Relations take over the case. Each complaint, which is submitted via online contact form, will be investigated and answered within maximum 15 working days of receiving it.

If a flight is delayed or cancelled or passenger misses a connecting flight, the airline carries passengers to the destination shown on the ticket on other alternative flights at the earliest convenience. In case if proposed alternatives do not meet passenger's expectations, full unused ticket refund is offered and they are processed within 7 business days of receiving the required refund information. However, the actual crediting on passenger's bank account may take some additional days depending on bank and payment providers processes. At the very beginning of COVID-19 crisis, the refund process took longer than expected, but with the procedures adjustments, system improvements and due to hiring additional staff at Call centre, it returned within deadlines required by the Regulation (EC) No 261/2004 of the European Parliament and of the Council. The Company provides also additional assistance in cases of flight irregularities, such as meals and refreshments, hotel accommodation and transportation to/from place of accommodation (if necessary), free communication options and financial compensation, if required to do so by legislation.

The Company strives to ensure that passenger's checked baggage arrives at the destination together with the passenger. In the unfortunate event, when bags do not arrive on a passenger's flight, to the airline efforts to ensure the bags are returned to passenger within the first 24 hours.

CUSTOMER RELATIONS (LOYALTY PROGRAMME)

To make the customer traveling experience even more pleasant, airBaltic has developed a loyalty programme airBaltic club, which allows clients to earn PINS and collect stamps while traveling and receive various rewards. PINS is the currency of airBaltic Club that can be earned every time a customer flies airBaltic or uses the services of other travel and retail partners. For example, up to three PINS can be earned for each euro spent on airBaltic tickets and extra services, one PINS is earned for each euro spent while shopping on board.

The airBaltic Club has three levels suited to the customer's flying habits – Club, Executive and VIP.

If client travels at least five times per year, a free flight with airBaltic Club can be earned. Besides free flights, airBaltic Club offers different kind of rewards (such as baggage vouchers, flight discounts, bonus PINS and a free ticket) for stamps collected. Stamps can be collected by members of airBaltic Club or members of PINS loyalty programme. A stamp is received for each one-way flight booked on the airBaltic website. More information about the loyalty programme is available <https://www.airbaltic.com/en/airbaltic-loyalty-club>.

In year 2020, loyalty programme airBaltic Club introduced digital loyalty cards which members are able to download to their mobile wallets. Using the digital card is not only more convenient, as it's stored on a smartphone, but can help to reduce unnecessary plastic.

Digital cards can be used in the same way as the plastic cards and members can continue to earn points by scanning card for on-board purchases while flying with airBaltic and use at the Riga International Airport's parking. Executive or VIP status members can use digital cards for Fast Track security check and Business Lounge access in airports. All elite tier level memberships (Executive, VIP status levels) in 2020 were prolonged till 31st December 2021 complementary, due to the travel restrictions raised by COVID-19.



CUSTOMER AND PASSENGER FEEDBACK AND SATISFACTION

Passengers and their high satisfaction level are at the core of airBaltic priorities. In 2020, revised vision and values were introduced aiming to maintain innovative improvement of passenger experience and build long-lasting relationships with them, anticipating their needs and offering the best service possible. Therefore, all products and services during the whole passenger journey are continuously monitored, reviewed and improved.

To obtain feedback that is as differentiated as possible regarding passengers' experiences, airBaltic is regularly tracking their satisfaction levels, conducting surveys and monitoring feedback in claims, social media and travelers' forums. This approach offers the possibility to identify starting points for improving products and services and accordingly customers' satisfaction level.

Since 2014, airBaltic together with partner KANTAR is conducting annual passengers' retention survey to measure customers' satisfaction and loyalty rate along the whole travel chain from flight reservation until the arrival at the destination and post-flight services. The main objective of these surveys is to monitor customer retention and find out the key drivers for improving the quality of provided services and for strengthening relationships between airBaltic and customers. The data from retention survey allows understanding on how passengers see separate parts of their journey with airBaltic and what is the satisfaction level for each of them. These indexes can also be used as indicators for implementing improvements of products and services as they also show Company's strengths and weaknesses.

Although the retention rate among with private passengers in 2020 decreased by 3 index points since 2019, nevertheless, with 75 index points it is considered as very high. It is by 9 index points higher than the average private customer retention rate of travel and leisure sector in Europe.

airBaltic in 2020 started to collect data for the calculation of the Net Promoter Score (NPS®)². To calculate the NPS®, airBaltic conducts after flight surveys asking passengers if they would recommend the airline based on their travel experience. Also, other data are collected during these surveys in order to quickly react to passengers' satisfaction level changes and implement necessary adjustments in processes or products.

²NPS ® – Net Promoter Score, a registered service mark of Bain & Co., Inc., Fred Reichheld and Satmetrix Systems, Inc.

ENVIRONMENT

Environmental impact is one of the most complex challenges for air transport industry. Among the key environmental impacts of the airBaltic are engine emissions from fuel consumption, noise, use of chemicals and waste streams. As air travel increased before COVID-19, airBaltic, similar to other airlines, still aims to find ways and solutions on how more efficiently to minimize the adverse impact on environment. Moreover, the airline clearly feels the growing concerns and expectations from relevant stakeholders and the public. Even during the year of unknown and unpredictable time, when flying was stopped for more than two months, new challenges and asks for new approach and solutions rose.

ENVIRONMENTAL MANAGEMENT APPROACH

airBaltic's environmental management is based on the principle of continuous and systematic improvement. It has identified the key environmental aspects of its operations, their impacts, risks and opportunities involved, and has set targets related to them. Although the focus is linked to the overall operational efficiency through the optimum volumes of jet fuel used for flight operations, expanded activities reach into optimized route planning and increased operational efficiencies at every step of operations on the ramp, in maintenance facilities and office support functions. Overall environmental management activities are aimed at gradual reduction of fossil-based fuels, increased use of sustainable aviation fuels and emerging technologies and products through wide range of services and products offered by airBaltic.

The environmental strategy is defined in the airline's Corporate Management Manual, which indicates that within the framework of airBaltic economic and quality goals, all the activities within the Company shall be performed in a way having a minimal negative effect on the environment. Environmental consideration is taken into account in all departments on all levels within airBaltic, resulting in an increasing environmental awareness within the whole Company. Environmental considerations are taken into account when decisions are made, therefore, airBaltic should utilise/implement production methods which are environmentally sound, lean on energy consumption, facilitating re-cycling processes and having a lowest possible emission.

By committing to the aviation industry objectives, such as defined by the Airlines for Europe (A4E) under the "Destination 2050" commitment, airBaltic has committed to be part of a long term sustainable airline community supporting the common goal reflected in the global Paris Agreement³ and regional derivative known as European "Green Deal" providing the aviation industry with clear targets to reduce the greenhouse gas emissions by 45% until 2030 compared to the baseline of 2005 level and with goal to make Europe climate neutral by 2050.

The airline follows the Paris Agreement's requirements with the central aim to strengthen the global response to the threat of climate change with the main goal to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

The major technological achievement has been achieved by upgrading the airBaltic fleet into the most modern and environmentally friendly aircraft that are and will be available in the market for years to come. Besides reduced fuel burn and reduced levels of emissions, airBaltic is committed to work further by reaching carbon-neutral through CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) which is a global market-based measure developed and agreed by the United Nations specialized aviation organization - the International Civil Aviation Organization (ICAO). The key elements of a global solution should not distort competition and should incorporate the United Nations's CBDR principles (Common But Differentiated Responsibility).

³<https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

ENERGY CONSUMPTION

Same as for any other airline, the aviation fuel stands as the major part of airline primary energy consumption. Due to COVID-19 implications and restrictions, the aviation fuel consumption in 2020 has decreased almost 3 times, while the operations from ground vehicles, electricity and heat in owned airline's offices, hangars, warehouses, storages etc, remained almost unchanged compared to previous years due to airline operation continuity all the year. In 2020, airline started using renewable fuel, which represented 0.6% of the total fuel used in flight operations. The energy used in direct consumption was 583 GJ/passenger km, while indirect energy accounts for 0.75 GJ/m². The breakdown of total consumption of last 3 years is presented in the below chart and 2018 has been concluded as the base year to represent the latest data.

	2020		2019		2018 (base year)	
	non-renewable	renewable	non-renewable	renewable	non-renewable	renewable
DIRECT ENERGY CONSUMPTION						
Jet Fuel, kg	57 903 660	352 000	172 178 000	-	15 070 917	-
Jet Fuel, GJ	2 478 277	15 294	7 369 218	-	645 035	-
Ground Vehicles, kg	35 886*	-	36 052	-	34 300	-
Ground Vehicles, GJ	1 548*	-	1 555	-	1 480	-
TOTAL, GJ	2 479 825	15 294	7 370 773	-	646 515	-
INDIRECT ENERGY CONSUMPTION						
Facilities Electricity, MWh	1 323.1*	-	1 303.74	-	1 219.53	-
Facilities Electricity, GJ	4 763.2*	-	4 693.5	-	4 390.3	-
Facilities heat, MWh	2 590.3*	-	2 613.16	-	1 302.82	-
Facilities heat, GJ	9 325.1*	-	9 407.4	-	4 690.1	-
TOTAL, GJ	14 088.2*	-	14 100.8	-	9 080.4	-
GRAND TOTAL, GJ	2 493 913	15 294	7 384 874	-	655 596	-

* assumed, based on SIA "GQ Consult" review in accordance with ISO 50001:2018 and audit by SIA Bureau Veritas on 26 October 2020

FUEL EFFICIENCY

airBaltic is a responsible airline, which cares about its impact on the environment and is devoted to reaching short-term and long-term goals set out by IATA, such as work on more efficient flight operations and infrastructure improvements on the ground. airBaltic optimizes its Flight, Maintenance, Dispatch, Ground operations to achieve these goals. Optimization performance is measured and reviewed on a regular basis to further increase fuel efficiency and determine areas for improvement, as every kilogram of fuel saved prevents 3.16 kilograms of CO₂ released into the atmosphere.

FLEET RENEWAL

Fleet renewal plays a key role in our mission to become more sustainable by reducing green-house emissions per flight.

In April 2020, airBaltic retired the remaining B737 and Q400 fleets, fully transitioning to the single fleet of Airbus A220-300 operations, thus operating one of the youngest and most efficient aircraft fleets in the world. During the year, three additional Airbus A220-300 aircraft joined our aircraft fleet, bringing total aircraft count to twenty-five.



MEASURES TAKEN TO INCREASE EFFICIENCY

During the year 2020, airBaltic continued to use such Fuel Efficiency initiatives as:

Minimizing the engine thrust used for deceleration on the runway using Idle Reverse. Reducing aerodynamic drag and minimizing fuel burn by performing Reduced Flaps Take-off and Landing. Shutting down one engine shortly after landing and taxiing to parking stand using Single Engine Taxi-In procedure. Performing Continuous Descent Arrival without levelling off or engine thrust increase above flight idle thrust. Shortening total distance flown by several miles per each sector flown by Take-off in Direction of Flight and other similar initiatives to reduce the amount of fuel burned and CO₂ emissions released.

Additional measures were taken to further increase fuel efficiency:

- In June, airBaltic updated its' passenger and cargo distribution policy, thus improving aircraft loading and increasing fuel efficiency;
- In July, after required modifications were performed on Airbus A220-300 aircraft, airBaltic introduced Single Engine Taxi-In saving initiative, thus reducing CO₂ emissions during ground manoeuvring thus reducing CO₂ emissions by almost 44 tonnes within one calendar year;
- Since the Airport Collaborative Decision Making (A-CDM) project introduction at Riga International Airport in July 2020, airBaltic actively participates in coordination and information exchange with the ground handling, air navigation service and other airport service providers that ensures more efficient decision-making process and timely exchange of information, thus reducing apron congestion, optimizing airspace usage and reducing unnecessary fuel consumption and emissions;
- In November, airBaltic updated its Statistical Contingency Fuel calculation policy to include additional parameters, thus improving the reliability of the flight planning system and increasing efficiency by determining Statistical Contingency Fuel more precisely for each flight based on these additional parameters. This allows provision of very precise historically used fuel statistics for each route and each phase of flight, allowing pilots to plan optimum fuel volumes used, considering not only the meteorological data but also other traffic and airport movement experience from previous flights. This provides an opportunity for more precise contingency fuel planning, often allowing to minimize the excess amount of fuel carried on-board.

REDUCTION OF ENERGY CONSUMPTION

DIRECT ENERGY CONSUMPTION REDUCTION	2020 (COMPARED TO YEAR 2019)
Jet Fuel, kg	600 610
Jet Fuel, GJ	26 126
Ground vehicles, kg	297
Ground vehicles, GJ	13
TOTAL, GJ	26 139
GRAND TOTAL, GJ	26 139

Reduction in Jet Fuel energy consumption is determined using Honeywell Forge Flight Efficiency Data Analytics platform and related analyses within. Direct Energy Consumption Reduction of Ground vehicles and Indirect Energy Consumption Reduction is based on Internal Energy Management Task Group made in accordance with ISO 50001:2018, and was audited by SIA "Bureau Veritas" 26 October 2020.

BIOFUEL

airBaltic is continuously working on various activities to promote and use alternative and more sustainable aviation fuels (SAF), such as biofuels.

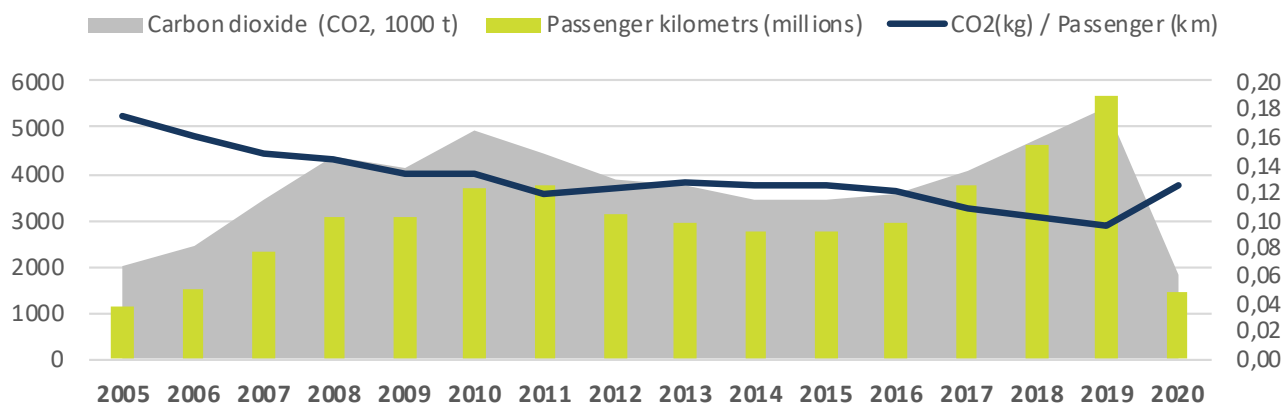
According to IATA, depending on production method, biofuels can reduce lifecycle CO₂ emissions by up to 80%. Current Standard Specification for Aviation Turbine Fuels (D1655) and Standard Specification for Aviation Turbine Fuel Containing Synthesized Hydrocarbons (D7566) allow up to 10% of sustainable to be blended with conventional fossil fuel. While research conducted by fuel producers show successful testing of fuel blends as high as up to 50% of sustainable to conventional fuel blend being suitable and safe for aircraft operations. AirBaltic is following the latest industry resources and regulatory requirements, to ensure environmental footprint is continuously reduced considering both the scientific developments and regulatory provisions in use of alternative fuels.

CLIMATE IMPACT GREENHOUSE GAS EMISSIONS (HEREINAFTER – GHG EMISSIONS) AND CARBON OFFSETTING, FINANCIAL IMPLICATIONS

DIRECT (SCOPE 1) GHG EMISSIONS

Since the introduction of European Union Educational Testing Service in aviation sector airBaltic annually complies with the scheme. The amount of reduced emissions is reported, verified and surrendered according to the governing regulation.

In 2020 the direct amount of CO₂ emissions arising from airBaltic's traffic and consumed jet fuel was approximately 183 500 tonnes (approx. 540 000 tonnes in 2019). Until 2020, by upgrading and operating the fleet to A220-300, which is more fuel-efficient, it has allowed to reduce the amount of carbon emissions released per passenger km flown any following year: e.g. 32% reduction in 2019 compared to 2008 indicators. Despite that in the middle of 2020, the airline decided just to stay with A220-300 fleet, and continue the positive trend of reducing CO₂ emissions, due to COVID-19 implications, the passenger demand and cabin load factors was significantly lower, resulting into more emissions produced.



ENERGY INDIRECT (SCOPE 2) GHG EMISSIONS

The majority of airline operated offices and buildings are heated by gas. In 2020, the CO₂ emissions arising from the production of heating energy amounted to 518 t CO₂, calculated according to the emission factor reported by the heating energy supplier (200 g CO₂/kWh). To mitigate the greenhouse gas emissions arising from the energy consumption of its buildings, the airline provides training to the employees.

OTHER INDIRECT (SCOPE 3) GHG EMISSIONS

Some part of the greenhouse gas emissions is arising as well from vehicle operation for airline needs involved in the production. During the recent years, the airline continuously working on reducing the CO₂, by replacing the old equipment by more environment friendly ones.

EMISSIONS	2020	2019	2018
Fuel ground vehicles & production CO ₂ T	90.67	105.15	98.28

During low temperatures and when necessary the airlines require and must use de-icing and anti-icing to ensure the safety of their operations, but the greenhouse impact of such activities and glycol could not be estimated, since no emission factor is available for it.

AIR QUALITY (OTHER EMISSIONS)

While improved engine technologies result in less fuel burned and reduced levels of CO₂ emitted, the side-effect of this is an increased emission of nitrogen oxides, known to the industry as NO_x. The only way to limit the NO_x emissions is by virtue of improved engine combustion chamber design and propulsion characteristics. Based on the current materials and technologies available, the modern power plant appears to have reached the practical design ceiling, having very marginal opportunities for further improvement.

Recognizing the balance of the two contradictory power plant emission elements, the ICAO has gradually restricted both, to ensure the technology develops in line with the current challenges of environmental sustainability. The engine NO_x standard, same way as the aeroplane CO₂ standard, both contribute in defining the design criteria for new aircraft and engines, addressing the air quality and climate change issues.

Airbus 220-300 are equipped with two Pratt & Whitney geared turbofan engines PW1524G-3, being one of the latest power plant models certified and meeting the latest environmental certification criteria applicable at the time of certification. NO_x levels for these engines are in compliance with ICAO Annex 16 Part III, Chapter 2, paragraph 2.3.2 e) (CAEP/8). Maximum nvPM mass concentration levels are in compliance with Part III, Chapter 4, paragraph 4.2.2 (CAEP/10).

NOISE

Aircraft noise can be disturbing to those who live around airports. For decades, the industry has been working to reduce noise, with significant progress: noise levels have halved in the past 10 years due to improvement of the propulsion systems and aircraft aerodynamics. Since 2013, the ICAO has updated the global aircraft noise certification standards and airBaltic A220 meets the noise emission standard known as Chapter 4, ensuring competitive advantage against the traditional aircraft types operated in the region.

The actual measured noise levels established by the aircraft manufacturer during aircraft type certification process demonstrated Lateral 87.8 Effective perceived noise in decibels (EPNdB), Flyover 81.2, Approach 92.4 and Cumulative of 261.4 (EPNdB). Such noise levels are by more than 7 decibels lower than the limiting values at every point of measurement, ensuring currently most quiet passenger jet aircraft in this class, operated to any of the airports or overflying any residential area.

Within 2020 aircraft operations dropped down to as little as 35% of the regular operations, while peak of the pandemic restricted airBaltic from operating scheduled services at all for over two months or 62 days. With this Latvia and the world in general experienced a huge decrease in environmental noise pollution originating from air transportation services.

There is a positive effect of fleet upgrades during the pandemic. With a single Airbus 220-300 fleet in the air, the noise per flight drops considerably. In the longer term, having a fleet of newer aircraft significantly helps to achieve noise reduction. The new Airbus 220-300 aircraft makes use of new Pratt & Whitney 'geared' turbofan engines, which further cuts noise and emissions.



airBaltic keeps track of all the complaints or administrative penalties issued by any of the state authorities. In 2020, there have been no noise related complaints nor penalties issued by any of the airports or municipalities served or overflown.

WASTE MANAGEMENT

Waste in the aviation industry is considered to be not only any type of “unwanted or useless” products, materials and substances that are no longer usable and have been produced or disposed during the preparation of the flight or during the operated flight, but also include waste from the administration offices. Waste management, therefore, is a complex process, considering that it comes from several sources and locations. Most of it precisely comes from aircraft (domestic/international), tenants, maintenance activities, aircraft and ground vehicles operations. Therefore, an important aspect needs to be considered: dealing with the different requirements of different types of waste and every action needs to be done to comply with the legislation. Every year airBaltic works on different solutions in order to minimize the amount of waste, but it gets more and more challenging.

IN-FLIGHT WASTE

Even due to COVID-19 restrictions, where individual packaging and less contact requirements are in place, airBaltic was able to keep a healthy balance among offered products and to follow our plastic reduction on board plan and any new product stock procurement is now completed choosing non plastic materials. To emphasize, the plastic and food waste has also been significantly reduced by our pre-ordering meal services that ensure the correct amount of meals are taken on-board.

In relation to airBaltic core products - pre-orders and fresh food - the design, menu and packaging will be changed and as of summer available in an eco-friendlier manner.

Disposable menu cards with selected offers are used currently, but a local on board wi-fi solution is planned to be introduced later in spring of 2021 promising more sustainable communication with passengers. Also catering suppliers are being evaluated and encouraged establishing more cooperation with local food providers for products used in Business class menu and crew meals.

As one of the main airBaltic's targets is to achieve a sustainable management and efficient use of natural resources, airBaltic took a few steps further. In November, in order to decrease additional use of paper – the Company replaced paper passenger on-boarding lists with a digitalized solution. The new system provides increased operational efficiency and from now on airBaltic cabin crew will not be using long paper lists anymore, instead all data are received on tablets. Therefore, the daily work of cabin crew becomes almost paperless and this initiative helps saving approximately 1.8 tonnes of paper each year.

WASTE SORTING

There are several categories of waste sorting at airBaltic premises:

- Household waste;
- Mixed packaging waste;
- Batteries;
- Electronic devices;
- Hazardous waste.

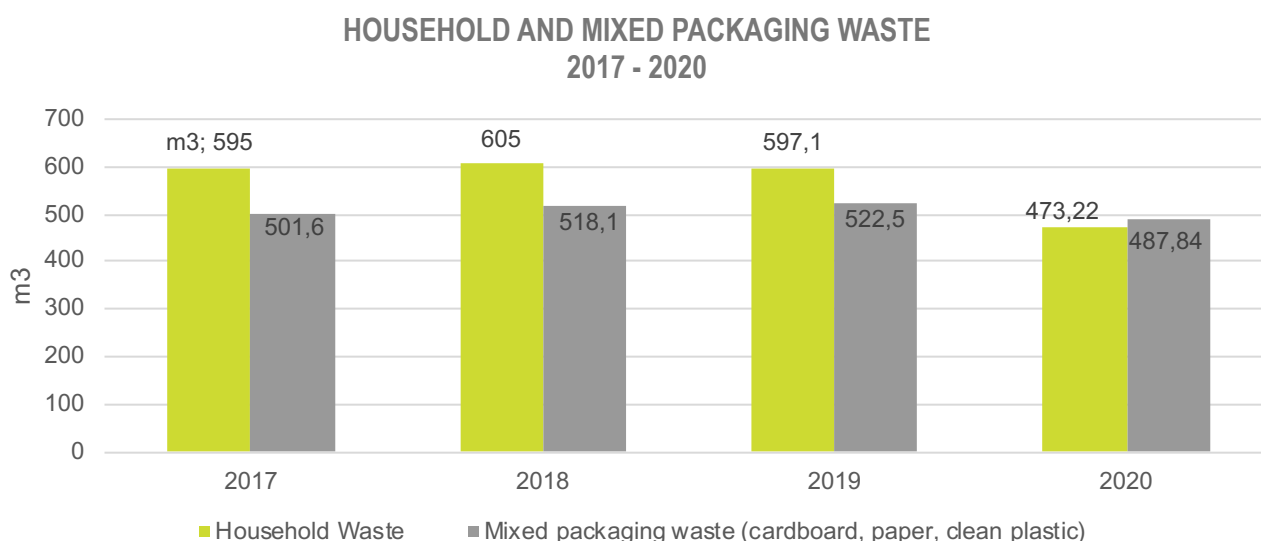
airBaltic keeps encouraging its employees to sort household, mixed packaging waste and batteries. Electronic device and hazardous waste sorting are a mandatory for all employees.

Hazardous waste is mainly produced by Technical department, which takes care of the fleet. This work requires the use of various chemicals and materials, therefore, it is employees' duty to properly use and, for short-term, store hazardous waste in specific locations, afterwards handing over these materials to airBaltic partners of hazardous waste management.

HOUSEHOLD AND MIXED PACKAGING WASTE

At airBaltic premises, there is the opportunity to sort paper, cardboard and clean plastic waste that goes into category “Mixed packaging waste”. The waste management company recycles this waste category. The rest amount of produced waste is “Household waste” that is collected by the waste management company as unsorted waste.

In 2020, we have reduced the total waste amount due to the limited amount of employees being in the office on daily basis, but this has given us also a positive change – for the first time, we have not only reduced total amount of produced waste, but also handed over more recycled “Mixed packaging waste” than the unsorted “Household waste”.



In addition to everyday paper waste sorting, airBaltic destroys sensitive documents, which also goes to paper recycling.

DESTROYED DOCUMENTS	
YEAR	QTY, KG
2018	855.5
2019	1179.2
2020	866.06

The Company continued to follow a good working practice also in 2020, handing over sorted hazardous waste to the waste management companies.

Fuel (waste code 130702) is processed in the complex of depuration system in accordance with the category A polluting activity permit which is issued to the waste management company by the State Environmental Service.

Water containing liquid wastes (waste code 161001) is processed with physical-chemical treatment and after the process, the wastewater is discharged for further purification to the biological depuration system. Also, this process is regulated by the State Environmental Service in accordance with category A polluting activity permit.

WASTE CODE	HAZARDOUS WASTE TYPE	QTY	UNIT
130702	Fuel	10	t
161001	Water containing liquid wastes containing dangerous substances	698	kg
130208	Motor oils, gear oils and other oil types	680	kg
160107	Oil filters	35	kg
150202	Absorbents, filter materials (including oil filters not elsewhere specified or included), sweeping materials and protective clothing contaminated by dangerous substances	200	kg
200121	Fluorescent lamps and other wastes containing mercury	100	kg
160103	Used tires	2087	kg
191205	Glass	160	kg
200128	Paints, inks, binders and resins, not included in class 200127	664	kg
n/a	Construction debris	155.5	m3

WASTE CODE	ELECTRONIC EQUIPMENT WASTE	QTY	UNIT
200123	Discarded electrical and electronic equipment containing hazardous components, not included in classes 200121 and 200123	100	kg
200136	Other waste electrical and electronic equipment not included in classes 200121, 200123 and 2001355	2360	kg
TOTAL:		2460	kg

In 2020, Environmental management working group of airBaltic has continued its work regarding Hazardous Waste Management. The aim of the working group is to develop and implement a hazardous waste management system in daily procedures that fully complies not only with legal requirements but also with environmentally friendly waste management principles.

In 2020, airBaltic technical employees concluded initial knowledge test about waste sorting and they will continue with the training process in 2021.

Technical areas are equipped with additional containers for waste sorting and united labelling system for containers to ensure that all employees clearly understand the sorting process and we hand over qualitatively sorted materials for recycling.

airBaltic has applied for a category C polluting activity permit, which allows to keep track of the sorting of hazardous waste even more and our data will be included in the overall State data on waste amounts produced.

In 2021, the Environmental management working group will continue its work with implementing good waste management principles and procedures for Hazardous Waste Management.

EMPLOYMENT

Air transport is one of the most dynamic and fastest-changing industries in the world. Therefore airBaltic needs responsive, forward-looking and professional employees. airBaltic encourages the professional development of employees and provides opportunities for training and career growth.

EMPLOYMENT POLICY

People management policy is developed to ensure transparent principles, equal treatment, engaging and motivating environment, enhance talents' potential and drive high performance for the all Company employees. airBaltic's recruitment process has been developed with the intention to employ the candidates who shall best fit the airBaltic needs, on the basis of appropriate knowledge, skills, training and experience.

The primary document guiding employee related matters is the Personnel Handbook. It states various principles and guidelines, for example, about business ethics and corporate culture, working time, leaves and absences, compensation and benefits, insurance, occupational health and safety policy, etc.

On-boarding is a process by which new employee is introduced to airBaltic's values, business, working environment and rules of operation. The goal of on-boarding is that every employee understands and embraces airBaltic's culture and is engaged within the Company. Each new employee is provided with First Day Info training, Personnel Handbook and Administrative Handbook, where internal working regulations are described. Also, a special training for new employees called "Know airBaltic" is provided twice a year where the structure and internal rules of the Company, as well as the main values, are once again emphasized. A tour visiting all the buildings of airBaltic is organized as well.

Feedback Management Process is structured and aimed at supporting efficient achievement of airBaltic business targets by aligning individual employee goals with the company performance and allowing employees and managers to develop through giving and receiving job related feedback.

To ensure equal, fair, transparent and motivating compensation aligned with airBaltic's business strategy, actual economic and market-related remuneration policy is created. It helps to facilitate market competitiveness and fosters high performance Company culture.



PERSONNEL

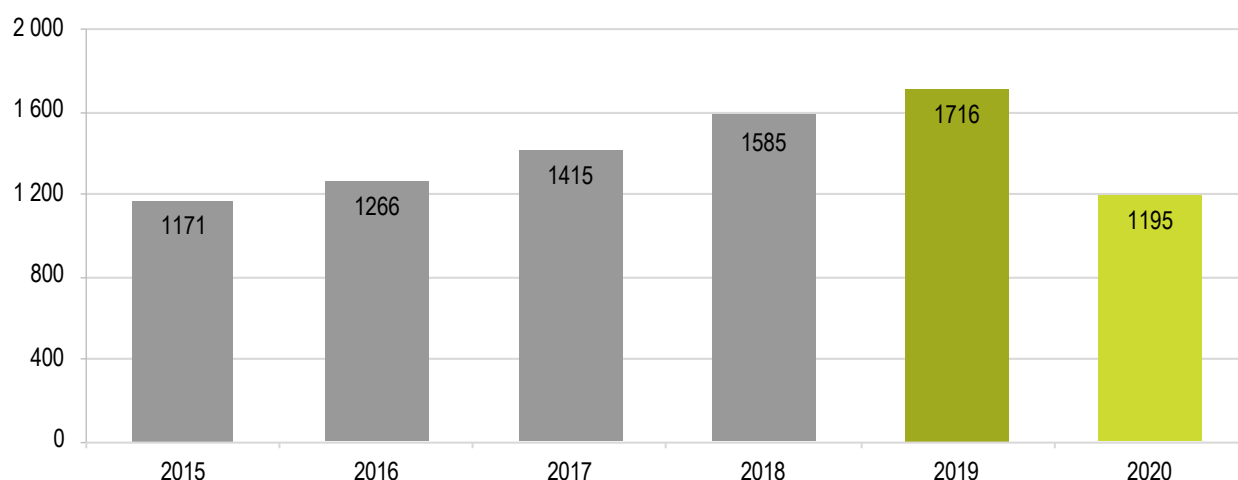
Total number of the Group employees in 2020 has decreased to 1195 in comparison with 1716 employees in the end of 2019, it is 30% decrease.

Such a significant reduction in staff numbers is due to the crisis caused by COVID-19. Due to COVID-19 crisis and collective redundancies, on average 15 employees per week left the Group due to voluntary and non-voluntary reasons in 2020. This is significant increase in comparison to 2019 when on average 5 employees per week left the Group.

The Group tried to minimize the negative consequences of the laid-off employees as much as possible. The Group offered special social benefit package to employees who left the Company with mutual agreement and provided re-hiring guarantee for almost a year period, i.e., until April 30, 2021.

During 2020 in total 232 employees joined the Group, out of them based on the re-hiring guarantees were rehired 40 employees and additional 6 ex-employees for temporary positions and 4 former Technician-Apprentices became employees in 2020. There were 149 or in average 12.5% of employees, who got internal promotions during 2020.

GROUP EMPLOYEE HEADCOUNT (YEAR END)

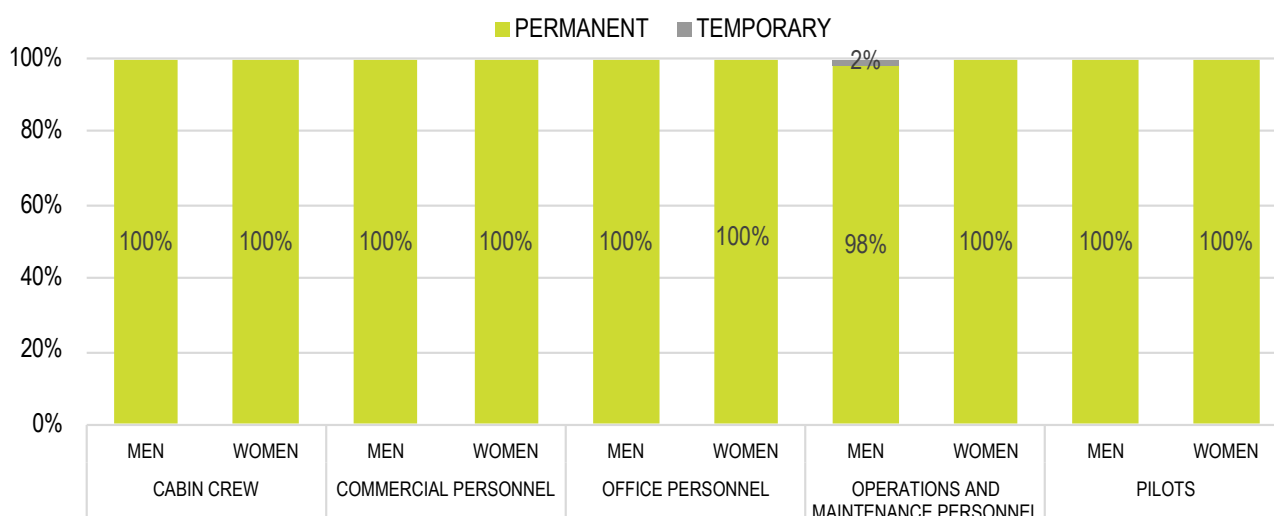


Currently the Group employs people of more than 24 different nationalities; average age of employees is 37.

All business functions are covered by employees of the Group, the Group does not rely on contracted workers (e.g., rented labour, subcontractors). There are subcontractors providing specific expertise and certain services, such as particular trainings.

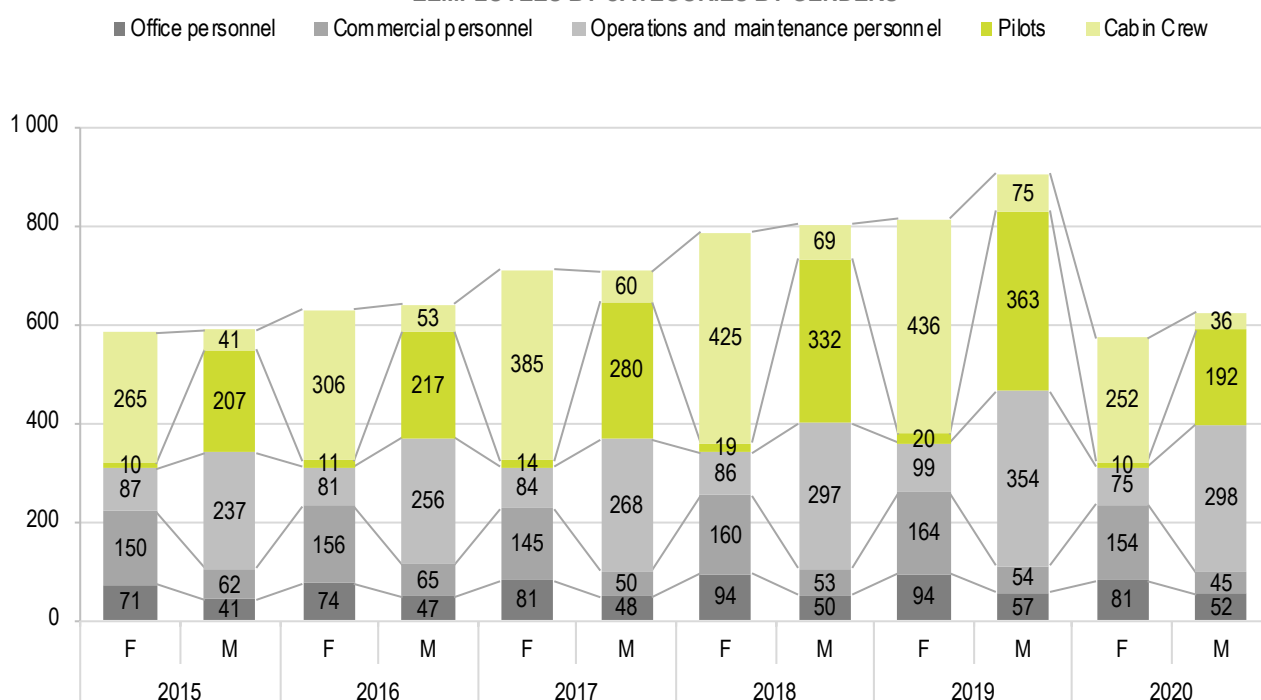
Absolute majority of employees are permanently employed within the Group. There are only 2% of male employees in Operational and maintenance department on temporary employment contracts related to seasonal work.

PERMANENT VS TEMPORARY CONTRACTS BY EMPLOYEE CATEGORY AND GENDER



airBaltic in 2019 has joined more than 20 airlines to sign the IATA 25by2025 gender diversity pledge, committing to increase female participation at senior levels by 25% by the year 2025.

EMPLOYEES BY CATEGORIES BY GENDERS



There are in average between 5%–6% of women pilots in the commercial aviation⁴, however, Pilot Academy of the Group has been successful to attract 13% women of all its students. This was achieved by purposefully working with the audience of potential candidates.

Pilot's profession historically has been viewed as exclusively men's profession. Although this perception has shifted, there are still a lot of girls and women simply not being aware of the career opportunities open to them in the sector. That is why in January 2020 the Group hosted an event – meetup Tech is in the Air – in cooperation with Riga TechGirls to inform girls and women about pilot's profession and their possibilities within it.

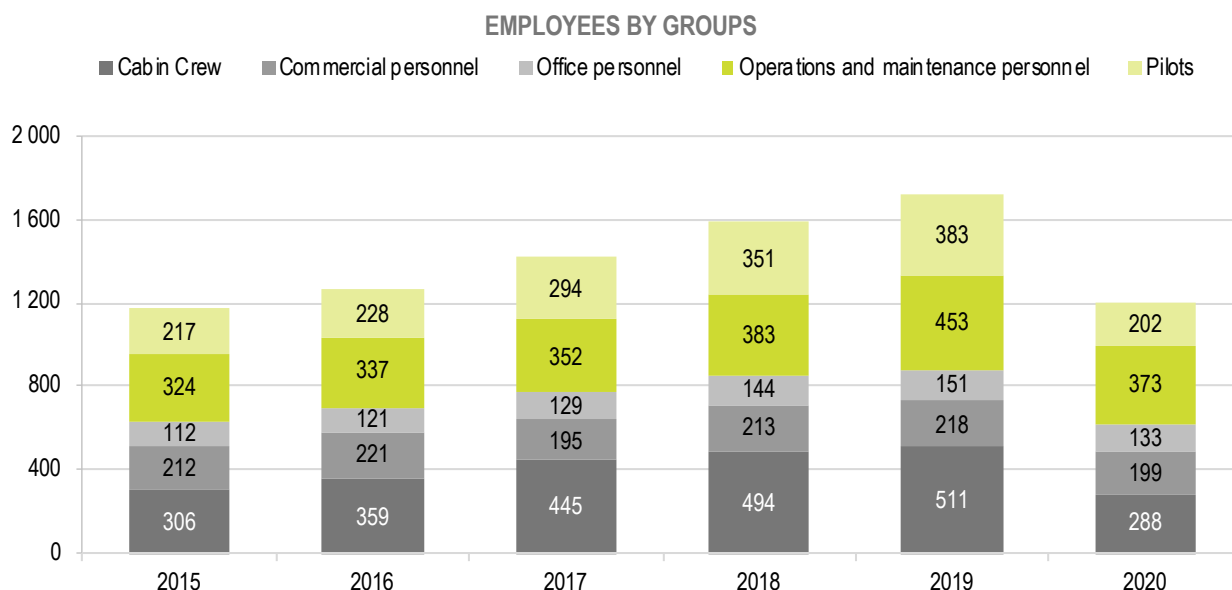
⁴Soaring Through the Glass Ceiling. Korn Ferry // <https://www.kornferry.com/content/dam/kornferry/docs/pdfs/aviation-glass-ceiling.pdf> and Women airline pilots: a tiny percentage, and only growing slowly. CAPA // <https://centreforaviation.com/analysis/reports/women-airline-pilots-a-tiny-percentage-and-only-growing-slowly-432247>



airBaltic joined Latvian Diversity Charter on November 16th, 2020. The Latvian Diversity Charter is a voluntary commitment of companies and organizations to strive to adhere the basic principles of diversity management and respectful inclusion in relation to their employees and society. airBaltic is the fourth airline in Europe to sign the Diversity Charter and currently the Latvian Diversity Charter unites around 50 companies and organizations.

The airBaltic team focuses on environmental, economic and social sustainability in its daily work. That is why we have been implementing and supporting initiatives that reflect our values and the principles of equal treatment in the daily work of the company for years. We believe that by joining forces, we can show that there is no place for inequality in the future, but for a united and accepting attitude everywhere.

Five main employee groups identified within the Group are: Cabin Crew, Pilots, Operations and maintenance personnel, Commercial and Office employees. Depending on the business function they are involved, their work routine and working time differences.

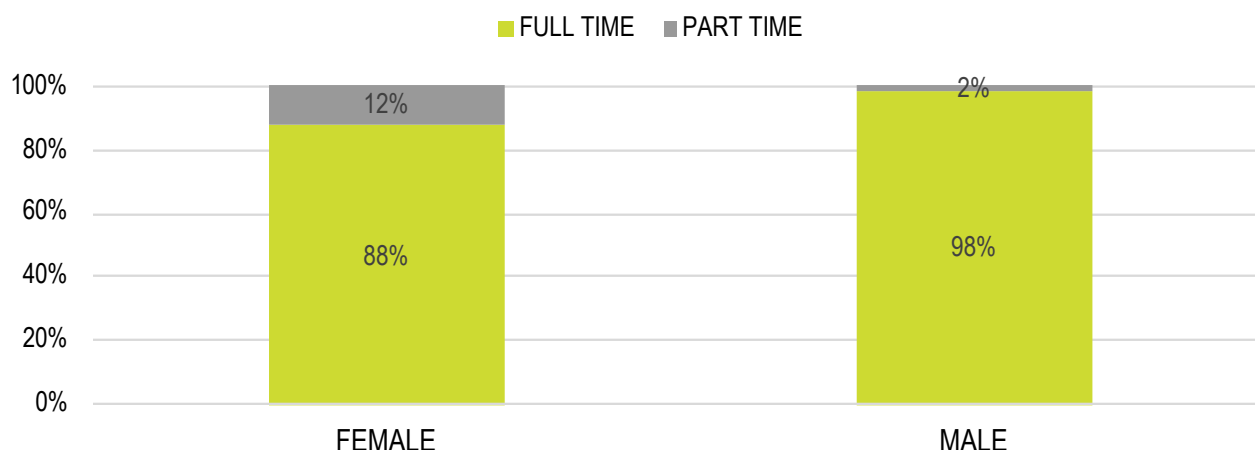


Almost 72% of the Group employees are directly involved in flight operations performance and fleet maintenance, respectively these employee groups have been affected the most in the COVID-19 crisis staff redundancies. Nevertheless, the same employee groups had the highest employee number increase in the past years and is planned to have again the increase in future in order to comply with airBaltic future plans.

PART TIME EMPLOYMENT

On average approximately 2% of male and 12% female employees have part time employment within the Group.

PART TIME VS FULL TIME EMPLOYEES BY GENDER

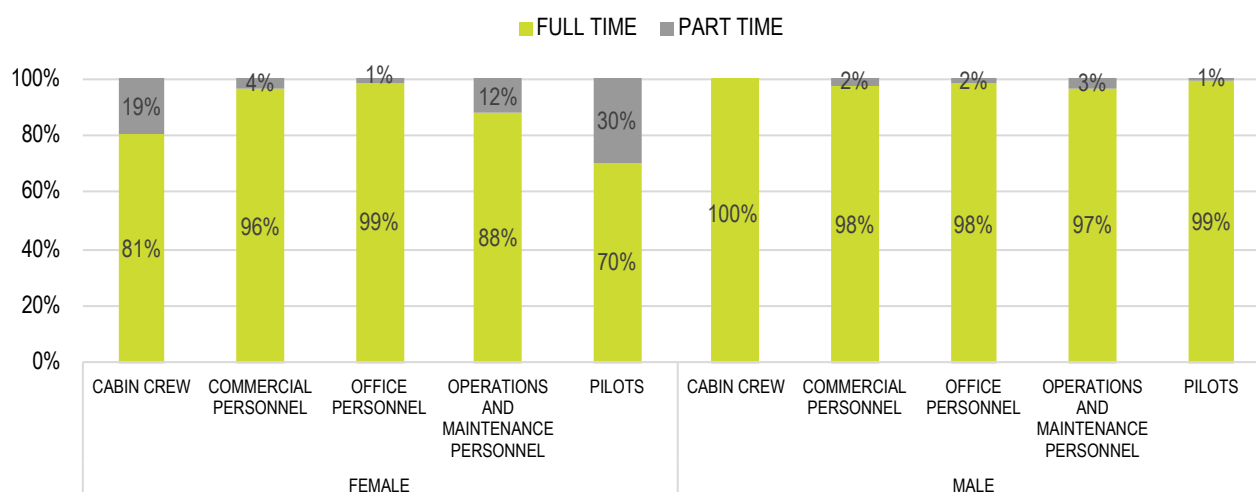


Based on employee initiative, part-time work is more popular among parents and women with kids below age of 14. The Group employees use part-time work in the following percentage: 19% of Cabin Crew, 30% of Pilots and 12% Operations and Maintenance women personnel. However, in the same employee groups the man's personnel percentage is significantly lower, from 1% to 4%. Women choose to return to work after childcare vacation on part-time work in order to have better work-life balance while their children are still small. Another reason for some woman to choose part-time work is summer season, i.e., to use part-time work during summer period in order to spend more time with their children when they do not go to kindergarten or school.

Providing part-time work is one of the options on how the Group ensures work-life balance for its employees. Other option is flexible working time, agreeing on it with a direct manager. During our quarterly employee engagement surveys, we have not received indications that employees are unhappy with their work-life balance while working with the Group. Employees needs and wishes related to the working time planning are considered to ensure work and life balance.

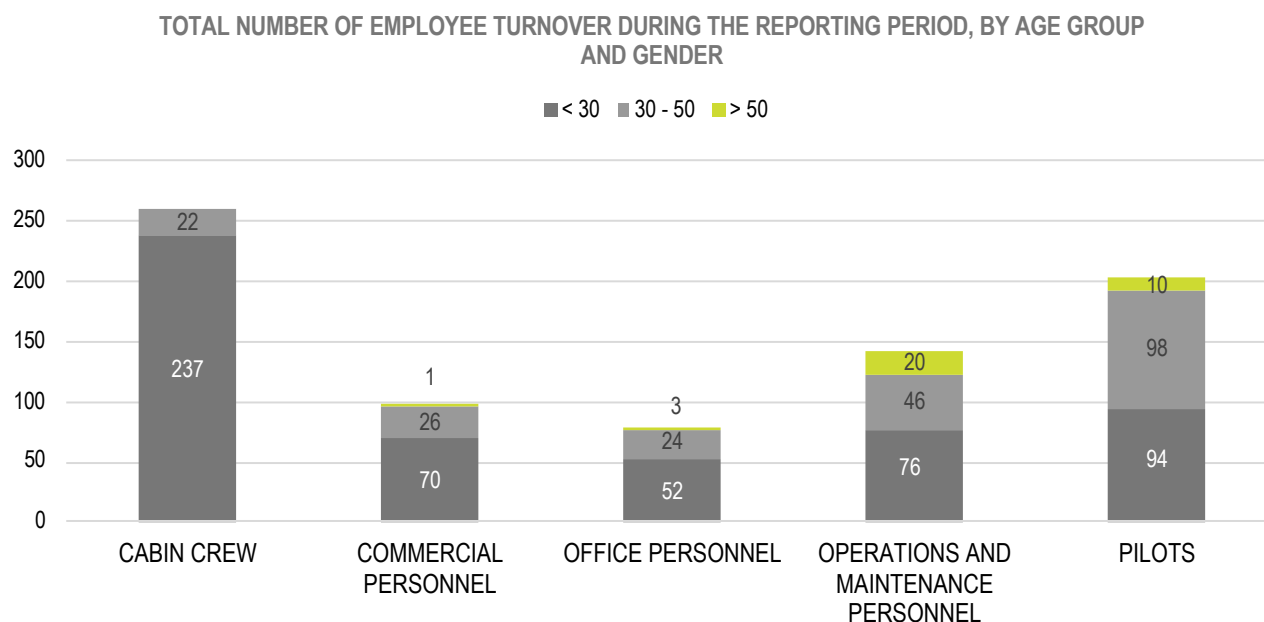
In the light of COVID-19 crisis the workload of employees directly involved in operations has reduced dramatically, including certain period of idling, therefore, interest in part-time work arrangement in year 2020 was in low demand from employees' side. The Company has not promoted part-time work considering sensitivity of the situation and crisis impact on particular employee groups in 2020.

PART TIME VS FULL TIME EMPLOYEES BY EMPLOYEE CATEGORY AND GENDER

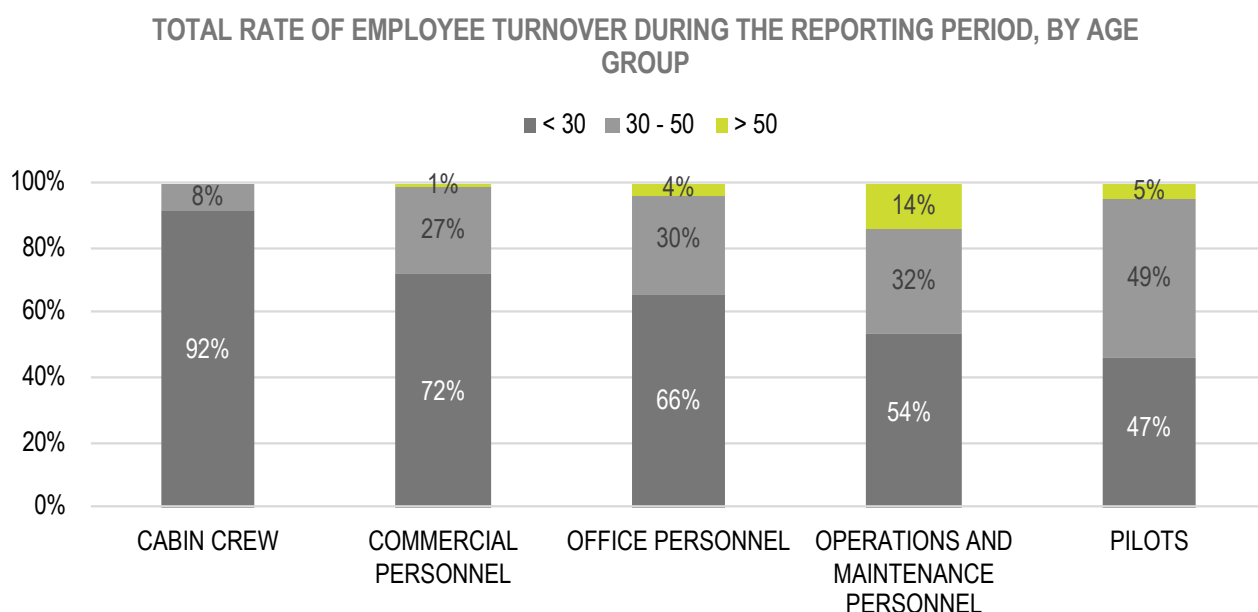


EMPLOYEE TURNOVER

In 2020, most employment legal relationships were terminated due to the COVID-19 crisis – 81% in total. As part of the collective redundancy process, employees were evaluated and employment legal relationships were terminated with those employees who had lower performance and qualifications. In majority of cases performance and qualification levels correlated with the experience, therefore, as it is shown in the chart below, employment legal relationships were terminated more with younger employees in absolute numbers.

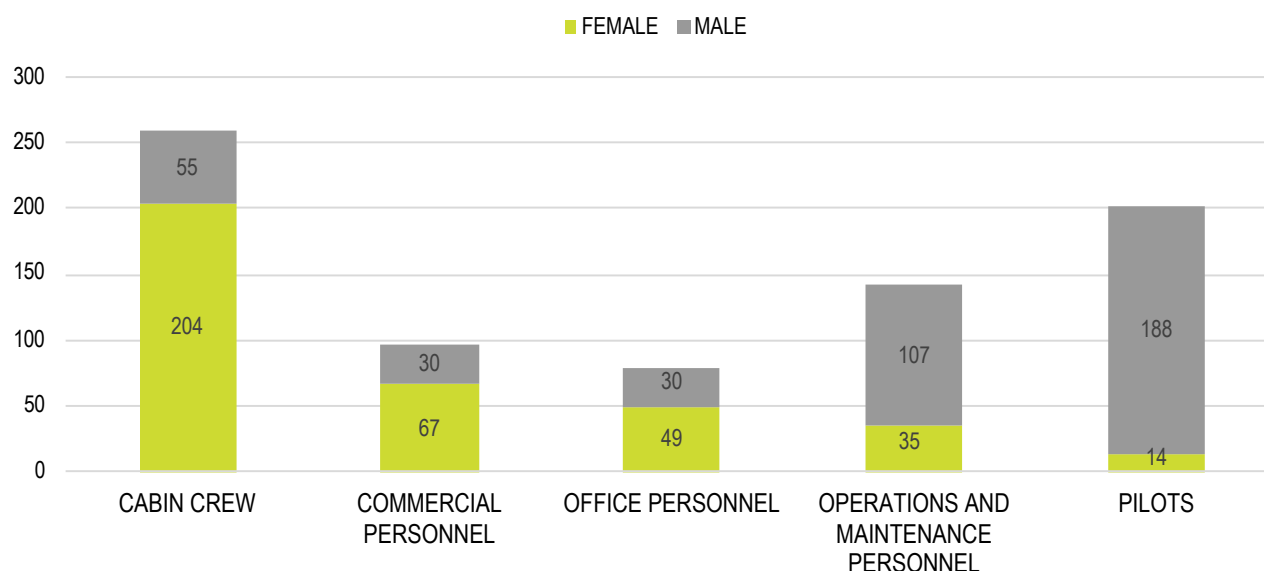


Regarding Operations and maintenance personnel above age of 50 years, comparatively, high proportion of 14% of employees, were discontinuing employment with the Group. This is related to the fact that historically respective personnel have low staff turnover, which results in an increase in the average age of the staff. This is also due to the fact that it takes a long time to obtain the required technical qualifications. During the COVID-19 crisis several employees in this age group, well understanding the situation, decided to retire thus enabling to remain at work younger colleagues, who did not reach the retirement age.

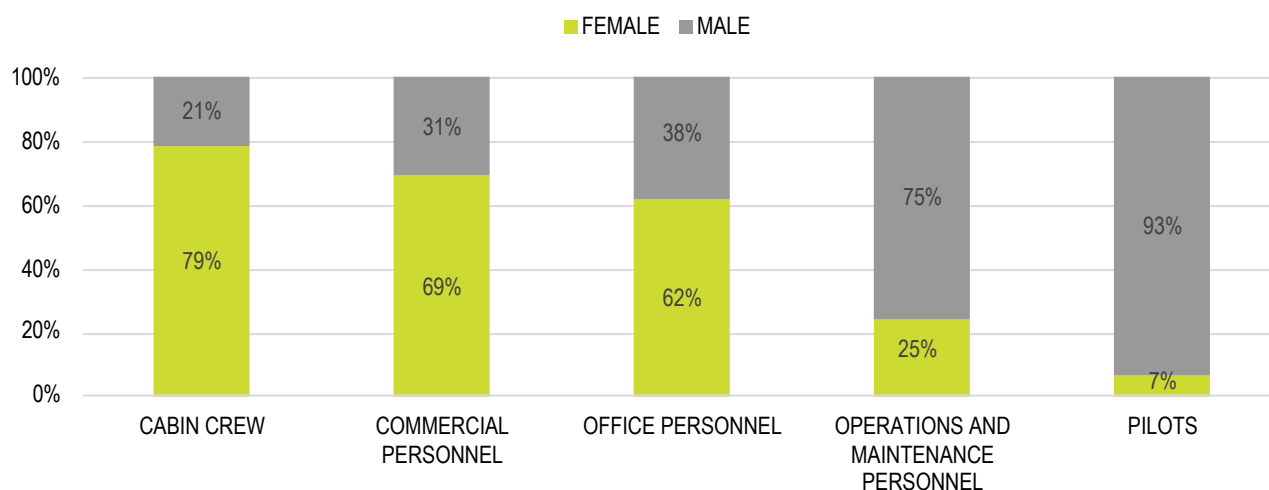


The reduction of the number of employees in the Company was carried out in strict compliance with the requirements of the Latvian labour legislation and equal treatment principles. In cases when the performance and qualification were similar for several employees, social criteria were taken into account in accordance with provisions of the Labour Law.

TOTAL NUMBER OF EMPLOYEE TURNOVER DURING THE REPORTING PERIOD BY GENDER

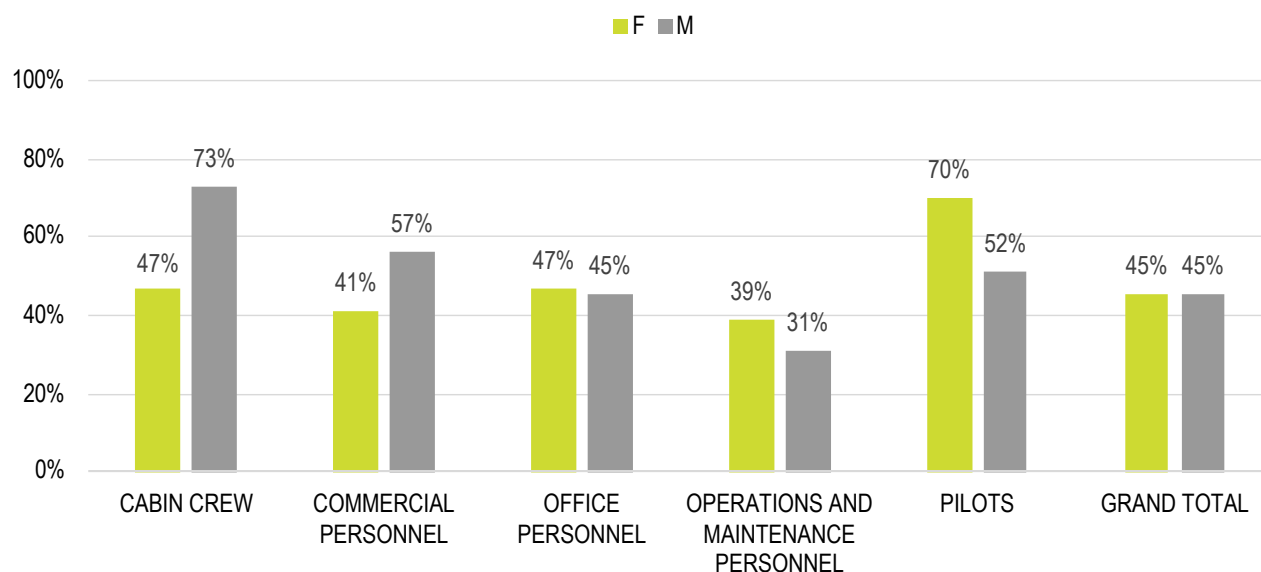


TOTAL RATE OF EMPLOYEE TURNOVER DURING THE REPORTING PERIOD BY GENDER



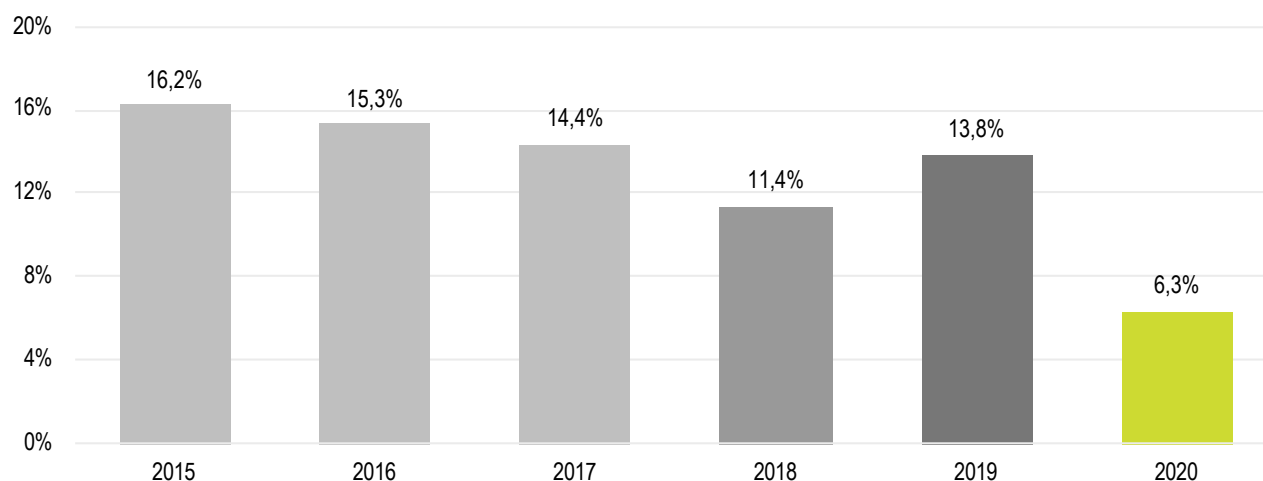
As it was described above, there are few job groups with a strong one gender dominance (Cabin crew, Pilots, Operations and maintenance personnel). Therefore, by reducing number of employees in particular job groups proportionally more one or the other gender group representatives in actual numbers were dismissed out of total employees. However, when looked at the numbers of totally dismissed employees in 2020, conclusion is that gender groups among terminated employees are in equal proportion in total.

EMPLOYEES WHO LEFT COMPANY IN 2020 AS % OF TOTAL EMPLOYEE COUNT IN 2019 BY GENDER AND CATEGORY

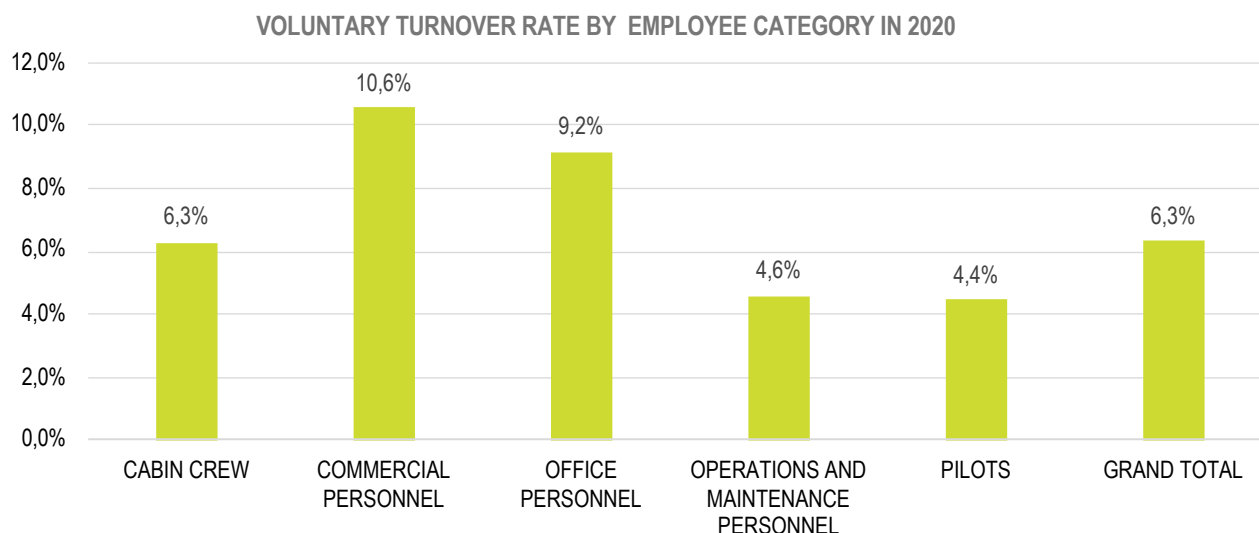


Since 2015 the Group operated with the positive voluntary turnover reduction rate and kept it below 15% level for 4 years in a row. Voluntary turnover occurs when an employee voluntarily chooses to resign from the Group.

VOLUNTARY TURNOVER RATE BY YEARS

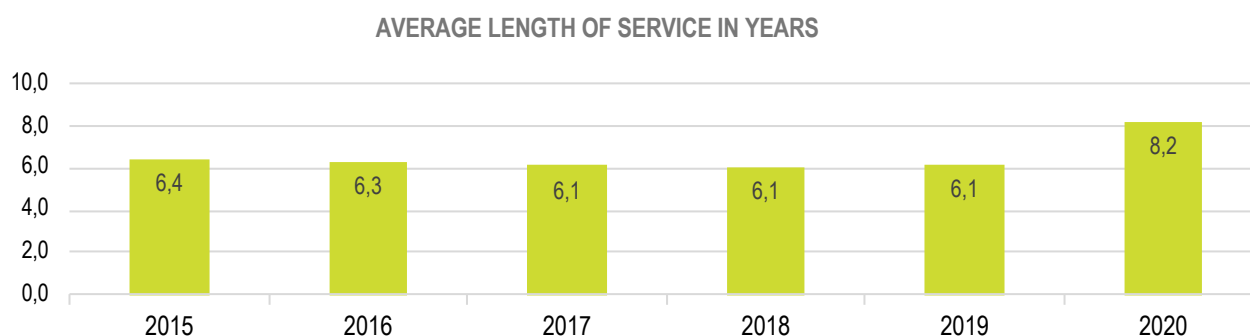


In 2020, voluntary turnover has decreased more than double. Significant decrease in the voluntary rotation has been driven by COVID-19 crisis in aviation. Currently, the demand for crew members and other aviation specific jobs in the aviation labour market is exceptionally low. Nevertheless, it can change very quickly as soon as the aviation industry will resume growth, putting additional external pressure and drive voluntary turnover up again.



Nevertheless, for commercial and office personnel labour market is still active, so is for cabin crew who might consider changing the profession amid crisis. To mitigate employee turnover risks in a COVID-19 crisis and afterwards, the Company is proactively investing in people internal retention through developing opportunities at airBaltic Leaders for Future internal people development program. In the meantime, airBaltic is working on the external employer brand enhancement at high level in order to be able to attract talents in the long-term perspective and renew the aviation industry as stable career choice in the labour market after COVID-19 crisis.

The Group companies have been rapidly increasing employees' number throughout the year 2019 to be in line with business growth, hence length of service has decreased and stayed stable in the past three years. Average length of the service in 2020 is 8.2 years compare to 6.1 years in 2019. The increase of the Average service length is 34%.

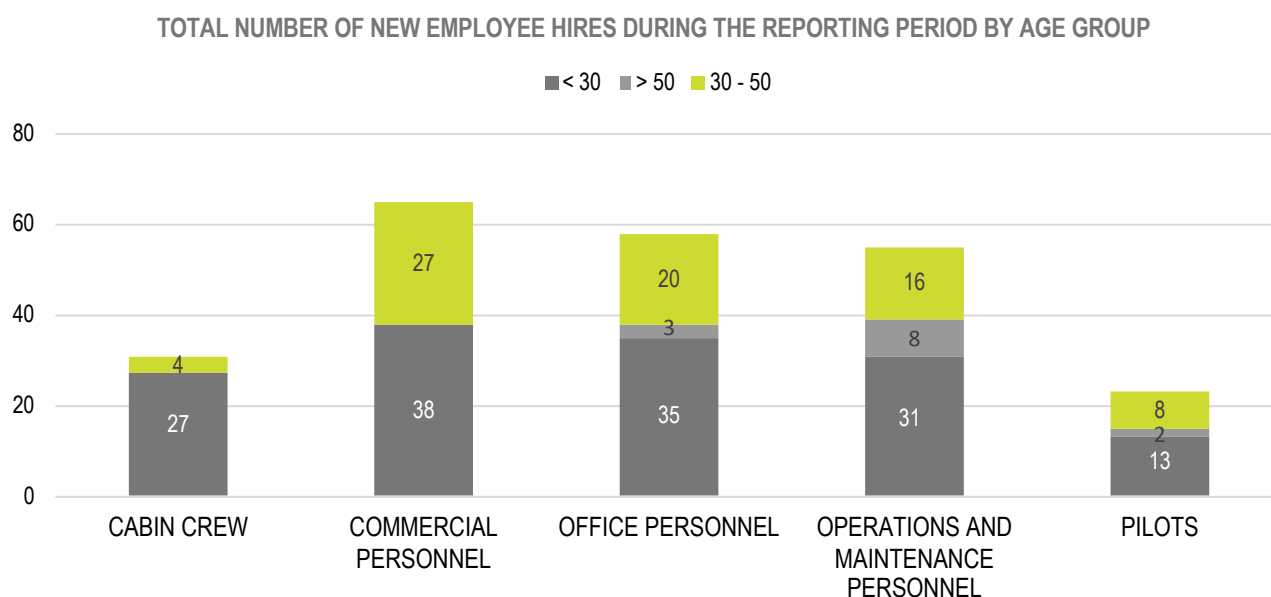


The average length of service in 2020 has increased due to process of collective redundancies because as mentioned above, in the result of collective redundancies and assessment process employment legal relationship was terminated with many employees with considerably less seniority in the Company.

In the light of 25 years anniversary of the Company, in October 2020 the Group has recognized and celebrated 25-years work-anniversaries of 33 its employees.

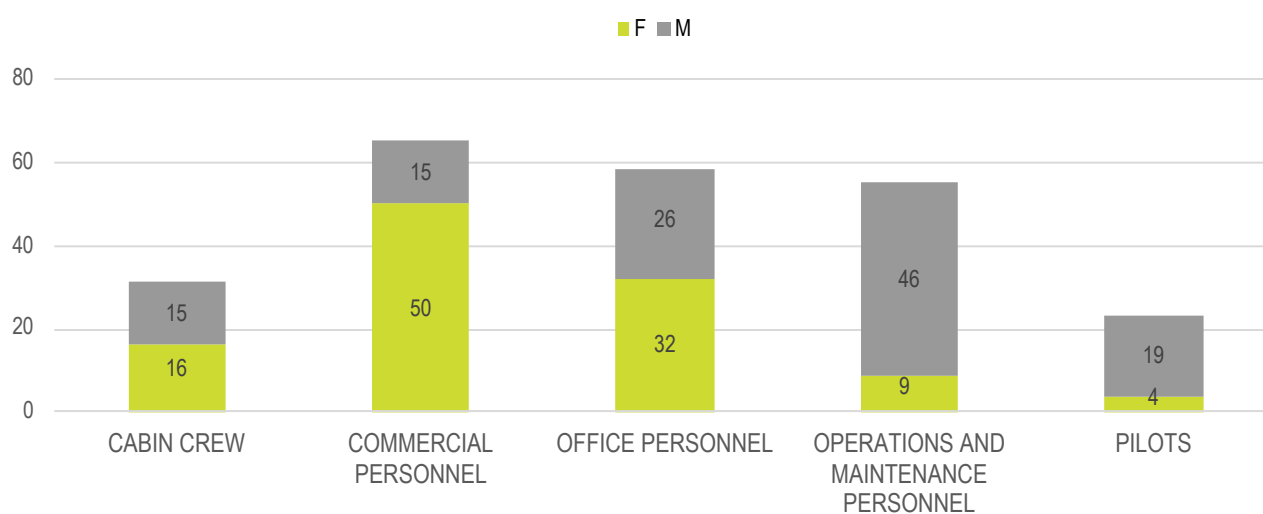
NEW EMPLOYEES

During 2020, in total 232 employees joined the Group. The new employees in Pilots, Operations and maintenance and office personnel groups have represented all age groups, but in Cabin crew and Commercial personnel group all new hires were below age of 50 years.

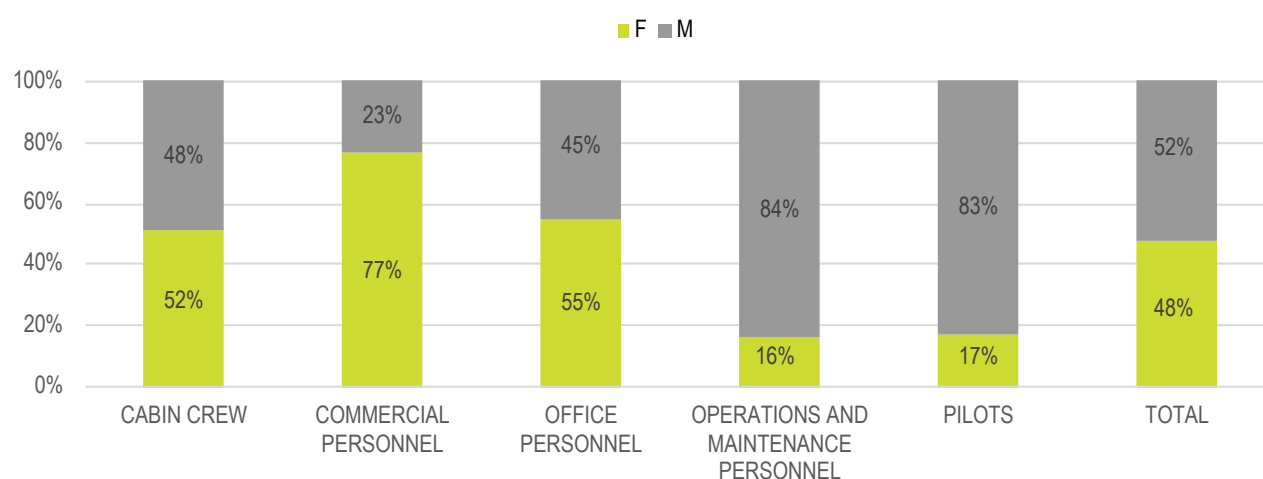


In the Cabin crew group employees under age of 30 years are dominating majority, this is driven by the fact that the Company itself provides professional training to become cabin crew and requires members to have only secondary education that mainly attracts youngsters as their first job and enables to start professional career in the aviation.

TOTAL NUMBER OF NEW EMPLOYEE HIRES DURING THE REPORTING PERIOD BY GENDER



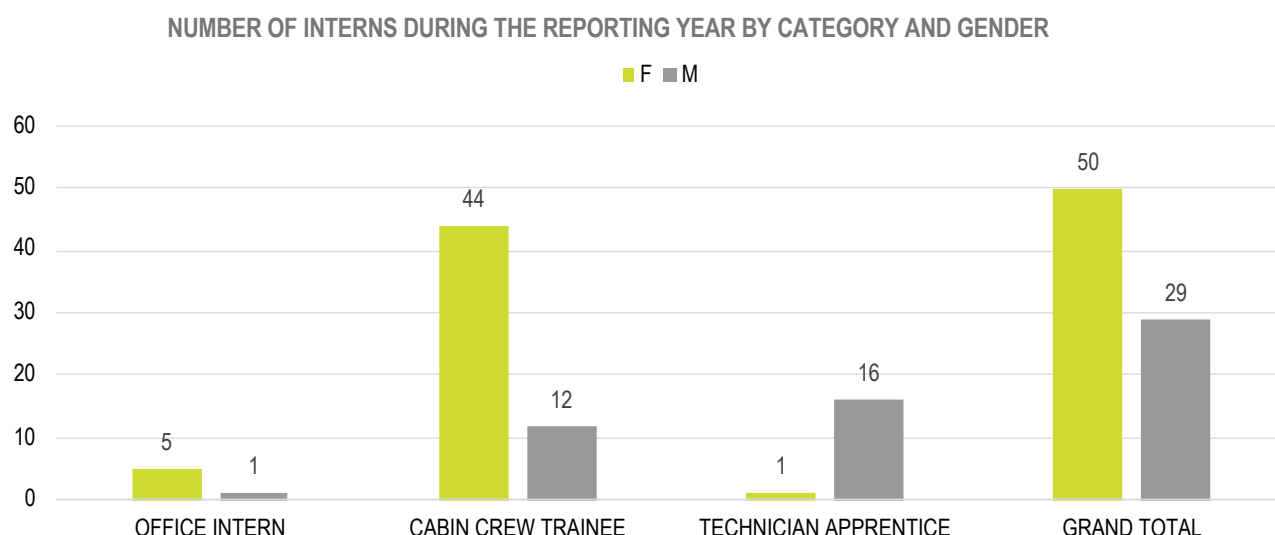
TOTAL RATE OF NEW EMPLOYEE HIRES DURING THE REPORTING PERIOD BY GENDER



Men and women proportions in major employee groups have remained stable since 2015. The Group is working continually on society perception in order to change the stereotypes and be able to attract more women into historically men positions and roles, and attract men into historically women positions and roles respectively. As an example, currently in the Group's Pilot Academy the gender distribution is even better than with the general pilot community within the Group: 13% of students are women and 87% of students are men.

During 2020, approximately 60 new interns joined the Group, most of them as cabin crew trainees. There were in total 79 internships within the Group during the reporting period.

In the table below is described the number of interns at internships within the Company during the reporting year by split into different departments where it was performed.



airBaltic cooperates with Universities by providing extensive practical experience and internship possibilities for engineering students interested in the aircraft maintenance area, hence around 17 technical apprentices have been on-boarded in 2020. Four technical apprentices from 2019 have been hired in Technical department as employees.

DIVERSITY AND EQUAL OPPORTUNITIES

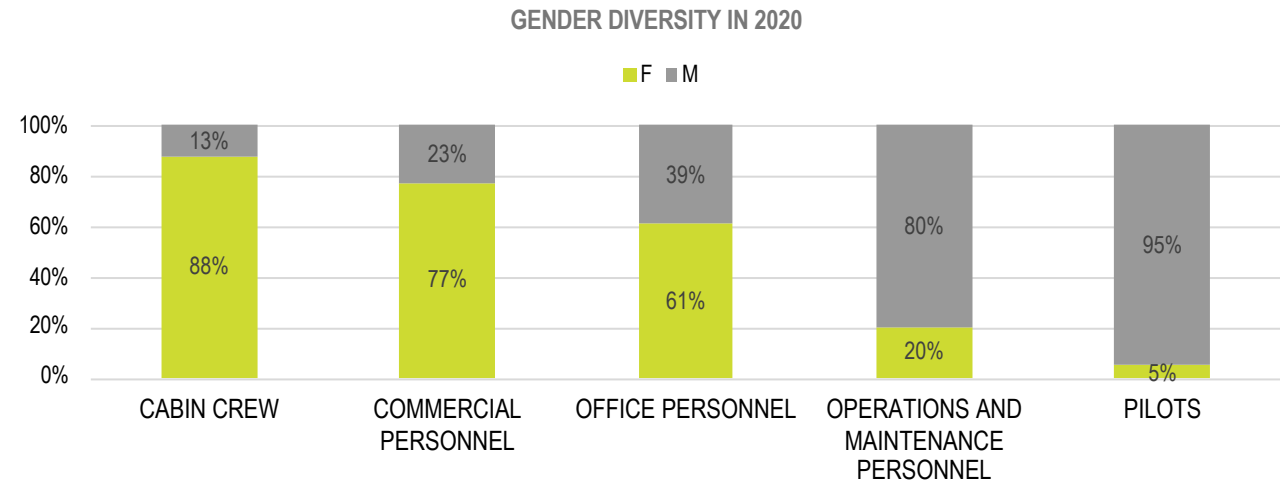
In the recruitment process, at the human resources development, staff promotion and other interactions, airBaltic acts on the basis of all persons having equal worth, no discrimination is accepted on the basis of age, gender, ethnic background, religion, sexual orientation, physical disability, political conviction, marital or parental status, or other. No physical, psychological, verbal or sexual harassment is acceptable at airBaltic. During 2020, there was no any confirmed discrimination case within the Group.

The Group works purposefully to ensure equal gender representation in all job categories and limit the predominance of one sex. This is particularly the case for cabin crew, pilots and Operations and maintenance personnel, where is a clear predominance of females among cabin crew and male predominance among pilots and Operations and maintenance personnel.

The Group has established and follows strict non-discrimination policy in all personnel management aspects, including talent attraction, selection and hiring process. Non-discrimination policy is stated in the Personnel Handbook Section 1.5. Equal opportunity.

The Group keeps gender proportion close to 50/50 across the Group since 2013. In 2020, the proportion between men and women was 52/48.

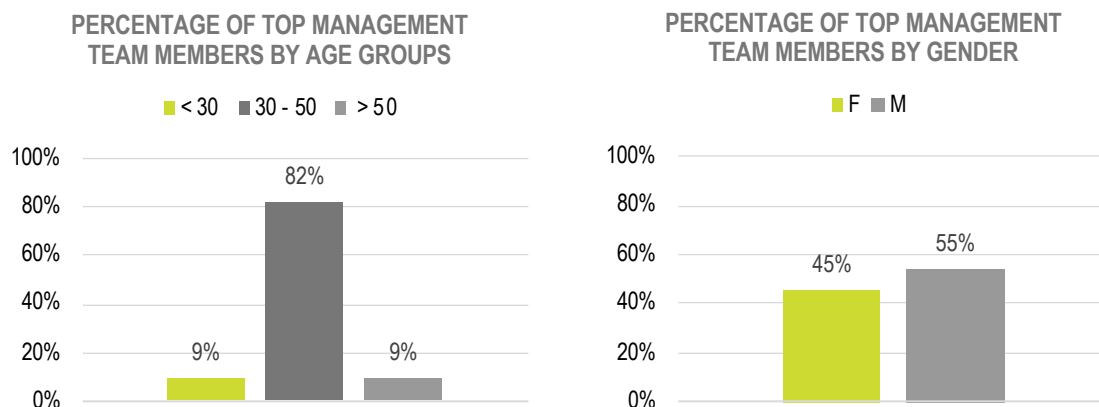
Currently there is close to 50/50 proportion on all managerial levels at airBaltic and 55/45 proportion among the Top Management at airBaltic in the result of zero discrimination policy in all people management processes within the Group.



Despite the small number of total new recruits in 2020, the Group has succeeded in improving gender equality in the cabin crew attraction and selection during 2020 by attracting new employees in Cabin crew employee group: 48% male and 52% female.

At the same time, the gender proportion in the pilots and Operations and maintenance personnel categories is still significantly disproportionate.

The Group's governing body is the Top Management Team, where are 45% female and 55% male, mainly in the age group 30-50 years.

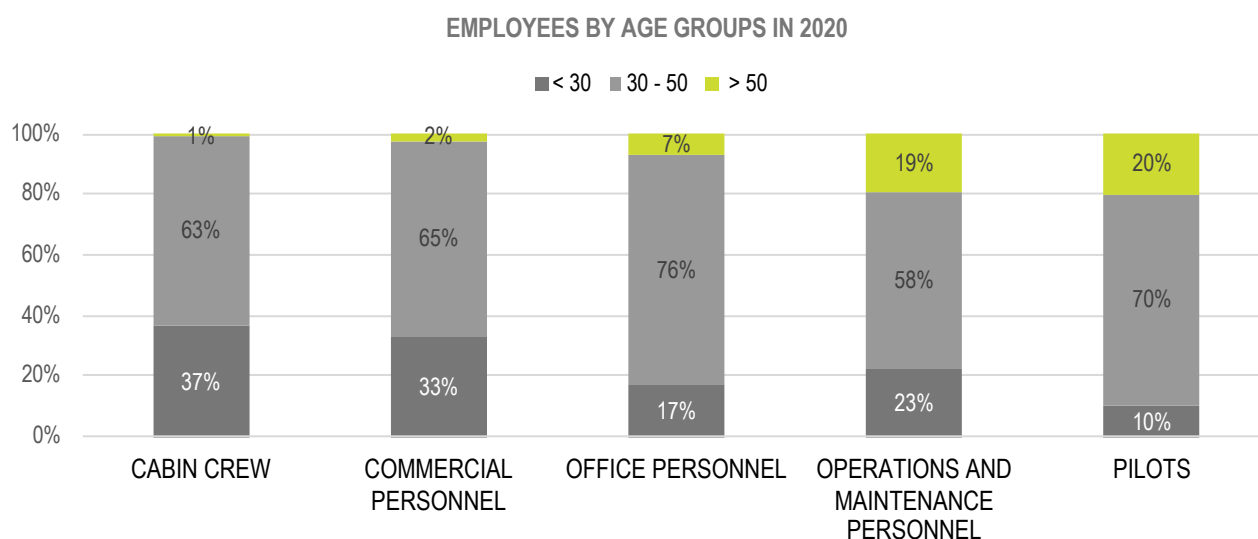


The Group has a goal to ensure gender diversity within the Company, therefore the aim is to increase by 25% or reach 25% representation according to IATA 25by2025 gender diversity pledge:

- female in managerial roles;
- female in pilot and technician roles;
- male in cabin crew roles.

The average age of the Group employees is 37 years (35 years in 2019) and it is slowly increasing throughout the years, which can be explained with Latvia's demographic situation and trends. That could also be explained with the strong commitment to the profession of the choice (for example, a pilot profession), which for majority is the lifelong job.

Employees in the age group above 50 are more represented in job categories – pilots and Operations and maintenance personnel. Cabin crew and commercial personnel job category has an opposite situation – there are less represented employees above 50 years and more employees below 30 years. In all occupational groups, the majority of employees are in the age group of 30-50 years.



The diversity in age groups depends on particular job group.

LABOUR RELATIONS

airBaltic is engaged in the Collective Agreement with 4 trade union organizations since 2009. The Group applies Collective Agreement conditions to all employees.

The Group keeps an active dialogue with all trade unions through the monthly meetings on current topics and through the dedicated employees' representative relationship coordinating person (Sustainability Workplace Manager) on a daily basis.

According to the Labour Law there is one-month notification period for employees and employees' representatives (trade union) in case of significant employment conditions changes take place within the Company. The Company proactively engages in the consultation process with trade unions before significant employment conditions changes are planned. The Group representatives organize monthly meetings with trade unions in order to discuss current business topics and answer questions of trade unions. Additional possibilities to receive information, if still any questions are open or occur ad hoc, is by preparing written questions to the employer and the Company provides answers within the legal framework of labour legislation, personal data requirements and confidentiality principles. The established consultation process with trade unions includes the timely provision of information on planned significant changes in employment conditions within the Company, dialogue with trade unions, listening to /requesting trade unions comments and suggestions and taking them into account as far as possible.

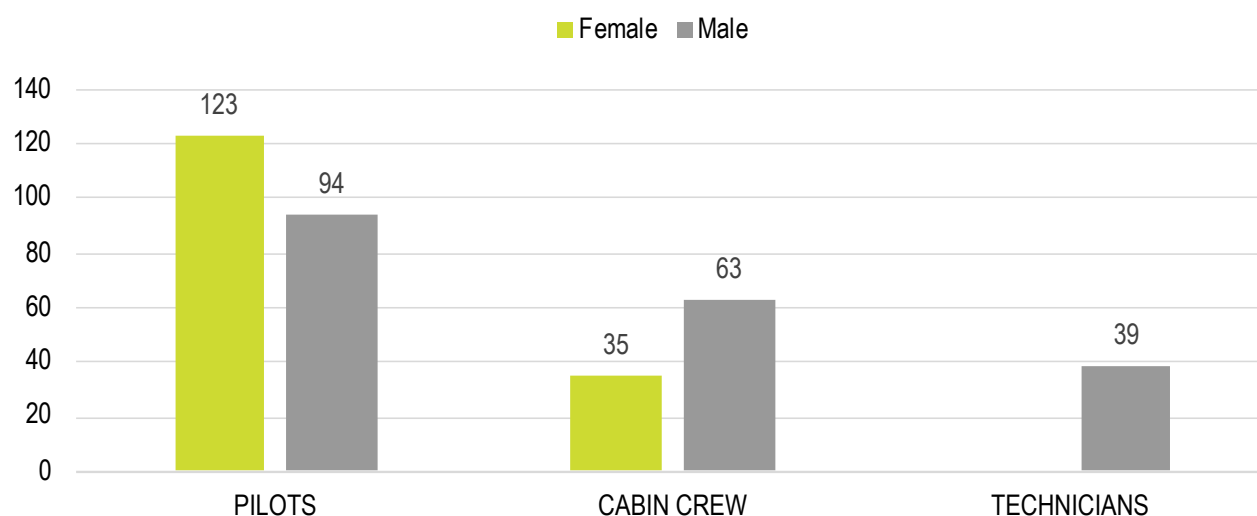
During COVID-19 driven general crisis the Group representatives had weekly consultation meetings from March to May 2020, as well as regular exchange of written communication with trade unions in order to discuss current business situation and collective redundancy process.

TRAINING AND DEVELOPMENT

Aviation industry is heavily regulated in terms of maintaining employee's qualification. Pilots, cabin crew, and technicians are going through different recurrent training programs on annual basis. The biggest part of the trainings in the past years was related to the fleet modernization program and entering new aircraft in operations, hence nowadays the training hours are reducing for the reason that more employees are already requalified for Airbus A220-300 aircraft operations. On top of that, training becomes more efficient by reducing instructor's workload by implementing more digital solutions. For more details there is the below the summary of total training hours per employee in job categories: pilots, cabin crew, and technicians, including also cabin-crew trainees' internship period training.



TRAINING HOURS PER EMPLOYEE



Due to COVID-19 restrictions, the Group was not able to perform any trainings from mid-March 2020 until May 2020. During that time the Group had to react quickly and change all the training philosophy from regular classroom trainings to Computer-Based Trainings (CBT) and trainings with instructors via Computer. It was not only a switch from one to another training method, but it was something new: new training materials were created and the Group's instructors did their utmost in the short period of time.

The Group received their own Airbus A220-300 Full Flight simulator that was certified in November 2019, moreover, before COVID-19 reached Europe, the Group received its Airbus A220-300 Door Trainer, which was ready for training use in March 2020. With this, it was possible (and continuously will be possible) to ensure all the trainings in-house at the Group's Training Centre. The above two training equipment have proved themselves to be valuable investments in training and the Group was able to continue training staff during pandemics by ensuring smooth transition to fully single Airbus A200-300 fleet with all pilots Type Rated.

During the year 2020, in total 675 pilots and cabin crew received a Recurrent training, which is required to maintain their licences and ensure they are current for all the direct duties. In total, 46 pilots and cabin crew received a Requalification training.

In January and February 2020, the Group ensured initial training for 54 new cabin crew and Company Conversion Course for 26 pilots. Additionally, 49 cabin crew received Type Conversion training. January and February and the beginning of March 2020 were still the growth months for the Group in terms of training, therefore, also upgrade trainings were taking place: 19 cabin crew received Senior Cabin Crew Course, and 5 pilots received Captain Upgrade Course.

8 pilots received Type Conversion Training on Bombardier Dash 8 and 84 Pilots have completed Type Conversion training on Airbus A220-300.

During 2020, the Group have provided programs on modules necessary for recurrent training and examination for the employed technicians on following topics:

- Technology and modification standard changes of the De Haviland Q400 aircraft and aircraft components being maintained by airBaltic;
- Technology and modification standard changes of the Boeing 737 aircraft and aircraft components being maintained by airBaltic;
- Technology and modification standard changes of the Airbus A220 aircraft and aircraft components being maintained by airBaltic;
- Electrical Wiring Interconnection System (EWIS);
- Emergency Equipment Continuation Training;
- Aircraft Fuel Tank System Safety;
- Battery Shop recurrent training;
- Q400 Leading Edge workshop Continuation Training;

- SMS and Human Factors Continuation Training;
- Technology and modification Oxygen Workshop related aircraft components being maintained by airBaltic.

The Group actively promotes employee well-being, organizing various trainings on well-being subjects. For example, in February all employees were able to attend a lecture on Stress and Burnout at Workplace, explaining the in-depth process, as well as sharing tips and tricks on how to keep calm and take care of your mental health.

In May special webinars, led by internal Mental Health and Personality Assessment specialist, were organized for all managers with information on how people are mentally responding to crisis, and how manager can detect any warning signs and support their subordinates. Additionally, video lecture was also provided for all employees, as well as explaining effects of crisis on person's well-being, and providing practical advice on how to help oneself.



The Company in 2020 has taken decision to establish Company-wide employees' development program – airBaltic Leaders for Future (aka ALFA). ALFA Learning and Development program is for future leaders, experts of the Company. The goal is to develop a potential of employees in order to increase the job satisfaction and motivation within the Company in long term and ensure the competitiveness of the Company in the market.

ALFA program includes different channels for self-development. The main is Leadership program for current and potential managers with its own concept – 30 training programs structured in four pillars: Leading yourself, Leading People, Leading Business and Leading change. ALFA Talks with inspirational talks and discussion content, participation in real Company's projects, job shadowing and experience exchange. Apart from the Leadership program, ALFA has Personal development module with useful educational content for all employees and Internal guidelines module with internal information. A specially developed online platform is a technical support for the ALFA program.

In the first ALFA group are on-boarded all people managers, approximately 130 employees, to ensure excellent and aligned leadership within the Company, enhance learning culture and drive Company growth in the future. The next step in ALFA program would be high potentials selection throughout the Company and on-boarding the next ALFA leadership module group as well as launching internal learning platform for all employees.

EMPLOYEE PERFORMANCE REVIEW

The Group has a goal to establish effective performance management process within the Company for all employees and reach 100% of employees with the yearly performance review and development plan. The goal is to ensure high performance of the Company through the proper performance management process. Maximize development of the employees' potential of their individual career and expertise to drive the Company's performance and growth and to retain employees in a long-run.

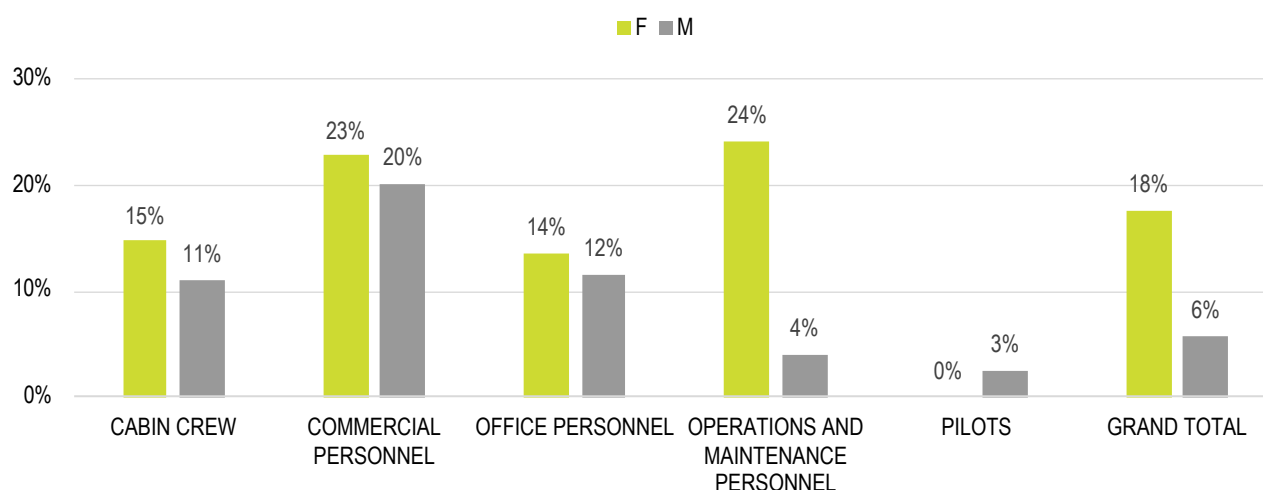
Current performance management process is flexible in terms of process and recording of the reviews. Feedback Management system is designed to:

- give and seek feedback up to 360 degrees from different people in the Company, at different levels, functions and departments, with a different frequency;
- identify and monitor both, professional (functional) and general (soft) competencies that are specific and valid for each department and job role;
- allow managers to schedule and invite people for one-to-one meetings;
- allow managers to record frequent, unstructured, performance related notes for more relevant one-to-one discussions;
- plan employee's own individual development, ask for resources where required, follow up on progress;
- set and agree with a manager on one's targets and follow up on progress;
- agree on a feedback cycle specific to function or department – whether it's short weekly, monthly, quarterly or just once a year review.

The Group has no data for the reporting period as the process is constantly ongoing.

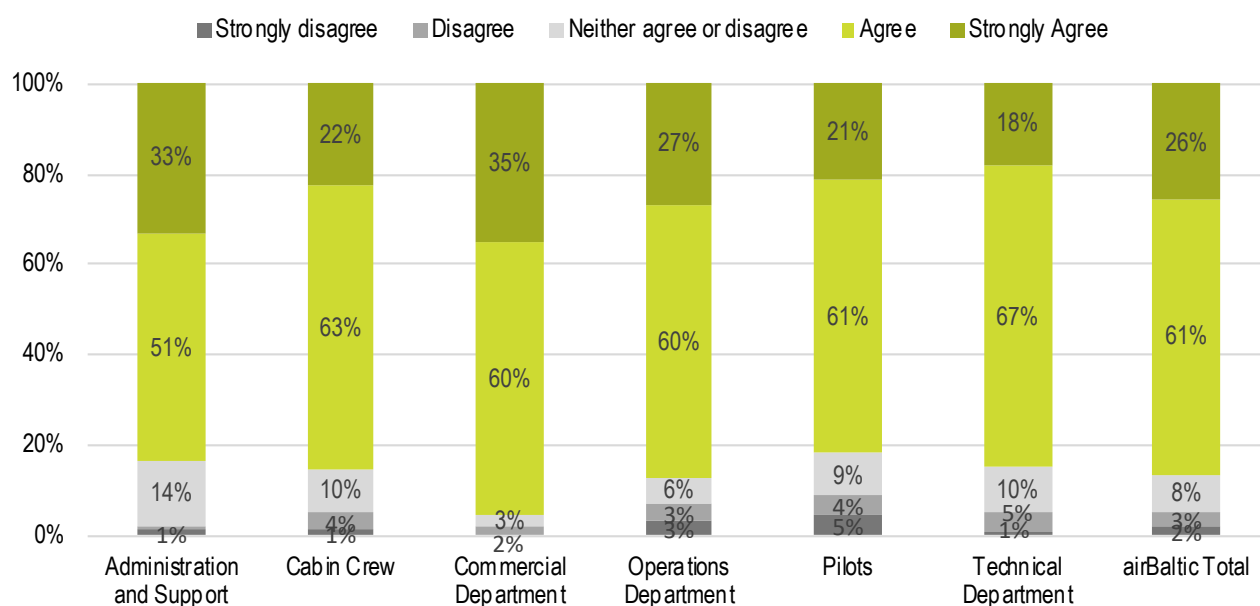
For the particular reporting purposes the Company is using Performance reviews registered in the SageHR platform.

% OF EMPLOYEES WHO RECEIVED PERFORMANCE REVIEW IN 2020 BY CATEGORY AND GENDER



Nevertheless, 87% of the Group employees are satisfied with the way how their performance is evaluated, even if not in the formal sessions registered in the SageHR platform – as it can be seen from data in the graph below. Below is indicated the latest Employee engagement survey results 2020 Q4.

I AM SATISFIED WITH THE WAY MY PERFORMANCE IS EVALUATED

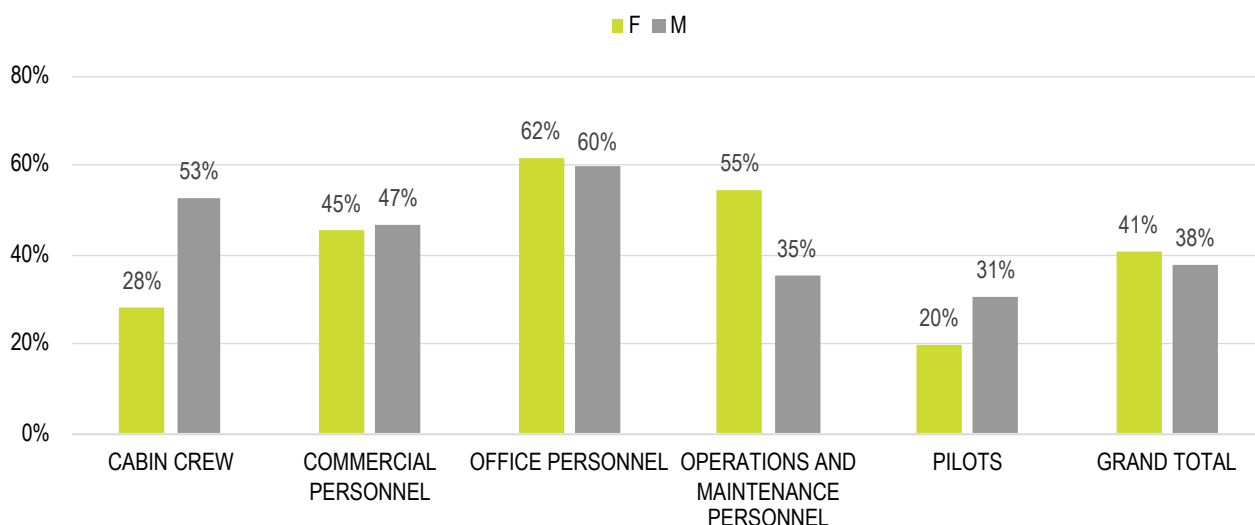


In 2021/2022 the performance and feedback management process to be enhanced based on the Company values and formalized for all employee groups. All people managers will take part in the training on Performance and feedback management as part of ALFA program Leadership module in 2021.

The Group is taking care of the internal culture and environment, promoting feedback culture. Currently more actively is used quick feedback system to appreciate the performance of employees within the Group.

Quick feedback is peer-to-peer assessment tool, where employees can send an appraisal for any colleague within the Group. Quick feedback from colleagues is reported as the third most powerful driver of the performance by the Group employees (Employees engagement survey 2020 Q4).

% OF EMPLOYEES WHO RECEIVED QUICK FEEDBACK IN 2020 BY CATEGORY AND GENDER



HEALTH AND SAFETY

Occupational health and safety management system in the Group is implemented according to Labour Protection Law and a number of relevant regulations of the Cabinet of Ministers⁵. The system includes risk assessment, internal monitoring of the work environment, trainings, and mandatory health checks of employees. Occupational health and safety management system covers all workplaces and all employees within the Group.

According to Labour Protection Law and Regulations of the Cabinet of Ministers No 660/2007 once a year is carried out risk assessment - identified and assessed work-related hazards in every position. In assessment is used matrix of the Finnish five-point method⁶. In the first step, the Group identifies hazards and risk factors that have the potential to cause harm (hazard identification), then analyses and evaluates the risk associated with that hazard (risk analysis and risk evaluation). Risk assessment is done by Occupational Health and Safety Manager, (the relevant employee has master's degree in law with Master Thesis defended in Job Safety), who visits workplaces and evaluates work processes. Risk assessment is documented. Information of assessment is used in Job Safety trainings - to inform employees about hazards, what is done by employer to eliminate or minimize them and what could employee do to avoid them. During internal monitoring of the work environment Occupational Health and Safety Manager pays attention to workplaces to notice work-related hazards.

The main hazards are:

- work with computer and working postures (sitting) for office workers;
- ergonomic risk factors – working postures, repeated movements, lifting and carrying different weights;
- different accident risks – tripping, falling, cuts, work at height and night shifts for technical staff.

For Flight and cabin crew the main hazards are:

- ergonomic risk factors - working postures, limited premises in aircraft, different weights (luggage, trolleys);
- physical risk factors - noise, vibration; lowered air humidity and atmospheric pressure; cosmic ionizing radiation;
- accident risks – tripping, falling, burns, cuts, head injuries;
- psychosocial risks - schedule (early mornings/late evenings), night work, fatigue, stress.

⁵MK 343/2002, MK 344/2002, MK 372/2002, MK 400/2002, MK 526/2002, MK66/2003, MK 660/2007, MK219/2009, MK 359/2009, MK 950/2009, MK 124/2010, MK 749/2010, MK 143/2014

⁶Kalķis, V. Darba vides risku novērtēšanas metodes. Rīga, Elpa-2., 2008. 242 pp. (in Latvian)

Occupational health and safety management system's maintenance in the Group is outsourced and the Group has contracted a company with relevant knowledge in field – KMS BUSINESS PARTNERS SIA. It provides all necessary services with competent Occupational health and safety specialists.

In accordance with internal procedures, and in particular, Job Safety instructions (for technicians, pilots, cabin crew, office workers etc.), which are developed based on Labour Protection Law if any kind of hazards appear to employee during his/her duties, they must immediately interrupt his/her job and report about particular conditions to direct supervisor and Occupational Health and Safety Manager (in case of equipment damages, health disorders, job accidents etcetera).

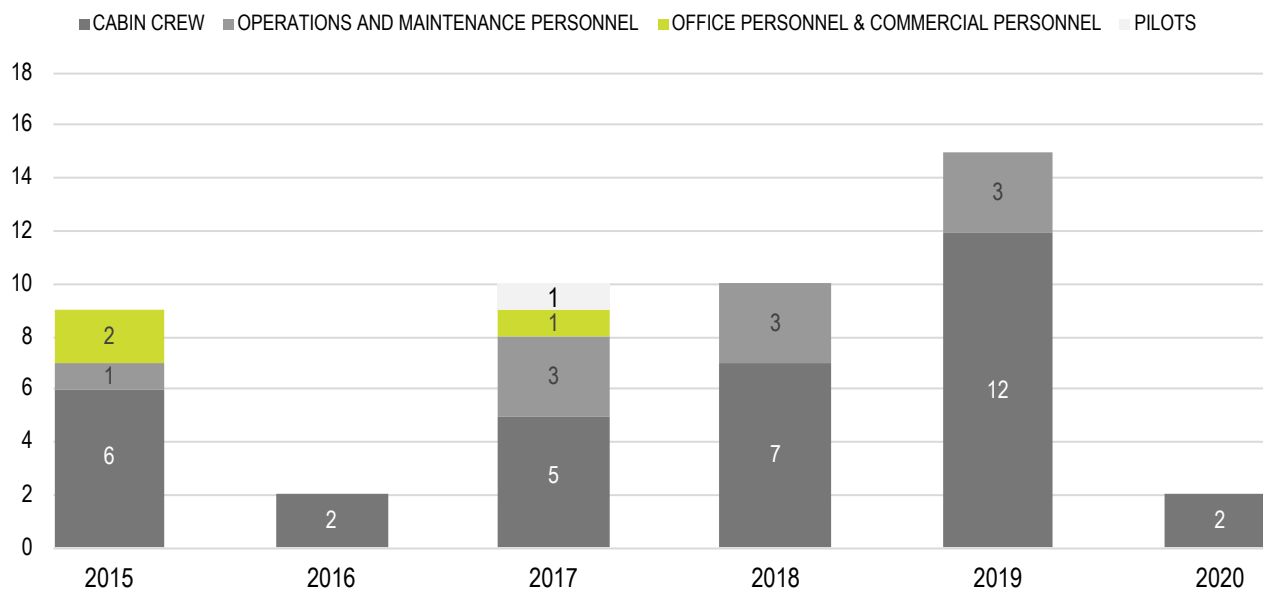
All employees during the Job Safety trainings and also during internal safety monitoring are encouraged to act proactively and, when possible in a timely manner, report to Occupational Health and Safety Manager the necessary improvements regarding occupational health and safety topics (such as broken equipment, missing personal protective equipment, any dangerous situations etc.) in order to minimize potential accidents at work. If employee points out some dangerous situation, no reprisals are taken against him/her. In 2020, Occupational Health and Safety Manager received two verbal reports – about the situation where an employee can stumble behind the doorstep and about the possibility to install additional First Aid kit in technical hangar.

Some trade unions have elected employees' representatives on occupational health and safety, who are invited to cooperate with the Group Occupational Health and Safety Manager. All employees' representatives are invited to participate in job risk assessment process and to propose ideas on how the work environment can be improved.

WORK-RELATED ACCIDENTS

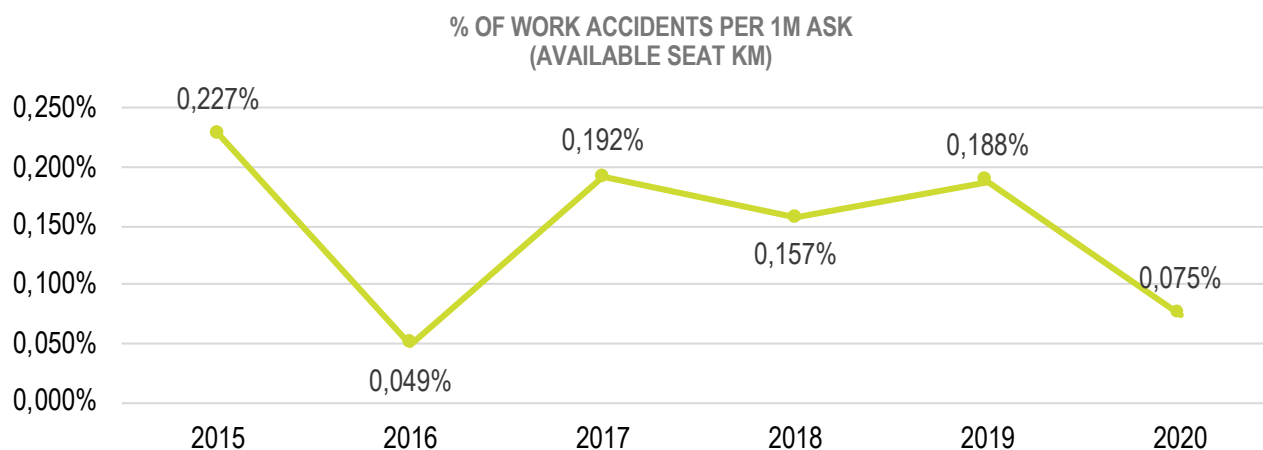
In 2020, the Group registered two occupational accidents. Respective accidents are always addressed at the annual job safety trainings/instructions of employees in order to avoid the same mistakes in future. Both accidents in 2020 happened with cabin crew due to inattention of an employee or incorrect working methods applied.

WORK-RELATED ACCIDENTS BY EMPLOYEE GROUPS



The total number of job accidents decreased from 15 cases in 2019 to 2 cases in 2020. Both job accidents in 2020 were with minor injuries (temporary unconsciousness, pinched fingers). Total amount of job accidents in 2020 have significant decreased, by 86%.

Accidents per million available seat kilometres (ASK) were fluctuating significantly in the past two years as indicated below.



Based on statistics of the previous years, it is shown that majority of accidents happen with crew members and the amount of accidents is driven by increase or decrease of flight volumes. During 2020, flight volumes have been significantly decreased, as well as a number of crew members decreased. This resulted with 60% decrease in work accidents per 1M ASK (available seat km) in 2020. The Group has a goal to proactively decrease all possible risks for employees' health and safety, and develop employees' knowledge and competencies in Occupational health and safety management system. The Group is going to improve the situation with work accidents by decreasing the rate of work accidents per million available seat kilometres (ASK) by 90% compared to 2019 (0.188%) until 2030.

All work-related accidents are investigated according to the relevant regulations of the Cabinet on Ministers No 950/2009. After the investigation is completed, a risk re-assessment for concrete position/job is performed with the aim to determine the cause of the accident and on how this case can be addressed preventively, so that similar accidents do not recur in future. If there is any technical reason on why work-related accident happened, immediate actions can be taken to improve work environment (change of broken equipment, etc.)

As the main reason of work-related accidents is inattentiveness in trainings, it is reminded of necessity to be careful and pay attention to own job. Also, work-related accidents are mentioned as examples during occupational health and safety trainings – what and why happened, what were the reasons and what to do to avoid.

PROMOTING HEALTHY AND SAFE BEHAVIOR

Every employee has an initial job safety instruction when s/he starts employment at the Group. Once per year there are annual job safety instructions for all employees. In addition, there is organized practical fire safety training (this includes staff evacuations from the building). For employees who have to fulfil a specific job (work at height for technicians, forklift driver for storekeepers etc.) additional trainings are provided. The frequency for those additional trainings is once per two years for forklift drivers and once per three years for technicians (who work at height).

Particular trainings are provided by the Group Training centre. After the courses, employees must fulfil test in order to receive a certificate. All courses, which include internal occupational health and safety trainings, are held in the language what all participants in the particular training group understand. The trainings are conducted in Latvian, Russian or English.

There are mandatory health checks for all employees according to labour legislation. Depending on the employment category, the frequency of the compulsory health examination must be performed once in 12 months, once in 24 months or once in 36 months.

MEDICAL CHECK-UPS OF EMPLOYEES IN DIFFERENT EMPLOYMENT CATEGORY

POSITION	REGULARITY
Cabin Crew	1 every 12 months
Commercial personnel	1 every 36 months
Office personnel	1 every 36 months
Operations and maintenance personnel	1 every 24 months (technical division) 1 every 36 months (office employees)
Pilots	1 every 12 months

In 2020, airBaltic organized Engagement Challenge activity to boost employees' sense of belonging to the Company through the month-long activities addressing wellbeing, healthy lifestyle promotion and physical activities, where more than 100 employees actively participated. This was organised after the emergency estate period.

The Group proactively improves workplace conditions in order to provide to all employees safe and good workplace within the Group. During 2020 Technical department premises were completely renovated. There were made improvements in ventilation systems, air conditioners, renovated shower rooms, purchased new furniture, improved walking path to the hangar area. Laboratory measurements were made in order to check amount of chemicals in work environment at the Technical department and hangar premises. The results of measurements were low and no danger for employees' health were established.

Every year the Company calculates received cosmic radiation doses for Crew members. Cosmic radiation doses for every flight and Crew member are calculated with specific programme with the aim to check received amount of cosmic radiation. With the max allowed level 20mSv per year calculated doses, the Group's Crew members do not exceed 5mSv.

In addition to preventive measures, the Group ensures health insurance coverage for all employees and accident insurance 24/7, as well as covers costs of the regular medical checks and provide compensation for optical expenses.

The Group ensures employees access to the health services by providing following insurances:

- for all employees: Health, Accident, Business travel/duty travel insurance;
- for pilots: Loss of licence insurance;
- all employees have a possibility to get Health and Accident insurance with the upgraded coverage;
- all employees have a possibility to buy a Health and Accident insurances for relatives;
- all employees have a possibility to buy an international health insurance (AXA).

Employer provides employees, who have passed probation period, with primary package of health insurance in coverage chosen by employer.

The Group conducts the surveys to gather the inputs from employees (this was skipped in 2020 year due to COVID-19). The Group has approximately the same package components as it was initially when Health policy coverage has been introduced within the Group.

Emphasizing employees' wellbeing importance, the Primary package of Health insurance is supplemented with 2 paid consultations of psychologists in 2021 and other additional improvement in comparison with 2020 package.

COVID-19 PRECAUTIONARY MEASURES

The Group has developed and implemented COVID-19 safety procedures for employees and passengers to ensure a safe environment starting from early March 2020 in close cooperation with Latvian Health Authorities.

During COVID-19 pandemic, every day airBaltic made the choices to protect its employees and people around them. airBaltic introduced quite many measures in order to ensure health and safety of employees, such as COVID-19 weekly tests, temperature measurement at office, compensation for self-isolation/home quarantine for crew members. Even more, airBaltic introduced the internal COVID-19 web page where employees can get acquainted with latest news and many other important materials related to the matter.

The Company keeps encouraging everyone to be responsible and follow their health and well-being constantly.

As mentioned before due to all new procedures in place, airBaltic achieved the highest 5-Star COVID-19 Safety Rating and became the first airline to be certified at five-star COVID-19 safety rating level. airBaltic achieved an excellent standard of health and hygiene safety measures to keep customers and staff safe during the coronavirus pandemic, and this is being applied with a high level of consistency.

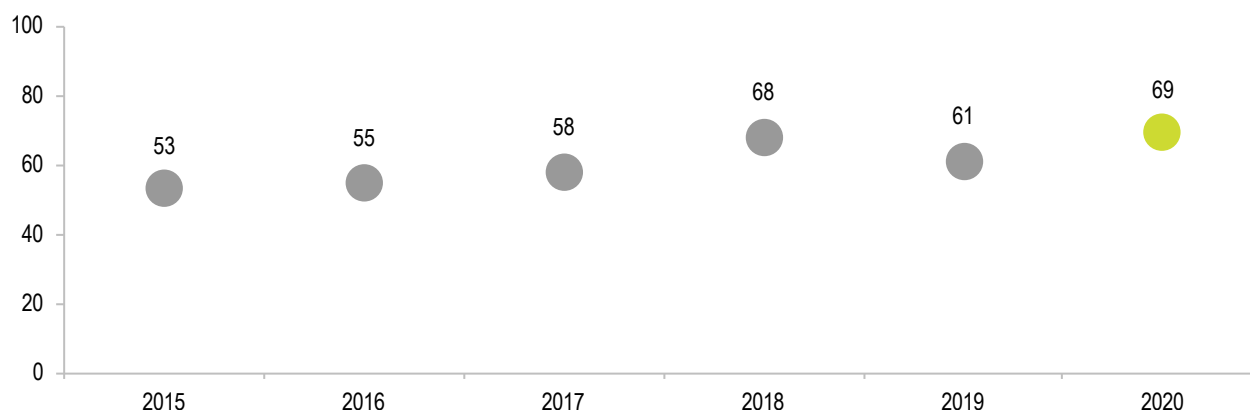
DIALOGUE AND COMMITMENT INDEX

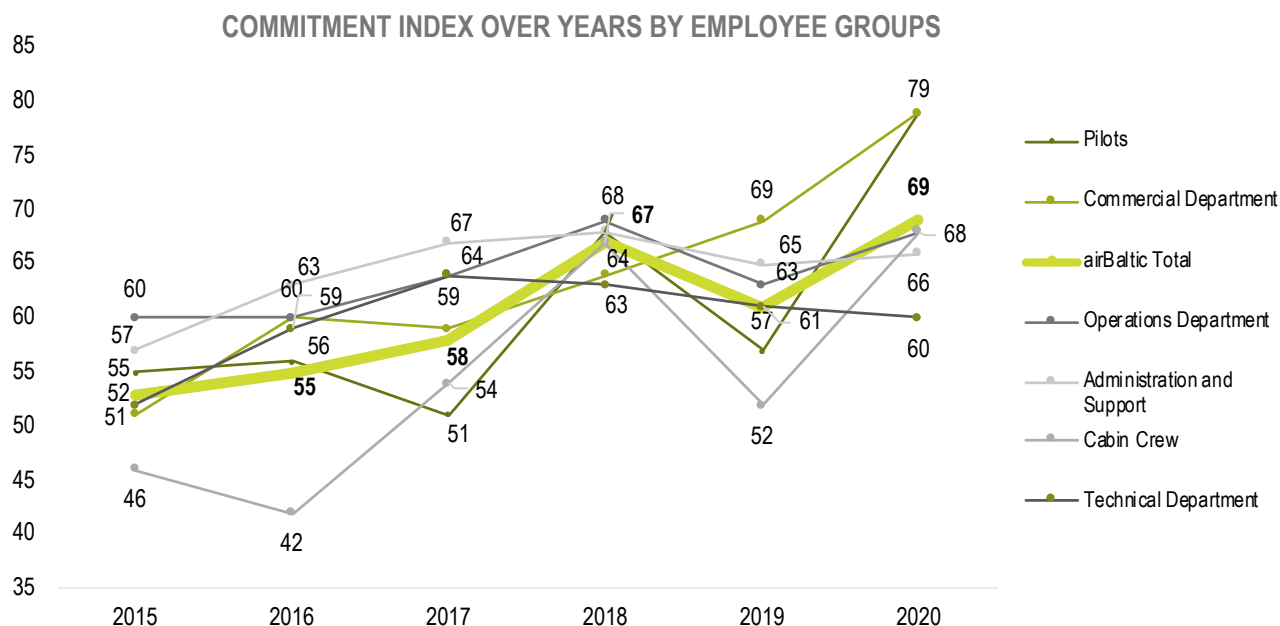
The Group carries out continuous listening strategy and runs regular employees commitment surveys since 2013, as well as collects feedback on other specific activities, changes, etc. Commitment index is an aggregated measure that demonstrates state of employees' satisfaction, engagement, retention, loyalty and motivation at work. On overall the Group employees demonstrate moderately high commitment level. As of 2019 employee commitment surveys are regular on quarterly basis to be more dynamic and take prompt decisions in case of deviations.

In 2020, due to COVID-19 crisis impact on operations and staff reduction the employees' commitment survey was not held in Q1, instead there was 1st half year survey, but surveys returned to the previous quarterly pattern as of Q3.

Survey is running on digital solution, which allows employees to access survey remotely, from any gadget. Hereby the Company has reached representative participation rate of more than 70% of employees.

EMPLOYEE COMMITMENT INDEX BY YEARS

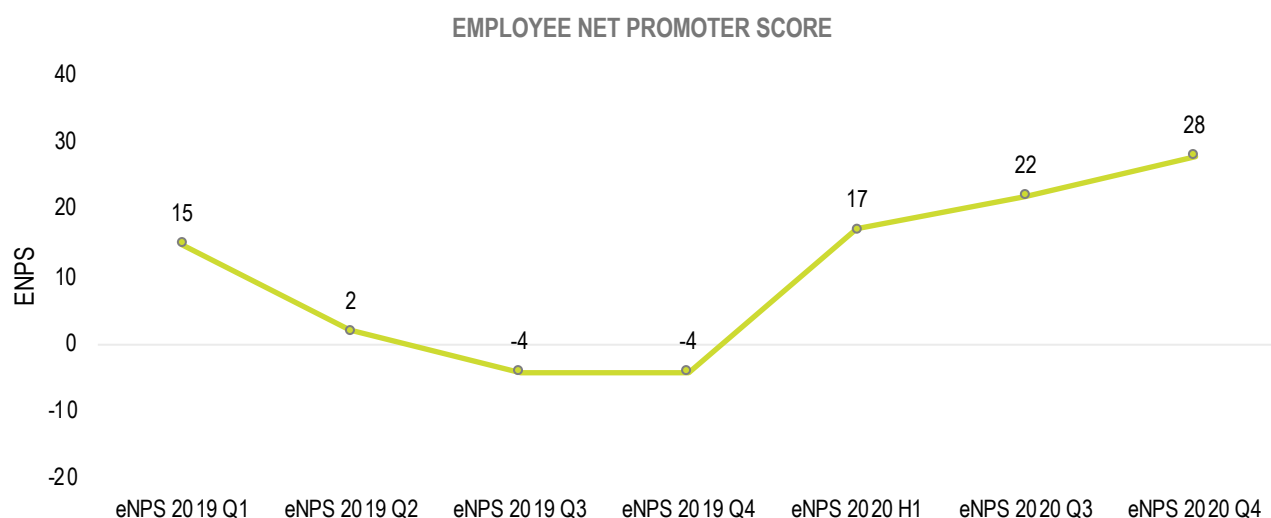




Survey results for 2020 in comparison to 2019 show an **increase in overall Commitment index in most employee groups**, following the employee's commitment improvement trend throughout the years.

Based on survey data and comments we can assess that the following factors related to the consequences of COVID-19 – uncertainty about future, unclear workload and reduced communication with colleagues (due to remote work and less operations) – have to be addressed to avoid employees engagement degradation in the current situation. Therefore, the Company is investing in the remote work communication optimization solutions, is intensifying internal communication, ensuring weekly briefings from airBaltic CEO Martin Alexander Gauss, educating employees and people managers and implementing well-being practices.

Employees' surveys are valuable input for the Company people management decisions. Based on the employees concerns and unclarities regarding the compensation policy, which was identified in the engagement survey 2020, the Company took decision on improvement and development of transparent and simple compensation policy to take effect as of the beginning of 2021.



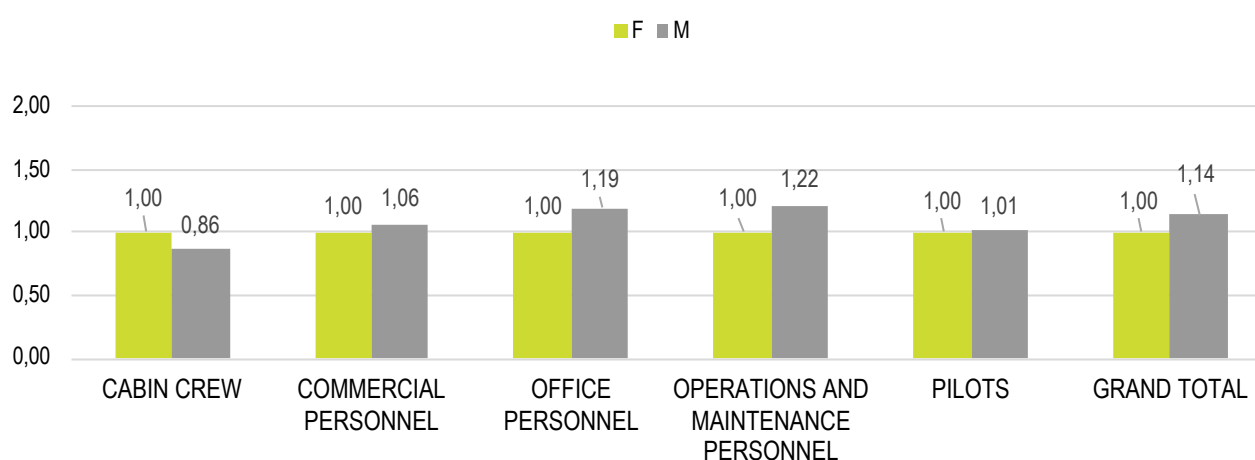
Important measurement for the employer brand and future Company growth, in accordance with the business plan Destination 2025 CLEAN, is Employees Net Promoter score, which increased in 2020, reaching "Good level" according to NPS methodology and which is significantly higher in comparison with other participants on the Latvian employers market (Employers brand research by Amrop 2020).

FAIR REMUNERATION

The Group has implemented job grading in 2020 based on Point-factor job evaluation scheme to avoid bias in remuneration for different groups to the maximum extent possible. Criteria for job evaluation are universal and applicable all over the Group in different functions and employee categories. Pay range (e.g., difference between minimum and maximum pay level) in one job grade is planned to be set at 35% and would depend generally on seniority and individual performance, and compensation market inputs.

Based on the rough comparison of different positions evaluated in the same job grade, if in particular grade are both male and female position holders, not considering individual role, seniority, performance, previous experience and other deviation for proper equal pay measurements, the Group has concluded that on average male fixed basic remuneration is 14% higher than remuneration of female within the same job grade. In the below table is indicated the ratio of the basic salary of women to men for each employee category.

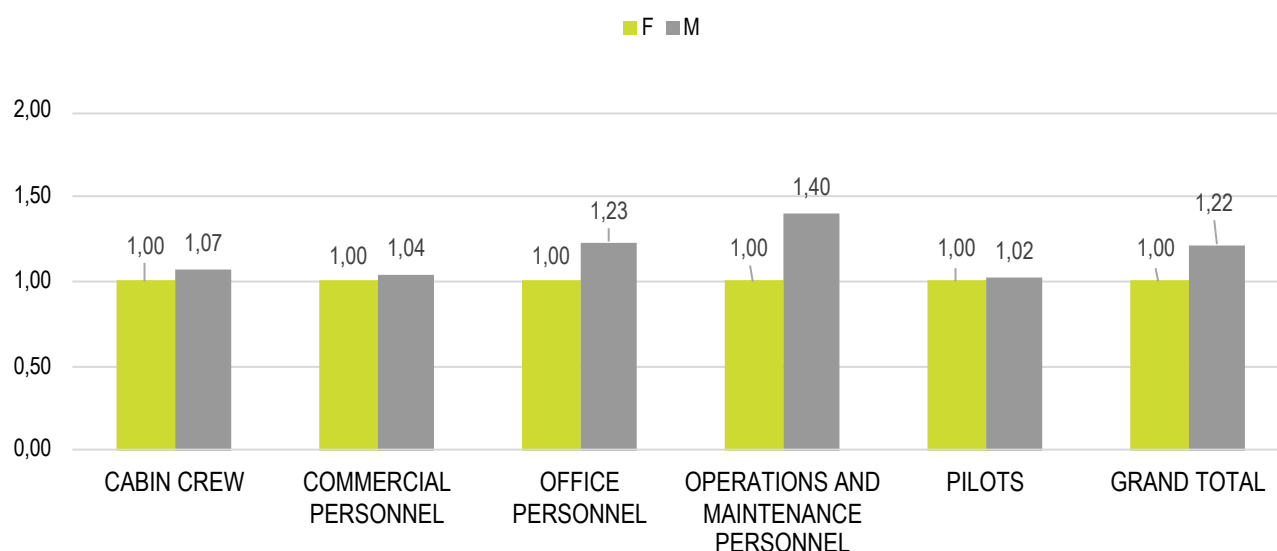
RATIO OF BASIC SALARY OF MEN TO WOMEN BY EMPLOYEE CATEGORY



The Group has implemented proper remuneration systems in the major employee groups, which are based on employee's performance, experience and qualification. Remuneration systems are set for a position or group of positions and define exact same remuneration structure, calculation rules, possible remuneration levels and other remuneration conditions for all position holders indifferent from their gender, age or any other personal aspect thus allowing to avoid any subjective pay gap. Current pay gap in groups with set remuneration systems can be explained by previous experience, qualification and other objective parameters defined in the remuneration systems. To address basic salary pay gap in individual positions and to further improve existing remuneration systems, job grade based remuneration policy with set pay benchmarks for each job grade for all the employees in all positions will be introduced in 2021 and gradually implemented by 2025.

Based on the rough comparison of positions evaluated in the same job grade, if in particular grade are both male and female position holders, not considering individual role, seniority, performance, previous experience and other deviation for proper equal pay measurements, the Group has concluded that on average male average **total remuneration** is 22% higher than remuneration of female.

RATIO OF TOTAL REMUNERATION OF MEN TO WOMEN BY EMPLOYEE CATEGORY



Significant part of the pay difference in this comparison can be explained with highly aviation specific or internationally competing positions (for example, Aviation Technicians in Operations and Maintenance personnel group), which falls out of scope of local pay benchmarks in current job-grade. To exclude this negative impact on gathered data, research will be done in 2021 to apply specific job-grading and international pay benchmarking to highly industry specific and international positions thus ensuring fully transparent statistics and comparable data.

Differences between genders in total remuneration are driven by individual performance and position specifics regarding to the work plan and are objectively explainable in big employee groups with set remuneration systems. To reduce any possible bias in variable pay between different individual positions, the Group has revised and restructured all the Group's bonus systems in the end of 2020. Guidelines for further setting fair and transparent variable and bonus pay will be described in remuneration policy and introduced in 2021.

To continue the work on equality of remuneration and further eliminate any pay gap the Group is looking forward implementing job grade-based remuneration policy with set benchmarks for each job grade for all the employees in all positions in year 2021.

In 2020, with the COVID-19 crisis impact the Company has taken several steps related to management and employee's compensation, such as, postponement of payment of all bonuses to employees and management, deferral of 20% salaries for management for period March 18 till Sep 30, 2020. Therefore, statistical overview of the compensations for 2020 is not representing the situation of normal Group's operations.



EMPLOYER BRAND

The Group has the goal to reach the TOP 3 of the Best employers in Latvia (organized by CV-Online, in 2019 airBaltic has 10th place) and to have strong Employer Brand positioning in other key markets where talents could be attracted from.

The goal is to develop Employer brand in order to efficiently and effectively attract the best possible candidates and to retain the Company's best talents in the long run. The Group Employer brand strategy is based on showcasing Company's employee's expertise, sharing their experiences and personal stories. The second pillar of the strategy is to be open for communication and reachable by "easy-to-apply" approach, which enable potential employees getting in touch with airBaltic recruiters in easy and fast way, also by using digital options, going through the transparent and fast recruitment process. The option to see and identify themselves with the Company's culture and team, what gives a clear vision whether it's the right place to continue their career further, what are the work conditions and development options within the Company.



INVESTMENT IN FUTURE EMPLOYEES

The Group is in touch with all educational institutions with the respective studies programs, from which it is in need of specialists. The Group is actively participating in on-site or online Open Days at the universities, if such are happening, presenting the Groups job opportunities to students. The Group is actively sharing the information about vacancies through educational institutions internal news boards and platforms for students. The Group is planning to launch online Open Days for technical entry-level positions and apprenticeship for particular technical schools, presenting the vacancies and holding Q&A sessions with the students to give them more broader information about the job and raise the interest.

The Group has a goal to develop apprenticeship and employment-related training programs for potential and new employees that allows hiring youth and adults without necessary skills and develop them within the Company. The goal is to enable candidates who lack the necessary skills, but are highly motivated, to develop themselves within the Company, to gain a decent job with that ensuring required talents for the growth and development of the Company.

PILOT ACADEMY

The Group continues to invest significant resources into its Pilot Academy that was launched in 2018 and provides fully integrated pilot training within 18-24 months. The first 12 cadets joined the Group as pilots in November 2019. In 2020, no new pilots from the Pilot Academy joined the Group due to the effects of COVID-19 pandemic on the aviation industry. However, training in the Pilot Academy has not stopped, and 71 Cadets currently are studying to become future pilots.

PILOT ACADEMY COOPERATION WITH LIEPAJAS TEHNIKUMS

The Group has started a co-operation with Vocational education competence centre (VECC) Liepaja State Technical School, creating a new educational programme for future Aircraft Mechanics, which is a unique programme, being effected in Latvia for the first time. Within this programme, students will be able to learn practical knowledge and gain experience, working with aircraft of the Group. Practice will be held at the authorized airBaltic Training Diamond Aircraft Service Centre.

In September 2020, the first group of 14 students have started the training. After graduating the programme, new specialists will be able to work at the commercial airlines and aviation maintenance companies. Main duties of the Aircraft Mechanic are to prepare the aircraft for the technical maintenance, planning of the technical maintenance, as well as execution of the repair work. The Group anticipates that most of these specialists will join its companies as permanent employees after graduating the programme.



APPRENTICESHIP PROGRAM IN TECHNICAL DEPARTMENT

For many years the Group's Technical department has been attracting trainees from Universities and Technical schools. During 2020 there were 13 Technician – Apprentices: 10 from Riga Technical University (RTU), 2 from Transport and Telecommunication Institute (TSI) and 1 from Technical school.

During the period of obtaining practical experience, a training agreement is signed with the Technician – Apprentice along with an annex to the agreement with practical requirements set by airBaltic for the Technician – Apprentice, which shall be fulfilled in order to continue ongoing obtaining of practical experience for every following period.

During the period of obtaining practical experience, a monthly scholarship is provided to the Technician – Apprentice, the amount depends on the length of practise. Maximum length of apprenticeship is two years.

Technician – Apprentice is provided with a personal accident insurance policy and additional benefits.



REPRESENTATION AT ASSOCIATIONS, ORGANIZATIONS AND UNIONS

Membership in industry associations, unions and organizations ensures airBaltic's representation of interests in the development of national and international policy documents, legal acts, and standards. airBaltic regularly participates in various forums, conferences, seminars and working groups discussing development of the industry and sustainability challenges, obtaining information about current trends, as well as sharing their own position and experience on topics relevant to the aviation industry and business in general.

In May 2020, airBaltic took a part in Riga Aviation Forum's Scientific Conference organized by the Latvian Aviation Association, together with the Riga Technical University, the Transport and Telecommunication Institute and the Riga Aeronautical Institute to facilitate the development of innovative Latvian aviation research.

Martin Alexander Gauss, President and CEO of airBaltic, in October 2020 joined the conference "Celtspēja Conference" sharing insight on challenges and responsibilities leading a company during the time of crisis when uncertainty and external influence lead to unpopular decisions.

INTERNATIONAL ORGANIZATIONS AND ASSOCIATIONS



AIRLINES FOR EUROPE



INTERNATIONAL AIR
TRANSPORT ASSOCIATION



ESTONIAN TRAVEL AND
TOURISM ORGANIZATION



ASSOCIATION OF FINNISH
TRAVEL AGENTS



FINNISH BUSINESS TRAVEL
ASSOCIATION



FLIGHT SAFETY FOUNDATION

NATIONAL ASSOCIATIONS AND PROFESSIONAL ORGANIZATIONS



AMERICAN CHAMBER OF
COMMERCE IN LATVIA



ASSOCIATION OF LATVIAN
TRAVEL AGENTS AND
OPERATORS



SUOMI – LATVIA KAUPPAPHDISTYS
FINNISH – LATVIAN TRADE ASSOCIATION
SOMLIJAS – LATVIJAS TIRDZNIECĪBAS SAVIENĪBA

FINNISH-LATVIAN TRADE
ASSOCIATION



LATVIAN AVIATION
ASSOCIATION



The Latvian Chamber
of Commerce and
Industry

LATVIAN CHAMBER OF
COMMERCE AND INDUSTRY



LATVIAN EMPLOYERS
CONFEDERATION



RIGA TOURISM
DEVELOPMENT BUREAU
“LIVE RIGA”



INSTITUTE FOR CORPORATE
SUSTAINABILITY AND
RESPONSIBILITY

COMMUNITY ENGAGEMENT AND SUPPORT

As the Coronavirus disrupted aviation industry and the whole society in many different ways, airBaltic took an active part in educating the society about health measures that have to be followed. During the year 2020 airBaltic demonstrated active support to the local authorities in their communication efforts.

In the middle of March 2020 all airBaltic prior scheduled flights were temporarily suspended until May 18, including operations of airBaltic not only from Latvia, but also from Estonia and Lithuania. While the international air traffic was suspended, Ministry of Foreign Affairs of the Republic of Latvia requested to perform repatriation flights. In this period airBaltic brought home almost 5000 nationals of Republic of Latvia, Republic of Estonia, Republic of Lithuania as well as permanent residents of the relevant countries.

airBaltic performed 83 repatriation flights from such destinations like Amsterdam, London, Tbilisi, Larnaca, Malaga, Rijeka and many others.

After a request from National Health Service of the Republic of Latvia airBaltic performed three special cargo flights to and from Ürümqi Diwopu International Airport in China, bringing several million face masks and respirators made in Zhengzhou and Yiwu regions to Latvia. In order to achieve increasing demand for delivery of cargo from China to Europe during COVID-19 crisis, airBaltic in cooperation with its cargo representative – logistic company Wish Global and technical support of Airlink Aviation Services, developed supply chain solution for cargo shipments from practically any big city in China to the Baltics and beyond using our passenger aircraft, as cargo charters.



When Europe went under lockdown, major challenges but also opportunities arose in the air cargo transportation market. The Company ensured that people and businesses in Latvia could receive their ordered mail and parcels from different countries, which is even more important in times when shops are closed. The mail and cargo were carried by airBaltic on our regular passenger flights. In 2020, airBaltic carried 7.5 million kilograms of mail and cargo on their passenger aircraft fleet. This was 31% above airBaltic's expected cargo results in 2020. The demand for air freight per flight increased and with that airBaltic maintained its status as the largest cargo operator at the Riga International Airport.

airBaltic was one of the first airlines worldwide to actively start developing interline partnerships for mail transportation.

The Company continued to revise business model and adjust to the new reality, therefore, in July 2020 airBaltic introduced revised ticket types by improving ticket flexibility. GREEN and GREEN classic tickets that previously were known as Basic and Premium are all now with flexibility option to change the flight date. That gives customers the protection of changing travel plans and adding flexibility to travel.

As mentioned several times through the report, safety and health of airBaltic passengers and employees, and the society as such is the top priority. After resuming flight service on May 18, 2020 after lockdown of two months, to continue to limit the spread of the virus, airBaltic implemented several new health measures. One of them was that all passengers on board of airBaltic aircraft were provided with a complimentary basic care kit consisting of a protective face mask and disinfection wipes, also crew members were wearing a protective face mask and gloves, the aircraft cabin disinfection was performed with increased regularity. The quality of cabin air is carefully controlled and is recirculated with ventilation rates that provide a total change of air 20-30 times per hour. Airbus A220-300 recirculation filter is known as a High Efficiency Particulate Air (HEPA) type filter that provides the best level of filtration currently available for recirculated cabin air. Additionally, the Company introduced an adjusted inflight service, replacing inflight magazines with disposable information on hygiene and catering menu. Information about new health measures was widely communicated in airBaltic website, in social media, in emails to passengers.

As a result of all improved health measures, in December 2020, the Company was awarded a 5-star COVID-19 Airline Safety Rating. Even more, Airlineratings.com agency surveyed/evaluated 430 airlines regarding COVID-19 compliance measures and airBaltic has been named as one of the Top twenty airlines for COVID-19 compliance by the safety, product and COVID-19 rating. airBaltic has successfully complied with all the criteria and received 7 out of 7 stars.

The Group's Training centre (which is operating as a separate airBaltic subsidiary - Air Baltic Training SIA), achieved several accomplishments during year 2020.

One of the achievements was Diamond aircraft service centre in Liepaja: even though the new maintenance base in Liepaja airport was established in 2019, the Company has received Diamond aircraft service centre approval in the beginning of 2020 Q3 and the first external customer from the Baltic states was handled in the newly established service centre.

To complete a full range of services in aviation technical area, the Group subsidiary established PART-147 in 2020, which is Maintenance training organization and which allows to train and certify maintenance personnel with or without previous experience in aviation.

In parallel of establishing the Maintenance training organization, the Group subsidiary established own airworthiness review organization – CAMO. The first group of the aircraft mechanics started their training on 1 September 2020. Theoretical part is done together with Liepajas Valsts tehnikums and practical part is excised at the Training Centre maintenance facilities established in the Liepāja airport. In total, there are 12 students participating in the programme. Currently mechanics course is for high school graduates, but in the nearest future it is planned to establish course for graduates of 9th grade as well. Each year it is planned to involve up to 30 new technicians/students.

In 2020, airBaltic Pilot Academy participated in several public events related to aviation with the main target to present aviation industry, as well as to show pilot and technician professions at the following events e.g.:

- Spilve airfield fly-in event,
- Limbazi airfield fly-in event.

Every month airBaltic Pilot Academy is performing virtual Open Days for potential students from Latvia and abroad. Usually, after such virtual events, additional 1500 – 3000 views of the Pilot Academy website takes place.

Currently the Group's Training centre together with the Latvian-based mobile operator, Latvijas Mobilais telefons (LMT), develops drone pilot training courses and drone maintenance program.



CORPORATE GOVERNANCE STATEMENT

airBaltic has prepared its Corporate Governance Statement (hereinafter – the Statement) in accordance with Section 56.², Part 3, of the Financial Instruments Market Law (hereinafter - FIML) and it includes information on the key elements of airBaltic's internal control and risk management system used in the preparation of financial statements. In addition to the requirements set forth in FIML, airBaltic has included key below information on its governing bodies.

airBaltic's governance structure ensures that the Company's activity is methodical, transparent, efficient, consistent with sound technology and commercial practices, and is carried out regardless of political and other considerations existing outside the ordinary course of business. Apart from airBaltic's internal policies and manuals outlined below, the Company's subsidiaries also operate in accordance with all applicable laws and regulations, good practice and good governance principles as well as internal regulatory documents such as the Corporate Governance Policy of airBaltic's subsidiaries.

INFORMATION ON THE KEY ELEMENTS OF AIRBALTIC'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The key task of the internal control and risk management system is to ensure sustainable operation and development of airBaltic and its subsidiaries by means of achieving strategic goals through efficient and active process management and complying with binding existing laws and regulations.

Internal control instruments that ensure risk management of airBaltic and its subsidiaries:

- Risk Management Committee - chaired by airBaltic's Executive Board, the Committee engages specialists from responsible departments. The key tasks of the Committee are to examine financial and strategic risks by supervising and adopting relevant decisions to ensure the ability to track global trends that may substantially influence cash flows. The Committee's strategic task is to ensure sustainable development of airBaltic and its subsidiaries in line with the strategic guidelines defined in airBaltic's business plan "Destination 2025 CLEAN".
- Internal Auditor oversees airBaltic's internal processes and reports to the Supervisory Board and carries out additional control processes initiated by airBaltic's Executive Board in response to the internal changes in airBaltic and its subsidiaries and related potential risks. The Internal Auditor performs its control functions in accordance with laws and regulations as well as professional practice standards in internal auditing in accordance with the regulatory documents of airBaltic and its subsidiaries. Internal Auditor's function was effective in airBaltic until August 27, 2020, currently the post is open.
- Audit Committee - considering that the Company issued bonds worth EUR 200,000,000 in July 2019, in accordance with Part D, Chapter II¹ 'Audit Committee' of the FIML, the Audit Committee was established by the airBaltic Shareholders' Meeting on March 31, 2020, which, inter alia, supervises the efficiency of the internal control and risk management system. Members of the Audit Committee are the Chairman of the Supervisory Board and two independent external auditors.
- Process and document management and control systems that provide a controlled and transparent flow of documents and processes, thus ensuring internal risk management in line with airBaltic's and its subsidiaries' policies and manuals.

In order to ensure truthfulness, completeness and objectiveness of the information provided in financial statements, airBaltic's accounting policy (Financial Handbook) is used in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union.

The Company's financial statements and the financial statements of the Group (airBaltic and its subsidiaries) are independently audited. As a result of it, independent auditors provide report whether the Company's financial statements and consolidated financial statements are prepared in accordance with IFRS and if they provide true and fair view.

Risk management is carried out in accordance with the Executive Board's approved policies and manuals regulating internal processes – Corporate Management Manual, Financial Handbook, Personnel Handbook, Purchasing policy, etc., international documents that regulate the industry's procedures, such as, OMA (Operations Manual), CAMMOE (Continuing Air Worthiness Management and Maintenance Organization Exposition), etc.

Information on the documents that regulate risk management is available on airBaltic's Intranet.

THE GOVERNING BODIES OF AIRBALTIC

SHAREHOLDERS' MEETING

The Shareholders' Meeting is a governing body of airBaltic through which shareholders exercise their rights to take part in managing airBaltic. The primary shareholder of airBaltic is the Government of Latvia, which after the share capital increase in summer of 2020 now possesses 96.14% of the Company's shares. The Government of Latvia holds the government-owned shares in the capacity of the Ministry of Transport of the Republic of Latvia. The second largest shareholder is Lars Thuesen who holds 3.86% of the Company's shares indirectly through his fully owned company Aircraft Leasing 1 SIA.

Resolutions at the Shareholders' Meeting are adopted by a majority of present shareholders with voting rights, except for the cases provided for in the Articles of Association and the Commercial Law when at least three quarters of the present shareholders with voting rights are needed for adopting a resolution (e.g. amendments to the Articles of Association, increasing or decreasing share capital, etc.). All airBaltic shares provide equal voting rights at the Shareholders' Meeting as well as equal rights to receive dividends and liquidation quotas.

In 2020, two airBaltic Shareholders' Meetings took place. At the ordinary Shareholders' Meeting, the annual and the consolidated annual reports for 2019 were approved, it was resolved to cover the losses of EUR 7,729,494.82 with the profit of future years, the Supervisory Board was elected by setting its remuneration and also the Audit Committee was elected by setting its remuneration, in addition, external auditor was elected. While at the extraordinary Shareholders' Meeting, it was resolved to increase the share capital of airBaltic by EUR 250 000 000 and approve the deriving amendments to the Articles of Association.

SUPERVISORY BOARD

The activity of the Supervisory Board is regulated by the Commercial Law, Articles of Association and the By-Laws on the Supervisory Board's Activity. The Supervisory Board is a supervisory body that represents the shareholders' interests between Shareholders' Meetings, and it supervises the work of the Executive Board within the limits set by the Commercial Law and the Articles of Association. The Supervisory Board of airBaltic consists of four members. The Supervisory Board is elected for a period of three years. Members of the Supervisory Board elect one chairperson and at least one deputy chairperson among themselves. The term of office of the previous Supervisory Board ended in April 2020 and the new Supervisory Board was elected at the Shareholders Meeting of March 31, 2020.

In 2020, the previous Supervisory Board held 8 meetings and the new Supervisory Board held 16 meetings.

MEMBERS OF THE SUPERVISORY BOARD:



Nikolajs Sigurds Bulmanis,
Chairman of the Supervisory Board



Kaspars Briškens,
Deputy Chairman of the
Supervisory Board
until April 25, 2020



Kaspars Āboliņš,
Member of the Supervisory Board
until May 21, 2020, from then
onwards – Deputy Chairman
of the Supervisory Board



Lars Thuesen,
Member of the
Supervisory Board



Toms Siliņš,
Member of the Supervisory Board
as of April 26, 2020

EXECUTIVE BOARD

The activity of the Executive Board is regulated by the Commercial Law, Articles of Association as well as the By-Laws of the Executive Board. The Executive Board of airBaltic consists of three members who manage and represent the Company jointly. The Executive Board of airBaltic is elected for a period of three years. The Executive Board adopts resolutions during Executive Board Meetings that may be held both in person or remotely.

In 2020, 75 Executive Board Meetings took place. In 2020, a new Member of the Executive Board P.Calitis was elected, who replaced the long-term serving previous Member of the Executive Board M.Sedlacky, who decided to try different business activities and briefed on his decision the Supervisory Board well in advance in order that the transition process of changing the Member of the Executive Board took place smoothly.

The Executive Board adopts its resolutions by a simple majority vote. The Articles of Association lay down matters that require the Executive Board to obtain consent from the Supervisory Board, e.g., entering into or termination of significant transactions, the expense value of which exceeds EUR 1,000,000 within a financial year, and amending of such transactions thus significantly affecting them (for example, the financial impact exceeds EUR 100,000 or 10% of the transaction value within a financial year; or significant increases in the volume of contractual obligations).

MEMBERS OF THE EXECUTIVE BOARD:



Martin Alexander Gauss,
Chairman of the Executive Board



Vitolds Jakovļevs,
Member of the Executive Board



Martin Sedlacky,
Member of the Executive Board
until March 2020



Pauls Cālītis,
Member of the Executive Board
as of March 01, 2020

AIRBALTIC TOP MANAGEMENT TEAM

Apart from airBaltic's governing bodies mentioned above, the Company is run by a Top Management Team, which is comprised of 11 professionals whose qualifications, experience, knowledge and personal qualities ensure the highest level of corporate governance. The Top Management Team consists of all members of the Company's Executive Board and eight Senior Vice Presidents of the Company's key business areas.

In accordance with the by-law of the Executive Board of airBaltic, the Top Management Team is responsible for the Company's everyday business activity. The Top Management Team holds its meetings on a weekly basis to review the organization's performance at both corporate and departmental levels. The Top Management Team provides the Executive Board with the necessary information and recommendations needed to make sound business decisions that promote both, short and long term profitability. The Top Management Team is responsible for ensuring that decisions, challenges and successes are communicated effectively to staff to maximize employee engagement. The Top Management Team ensures that plans and decisions are implemented quickly to guarantee maximum impact as soon as possible. The majority of matters reviewed by the Executive Board are reviewed at Top Management Team Meetings first. Minutes are taken at all Top Management Team Meetings. airBaltic's Top Management Team members are authorized to represent the Company (within the limits of their respective mandates).

airBaltic is a member of the International Air Transport Association's (IATA) global initiative 25 by 2025 to change the gender balance within the aviation industry. 25by2025 is a voluntary campaign for IATA member airlines to improve female representation in the industry by 25%, or up to a minimum of 25% by 2025. The 25by2025 campaign is an initial step to making the aviation industry more gender balanced⁷. It should be pointed out that, at the Top Management Team level, airBaltic is already firmly committed to this principle - 5 out of 11 members of the senior management team are women.


MARTIN ALEXANDER GAUSS
Chairman of the Executive Board
VITOLDS JAKOVĻEVS
Member of the Executive Board
PAULS CĀLĪTIS
Member of the Executive Board

⁷Improving Gender Balance by 2025. Available: <https://www.iata.org/en/policy/25-by-2025/>, viewed on: 08.02.2020.

GRI CONTEXT INDEX

GRI STANDARDS	DISCLOSURE	PAGE NUMBER(S)	OMISSION
GRI 102: General disclosures 2016	Organizational profile		
	102-1 Name of the organization	4	
	102-2 Activities, brands, products, and services	9	
	102-3 Location of headquarters	4	
	102-4 Location of operations	11	
	102-5 Ownership and legal form	4, 22	
	102-6 Markets served	11	
	102-7 Scale of the organization	11	
	102-8 Information on employees and other workers	52	
	102-9 Supply chain	30-32	
	102-10 Significant changes to the organization and its supply chain	31-32	
	102-11 Precautionary Principle or approach	28, 43	
	102-12 External initiatives	83-84	
	102-13 Membership of associations	81	
	Strategy		
	102-14 Statement from senior decision-maker	10	
	102-15 Key impacts, risks, and opportunities	21, 85-86	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behaviour	11	
	Governance		
	102-18 Governance structure	22, 85-89	
	102-19 Delegating authority	85-89	
	Stakeholder engagement		
	102-40 List of stakeholder groups	23	
	102-41 Collective bargaining agreements	66	
	102-42 Identifying and selecting stakeholders	23	
	102-43 Approach to stakeholder engagement	23	
	102-44 Key topics and concerns raised	23, 26	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	9	
	102-46 Defining report content and topic Boundaries	9, 24-27	
	102-47 List of material topics	24-27	
	102-48 Restatements of information		No restatements of information given in previous report
	102-49 Changes in reporting		Report 2020 has been prepared in accordance with the GRI Standards: Core option'
	102-50 Reporting period	9	
	102-51 Date of most recent report	9	
	102-52 Reporting cycle	9	
	102-53 Contact point for questions regarding the report	9	
	102-54 Claims of reporting in accordance with the GRI Standards	9, 110	
	102-55 GRI content index	90-92	
	102-56 External assurance	6-8, 93-100	

SPECIFIC STANDARD DISCLOSURES

SUSTAINABILITY TOPIC	GRI STANDARD	GRI DISCLOSURE	PAGE NUMBER(S)	OMISSION
Responsible governance	GRI 103: Management Approach 2016	205-2 Communication and training about anti-corruption policies and procedures	29–30	
		205-3 Confirmed incidents of corruption and action taken		No confirmed incidents of corruption
		206-1 Legal action for anti-competitive behaviour, anti-trust, and monopoly practices	28–30	
		307-1 Non-compliance with environmental laws and regulations	29–30	
		419-1 Non-compliance with laws and regulations in the social and economic area	30	
Flight safety and security		416-1 Assessment of the health and safety impacts of product and service categories	33–34	
		416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	35	
Responsible marketing communications		417-3 Incidents of non-compliance concerning marketing communications	38	
Data protection and cyber security		418-1 Substantiated complaints concerning breaches of customer privacy and loss of customer data	39–40	
Supply chain		204-1 Proportion of spending on local suppliers	31	
Environment	GRI 103: Management Approach 2016	302-1 Energy consumption within the organization	44	
		302-3 Energy intensity	44	
		302-4 Reduction of energy consumption	46	
		306-3 Significant spills	43	
Climate impact		305-1 Direct (Scope 1) GHG emissions	47	
		305-2 Energy indirect (Scope 2) GHG emissions	47	
		305-3 Other indirect (Scope 3) GHG emissions	48	
		305-4 GHG emissions intensity	47	
		305-5 Reduction of GHG emissions	47	
Waste		306-2 Waste by type and disposal method	49–51	

Employment	GRI 103: Management Approach 2016	401-1 New employee hire and employment turnover	57–63	
		401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	56, 73	
Diversity and equal opportunities		405-1 Diversity of governance bodies and employees	63–65	
		405-2 Ratio and basic salary and remuneration of woman and men	76–77	
		406-1 Incidents of discrimination and corrective actions taken	63	
Labour relations		402-1 Minimum notice periods regarding operational changes	66	
Training and development		404-1 Average hours of training per year per employee	67	
		404-2 Programs for upgrading employee skills and transition assistance programs	66–68	
Health and safety		403-1 Occupational health and safety management system	70–71	
		403-2 Hazard identification, risk assessment, and incident investigation	70	
		403-4 Worker participation, consultation, and communication on occupational health services	71	
Work-related accidents		403-9 Work-related injuries	71–72	
Promoting healthy and safe behaviour		403-5 Worker training on occupational health and safety	72–73	
		403-6 Promotion of worker health	73, 74	
		403-7 Prevention and mitigation of occupational health and safety	73	
Fair remuneration		405-2 Ratio of basic salary and remuneration of women to men	76	



Independent Auditor's Report

To the Shareholders of Air Baltic Corporation AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Air Baltic Corporation AS (the "Company") and its subsidiaries (together - "the Group") as at 31 December 2020, and of the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 13 April 2021.

What we have audited

The Company's separate and the Group's consolidated financial statements (together the "financial statements") comprise:

- the separate and consolidated balance sheet as at 31 December 2020;
- the separate and consolidated income statement for the year then ended;
- the separate and consolidated statement of comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in Republic of Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 8 to the financial statements.

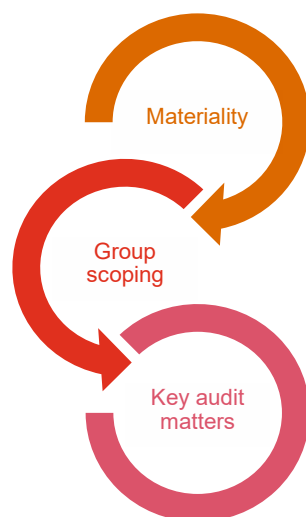


Material uncertainty related to going concern – Company and Group

We draw attention to note 2(b) to the financial statements, which discusses the ongoing impact of COVID-19 on the Company's and the Group's ability to continue as a going concern, which depends on both the timing when current air travel restrictions in Europe will be lifted and stay lifted and the availability of sufficient funding to enable the Company's and Group's level of operations to return to net cash positive. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 14, indicate that a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Company materiality: EUR 3,400 thousand
 - Overall Group materiality: EUR 3,500 thousand
-
- Full scope audit was conducted for five Group entities.
 - The Group audit team performed the work on all five entities.
-
- Impairment assessment of property, plant and equipment, right of use assets and intangible assets (Company and Group)
 - Provisions for onerous contracts (Company and Group)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



Overall Company and Group materiality	Overall materiality applied to the Company was EUR 3,400 thousand and to the Group was EUR 3,500 thousand.
How we determined it	Approximately 1% of average revenue for 2018-2020.
Rationale for the materiality benchmark applied	In prior years, we chose reporting year revenue as the benchmark because revenue is the key performance indicator that determines the Company's and the Group's performance and is actively monitored by the management and investors. However, for 2020, given the context of the severe impact of COVID-19 on the Company's operations in 2020, we used an average revenue figure for 2018-2020. In determining this benchmark, we also considered other approaches to materiality which could have reasonably been applied including the use of thresholds based on net result or net asset measures. We concluded that the level of materiality applied remained appropriate when considering these possible alternative approaches. We chose 1%, which, based on our judgment, is within the range of acceptable quantitative materiality thresholds for this benchmark for a public interest entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 340 thousand for the Company and above EUR 350 thousand for the Group, as well as the misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern – Company and Group section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment, right of use assets and intangible assets (Company and Group)	
As outlined in Notes 14 and 16 to the financial statements, in the balance sheet as at 31 December 2020, property, plant and equipment (including right of use assets) of the Company and the Group amount to EUR 631,853 thousand and EUR 639,447 thousand, respectively, and intangible assets of the Company and the Group amount to EUR 18,029 thousand and EUR 18,566 thousand, respectively. Property, plant and equipment, right of use assets and intangible assets together represent 69% of the total assets of the Company and 70% of the total assets of the Group. Before 2020 all property, plant and equipment, right of use assets and intangible assets belonged	We obtained the impairment assessment prepared by the management and gained an understanding of the process of the management's evaluation of the recoverable amount of property, plant and equipment, right of use assets and intangible assets. We determined that all relevant assets and liabilities and future cashflows connected with the Q400 aircraft had been excluded from management's evaluation of the ongoing business. We involved our internal valuation specialists to assist us with the assessment of the assumptions used by the management in the impairment tests. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the management, in



to a single cash-generating unit ("CGU"), being Air Baltic route network, and a single value in use ("VIU") calculation was performed in order to assess their recoverability. Considering the approved business plan "Destination 2025 CLEAN" it was decided to accelerate the phase out of the use of Q400 aircraft. As a result of this accelerated restructuring of the fleet these aircraft and related assets and liabilities were split out from the ongoing CGU.

A EUR 72,891 thousand impairment charge, reducing the carrying value at the year end to nil, has been recognised in the current year in respect of the leased Q400 aircraft that will no longer be utilised by the business in its continuing operations, as well as an additional provision of EUR 22,725 thousand in respect of onerous contracts was recognised (see the following KAM).

In respect of the CGU represented primarily by the ongoing business of the Airbus 220 fleet and given the severe impact on the operations of the business arising from the voluntary and enforced air travel restrictions in 2020 and to date in 2021, management have undertaken an impairment assessment of the carrying value of this CGU. The key assumptions underlying this assessment are underpinned by the approved business plan "Destination 2025 CLEAN", updated for latest estimates of future travel restrictions. In undertaking an impairment assessment management should determine if the carrying value is higher than the recoverable amount which is the higher of fair value and value in use. Management only do a value in use calculation as to determine fair value of the CGU is extremely difficult to do by using market values and primarily would need to use discounted cashflow method which is what is also used to underpin the value in use calculation.

We focused on the risk of impairment as the assets are significant to the financial statements, the value in use estimation involves a number of subjective judgements and estimates by management, many of which are forward-looking, including the assumptions related to cash flow forecasts of the CGUs, selection of discount rate and growth rates.

particular those related to the forecasted growth rate estimates, fuel costs and discount rates.

We evaluated and challenged the future cash flow forecasts of the CGU, and the process by which the forecasts were drawn up, and we tested the underlying value in use calculations. In doing this, we compared the forecast used for the impairment test to the latest approved budget and plans. We compared the key assumptions for short-term flying assumptions (in particular the impact of how and when air travel volumes will recover post COVID-19 pandemic restrictions) and long-term growth rates in the forecasts by comparing them to third party economic and industry forecasts. For the discount rate applied by management we reviewed management's methodology and benchmarked it to other airlines.

Management has considered three key scenarios - "pessimistic", "realistic" and "optimistic" (the primary difference being the time until when air travel restrictions will be substantially eased and the time until when the airline will substantially return to pre-pandemic levels of demand). We assessed the application of these scenarios in the VIU calculation.

We recalculated management's own sensitivity analysis of key assumptions used in the VIU assessment and also performed our own independent sensitivity analysis by replacing key assumptions with alternative scenarios in order to ascertain the extent of change in those assumptions that either individually or collectively would be required for assets to be impaired.

We evaluated management's assumptions in light of both historical and post year end performance for reasonableness and consistency. We analysed the changes in the assumptions over time to assess whether these appropriately reflect the increased uncertainty around projections in the current operating environment.

We challenged management on inclusion of cash flows from all appropriate assets and liabilities and operations in the cash-generating unit.

We reviewed the disclosures on impairment in the financial statements included in Notes 2(b), 14 and 16.

Provisions for onerous contracts (Company and Group)

As indicated in note 14 to the financial statements the Company and the Group have for a number of years leased Q400 aircraft that were planned to be gradually removed from operation as the individual leases expire over the next few years. However, in response to the pandemic and following the approval of the business plan "Destination 2025

We validated that withdrawal of the leased Q400 aircraft corresponds to the approved business plan "Destination 2025 CLEAN". We evaluated the provisions for onerous contracts model and tested the calculations therein. This included review of the contracts, estimated date of their re-delivery, assessment of the process by which the variable



CLEAN” it was decided to accelerate the removal of these aircraft from ongoing operations and to no longer fly them after 2020. However, there are still ongoing lease commitments for these aircraft and certain unavoidable costs that will need to be incurred through to the end of their leases, with no associated revenue being earned.

In accordance with IAS 37 – “Provisions, contingent liabilities and contingent assets” a provision for onerous contracts of EUR 22,725 thousand was established during the reporting period in respect of the unavoidable future costs of the Q400 aircraft over the remaining non-cancellable period of their respective lease agreements (refer to Note 25 to the financial statements).

The calculation of the provision for onerous contract includes a number of variable factors and assumptions in respect of additional unavoidable costs, the condition of the aircraft and the expected additional maintenance costs to return the leased aircraft in the condition defined in the lease agreement. Future lease payments associated with such aircraft continue to be classified as lease liabilities.

We focused on this area because of an inherent level of management judgement required in calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.

factors within the provision are estimated, evaluation of the reasonableness of the assumptions, testing the input data and re-performing calculations. In particular, we challenged the key assumptions using the Company’s and the Group’s internal data, such as maintenance contract terms and pricing.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We are the statutory auditors of the Company and all its four subsidiaries. We covered 100% of the Group’s revenues and 100% of the Group’s total assets.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises:

- the Management report, as set out on pages 101 to 110 of the accompanying Annual Report;
- the Statement of Management Responsibility, as set out on page 110 of the accompanying Annual Report;
- the Non-financial report, as set out on page 110 of the accompanying Annual Report;
- the Corporate Governance Statement, as set out on pages 85 to 89 of the accompanying Annual Report;

but does not include the financial statements and our auditor’s report thereon, and the Sustainability Report as set out on pages 9 to 92 of the accompanying Sustainability and Annual Report 2020 to which we have issued separately a limited assurance report on pages 6 to 8.

Our opinion on the financial statements does not cover the other information identified above.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Management report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management report is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Statement, our responsibility is to consider whether the Corporate Governance Statement includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Corporate Governance Statement includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial report, our responsibility is to report whether the Company and the Group has prepared the Non-financial report and whether the Non-financial report is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Company and the Group has prepared a Non-financial report, and it is included in the Management report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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 International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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



Auditor's responsibilities 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 and the Group'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 and the Group'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 or the Group 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 fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 14 April 2015. Our appointment has been renewed annually, since then, by shareholder resolution. On 23 July 2019 the Company listed Euro denominated bonds on the Euronext Dublin stock exchange and accordingly the first financial year the Company qualified as an EU PIE was the year ended 31 December 2019. Since then, the total period of uninterrupted engagement appointment was 2 years.

A blue ink signature, appearing to read 'E. Jansen-Diener', written in a cursive style.

Eva Jansen-Diener
Persona per procura

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A blue ink signature, appearing to read 'Jana Smirnova', written in a cursive style.

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
13 April 2021

MANAGEMENT REPORT

13 April 2021

AIR BALTIC CORPORATION AS GROUP KEY FIGURES

In January and February of 2020, the airline was on track to have another record year as the revenues were up 17% and passengers up 18% compared to 2019 levels and both revenues and operating profit margins were in line with the airline's internal projections for the year. However, starting from early March, as the COVID-19 pandemic reached Europe, the airline saw significant reduction in demand for air travel. As a result, in 2020 Air Baltic Corporation AS (hereinafter – airBaltic, airline, the Company or the Parent company) along with its subsidiaries, of which the most important are Air Baltic Training SIA, Loyalty Services SIA, Baltijas Kravu Centrs SIA and Aviation Crew Resources AS (altogether hereinafter - the Group), on the consolidated basis reached the revenue of EUR 142.6 million, which is 72% drop compared to 2019.

Consolidated financial figures (EUR thousand)	2020	2019
Revenue	142 588	508 955
EBITDAR ¹	(152 305)	126 372
EBITDAR ¹ margin	(107%)	25%
EBITDAR ²	(49 146)	126 372
EBITDAR ² margin	(34%)	25%
Operating result ¹	(224 524)	32 630
Operating result ²	(121 365)	32 630
Loss before tax	(262 868)	(7 238)
Net result	(264 597)	(9 114)
Total assets	941 041	971 236
Non-current assets	741 130	793 583
Total equity	17 039	33 912
Borrowings, including lease liabilities	796 543	817 096
Net debt	648 238	693 277
Cash and cash equivalents	148 305	123 819

COVID-19 CRISIS AND SUBSEQUENT CAPITAL INCREASE

To counteract the crisis, the airline swiftly cut its capacity and costs, which resulted in the layoffs of approximately 30% of its personnel. Taking into account various industry expert's forecasts about the negative long-term effects of the COVID-19 pandemic on the airline industry, airBaltic developed a new business plan in April 2020 - Destination 2025 CLEAN, based on which it sought financing from its shareholders and was successful in increasing its share capital by EUR 250 million. The shareholders approved the share capital increase on July 15, 2020 based on which the Government of Latvia invested EUR 250 million and increased its shareholding to 96.14% of airBaltic. The European Commission found the investment compatible with the EU internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union (according to the European Commission decision in case SA.56943 dated 3 July 2020).

A key part of the new business plan is significant capacity reduction in 2020 and 2021 and immediate phase out of the Q400 type fleet which was originally planned for the end of 2022 and early 2023. The Management also decided to discontinue its Boeing 737 operation earlier in 2020 than the originally expected discontinuance in November 2020. On the restart of scheduled flying in May 2020, the airline operated a single type of aircraft – A220-300, thus benefiting from simplified operations. Due to the early phase out of twelve Q400s and four Boeing 737-300s, at the end of 2020 airBaltic had in total an operating fleet of 25 A220-300 aircraft.

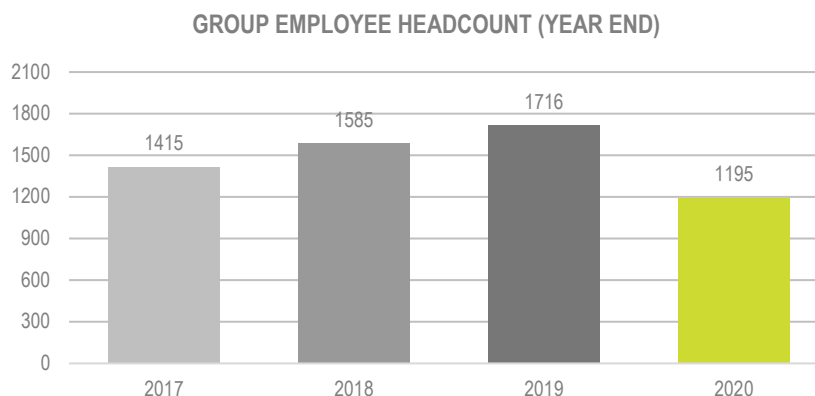
TAXES

In 2020, the Group contributed taxes of approximately EUR 20.7 million to the Republic of Latvia. Of the taxes paid: EUR 11 million were social security tax (employer and employee), EUR 6.4 million were personal income tax, EUR 3.3 million were corporate income tax, EUR 29 thousand were other taxes.

MANAGEMENT REPORT

PERSONNEL

Due to the COVID-19 pandemic and resulting reduction in the capacity, the airline had to adjust and significantly reduce its headcount which resulted in the layoffs of approximately 30% of its personnel.



Currently the Group employs more than 24 different nationalities; average age of employees – 37; average length of employment in the Group – 8 years. Proportion between men and women is 52/48.

airBaltic signed up to the Latvian Diversity Charter on 16 November 2020. The Latvian Diversity Charter is a voluntary commitment of companies and organizations to strive to adhere to the basic principles of diversity management and respectful inclusion in relation to their employees and society. airBaltic is the fourth airline in Europe to sign the Diversity Charter and currently the Latvian Diversity Charter unites 50 companies and organizations.

The airline has been named as a Top Employer in Transport and Logistics industry in Latvia for 9 years in a row.

AIR BALTIC CORPORATION AS

Key events and milestones in 2020

- During January and February of 2020 airBaltic set a new record for passengers carried during this period being an 18% increase compared to 2019.
- Due to COVID-19 pandemic the airline temporarily suspended its commercial flying in March and resumed commercial flying in May with significantly reduced capacity. However, due to the increased incidence of the pandemic later in the year capacity was significantly reduced from August onwards.
- To counteract the COVID-19 crisis, in April the airline developed a new business plan – Destination 2025 CLEAN, based on which it decided to discontinue the operations of Boeing 737 fleet and Q400 fleet and transition fully to Airbus A220-300 aircraft. During the same period the decision to lay off 30% of the staff was made.
- Based on the new business plan and to counteract the negative effects of the COVID-19 pandemic, the airline successfully raised EUR 250 million in equity from the Government of Latvia which, as a result, increased its stake in the company from 80.05% to 96.14%.
- During the summer, the airline conducted successful negotiations with Airbus to adjust the A220 delivery stream to reflect the new post COVID-19 growth projections and the new business plan Destination 2025 CLEAN. In line with the new schedule, the airline accepted three new A220 deliveries, one in September and two in December.
- In December 2020, the airline phased out its last Boeing 737.

MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

Network & strategy

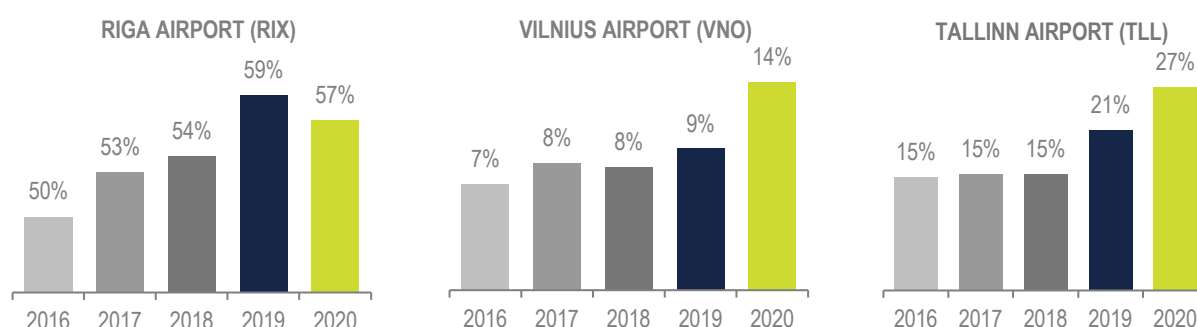
In 2020, after the COVID-19 pandemic began, airBaltic focused on timely introduction of new flights, when it was allowed and possible to fly and reacted, when any new travel restrictions were introduced and the flights had to be cancelled. Overall, the approach was that the airline was trying to avoid flights that would not cover the variable costs and it was quite successful in doing that as the average breakeven load factor at the direct variable costs of 2020 was approximately 30%.



Number of routes operated from Baltic countries	2019 actual	2020 actual	2021 planned
Riga	72	55	69
Tallinn	11	11	11
Vilnius	5	10	10

Market share development

The airline's strategy is to become the number one carrier in all three Baltic States. The airline was on the path of further increasing its market share during the first two months of 2020 when the market shares in Riga and Vilnius increased by 1 percentage point, but in Tallinn by 5 percentage points respectively. During the remainder of the year the airline maintained the essential connectivity from the three Baltic capitals while continuously adjusting the schedule based on the restrictions in place by the respective governments. Overall, albeit in extraordinary market conditions, airBaltic managed to increase its share in Tallinn and Vilnius.



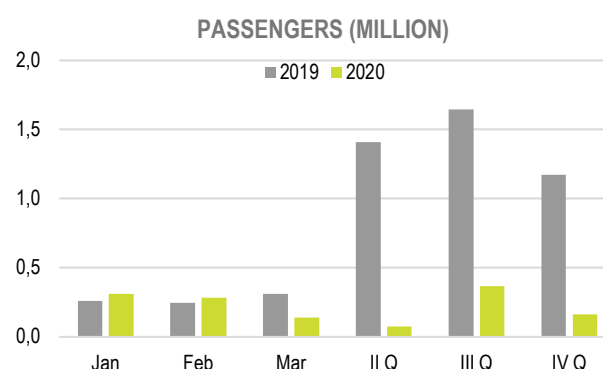
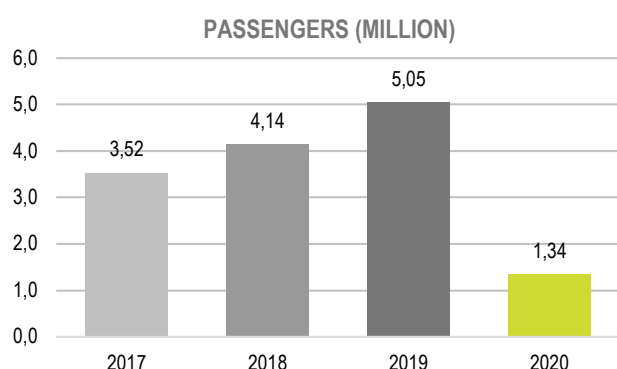
MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

Operating performance

In 2020, the airline significantly reduced its capacity due to COVID-19 pandemic. The airline performed only a third of the flights it conducted in 2019 while seat capacity was about 40% from 2019 due to full transition to the A220 fleet as of May. Once the operations were restarted in May during the challenging conditions the airline managed to maintain average load factors of 53% during the three summer months but then starting from September as the second wave of the pandemic started affecting the majority of Europe and the Baltics in a significant way, the average load factors dropped to low 30ies which still allowed the airline to fly at break even on variable cost basis.

	2020	2019	Change
Capacity			
Number of aircraft at end of period	37	39	(5%)
Utilization (block hours per aircraft per day)	3.69	8.76	(58%)
Total block hours	38 794	114 669	(66%)
Total flight hours	32 539	95 880	(66%)
Flights	22 342	62 748	(64%)
Average departures per day per aircraft	1.6	4.8	(66%)
Seat capacity ('000)	2 776	6 855	(60%)
Average aircraft stage length (km)	1,057	973	9%
Total ASKs ('000 km)	2,818,585	7,515,010	(62%)
Operating data			
RPKs (revenue passenger kilometres) ('000)	1,455,488	5,697,281	(74%)
Load factor (%)	51.6%	75.8%	(24.2pp)
Number of passenger segments ('000)	1 341	5 049	(73%)



Punctuality

Considering the importance of airBaltic provided services in Latvia and the Baltics, the top priorities of airBaltic operations are safety, punctuality and provided customer service. Only after ensuring the most essential requirements of flight safety and human health, then the responsibility of the airBaltic is to fulfil its promises of operations regularity and on-time punctuality.

One of the main targets for airBaltic is to ensure that 99% of all planned flights are performed within scheduled times and high standard customer service is provided. In 2020 airBaltic cancellation or regularity rate was 99.9% (2019: 99.6%) which is extremely high and an excellent achievement by the team of airBaltic. In 2020 airBaltic 15-minutes punctuality rate 94.6% (2019: 88.3%). In 2020 flight operations were heavily reduced due to Covid-19 crisis and at this point is hard to compare with previous operationally hectic years. airBaltic has been on the top of the global on-time performance ranking for the past five consecutive years.

MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

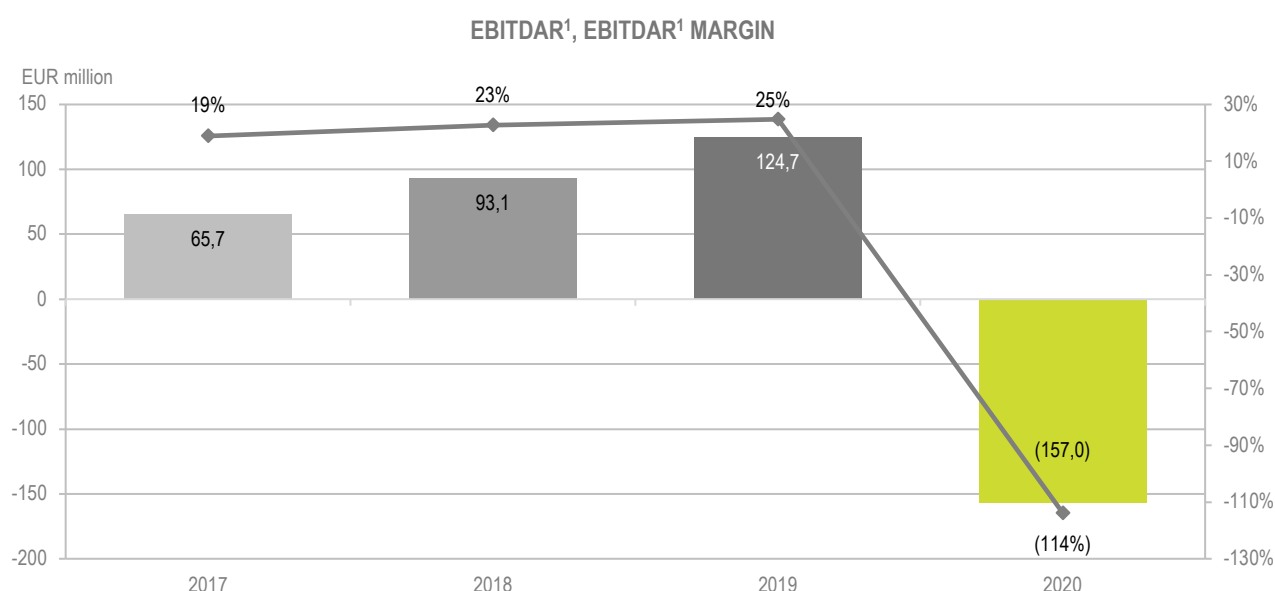
Financial performance

In 2020, the airline revenues were EUR 137.9 million which was a 73% drop over 2019. Of this revenue more than 41% was generated during the first two and a half months of 2020. With the significant fixed costs mostly related to fleet financing and personnel, this sharp drop in revenues resulted in significant operating losses.

The significant drop in jet fuel price triggered by the COVID-19 pandemic also negatively affected airBaltic's jet fuel hedging positions. For 2020 airBaltic had 71.5 thousand tons of jet fuel hedged at the average price of USD 578 per ton, which was about 39% of the expected jet fuel consumption of 2020. The fuel hedge contracts resulted in EUR 14.9 million loss for 2020. Due to remaining significant uncertainty for 2021, the airline has hedged only 6 thousand tons of jet fuel at the average price of USD 528 per ton.

Due to personnel and capacity cut, which were initiated during the second quarter of 2020, airBaltic was able to save about EUR 2 million per month vs. the previous projections for 2020 and EUR 1.5 million per month vs. 2019.

The table below shows overall airBaltic's EBITDAR1 and EBITDAR1 margins in 2020. Important to note that airBaltic's EBITDAR margins before Covid-19 crisis in January – February 2020 was 6 percent points above the same period in 2019.



In 2020, the airline had a EUR 278 million loss of which EUR 103 million was attributable to the early phase out of the Q400 fleet and the resulting loss from asset impairment and recognition of provision for onerous contracts. The Q400 asset impairment charge and a provision for onerous contracts include the future lease principal part, expected storage and maintenance costs, spare parts inventory revaluation, as well as the expected redelivery costs. To mitigate the potential losses from Q400 fleet, the airline has engaged in a remarketing effort for these aircraft and is attempting to find sub-lease clients who would be willing to operate these aircraft in their fleet. However, due to COVID-19, there is a significant oversupply of Q400s in the market and the provisions established at 31 December 2020 assume no sub-leases will be agreed.

Other notable extraordinary costs include provisions for historic claims related to ex-shareholders and their creditors about their obligations towards the Parent company and the Republic of Latvia back in 2011 and 2012. These provision have been made due to prolonged procedural complexities triggering the restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position and the Management believes that no future expense to the airline will arise from this case. In addition, the airline has also created provisions for potential loss from the settlement with one of its suppliers.

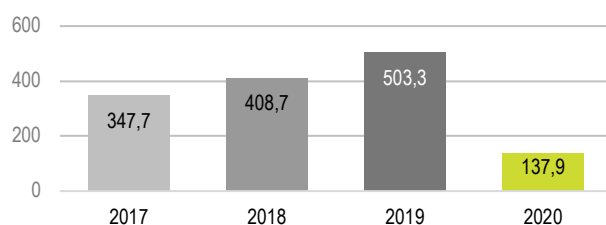
MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

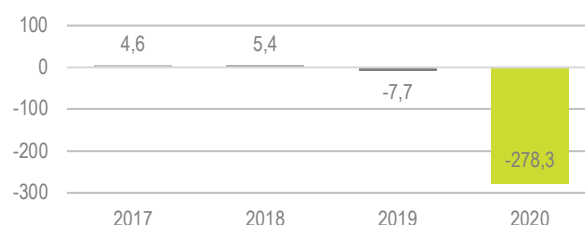
(EUR thousands, except where otherwise stated)

	2020	2019	Change
Financial metrics			
Revenue	137 915	503 281	(73%)
Passenger revenue	127 970	460 414	(72%)
Ticket revenue	116 102	425 723	(73%)
Ancillary revenue	11 868	34 691	(66%)
EBITDAR ¹	(156 967)	124 698	(226%)
EBITDAR ¹ margin	(114%)	25%	(138.6pp)
EBITDAR ²	(53 808)	124 698	(143%)
EBITDAR ² margin	(39%)	25%	(63.8pp)
EBIT	(205 335)	26 559	(873%)
Net result	(278 267)	(7 729)	3 500%
Net debt	645 974	691 073	(7%)
Cash and cash equivalents	147 981	123 217	20%
Yield (€ cents)	8.2	7.8	6%
RASK (€ cents)	5.26	6.83	(23%)
CASK (€ cents)	(9.83)	(6.49)	51%
CASK ex fuel (€ cents)	(8.18)	(5.02)	63%

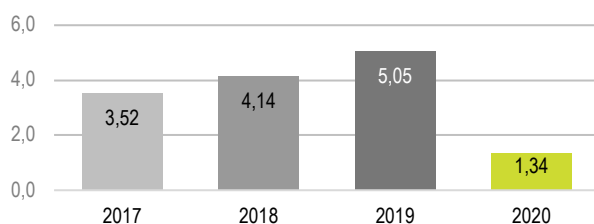
TOTAL REVENUE (EUR MILLION)



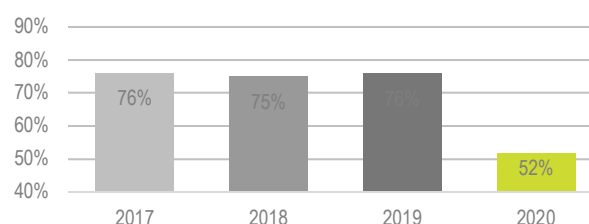
NET INCOME (EUR MILLION)



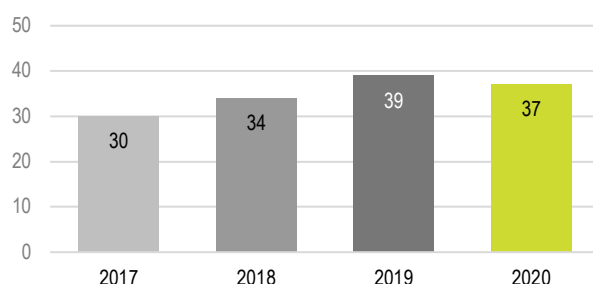
PASSENGERS (MILLION)



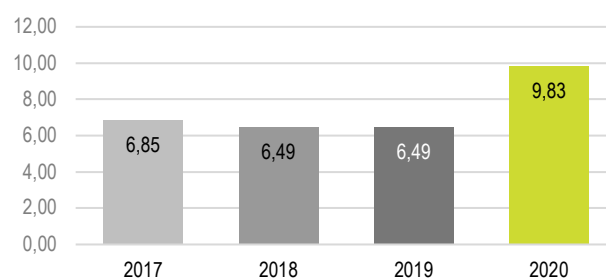
LOAD FACTOR



YEAR-END FLEET



CASK (EUR CENTS)



MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

Fleet renewal

During 2020, the Company incorporated 3 additional Airbus A220-300 aircraft into its fleet thus the total number of A220s reached 25. Due to COVID-19 pandemic the Management decided to phase out from its operations the Q400 fleet and the Boeing 737 fleet effective as of second quarter of 2020. By the end of December of the four Boeing 737s, two were sold and the other two were redelivered to the lessor. As of the date of this report the airline had at its disposal a total fleet of 37 aircraft – 25 A220-300s and 12 Q400s.

During the third quarter of 2020, the airline conducted successful negotiations with Airbus to adjust the A220 delivery stream to reflect the new post COVID-19 growth projections and the new business plan Destination 2025 CLEAN. In line with the new schedule, the airline accepted three new A220 deliveries, one in September and two in December and expects to add seven new A220s during 2021.

Overall, the updated business plan Destination 2025 CLEAN still targets airBaltic to increase its fleet to 50 aircraft by the end of 2024.

YEAR END OPERATING FLEET



Cash flow and liquidity

During the first half of 2020 until the EUR 250 million investment by the Government of Latvia was received, the airline engaged in a number of cash and liquidity preservation activities, amongst which the most notable were the short-term deferrals of the lease payments, deferrals of payments to suppliers, as well as partial salary payment suspension of the top and middle management of the airline.

Following the successful equity increase and liquidity injection the airline was able to repay all the deferred amounts to suppliers and financiers and it has been current on its obligations from then on.

In 2020, a significant negative impact on the cash flow was caused by the unprecedented amount of refunds to the customers – in total the airline refunded over EUR 65 million. Further, due to uncertainty about future flights, the booking patterns changed significantly whereby a vast majority of the bookings were only for the upcoming three to four weeks. These two factors combined left a significant negative impact on the working capital. As at 31 December 2020 the airline did not have any overdue refund payments outstanding.

MANAGEMENT REPORT

AIR BALTIC CORPORATION AS (continued)

As of the date of this report, the airline estimates that its cash burn rate during the periods of very limited flying such as was the case in fourth quarter of 2020 is about EUR 18 million per month.

The cash balance of EUR 147.9 million at the end of 2020 would be sufficient for the airline to meet its liquidity needs for 2021 provided that the recovery from COVID-19 starts in the second quarter of 2021. However, if the European air travel market continues to be limited during the summer of 2021, it cannot be excluded, that additional capital to the airline will be required.

EUR thousand	2020	2019	Change
Cash and cash equivalents at the beginning of the year	123 217	5 774	117 443
Net cash used in operating activities	(90 784)	85 554	(176 338)
Net cash used in investing activities	(26 053)	(38 116)	12 063
Net cash from financing activities	141 601	70 005	71 596
Cash and cash equivalents at the end of the year	147 981	123 217	24 764

Shareholders' structure and equity

In 2020, the shareholder structure changed due to the Latvian Government's equity investment of EUR 250 million. As a result the Government increased its stake up to 96.14%. According to the decision of the European Commission in the case No.SA.56943 as of July 03, 2020, the Government is required to reduce its stake down to at least 80% during the coming 5 to 7 years. Therefore the airline will most probably seek to conduct an initial public offering during the course of the next three years to provide the avenue for such divestment.

	Participating interest %	A category shares	B category shares	C category shares	Share capital TEUR
Republic of Latvia	96.14	205 318 668	715 681 616	352 955 152	455 319
Aircraft Leasing 1 SIA	3.86	51 152 036	-	-	51 152
Other	0.0002	2 120	-	-	2
	100	256 472 824	715 681 616	352 955 152	506 473

Legal Risks

As of the date of this report airBaltic is a party in several lawsuits described in detail in the Note 30 (b) of the Financial statements. The status and strategy in each of the litigation processes are closely monitored by the Management of airBaltic with the assistance of its advisors and several reputable law firms. The Management cannot be certain of the outcome of each single court case. However, management believe they have taken a prudent approach in assessing any hypothetical negative decisions and the necessary action steps have been taken to ensure that the assets and operations of the Company are not jeopardized.

Coverage of losses

The Executive Board recommends covering this year's losses with the profits generated in future years.

BALTIJAS KRAVU CENTRS SIA

Baltijas Kravu Centrs SIA operates at Riga International Airport since 1 February 2001. The subsidiary is the largest cargo handling company at Riga International Airport in terms of cargo turnover and the number of flights handled. During the reporting year, the company's operations were affected by the spread of the COVID-19 virus and the restrictions on passenger flights. In response to changes in the air transport market, the company serviced cargo aircraft and cargo charter flights, engaging in the supply chain of vital medical protective equipment to Latvia. In order to adjust to a decrease in the daily cargo flow, the number of employees in the company was reduced.

During the reporting year the subsidiary handled 7 817 tons of cargo and mail, which is 50% less than in 2019. Total revenue decreased to EUR 587 thousand. Taking into account the situation in the local transportation market, transit mail and freight traffic increased in 2020 resulting in lower average revenue per ton of freight and mail handled. The result for the year 2020 is loss of EUR 185 thousand.

MANAGEMENT REPORT

LOYALTY SERVICES SIA

Loyalty Services SIA was established on 11 February 2010 with the purpose to take over the frequent flyer program of Air Baltic Corporation AS and to continue its development. In recent years the core focus of Loyalty Services SIA was providing tailor made loyalty solutions to travel companies and retailers. In the first quarter of 2020 the subsidiary successfully continued following the strategy set before.

However, due to the COVID-19 impact to travel industry the Management initiated the revision of the loyalty program of its biggest partner airBaltic (by simplifying and adjusting it further to airBaltic customer's needs). The drop in revenues since March 2020 was significant. Considering restrictions put in many areas in order to limit the spread of virus a number of partners initiated the termination of partnership agreements. It was a moment to decide whether to continue running and developing a complex coalition model with multiple partners from different industries in the Baltics. After a detailed analysis the recommendation of the Management was to restructure the business model of the subsidiary. As at the date of signing this annual report the Management is still analyzing the restructuring options, but it is expected that during 2021 the Management will come to its final decision regarding the scope and manner of the coalition loyalty services.

The net loss of the year was EUR 776 thousand resulting from COVID-19 pandemic related market situation and the restructuring (merging and subsequent liquidating) of subsidiaries in Finland.

AIR BALTIC TRAINING SIA

Air Baltic Training SIA (hereinafter also – the ABT) was established in 2010. The main operation of the ABT is the provision of aviation related training services. The first quarter of 2020 was successful and results were better than planned. At the end of the first quarter, when the first COVID-19 wave hit, all training activities were postponed. The Management of the ABT adopted to the new situation by organizing all theoretical training remotely. Starting from May 2020 practical training was restored following the recommendations from the responsible authorities. For Pilot Academy, the active flying season was utilised in full resulting in higher production comparing to all previous years. Due to limitations for traveling the training of B737 simulator dropped by 95% compared to prior years.

A new maintenance base in Liepāja airport was established in 2020. The ABT received Diamond aircraft service center approval in the beginning of the third quarter of 2020. The service center will allow to attract more customers from the nearest countries: Lithuania, Estonia, Sweden, Norway and Russia.

In order to be able to provide a full range of aviation technical services the PART-147 Maintenance Training organisation was established in 2020. The organization will provide a training and certification services to maintenance personnel with or without previous experience in aviation. In parallel to the maintenance organization the airworthiness review organization – CAMO - was established.

The net result for the financial year was a loss of EUR 57 907 that was a direct result of the Covid-19 pandemic related market situation.

AVIATION CREW RESOURCES AS

Aviation Crew Resources AS was established in 2012 to address the increasing demand for the highly qualified pilots in the aviation market. The main activities of the subsidiary are related to the outsourcing of aviation crew. In 2020 the company generated over EUR 26.8 million in revenues resulting in EUR 665 thousand of net income. The year was challenging due to COVID-19 outbreak with its historical dramatic air travel demand drop and subsequently pilot overstaff. It affected the activities of the subsidiary which mainly focussed on the reduction of pilots' numbers and stability of operations.

GOING CONCERN

The Executive Board of the Parent company is of the opinion that the use of the going concern assumption in the preparation of these financial statements is appropriate.

Further considerations and an analysis of the applicability of the going concern principle are described in Note 2 (b) to the Financial statements.

MANAGEMENT REPORT

SUBSEQUENT EVENTS

Since the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustments or disclosure in the Group or the Parent company's financial statements or notes as at 31 December 2020.

NON-FINANCIAL REPORT

Air Baltic Corporation AS has prepared a non-financial report in accordance with the Law on the Financial Instruments Market (Article 564).

Non-financial report is in accordance with the GRI Standards.

For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, and non-financial key performance indicators, please see the Sustainability Report 2020 which is available on the airBaltic website: <https://www.airbaltic.com/en-LV/index>. The report is prepared in accordance with the GRI Standards – Core option requirements.

The sustainability report addresses such topics as corporate social responsibility, responsible governance, environment, employees and the work environment, society and others.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Based on the information available to the Executive Board, these financial statements for 2020 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and cash flows of the Parent company and the Group. The information provided in the Management report is accurate.



MARTIN ALEXANDER GAUSS
Chairman of the Executive Board

VITOLDS JAKOVĻEVS
Member of the Executive Board

PAULS CĀLĪTIS
Member of the Executive Board

INCOME STATEMENT

		AIR BALTIC		GROUP	
	Note	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
OPERATING REVENUE					
Revenue	5	135 934	500 001	138 921	502 255
Other revenue		1 981	3 280	3 667	6 700
		137 915	503 281	142 588	508 955
OPERATING EXPENSES					
Fuel		(46 523)	(110 461)	(46 523)	(110 461)
Airport, handling and en route charges		(39 782)	(106 696)	(39 782)	(106 696)
Amortization and depreciation		(63 553)	(69 948)	(64 624)	(70 938)
Distribution and sales costs		(17 517)	(42 574)	(18 038)	(43 458)
Net impairment charges on right-of-use assets		(72 891)	-	(72 891)	-
Personnel costs	6	(32 473)	(41 336)	(58 009)	(74 535)
Pilot lease		(25 726)	(35 630)	-	(1 162)
Aircraft lease		(7 595)	(22 804)	(7 595)	(22 804)
Aircraft maintenance		(17 237)	(21 921)	(17 237)	(21 921)
Other operating costs	7	(40 901)	(16 585)	(40 581)	(20 970)
Passenger service		(2 519)	(7 922)	(2 519)	(7 922)
Claim compensation		687	4 542	687	4 542
Expenses of current activities		(366 030)	(471 335)	(367 112)	(476 325)
Provisions for legal disputes	12	(11 500)	6 755	(11 500)	6 755
		(377 530)	(464 580)	(378 612)	(469 570)
FINANCE INCOME / (EXPENSES)					
Finance costs	9	(49 478)	(41 194)	(49 727)	(41 348)
Foreign currency exchange gain / (loss), net		22 780	(5 387)	22 775	(5 397)
Finance income	11	126	151	108	122
		(26 572)	(46 430)	(26 844)	(46 623)
Impairment losses on investments in subsidiaries	10	(12 080)	-	-	-
LOSS BEFORE TAX		(278 267)	(7 729)	(262 868)	(7 238)
Corporate income tax	13	-	-	(1 729)	(1 876)
LOSS FOR THE YEAR		(278 267)	(7 729)	(264 597)	(9 114)

The notes on pages 117-155 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Note	AIR BALTIC		GROUP	
		2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
LOSS FOR THE YEAR		(278 267)	(7 729)	(264 597)	(9 114)
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS					
(Loss) / gain on cash flow hedges		(480)	1 839	(480)	1 839
Hedging gains reclassified to profit or loss	20	(1 839)	(288)	(1 839)	(288)
		(2 319)	1 551	(2 319)	1 551
Depreciation of revaluation reserve		(310)	(310)	255	(233)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		(2 629)	1 241	(2 064)	1 318
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(280 896)	(6 488)	(266 661)	(7 796)

The notes on pages 117-155 form an integral part of these financial statements.

BALANCE SHEET

		AIR BALTIC		GROUP	
	Note	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	14	631 853	701 885	639 447	708 511
Investment properties	15	2 850	4 930	-	-
Intangible assets	16	18 029	18 084	18 566	18 886
Investments in subsidiaries and other investments	17	1 647	13 719	3	3
Trade and other receivables	19	82 931	65 095	83 114	66 183
		737 310	803 713	741 130	793 583
CURRENT ASSETS					
Inventories	21	4 963	6 759	5 054	6 863
Trade and other receivables	19	48 108	45 674	46 552	45 132
Derivative financial instruments	20	-	1 839	-	1 839
Cash	22	147 981	123 217	148 305	123 819
		201 052	177 489	199 911	177 653
TOTAL ASSETS		938 362	981 202	941 041	971 236
EQUITY AND LIABILITIES					
EQUITY					
Share capital	23	506 473	256 473	506 473	256 473
Other contributions	23	2 299	2 511	2 299	2 511
Revaluation reserve		3 657	3 967	3 797	3 542
Reorganization reserve		1 932	1 932	-	-
Cash flow hedging reserve	20	(480)	1 839	(480)	1 839
Accumulated loss:					
accumulated loss brought forward		(220 983)	(213 254)	(230 453)	(221 339)
loss for the year		(278 267)	(7 729)	(264 597)	(9 114)
TOTAL EQUITY		14 631	45 739	17 039	33 912
LIABILITIES					
NON-CURRENT LIABILITIES					
Lease liabilities	24	500 052	520 826	500 052	520 826
Borrowings	24	233 300	232 506	233 300	234 743
Provisions	25	54 703	20 007	54 703	20 007
Tax liabilities	27	4 627	-	4 837	-
		792 682	773 339	792 892	775 576
CURRENT LIABILITIES					
Trade and other payables	26	42 450	62 688	38 772	60 222
Lease liabilities	24	60 603	60 958	60 603	60 958
Contract liabilities	28	25 952	37 465	26 572	38 209
Tax liabilities	27	1 564	1 013	2 095	1 790
Borrowings	24	-	-	2 588	569
Derivative financial instruments	20	480	-	480	-
		131 049	162 124	131 110	161 748
TOTAL LIABILITIES		923 731	935 463	924 002	937 324
TOTAL EQUITY AND LIABILITIES		938 362	981 202	941 041	971 236

The notes on pages 117-155 form an integral part of these financial statements.

CASH FLOW STATEMENT

		AIR BALTIC		GROUP	
	Note	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES					
LOSS BEFORE TAX		(278 267)	(7 729)	(262 868)	(7 238)
Adjustments for:					
Net impairment losses on right-of-use assets		72 891	-	72 891	-
Depreciation	14	61 985	68 976	62 826	69 746
Net interest expenses		47 904	40 223	48 056	40 360
Change in provisions and financial liabilities	25	33 203	(6 755)	33 204	(6 755)
Impairment of investment in subsidiaries		12 080	-	-	-
Amortization	16	1 568	972	1 798	1 198
Loss / (profit) from disposal of property, plant and equipment		84	(578)	231	(522)
Foreign exchange (gain) / loss		(23 288)	6 967	(23 288)	6 966
Fair value adjustment to investment property		2 080	(2 133)	-	-
OPERATING (LOSS) / PROFIT BEFORE WORKING CAPITAL CHANGES					
		(69 760)	99 943	(67 150)	103 755
Decrease / (increase) in receivables		3 388	(21 407)	4 623	(20 435)
Decrease / (increase) in inventories		1 796	(1 262)	1 808	(1 260)
Increase in deposits and restricted cash		(544)	(3 782)	(545)	(3 780)
(Decrease) / increase in payables		(25 664)	12 062	(24 829)	10 296
Corporate income tax paid		-	-	(3 254)	(1 251)
NET CASH FLOWS GENERATED (USED IN) / FROM OPERATING ACTIVITIES					
		(90 784)	85 554	(89 347)	87 325
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment and intangible assets		(24 594)	(32 415)	(25 947)	(34 745)
Advances paid for aircraft		(16 227)	(30 622)	(16 227)	(30 622)
Proceeds from sale of property, plant and equipment		8 544	8 101	8 544	8 101
Refund of advances paid for aircraft		6 217	16 816	6 217	16 817
Interest received		15	8	15	8
Purchase of shares in subsidiary		(8)	(4)	-	-
NET CASH USED IN INVESTING ACTIVITIES					
		(26 053)	(38 116)	(27 398)	(40 441)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of share capital		250 000	-	250 000	-
Payments of principal on leases	24	(60 394)	(54 146)	(60 394)	(54 146)
Interest paid		(48 005)	(34 905)	(48 142)	(35 039)
Borrowings received	24	-	220 647	-	221 352
Repayment of borrowings	24	-	(61 591)	(233)	(61 966)
NET CASH GENERATED FROM FINANCING ACTIVITIES					
		141 601	70 005	141 231	70 201
Increase in cash		24 764	117 443	24 486	117 085
Cash at the beginning of the reporting year		123 217	5 774	123 819	6 734
CASH AT THE END OF THE REPORTING YEAR	22	147 981	123 217	148 305	123 819

The notes on pages 117-155 form an integral part of these financial statements.

AIR BALTIC STATEMENT OF CHANGES IN EQUITY

	Share capital TEUR	Other contribu- tions TEUR	Revaluation reserve TEUR	Reorgani- zation reserve TEUR	Cash flow hedging reserve TEUR	Accumu- lated loss TEUR	Profit / (loss) for the year TEUR	TOTAL TEUR
31.12.2018	256 473	2 462	4 277	1 932	288	(218 632)	5 378	52 178
COMPREHENSIVE INCOME								
Loss for the year	-	-	-	-	-	-	(7 729)	(7 729)
Other comprehensive income	-	-	(310)	-	1 551	-	-	1 241
TOTAL COMPREHENSIVE INCOME	-	-	(310)	-	1 551	-	(7 729)	(6 488)
Currency translation difference	-	49	-	-	-	-	-	49
Allocation of prior year result	-	-	-	-	-	5 378	(5 378)	-
31.12.2019	256 473	2 511	3 967	1 932	1 839	(213 254)	(7 729)	45 739
COMPREHENSIVE INCOME								
Loss for the year	-	-	-	-	-	-	(278 267)	(278 267)
Other comprehensive income	-	-	(310)	-	(2 319)	-	-	(2 629)
TOTAL COMPREHENSIVE INCOME	-	-	(310)	-	(2 319)	-	(278 267)	(280 896)
Increase in share capital (see Note 23)	250 000	-	-	-	-	-	-	250 000
Currency translation difference	-	(212)	-	-	-	-	-	(212)
Allocation of prior year result	-	-	-	-	-	(7 729)	7 729	-
31.12.2020	506 473	2 299	3 657	1 932	(480)	(220 983)	(278 267)	14 631

The notes on pages 117-155 form an integral part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital TEUR	Other contribu- tions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumu- lated loss TEUR	Profit / (loss) for the year TEUR	TOTAL TEUR
31.12.2018	256 473	2 462	3 775	288	(224 299)	2 960	41 660
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(9 114)	(9 114)
Other comprehensive income	-	-	(233)	1 551	-	-	1 318
TOTAL COMPREHENSIVE INCOME	-	-	(233)	1 551	-	(9 114)	(7 796)
Currency translation difference	-	49	-	-	-	-	49
Allocation of prior year result	-	-	-	-	2 960	(2 960)	-
31.12.2019	256 473	2 511	3 542	1 839	(221 339)	(9 114)	33 912
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(264 597)	(264 597)
Other comprehensive income	-	-	255	(2 319)	-	-	(2 064)
TOTAL COMPREHENSIVE INCOME	-	-	255	(2 319)	-	(264 597)	(266 661)
Increase in share capital (see Note 23)	250 000	-	-	-	-	-	250 000
Currency translation difference	-	(212)	-	-	-	-	(212)
Allocation of prior year result	-	-	-	-	(9 114)	9 114	-
31.12.2020	506 473	2 299	3 797	(480)	(230 453)	(264 597)	17 039

The notes on pages 117-155 form an integral part of these financial statements.

NOTES

1. CORPORATE INFORMATION

Air Baltic Corporation AS (hereinafter also – airBaltic, the airline the Company or the Parent company) was registered with the Republic of Latvia Enterprise Register on 8 February 1995. The registered office of the Parent company is at Tehnikas Street 3, Riga International airport, Marupe district, Latvia. The main shareholders of the airBaltic are the Republic of Latvia – holding 96.14% shares of the Parent company and Aircraft Leasing 1 SIA – holding 3.86% shares of the Parent company. Air Baltic Corporation AS is the flag carrier of Latvia. Air Baltic Corporation AS is a Parent company of the airBaltic group (hereinafter – the Group) that includes the following entities (hereinafter together with airBaltic – the Group companies) (see Note 17):

- Baltijas Kravu Centrs SIA,
- Aviation Crew Resources AS,
- Air Baltic Training SIA,
- Loyalty Services SIA

The stand-alone financial statements and the consolidated financial statements (hereinafter together – the financial statements) for the year ended 31 December 2020 were approved by a resolution of the Parent company's Executive Board on 13 April 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards and interpretations issued by the IFRS Interpretations Committee as adopted for use in the European Union (IFRS). The stand-alone financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and investment property that are stated at fair value and certain classes of property, plant and equipment carried at revalued amount. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments that are stated at fair value and certain classes of property, plant and equipment carried at revalued amounts. The monetary unit used in the financial statements is thousands euro (TEUR), if not stated otherwise.

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2020

- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
- Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
- Covid-19 Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.
The practical expedient stated by the Amendments to IFRS 16 was applied to the rent of the aircraft maintenance hangar as of May 2020 as the consequence of the COVID-19 pandemic. The concession between parties was carried out in the respective year, thereby affecting the Income statement positively by the amount of EUR 363 thousand. The Cash flow statement line item Net cash flows used in operating activities was impacted positively by decrease of EUR 363 thousand.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2020 that would be expected to have a material impact to the Company and the Group.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

Standards or interpretations effective for the first time for the annual periods beginning on or after 1 January 2021 or not yet adopted by the EU

- Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).
- Amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group or airBaltic.

b) Going concern

The Executive Board of the Parent company is of the opinion that the use of the going concern assumption in the preparation of these financial statements is appropriate.

Material uncertainty arising from the continuing impact of COVID-19 related international travel restrictions and the availability of sufficient funding in the event airBaltic's business recovers slower than expected over the next 12 months.

At the time of preparation of this report there is still significant uncertainty about the extent the COVID-19 pandemic will affect the international and in particular the European travel industry in 2021 and beyond. The airline has considered three key scenarios for the coming 12 months - "pessimistic", "realistic" and "optimistic". The "realistic" scenario predicts a gradual recovery through the second and third quarters of 2021 and is not inconsistent with projections/outlooks by several industry experts, such as IATA, Eurocontrol and others issued in recent months. This scenario is underpinned by the latest projections on the pace of vaccination take-up in Europe over the coming months being achieved and that there is a parallel lifting of government enforced travel restrictions. The realistic scenario also assumes the acknowledged pent up demand for leisure travel translates into passenger confidence to book overseas trips and holidays first at relatively short notice and then getting back to booking several months ahead for their Winter and Spring 2020 breaks. This, combined without any further additional widespread travel restrictions in Europe from Q3 2021 onwards, could provide the operating cash flow sufficient to provide the airline the required liquidity for 2021 and for the winter season of 2022 without having to obtain additional external funding. At the time of this report, the projections by the Management estimate the cash balance at the end of 2021 to be in the range of EUR 25 million to EUR 45 million if either of the realistic or optimistic scenarios for 2021 materialise. A cash balance below EUR 25 million would breach a covenant of the EUR 200 million bond obligation and would require the Management either to renegotiate with the bondholders the covenants in the agreement and in a worst case scenario if renegotiations fail, to be liable to repay the bond early.

However, if the market recovers more slowly and near-normal unrestricted travel within Europe does not materialise during the Summer season, the airline's liquidity is unlikely be sufficient to meet its commitments over the coming 12 months without additional funding. In the most plausible pessimistic scenario, which sees the passenger numbers at below 50 thousand per month or slightly above until the end of June and after that sees a gradual ramp up to reach the realistic scenario passenger projections in October, the cash balance at the end of 2021 is projected to be negative EUR 17 million. This projection does not take into account the cash savings the Management can implement, through for example, temporary suspension of capital expenditures and negotiating temporary lease payment deferrals with the aircraft lessors. The Management believes that such actions could provide enough liquidity to achieve a positive cash balance at the end of the year. Nevertheless, under such a scenario the airline would still have to seek additional financing.

Currently the Management sees two realistic sources of such financing:

- Financing from the financial markets in the form of debt,
- Financing from shareholders in the form of equity or debt.

During the first quarter of 2021 the yield of airBaltic's 5 year bond with maturity in 2024 was fluctuating around 11%. There are examples of airlines which have been able to issue bonds during the COVID-19 pandemic. The airline is exploring this as a potential option but there remains significant uncertainty if the market would be receptive of such transaction. Meanwhile, such option requires considerable time and may also require positive receptiveness from the current bondholders regarding an additional bond issue and that may require changing the terms of the existing bond to increase its coupon payment.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Going concern (continued)

The other source for the funding is the current shareholders of the airline and in particular the majority shareholder – the Government of Latvia. In 2020, the airline raised EUR 250 million in equity financing from the Government of Latvia to counteract the consequences of the COVID-19 pandemic. However, in assessing the need for this financing, which was done during the second quarter of 2020, nobody at that time foresaw the heavy toll on the European airline industry that the second wave of the pandemic would bring in the fourth quarter of 2020 and the first quarter of 2021. The Management believes that the arguments which justified the EUR 250 million investment in 2020 are still valid and would justify additional investment in 2021, if indeed such investment is needed. The airline has already made public statements and notified its shareholders that it may seek additional funds in 2021 in the range of EUR 50 to EUR 100 million. On 11 February 2021 the Parent company signalled its funding needs in a Cabinet of Ministers meeting which was followed by public statements of support by the Minister of Transport on 16 February 2021 to provide further funding. Such further investment by the majority shareholder may be also subject to approval by the European Commission, depending on the form, amount and the minority shareholder's participation.

None of the above scenarios are guaranteed to be successful. The European governments could delay the removal of air travel restrictions and/or airBaltic's business could recover much slower than the Management and the various industry experts expect. The bond market may not be willing to supply debt capital even at the higher market rates that the current bond is traded at. The Government of Latvia may choose not to provide additional capital to the airline and, even if it does, the European Commission may refuse to approve any further investment into airBaltic by the Government of Latvia. These are risks that need to be taken into account, however assessing the past performance and success of airBaltic's management in raising both private debt financing and financing from the Government of Latvia, the Management is of the opinion that these sources of funding are reasonably realistic to assume that airBaltic will be able to continue its operations as a going concern. However, both the timing when current air travel restrictions in Europe will be lifted and stay lifted and the availability of sufficient funding to enable the Company and Group's level of operations to return to net cash positive represent a material uncertainty which may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern.

c) Consolidation (Group)

The financial statements of the Group comprise the financial statements of Air Baltic Corporation AS, Baltijas Kravu Centrs SIA, Loyalty Services SIA, Air Baltic Training SIA and Aviation Crew Resources AS. The financial statements of subsidiaries are prepared for the same reporting period as the Parent company's, using consistent accounting policies. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Use of estimates and judgements in the preparation of the financial statements

The preparation of the financial statements in conformity with IFRS requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on the Management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Changes in the Management's estimates are recognised in the income statement of the period of the change. The Management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements are described below.

Recoverable amount of property, plant and equipment (including right of use assets) and intangible assets

The Company and the Group companies undertake an impairment test for its depreciable intangible assets and property, plant and equipment (including right of use assets), if there is any indication that those assets may be impaired. The Company and the Group undertake an impairment test for their intangible assets with indefinite useful life on an annual basis. When carrying out impairment tests, the Management uses various estimates for the cash flows arising from the use of the assets, revenue growth rate and the future level of costs. The estimates are based on forecasts of the general economic environment, demand, inflation and others. To test impairment of the indefinite intangible asset held by the Company and the Group this requires the test to be done at the relevant Cash Generating Unit level where the intangible asset is held. This CGU is the Company itself and the impairment test considers the depreciable intangible and property, plant and equipment held by the Company including the fleet. The recoverable amount is thus most sensitive to the assumptions of ticket yield, volume of scheduled passengers, USD/EUR exchange rate, discount rate and the growth rate used for extrapolation purposes. The impairment test involves estimating the future cash flows based on the business plan Destination 2025 CLEAN. See Notes 14 and 16 for more information.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of estimates and judgements in the preparation of the financial statements (continued)

Recognition and revaluation of provisions

As at 31 December 2020, airBaltic has set up provisions for aircraft maintenance costs (see Note 25). The amount and / or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure.

As at 31 December 2020, airBaltic has set up provisions for onerous contracts related to the remaining lease and maintenance costs of the Q400 fleet (see Note 25). The provision includes the future expected storage and maintenance costs, spare parts inventory revaluation, as well as the expected redelivery costs. Due to COVID-19, there is a significant oversupply of Q400s in the market and the provisions established at 31 December 2020 assume no future sub-leases are agreed. The amount and/or timing of the settlement of these obligations is uncertain.

As at 31 December 2020, airBaltic has set up a provision for potential costs related to legal disputes for historic claims related to ex-shareholders and their creditors about their obligations towards the Parent company and the Republic of Latvia back in 2011 and 2012. This provision has been prudently made due to prolonged procedural complexities triggering the restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position and the Management believe that no future expense to the airline will arise from this case. The airline has also created provisions for potential loss from the settlement with one of its suppliers. The amount and/or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure.

The actual ultimate expenditure may differ from the provisions recognised due to the uncertainty of the above estimates as well as for example future changes in industry practice and legislative changes.

Deferred revenue on ticket sales

Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused. In previous years the breakage rate used in the estimates was 5-6%. The Management's estimate of the expected breakage amount was based on historical trend information and in proportion to the pattern of rights exercised by customers. The actual breakage amount may differ from the Management estimates.

In 2020 the Management of the Company performed a detailed analysis of tickets with a flight date in 2020 and the accounting treatment was based on the actual usage of the ticket (e.g. refunded, flown, exchanged etc.).

Classification of long term cash deposit

The cash deposit with the term of more than 3 month has been classified within the balance sheet item Cash and cash equivalents. The cash deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal.

Recognition of Sales and leaseback transactions

The Parent company enters into transactions whereby it sells the newly acquired aircraft and leases it back from the same party. The Management applies the requirements of IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset and whether the initial acquisition has taken place. The Company accounts for the transaction as a sale and leaseback.

The factors that influence the Management's decision as to whether or not airBaltic has acquired the aircraft are related to the fact that airBaltic assumes all risks associated with the acquisition of the aircraft, including acquisition risk, fair value risk and others. In addition, airBaltic also benefits from the transaction by obtaining the discounts on the aircraft market price. This along with other factors (like whether the buyer obtains physical control, whether the buyer is entitled to payment, obtains a legal title, etc.) leads the Management to the conclusion that the original buyer of the aircraft is airBaltic.

In 2020 the Parent company has recognised a profit of EUR 2 237 thousand (2019: EUR 1 787 thousand) from sale and leaseback transactions.

Determination of lease term

Extension and termination options are included in a number of aircraft leases. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, the Management considers all facts and circumstances that create economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the company is reasonably certain to exercise an extension option or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the company.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of estimates and judgements in the preparation of the financial statements (continued)

The Management has applied judgement that:

- even though the airline intends to develop its business on the basis of A220 fleet, the Management is not certain if it will exercise any options to extend the leases embedded in some of the lease contracts as the majority of the contracts expire in more than 10 years time and both the extension terms at the time and the market conditions at the time are highly unpredictable;
- no extension option will be exercised for any other lease as the Management concludes that there are no economic incentives to exercise such option.

e) Foreign currency translation

The functional and presentation currency of the Company and the Group is euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the reference exchange rate fixed by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the reference exchange rate established by the European Central Bank at the last day of the reporting year.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in income statement within Foreign currency exchange (loss) / gain, net.

	31.12.2020 USD	31.12.2019 USD
1 EUR	1.2271	1.1234

f) Revenue recognition

Revenue is income arising in the course of the ordinary activities of the Company and the Group. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company and the Group expect to be entitled in exchange of transferring control over services to a customer or promised goods, excluding the amounts collected on behalf of third parties. The Company and the Group recognises revenue when it transfers control of a good or service to a customer.

Passenger revenue comprises the invoiced value of sold ticket price and ancillary revenue. Until COVID-19 pandemic started in March 2020, the majority of tickets sold were generally non-cancellable and non-refundable, however, with lock-down during March-May 2020, different exceptions were applied to sold ticket rules allowing for free change of dates, as well granting free monetary refunds or refunds in the form of travel vouchers. As of 1 July 2020, the airline has amended rules for all types of tickets increasing flexibility in date change. The rule of non-refundability is for economy Green class tickets only, but economy Classic tickets are fully refundable at any time before departure. The value of non-refundable tickets is recognised as revenue over time only upon the completion of the applicable transportation.

In order to counteract the liquidity issues caused by the COVID-19 pandemic the Parent company offered its customers to receive a refund as airBaltic travel voucher that covered a full refund value of the cancelled flight and additional EUR 20 bonus for each segment refunded. The value of the voucher issued and not used by the balance sheet date is reported as contract liabilities. The item is reduced either when the Parent company or another airline completes the transport or when the passenger requests a refund. The cost of the "bonus" was recognised as a cost within Other operating costs.

The value of tickets sold and still valid, but not used by the balance sheet date is reported as contract liabilities. This item is reduced either when the Parent company or another airline completes the transport or when the passenger requests a refund.

A portion of contract liabilities includes tickets sold that are expected to remain unutilized. A management's estimate of unutilized tickets expected share of the contract liabilities is set at each balance sheet date and in previous years was based on the historical statistics, the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger. In 2020, the Management of the Company performed a detailed analysis of tickets with a flight date in 2020 and the accounting treatment was based on the actual usage of the ticket (e.g. refunded, flown, exchanged etc.). The value of expected breakage share of unutilised tickets is recognized as revenue in the reporting year.

The loyalty customers can earn the currency of loyalty program – pins - from tickets or services purchased from the Parent company and other cooperation partners, and use the earned pins to buy services and products offered by airBaltic or other cooperation partners. The points earned are fair valued according to IFRS 15, and they are recognised as a decrease of revenue and contract liabilities at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the pins and the customer selection between different awards based on historical customer behaviour. The balance of the contract liabilities is decreased when pins are redeemed or expire.

Ancillary revenue includes sale of ticket related services, like advance seat reservations, baggage fees as well as different service fees, and income on inflight service. The service revenue is recognized when the flight is flown in accordance with the flight traffic program. Cargo revenue is recognized when the cargo has been delivered to the customer. Charter revenue includes sale of flight that are recognized when the service is delivered.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Revenue recognition (continued)

Aircraft lease revenue include sale of short-term aircraft lease to other airlines and it is recognised when the service is delivered. No significant future lease payments or commitments are attributable to the aircraft lease.

Other revenue includes different revenue streams of individually insignificant amounts. All these revenues arise from contracts with customers.

Claim compensations received for late aircraft delivery are recognised in the Income statement as they compensate additional operating expenses incurred by the Parent company due to late delivery of aircraft.

Financing component

The Company and the Group do not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company and the Group do not adjust any of the transaction prices for the time value of money.

g) Aircraft maintenance costs

Aircraft maintenance expenses involve routine maintenance costs like short cycle engineering checks, component checks, monthly checks, annual airframe checks, periodic heavy maintenance and engine checks. Routine maintenance costs are expensed as incurred.

The cost of heavy maintenance is capitalized and recognized as property, plant and equipment when maintenance, including enhancement, is carried out. Such assets are depreciated over their expected useful life.

As evidenced by industry practice, additional maintenance costs are frequently incurred in order to satisfy the criteria set by the lessor regarding technical condition of the aircraft at the end of the period of lease. Provisions for the redelivery of the aircraft are set up to cover the estimated costs relating to the future redelivery of aircraft. At the commencement date, the present value of the estimated redelivery costs is included within the cost of property, plant and equipment and depreciated over the shorter of the end of the useful life of the aircraft or the end of the lease term. This provision is re-evaluated at the end of each period to account for any changes in the expected redelivery costs.

h) Distinction between income from current operations and income from operating activities

The Management of the Parent company considers it is relevant to the understanding of its financial performance to present in the Income statement a subtotal within the operating expenses. This subtotal, entitled "Expenses from current activities", excludes unusual elements that do not have predictive value to the operating activities of the Parent company due to their nature, frequency and/or materiality. Such elements are recognition and reversal of significant provisions for litigations related to transactions with previous shareholders prior to 2012 and other litigations and disputes outside the normal operations of the business (Note 30).

i) Financial assets and liabilities

Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's and the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company and the Group companies commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the companies have transferred substantially all the risks and rewards of ownership. At initial recognition, the Company and the Group companies measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), at transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Company's and the Group's business model for managing the asset and the cash flow characteristics of the asset. All Company's and the Group's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in Finance income/(expense). Foreign exchange gains and losses are presented as finance cost or finance income in Income statement. Impairment losses are presented as other operating costs.

As at 31 December 2020 the following financial assets of the Company and the Group were classified in this category: trade receivables, loans granted, bank deposits, cash and cash equivalents.

The Company and the Group have no investments in equity instruments.

Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Accounting principles for hedge accounting are disclosed in the Note 2 j).

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

Financial liabilities

All financial liabilities are measured at amortised cost unless they are measured at fair value. The Company's and the Group's financial liabilities that are measured at amortised cost comprise trade and other payables and interest-bearing loans and leases. They are carried as current liabilities or non-current liabilities. Derivatives are measured at fair value.

j) Derivative financial instruments and hedging

According to the risk management policy, the Company and the Group use commodity derivatives to reduce the commodity risks, which arise from the Parent company's future jet fuel purchases. It is the Company's and the Group's policy not to enter into derivative financial contracts for speculative purposes.

The derivatives are initially recognised, as well as subsequently valued, at fair value. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are calculated using the commodity price quotations on the closing date.

At the inception of hedge accounting, the Company and the Group document economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the Company's and the Group's risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each annual financial statements, the Company and the Group document and assess the effectiveness of hedge relationships by examining the past and prospective capacity of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet items as derivative financial instruments. The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in Other comprehensive income and presented within equity in the Cash flow hedging reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. The gains and losses, recognised in the Cash flow hedging reserve, are transferred to the Income statement in the period in which the hedged item is recognised in the Income statement. Any ineffective portion of the hedge is recognised immediately in the income statement as income or expenses.

When a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the Cash flow hedging reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the reserve with respect to the hedging instrument is recognised immediately in the Income statement.

k) Intangible assets and property, plant and equipment

Intangible assets are recorded at historical cost net of accumulated amortisation and accumulated impairment loss. Property, plant and equipment (hereinafter – PPE) are recorded at historical cost less accumulated depreciation and accumulated impairment losses (Fixtures and fittings, Aircraft, Aircraft equipment) or revalued amount less accumulated depreciation and accumulated impairment losses (Buildings). Historical cost includes expenditure that is directly attributable to the acquisition of the intangible assets and PPE. The cost of software licenses includes the purchase cost and costs related to their implementation in use.

Depreciation for the following categories of assets is calculated using the straight-line method to allocate the cost or revalued amount to the residual values over the estimated useful lives using the following rates set by the Management.

	% per annum
Licences and software	20
Buildings	4 - 33
Aircraft equipment	16 - 50
Fixtures and fittings	20 - 50

As the components of aircraft have varying useful lives, the Company and the Group have separated the components for depreciation purposes. The depreciation method used for each type of component is based on the characteristics of the type (straight line or units of production method). The Company and the Group have determined the rate of depreciation per hour of usage for some aircraft component types, by dividing the depreciable amount of an aircraft by its estimated total service capability measured in terms of hours (estimated range 2,500-2,900 hours). The residual values of the aircraft are determined based on independent external valuations.

Intangible assets include trademarks acquired by the Parent company. The trademarks are with indefinite useful life and are not subject to amortization, but are tested for impairment annually. It is assumed that an intangible asset has indefinite useful life if, based on an analysis of relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company and the Group.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Intangible assets and property, plant and equipment (continued)

Buildings are accounted by applying the revaluation method. Revaluation is made with sufficient regularity that the carrying value does not differ materially from that which would be determined using fair value at the balance sheet date. Increase in the carrying amount arising on revaluation is credited to "Revaluation reserve" in shareholders' equity and is subsequently depreciated. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the current year's income statement. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

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

When a third party is constructing an asset, the borrowing costs incurred by the Company and the Group are capitalized. The capitalization starts when all three conditions are met: expenditures are incurred, borrowing costs are incurred and the activities necessary to prepare the asset for its intended use or sale are in progress. Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the Group and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Costs for routine aircraft maintenance, as well as repair costs are expensed as incurred.

Extensive modifications, including the obligatory major overhauls of engines, and improvements to PPE are capitalized and depreciated together with the asset to which the work is related over its remaining useful life. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Gains or losses on disposal are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the income statement during the period in which they are incurred.

l) Investment property (the Parent company)

Investment properties – buildings and warehouse hangars - are held for long-term rental yields and are not occupied by the Parent company. They are carried at fair value. Changes in fair values are presented in Income statement. Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement account during the period in which they are incurred. Gains and losses on disposal are recognised in Income statement.

m) Investments in subsidiaries and associated companies (the Parent company)

Investments in subsidiaries (i.e. where the Parent company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. where the Parent company has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated at cost. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Parent company recognizes income from the investment only to the extent that it receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognized as a reduction of the cost of the investment.

n) Impairment of non-financial assets

Assets that have indefinite useful lives (for example, trademarks) are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. If the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

An impairment test is carried out if any of the following indicators of impairment exist:

- the market value of similar assets has decreased,
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by assets will decrease,
- market interest rates have increased,
- the physical condition of the assets has considerably deteriorated,
- revenue generated by assets is lower than expected,
- results of some operating areas are worse than expected,
- the activities of a certain cash generating unit are planned to be terminated.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of non-financial assets (continued)

If the Company and the Group identify any other evidence of impairment, an impairment test is performed. Impairment tests are performed either for an individual asset or group of assets (cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets. An impairment loss is recognised immediately as an expense in the income statement. At the end of each reporting period, it is assessed whether there is any indication that the impairment loss recognised in the prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. According to the results of the estimate, the impairment loss can be partially or wholly reversed.

o) Impairment of financial assets

The Company and the Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company and the Group use low credit risk exemption, i.e. the Company and the Group assume that the credit risk on a financial assets have not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. The Company and the Group companies measure ECL and recognise credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables without a significant financing component, the Company and the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which expected credit losses are calculated for trade receivables falling into different ageing or overdue periods.

p) Inventories

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

q) Trade and other receivables

Trade and other receivables are initially recognized at fair value, which approximates original invoice amount and subsequently measured at their amortised cost less impairment losses.

The security deposits represent the deposits provided by airBaltic to lessors as security in relation to the lease contracts and to the funding of future maintenance costs. These deposits are refunded at the end of the lease term if airBaltic as the lessee has fully performed all the provisions in the lease contract. The deposits are measured at amortised cost using the effective interest rate method and are presented as current or non-current assets based on the remaining term of the lease.

Issued loans are recognized when cash is advanced to the borrowers. Loans are carried at amortized cost, net of expected credit losses. Gains and losses are recognised in the income statement when loans are derecognised or impaired.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash balances held at bank and in cash. The cash deposit with the term of more than 3 month has been classified within the balance sheet item Cash and cash equivalents. The cash deposit is held to meet short term cash needs and there is no significant risk of a change in value as a result of an early withdrawal.

s) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

t) Leases

The leases (other than short term leases and leases of low value assets) are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Company and the Group. At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company and the Group companies under residual value guarantees;
- the exercise price of a purchase option if the Company and the Group are reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Company and the Group exercising that option.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the incremental borrowing rate of the Company and each Group's company.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of the lease liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. The lease term is the non-cancellable period of the lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Subsequently, the right of use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications. The right of use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The following depreciation rates are set by the Management for the right of use assets:

	% per annum
Land and buildings	3 – 14
Aircraft	4 – 8

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computers, tablets, mobile phones and small items of office furniture.

u) Borrowings

Borrowings are recognized initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the Income statement or in accordance with property, plant and equipment accounting policy capitalized as part of the cost of property, plant and equipment under construction over the period of borrowings.

v) Taxation

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

Corporate income tax is calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company and the Group companies make a decision about profit distribution.

The Company and the Group companies calculate and pay corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the income statement in the year for which it is assessed.

There are no differences between the tax bases and carrying amount of assets and liabilities and hence, deferred income tax assets and liabilities do not arise. Deferred tax liabilities relating to taxable temporary differences arising on investments in subsidiaries (from retained earnings after 1 January 2018 in subsidiaries) are not recognized in the Group's consolidated financial statements as management has decided that the subsidiaries' 2018-2020 profit for the foreseeable future will not be distributed.

w) Employee benefits

Short-term employee benefits include wages and salaries, as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) and other benefits payable after the end of the period during which the employee worked. If during the reporting period the employee has provided services in return for which benefits are expected to be paid, the Company and the Group will set up a liability (accrued expense) for the amount of the forecast benefit, from which all paid amounts are deducted. The Company and the Group pay 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 and the Group have to make payments in an amount specified by the law. The Company and the Group do not incur legal or constructive obligations to pay further contributions if the state funded pension scheme is unable to meet its liabilities towards employees. The social security is recognised as an expense on an accrual basis and is included within personnel costs.

NOTES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Provisions are recognised based on the Management's estimates.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision may be recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost of an item of PPE when the provision is related to the dismantlement, removal or restoration or other obligation, incurred either when the item is acquired or as a consequence of use of the item during a particular period.

Provisions are used only to cover the expenses for which they were set up.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Company and the Group settle the obligation. The reimbursement shall be treated as a separate asset. The amount of the reimbursement may not exceed the amount of the provision.

Once the uncertainty is removed, the provision is classified as creditor or reversed and recognized in the income statement within the same line item in which the original expenditure was initially disclosed.

Onerous contract provisions comprise the unavoidable costs under a contract that is the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Provisions for aircraft maintenance

As evidenced by industry practice, additional maintenance costs are frequently incurred in order to satisfy the criteria set by the lessor regarding technical condition of the aircraft at the end of the period of lease. Provisions for redelivery of the aircraft are set up to cover the estimated costs relating to the future redelivery of aircraft. At the commencement date, the present value of the estimated redelivery costs is included within the cost of property, plant and equipment and depreciated over the shorter of the end of the useful life of the aircraft or the end of the lease term.

y) Contingent liabilities

Possible obligations where it is not probable that an outflow of resources will be required to settle the obligation, or where the amount of the obligation cannot be measured with sufficient reliability, but which may become in certain circumstances liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

z) Related parties

Related parties are defined as the Parent company's shareholders, who have significant or joint control or significant influence, the members of the Executive Board and the Supervisory Board, their close relatives and companies in which they have a significant influence or control.

aa) Segment reporting

Operating segments are reported in a manner consistent with the internal organizational and management structure and the internal reporting information provided to the senior management team that is responsible for allocating resources and assessing performance of operating segments. The Company and the Group are managed as a single business unit that provides airline-related services, including scheduled services, and ancillary services including hotel, travel insurance and other related services to third parties, across European route network.

bb) Subsequent events

Post-year-end events that provide additional information about the Company's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes, when material.

NOTES

3. FINANCIAL RISK MANAGEMENT

a) Financial risk factors

The Parent company and the Group companies are exposed to a variety of financial risks: market risk (relating to fluctuations in commodity prices, interest rates and currency exchange rates), credit risk and liquidity risk. The Company's and the Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Company's and the Group's financial performance. The Parent company and the Group companies use financial instruments to manage exposures arising from these risks. These instruments include borrowings, cash deposits and derivatives (principally jet fuel derivatives). It is the Company's and the Group's policy that no speculative trading in financial instruments takes place.

Risk management is carried out by the Risk Management Committee under policies approved by the Executive and Supervisory Board. The Executive Board of airBaltic provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, fuel price risk, credit risk, use of derivative financial instruments, adherence to hedge accounting, and hedge coverage levels.

b) Risk analysis

Market risks

Foreign currency risk

The Parent company and the Group are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar. Foreign exchange risk arises when commercial transactions and recognized assets or liabilities are denominated in a currency that is not the functional currency of the Company and the Group. Only an insignificant portion of the Company's and the Group's revenues are denominated or linked to the US Dollar, while a significant portion of the Company's and the Group's expenses are US Dollar denominated, including fuel, maintenance, insurance and capital expenditure costs.

During the year the Company has used financial derivatives to hedge its foreign currency risk, however, there were no open hedges as at 31 December 2020. The Executive Board may in the future consider hedging foreign currency risk to reduce the potential Company's and the Group's earnings and cash flow volatility arising from foreign currency fluctuations.

The Group's and airBaltic's exposure to foreign currency risk at the end of the reporting year, revaluated in euros, was as follows:

AIR BALTIC	31.12.2020		31.12.2019	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	19 331	15 753	21 740	19 352
Borrowings and lease payments	320 359	261 070	367 869	327 460
Trade and other payables	2 827	2 304	5 645	5 025
GROUP	31.12.2020		31.12.2019	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	19 331	15 753	23 349	20 784
Borrowings and lease payments	320 359	261 070	367 869	327 460
Trade and other payables	2 827	2 304	5 645	5 025

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Cash flow interest rate risk arises from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

However, the majority of interest rates charged on borrowings are not sensitive to interest rate movements as they are fixed until maturity. The Parent company and the Group analyse its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, alternative financing and hedging.

The Company and the Group have not used financial derivatives to hedge its interest rate risk during the year. The Executive Board may in the future consider hedging interest rate risk to reduce the potential Company's and the Group's earnings and cash flow volatility arising from potential fluctuations in interest rates.

Commodity price risk

One of the most significant costs for the Company and the Group is jet fuel. The price of jet fuel can be volatile and can have direct impact on the Company's and the Group's financial performance. airBaltic hedges against jet fuel price fluctuations using jet fuel swap contracts. The average hedge coverage in 2020 was 39% (2019: 24%). As at 31 December 2020, 6 000 jet fuel tonnes had been hedged for the year 2021 (31 December 2019: 42 000 tonnes for the year 2020).

NOTES

3. FINANCIAL RISK MANAGEMENT (continued)

b) Risk analysis (continued)

Market risks (continued)

Sensitivity analysis

The table below shows the sensitivity on the net result of the Parent company and the Group to various market risks for the current and prior years:

AIR BALTIC AND THE GROUP	31.12.2020 Difference in equity TEUR	31.12.2019 Difference in equity TEUR	2020 Difference in net result TEUR	2019 Difference in net result TEUR
Fuel price sensitivity				
Fuel price USD 50 higher per metric ton	(244)	(1 869)	-	-
Fuel price USD 50 lower per metric ton	244	1 869	-	-
USD/EUR rate sensitivity				
USD/EUR rate increase 5%	(14 553)	(12 922)	(14 553)	(12 852)
USD/EUR rate decrease 5%	16 085	14 282	16 085	14 205
Interest rate sensitivity				
Interest rate is higher by 0.5 pp	(16)	(14)	(16)	(14)
Interest rate is lower by 0.5 pp	16	14	16	14

The interest rate sensitivity calculation considers the effects of the varying interest rates on the borrowings.

Liquidity risk

Liquidity risk is the risk that the Parent company and the Group are unable to meet their financial obligations due to insufficient cash inflows. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding. The unprecedented impact of COVID-19 on the industry was affecting the liquidity of the Group in 2020. The Group took a number of actions to improve costs and liquidity, the most important being the following:

- Securing increase of share capital in amount of EUR 250 million from the majority shareholder,
- Only flights delivering a positive cash contribution operated,
- Reducing 30% of workforce,
- Working with suppliers to reduce contracted rates and improve payment terms,
- Introducing cost saving measures and suspending non-essential capital expenditure,
- Partial salary payment suspension of the top and middle management of the airline.

The Management has already indicated to its shareholders that it may require additional funding to continue executing the business plan Destination 2025 CLEAN, in particular if most flight / travel restrictions are not lifted by the end of second quarter of 2020. However, as of the date of this report no decisions have been made related to the additional financing.

The tables below analyse the airBaltic's and the Group's contractual undiscounted (including estimated future interest payments on debt) non-derivative financial liabilities.

AIR BALTIC	Within 3 months TEUR	Between 3 months and 1 year TEUR	Between 1 and 5 years TEUR	More than 5 years TEUR	Total contractual cash flows TEUR	Carrying amount of liabilities TEUR
Contractual maturities of financial liabilities at 31.12.2020						
Trade payables	11 024	-	-	-	11 024	11 024
Accrued liabilities	25 300	5 696	-	-	30 996	30 996
Borrowings and lease	24 017	83 000	552 866	365 165	1 025 048	793 955
Contractual maturities of financial liabilities at 31.12.2019						
Trade payables	27 090	-	-	-	27 090	27 090
Accrued liabilities	29 831	5 696	-	-	35 527	35 527
Borrowings and lease	24 120	84 685	579 606	385 945	1 074 356	814 290

NOTES

3. FINANCIAL RISK MANAGEMENT (continued)

b) Risk analysis (continued)

GROUP	Within 3 months TEUR	Between 3 months and 1 year TEUR	Between 1 and 5 years TEUR	More than 5 years TEUR	Total contractual cash flows TEUR	Carrying amount of liabilities TEUR
Contractual maturities of financial liabilities at 31.12.2020						
Trade payables	7 247	-	-	-	7 247	7 247
Accrued liabilities	25 756	5 696	-	-	31 452	31 452
Borrowings and lease	26 629	83 000	552 866	365 165	1 027 660	796 543
Contractual maturities of financial liabilities at 31.12.2019						
Trade payables	20 502	-	-	-	20 502	20 502
Accrued liabilities	33 927	5 696	-	-	39 623	39 623
Borrowings and lease	24 297	85 206	581 878	385 946	1 077 327	817 096

Credit risk

Credit risk is the risk that the Parent company and the Group companies will incur a monetary loss caused by the other party to a financial instrument because of that party's inability to meet its obligations. The Parent company and the Group companies are exposed to credit risk through its trade receivables, deposits and cash. The exposure to credit risk from individual customers is limited as large majority of the payments for flight tickets are collected before the service is provided. The Parent company and the Group have no significant concentration of credit risk with any customer. The Parent company and the Group analyse and evaluate partners before commercial transactions are initiated. Further, trade receivable balances are monitored on an ongoing basis to ensure that the Company's and the Group's exposure to bad debts is minimized. Accounts receivable are presented net of allowances for doubtful accounts receivable. Although the collection of receivables can be impacted by economic factors, the Management believes that there is no significant risk of loss beyond the credit loss allowances already recorded. The other receivables do not contain any impaired assets.

The credit risk is also managed by only signing contracts with financially sound domestic and foreign banks, financial institutions and brokers within the framework of risk management policy. According to the estimate of the Management the receivables and accrued income without a credit rating from an independent party do not involve material credit risk, as there is no evidence of circumstances that would indicate impairment loss.

The Company's and the Group's exposure to credit risk from individual customers is limited as the large majority of the payments for flight tickets are collected before the service is provided. However, the Parent company and the Group have banking, hedging and aircraft manufacturer relationships that represent counterparty credit risk. The Parent company and the Group analysed the creditworthiness of the relevant business partners in order to assess the likelihood of non-performance of liabilities due to the Company and the Group. The credit quality of the Company's and the Group's financial assets is assessed by reference to external credit ratings of the counterparties as follows:

AIR BALTIC 31.12.2020	A+ TEUR	A- TEUR	BB+ TEUR	BBB+ TEUR	Other TEUR	Unrated TEUR	Total TEUR
Financial instruments							
Trade receivables, security deposits and other receivables	-	-	-	12 789	2 680	18 553	34 023
Cash	121 187	-	-	26 190	-	604	147 981
TOTAL FINANCIAL ASSETS	121 187	-	-	38 979	2 680	19 157	182 004

31.12.2019

Financial instruments							
Trade receivables, security deposits and other receivables	-	-	-	12 042	7 576	19 908	39 526
Derivative financial instruments	-	1 839	-	-	-	-	1 839
Cash	46	10 058	25 497	86 911	705	-	123 217
TOTAL FINANCIAL ASSETS	46	11 897	25 497	98 953	8 282	19 908	164 582

NOTES

3. FINANCIAL RISK MANAGEMENT (continued)

b) Risk analysis (continued)

GROUP	A+	A-	BB+	BBB+	Other	Unrated	Total
31.12.2020	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Financial instruments							
Trade receivables, security deposits and other receivables	-	-	-	12 789	2 680	16 025	31 494
Cash	121 471	-	-	26 229	-	605	148 305
TOTAL FINANCIAL ASSETS	121 471	-	-	39 018	2 680	16 630	179 799
31.12.2019							
Financial instruments							
Trade receivables, security deposits and other receivables	-	-	-	12 042	7 576	19 843	39 461
Derivative financial instruments	-	1 839	-	-	-	-	1 839
Cash	46	10 208	25 504	87 353	708	-	123 819
TOTAL FINANCIAL ASSETS	46	12 047	25 504	99 395	8 284	19 843	165 119

Based on the information above the Management does not consider the counterparty risk of any party being material and therefore no credit loss allowance was recognised for the respective cash or receivable balances.

For more detailed information on accounting policy for accounts receivable and their impairment, see Notes 2 (o) and 2 (q). Detailed analysis of trade accounts receivable is shown in Note 19.

Capital risk

The Parent company's and the Group's policy is to preserve an optimal capital base to keep investor, creditor and market confidence and to maintain sufficient financial resources to mitigate against risks and unforeseen events. Taking into account various industry forecasts about the negative long-term effects of the COVID-19 pandemic on the airline industry, airBaltic developed a new business plan - Destination 2025 CLEAN, based on which it sought financing from its shareholders and was successful in increasing its share capital by EUR 250 million.

The shareholders approved share capital increase on July 15, 2020, based on which the Government of Latvia invested EUR 250 million and became a 96.14% shareholder of airBaltic. The European Commission found the investment compatible with the EU internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union (according to the European Commission decision in case SA.56943 dated 3 July 2020).

Fair value estimation

The Company and the Group classify their assets and liabilities based on the technique used for determining fair value into the following categories:

Level 1: Fair value is determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value is determined based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value is determined based on inputs that are not based on observable market data (that is, on unobservable inputs).

The following table presents the Group's and airBaltic's assets and liabilities that are measured at fair value at 31 December 2020.

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	7 618	7 618
Investment property	-	-	2 850	2 850
Derivative financial liabilities	-	480	-	480
GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	11 229	11 229
Derivative financial liabilities	-	480	-	480

NOTES

3. FINANCIAL RISK MANAGEMENT (continued)

b) Risk analysis (continued)

The following table presents airBaltic's and the Group's assets and liabilities that are measured at fair value at 31 December 2019.

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	8 085	8 085
Investment property	-	-	4 930	4 930
Derivative financial assets	-	1 839	-	1 839
GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	10 662	10 662
Derivative financial assets	-	1 839	-	1 839

Specific valuation techniques used to value financial instruments are based on the quoted market prices or dealer quotes for similar instruments. All of the resulting fair value estimates are included in level 2.

The Group and airBaltic obtain independent valuations for its buildings and investment property with sufficient regularity. At the end of each reporting period, the Management updates the assessment of the fair value of each building, taking into account the most recent independent valuations. The Management determine a property's value within a range of reasonable fair value estimates. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Management considers information from a variety of other sources. Please see Note 14 and Note 15 on the principles of setting the fair value of buildings.

All other financial assets and financial liabilities are measured at amortized cost. The Group's and airBaltic's financial assets measured at amortized cost are included in level 3, except for cash and cash equivalents, which are included in level 2. The Group and airBaltic estimate that the fair values of assets and liabilities reported at amortised cost do not materially differ from the carrying amounts reported in the financial statements.

The fair values of other financial assets and other financial liabilities are based on discounted cash flows using a current borrowing rate.

NOTES

4. SEGMENT INFORMATION

Each company of the Group is considered as a separate segment. More than 90% of the Group's revenue comes from passenger transportation (ticket revenue and ancillary revenue) that is generated by the Parent company. Therefore only the Parent company is considered as a significant business unit for segment information purposes that provides airline related services, including scheduled services and other related services to third parties across European route network. All other segments - the management of frequent flyer program, provision of aviation related training services, cargo handling and outsourcing of aviation crew - are not reportable operating segments, and are not analysed as separate segments by the Parent company's Chief Operating Decision Maker (CODM). The results of these operations are included in the 'other segments' line.

The Parent company and the Group determine and present operating segments based on the information that internally is provided to the senior management team that is the CODM. When making resource allocation decisions, the CODM evaluates route revenue and yield data, however resource allocation decisions are made based on the entire route network and the deployment of the entire aircraft fleet. The objective in making resource allocation decisions is to maximise financial results, rather than profit on individual routes within the network. Therefore the whole business of the Parent company is considered as one segment.

The CODM assesses the performance of the business based on the net result of the Parent company and the Group for the year.

The Parent company's and the Group's major revenue-generating asset class comprises its aircraft fleet, which is flexibly employed across the Parent company's route network and is directly attributable to its reportable segment operations. The assets of the Parent company and the Group are analysed for segment information purposes. The assets of the subsidiaries are not analysed as separate segments.

Reportable segment information is presented as follows:

	2020 TEUR	2019 TEUR
Operating revenue of the Parent company	137 915	503 281
Revenue of other segments	32 333	42 873
Intersegment elimination arising from other segments	(27 660)	(37 199)
TOTAL REVENUE	142 588	508 955
Loss of the Parent company	(278 267)	(7 729)
(Loss) / profit of other segments	(196)	1 132
Intersegment elimination	13 866	(2 517)
TOTAL NET LOSS	(264 597)	(9 114)
Other segment information:		
Amortization and depreciation	(64 624)	(70 938)
Interest revenue	108	122
Interest expense	(48 183)	(40 470)
	31.12.2020	31.12.2019
	TEUR	TEUR
Reportable segment of the Parent company's assets	938 362	981 202
Reportable segment of the other segments' assets	14 179	14 848
Intersegment elimination arising from other segments	(11 500)	(24 814)
TOTAL ASSETS	941 041	971 236
Reportable segment of the Parent company's liabilities	923 731	935 463
Reportable segment of the other segments' liabilities	10 012	11 325
Intersegment elimination arising from other segments	(9 741)	(9 464)
TOTAL LIABILITIES	924 002	937 324

All non-current assets, other than the fleet, are located in Latvia.

NOTES

4. SEGMENT INFORMATION (continued)

Entity-wide disclosures

Revenue from external customers can be analysed by geographic area as follows:

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Europe	133 167	487 412	137 718	492 741
Other	4 748	15 869	4 870	16 214
TOTAL	137 915	503 281	142 588	508 955

Revenue was allocated to geographical areas based on the location of the destination airport. The Group and the Parent company does not perform a separate analyses of the revenues derived specifically to / from Riga as the routes are analysed on a segment level.

5. REVENUE

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Ticket revenue	116 102	425 723	118 701	427 465
Ancillary revenue	11 868	34 691	11 867	34 691
Charter revenue	3 656	11 969	3 656	11 969
Cargo revenue	4 308	7 822	4 697	8 334
Aircraft lease revenue	-	19 796	-	19 796
TOTAL	135 934	500 001	138 921	502 255

The total revenue from contracts with customers recognised by airBaltic and the Group over the time in 2020 was EUR 135 934 thousand (EUR 480 205 thousand) and EUR 138 921 thousand (2019: EUR 482 459 thousand) respectively.

The following table shows how much of the revenue recognised by airBaltic and the Group in the current reporting period relates to carried-forward contract liability balance at the beginning of the year:

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Passenger revenue	15 222	26 329	15 222	26 329
Revenue from loyalty program	-	-	220	497

6. PERSONNEL COSTS

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Remuneration	26 205	33 008	41 248	53 581
Social insurance contributions	6 308	7 937	9 949	12 905
Other personnel expense	(40)	391	6 812	8 049
TOTAL	32 473	41 336	58 009	74 535

NOTES

6. PERSONNEL COSTS (continued)

Compensations paid to Board members of the Parent company

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Executive Board members				
Remuneration	1 187	2 590	1 187	2 590
Social insurance contributions	286	624	286	624
Supervisory Board members				
Remuneration	150	154	150	154
Social insurance contributions	36	37	36	37
TOTAL	1 659	3 405	1 659	3 405

	AIR BALTIC		GROUP	
	2020	2019	2020	2019
Average number of employees during the reporting year, including:				
Executive Board members	3	3	3	3
Supervisory Board members	4	4	4	4

7. OTHER OPERATING COSTS

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Provision for onerous contracts (see Note 25)	22 725	-	22 725	-
Administration expenses	9 029	9 638	9 771	9 681
Crew administration expenses	3 442	7 514	3 604	7 358
Net loss / (gain) from fair value adjustment of investment properties	2 080	(2 133)	-	-
Other costs	3 625	1 566	4 481	3 931
TOTAL	40 901	16 585	40 581	20 970

8. AUDITOR'S REMUNERATION

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Audit of financial statements	60	49	80	66
Tax and other consulting services	20	34	60	39
Other audit related services	4	218	4	218
TOTAL	84	301	144	323

During 2020 various consultations were received related to the application of tax legislation and appropriate accounting policies.

9. FINANCE COSTS

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Interest expense on borrowings and lease	48 031	40 323	48 183	40 470
Other interest and similar expenses	1 447	871	1 544	878
TOTAL	49 478	41 194	49 727	41 348

NOTES

10. IMPAIRMENT LOSSES ON INVESTMENTS IN SUBSIDIARIES (THE PARENT COMPANY)

	2020 TEUR	2019 TEUR
Impairment loss (see Note 17)	12 080	-

11. FINANCE INCOME

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Interest income on bank deposits and other	126	151	108	122

12. PROVISIONS FOR LEGAL DISPUTES

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Provision for legal disputes	(11 500)	-	(11 500)	-
Release of provisions for legal disputes	-	6 755	-	6 755
	(11 500)	6 755	(11 500)	6 755

See Notes 25 and 30 (b).

13. CORPORATE INCOME TAX

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Corporate income tax on dividends	-	-	(1 701)	(1 927)
Corporate income tax on conditionally distributed profit	-	-	(28)	(4)
Corporate income tax adjustment for 2018	-	-	-	55
TOTAL	-	-	(1 729)	(1 876)

Corporate income tax resulting from distributable profits

As at 31 December 2020 the Parent company had accumulated tax losses of EUR 220 million of which EUR 33 million the Parent company will be able to utilise in reducing corporate income tax on distributed profits in future years.

As at 31 December 2020 Loyalty Services SIA had accumulated tax losses of EUR 4.6 million of which EUR 700 thousand the subsidiary will be able to utilise in reducing corporate income tax on distributed profits in future years.

NOTES

14. PROPERTY, PLANT AND EQUIPMENT

The following two tables reflect the reconciliation of the carrying amount at the beginning and the end of the period for airBaltic and the Group.

AIR BALTIC	Buildings and land TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2018.	15 828	7 041	442 715	58 333	523 917
Additions	9 173	11 575	299 246	9 225	329 219
Disposals	-	(138)	(11 899)	(2 112)	(14 149)
Reclassification	6	(6)	3 944	(3 944)	-
31.12.2019.	25 007	18 472	734 006	61 502	838 987
Accumulated depreciation					
31.12.2018.	7 160	4 997	33 720	28 565	74 442
Charge for 2019	1 642	689	58 506	8 139	68 976
Charge on revalued amount	310	-	-	-	310
Disposals	-	(133)	(5 027)	(1 466)	(6 626)
Reclassification	2	(2)	1 617	(1 617)	-
31.12.2019.	9 114	5 551	88 816	33 621	137 102
Cost or revalued amount					
31.12.2019.	25 007	18 472	734 006	61 502	838 987
Additions	301	1 634	66 490	6 666	75 091
Disposals	(17)	(63)	(18 336)	(35 793)	(54 209)
31.12.2020.	25 291	20 043	782 160	32 375	859 869
Accumulated depreciation					
31.12.2019.	9 114	5 551	88 816	33 621	137 102
Charge for 2020	1 742	1 500	51 083	7 660	61 985
Charge on revalued amount	310	-	-	-	310
Disposals	(6)	(56)	(15 964)	(28 246)	(44 272)
31.12.2020.	11 160	6 995	123 935	13 035	155 125
Impairment loss	-	-	(72 891)	-	(72 891)
Net book value 31.12.2020.	14 131	13 048	585 334	19 340	631 853
including Right of use assets	6 513	-	585 334	-	591 847
Net book value 31.12.2019.	15 893	12 921	645 190	27 881	701 885
including Right of use assets	7 808	-	638 053	-	645 861

NOTES

14. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP	Buildings and land TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2018.	20 387	8 859	444 913	58 333	532 492
Additions	9 181	11 687	300 659	9 225	330 752
Disposals	-	(149)	(11 899)	(2 118)	(14 166)
Reclassification	6	(6)	3 943	(3 943)	-
31.12.2019.	29 574	20 391	737 616	61 497	849 078
Accumulated depreciation					
31.12.2018.	8 922	5 951	33 792	28 565	77 230
Charge for 2019	1 947	925	58 735	8 133	69 740
Charge on revalued amount	233	-	-	-	233
Disposals	-	(143)	(5 027)	(1 466)	(6 636)
Reclassification	2	(2)	1 617	(1 617)	-
31.12.2019.	11 104	6 731	89 117	33 615	140 567
Cost or revalued amount					
31.12.2019.	29 574	20 391	737 616	61 497	849 078
Additions	1 095	1 684	66 972	6 667	76 418
Revaluation	494	-	-	-	494
Disposals	(17)	(163)	(18 366)	(35 793)	(54 339)
31.12.2020.	31 146	21 912	786 222	32 371	871 651
Accumulated depreciation					
31.12.2019.	11 104	6 731	89 117	33 615	140 567
Charge for 2020	2 068	1 725	51 372	7 661	62 826
Charge on revalued amount	239	-	-	-	239
Disposals	(7)	(88)	(15 977)	(28 247)	(44 319)
31.12.2020.	13 404	8 368	124 512	13 029	159 313
Impairment loss	-	-	(72 891)	-	(72 891)
Net book value 31.12.2020.	17 742	13 544	588 819	19 342	639 447
including right of use assets	6 513	-	585 334	-	591 847
Net book value 31.12.2019.	18 470	13 660	648 499	27 882	708 511
including right of use assets	7 808	-	638 053	-	645 861

NOTES

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment test

At the end of 2020, the Management of the Parent company and the Group performed the impairment test of property, plant and equipment (including right of use assets), investment properties and intangible assets. The potential triggers of impairment were considered particularly in the context of COVID-19. For impairment test purposes the business of each separate Group company was considered as separate cash generating units. The Parent company is the only significant cash generating unit. The recoverable amount of the assets was estimated based on their value in use.

Considering the Management's decision of early phase out of Q400 fleet, the net book value of total assets related to the Q400 fleet was treated as a separate asset for which full impairment was recognized.

The impairment test of the remaining property, plant and equipment, intangible assets and investment properties that were treated as a separate cash generating unit did not reflect the need for recognizing an impairment loss because the assets' value in use exceeds their carrying amount.

The recoverable amount was based on discounted future cash flow for the period of 2021 – 2025 of the current aircraft fleet of the Parent company. The expected future cash flows were discounted using a discount rate of 10.8% (2019: 8.5%). Several key assumptions used in impairment test are sensitive to changes, which might affect the estimated recoverable value of assets:

- unit revenue per revenue passenger kilometre (ticket yield),
- volume of scheduled passengers,
- USD/EUR exchange rate,
- Weighted Average Cost of Capital (WACC).

In conducting the impairment test the near term yield was forecasted based on the current industry trends as well as on experts' forecasts. It was assumed that the yield in 2021 would remain at the 2020 level as travel restrictions and passenger flows are expected to be constrained also in 2021. The model assumes the lifting of travel restrictions in 2021. As for the impairment test purposes the model considered only the current fleet of the airline, the yield for the remaining period of the analysis was assumed stable. Though such assumption is only valid with constant fleet and hence limited seat capacity offered.

Passenger volumes in the first half of 2021 were forecasted to be severely affected by the travel restrictions. The model assumes that the travel restrictions will be lifted gradually in the second and the third quarter of 2021. In the base case scenario the total number of scheduled passengers assumed to be 39% below 2019. The substantial increase in travel and in air passenger travel in particular was forecasted as of 2022 when immunization of population against COVID-19 expected to be generally achieved and common rules of travel established in European region. Passenger growth assumed 40% in 2022 compared to 2021, while still being 14% below the level of 2019. Passenger increase as from 2023 until 2025 assumed 4%. Terminal year passenger volume in 2025 conservatively assumed to be 4% below passenger volume in 2019.

The EUR/USD exchange rate forecasted based on relevant forward prices until 2025 and in the model were reduced by 2% to use more conservative assumption. Rates vary from EUR/USD 1.19 to 1.24.

The market price of jet fuel forecasted based on relevant forward prices and for the impairment test purpose increased by 2%. Rates vary from 480 to 536 USD/MT.

The table presents a reasonably possible change in each key assumption that would cause the cash generating unit's carrying amount to be equal to its recoverable amount, while other assumptions unchanged.

Assumption	Change
Ticket yield	Decrease 2.3%
Scheduled passengers	Decrease 2.3%
USD exchange rate	Decrease 9.2%
WACC	Increase 12.6%

The Company and the Group are continuously monitoring COVID-19 outbreak developments and amending where necessary their short term operating plans accordingly. The Company's and the Group's short term performance will depend, to a great extent, on the continued duration and spread of the pandemic and the success of the vaccinations programmes currently being rolled out in Latvia and the rest of Europe and ultimately on the extent of the current and future travel advisories and restrictions.

Fully depreciated assets

Property, plant and equipment at 31 December 2020 include fully depreciated assets with a total cost of EUR 15.4 million (31 December 2019: EUR 18.9 million) for the Group and EUR 15.4 million (31 December 2019: EUR 18.7 million) for airBaltic.

Pledged assets

Information on pledged assets is disclosed in the Note 30 (a).

NOTES

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Revalued assets

In 2020, the revaluation of the Parent company's and the Group's buildings was performed by certified independent estate valuers using the income approach. According to the Group's accounting policy, the net book value of buildings was adjusted to the valuation by recognising the gain in Revaluation reserve.

If buildings were recorded at cost less accumulated depreciation, their net book value would be as follows:

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Cost	6 476	6 335	9 469	9 321
Accumulated depreciation	(1 342)	(1 044)	(3 009)	(2 575)
NET BOOK VALUE	5 134	5 291	6 460	6 746

Right of use assets

The weighted average incremental borrowing rate applied to measure lease liabilities is 5% for aircraft and 1.7% - 2.6% for other assets.

Even though the airline intends to develop its business on the basis of its A220 fleet, the Management is not certain if it will exercise any options to extend the leases embedded in some of the lease contracts as all contracts expire in more than 10 years and both the extension terms at the time and the market conditions at the time are highly unpredictable. No extension option will be exercised for any other lease as the Management concludes that there are no economic incentives to exercise the option.

Neither the Parent company nor the Group provide any residual value guarantees.

The table below shows the movement in each class of right of use assets:

AIR BALTIC AND THE GROUP	Buildings TEUR	Aircraft TEUR	Total TEUR
31.12.2018	-	392 617	392 617
IFRS 16 adjustment	8 882	104 511	113 393
Balance at 01.01.2019	8 882	497 128	506 010
Additions – new lease contracts	231	189 053	189 284
Improvements to the right of use assets	58	5 725	5 783
Depreciation	(1 363)	(53 853)	(55 216)
31.12.2019	7 808	638 053	645 861
Additions – new lease contracts	-	66 106	66 106
Improvements to the right of use assets	160	384	544
Impairment loss	-	(72 891)	(72 891)
Disposals	(11)	(136)	(147)
Depreciation	(1 444)	(46 182)	(47 626)
31.12.2020	6 513	585 334	591 847

The following amounts related to the right of use assets are recognized in the Income statement:

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Depreciation charge for the right of use assets by class of assets				
<i>Aircraft</i>	46 182	53 853	46 182	53 853
<i>Land and buildings</i>	1 444	1 363	1 444	1 363
Total depreciation charge	47 626	55 216	47 626	55 216
Interest expense on lease liabilities (included in Finance cost)	33 920	31 213	33 920	31 213
Expense relating to short-term leases (included in Aircraft maintenance and Other operating expense)	304	1 166	304	1 227
TOTAL EXPENSES RELATED TO LEASES	81 850	87 595	81 850	87 656

NOTES

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The following amounts related to the right of use assets are recognized in the cash flow statement:

	AIR BALTIC		GROUP	
	2020 TEUR	2019 TEUR	2020 TEUR	2019 TEUR
Principal	60 394	54 146	60 394	54 146
Interest	33 943	31 213	33 943	31 213
Other operating costs	304	1 166	304	1 227
TOTAL CASH OUTFLOWS	94 641	86 525	94 641	86 586

15. INVESTMENT PROPERTIES (THE PARENT COMPANY)

	TEUR
Fair value	
31.12.2018.	2 797
Gain on fair value adjustment	2 133
31.12.2019.	4 930
Loss on fair value adjustment	(2 080)
31.12.2020.	2 850

Information on pledged assets is disclosed in Note 30 a).

In 2020, the revaluation of the Company's buildings was performed by the certified independent estate valuers using the income approach. According to the Company's accounting policies the impairment loss was recognised.

The investment property is primarily leased out to Group companies.

The following amounts related to the Investment properties are recognized in the Income statement:

	2020 TEUR	2019 TEUR
Rental income	396	420
Direct operating expenses of the Investment property	(247)	(249)

NOTES

16. INTANGIBLE ASSETS

	AIR BALTIC			GROUP		
	Trademarks	Licences and software	Total	Trademarks	Licences and software	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost						
31.12.2018.	13 000	11 278	24 278	13 000	12 933	25 933
Additions	-	2 963	2 963	-	3 133	3 133
Disposals	-	(662)	(662)	-	(838)	(838)
31.12.2019.	13 000	13 579	26 579	13 000	15 228	28 228
Accumulated amortization						
31.12.2018.	-	8 186	8 186	-	8 927	8 927
Charge for 2019	-	972	972	-	1 198	1 198
Disposals	-	(662)	(662)	-	(782)	(782)
Reclassification	-	(1)	(1)	-	(1)	(1)
31.12.2019.	-	8 495	8 495	-	9 342	9 342
Cost						
31.12.2019.	13 000	13 579	26 579	13 000	15 228	28 228
Additions	-	1 522	1 522	-	1 553	1 553
Disposals	-	(43)	(43)	-	(181)	(181)
31.12.2020.	13 000	15 058	28 058	13 000	16 600	29 600
Accumulated amortization						
31.12.2019.	-	8 495	8 495	-	9 342	9 342
Charge for 2020	-	1 568	1 568	-	1 798	1 798
Disposals	-	(34)	(34)	-	(106)	(106)
31.12.2020.	-	10 029	10 029	-	11 034	11 034
Net book value 31.12.2020.	13 000	5 029	18 029	13 000	5 566	18 566
Net book value 31.12.2019.	13 000	5 084	18 084	13 000	5 886	18 886

Information on pledged assets is disclosed in the Note 30 (a).

Intangible assets at 31 December 2020 include fully amortized assets with a total cost of EUR 6.9 million (31 December 2019: EUR 6.2 million) for Parent company and EUR 7.1 million (31 December 2019: EUR 6.4 million) for the Group.

Several trademarks of the Parent company are with indefinite useful life. As at 31 December 2020 the net book value of such trademarks was EUR 13 million (31 December 2019: EUR 13 million). The Parent company and the Group places great importance on its brand and the Parent company relies on positive brand recognition to attract customers. In order to legally protect its brand the Parent company has among other things registered its brand as a trademark. The Parent company has registered not only its firm name airBaltic but also various other word and colour combinations that could be associated with the airBaltic brand or the airBaltic business activities (that includes the green colour associated with airBaltic brand when used in transport services in Latvia). Most of the trademarks are registered in Latvia while some key trademarks (like firm name and brand of the Company) are registered also as EU trademarks (at EUIPO register) and international trademarks (at WIPO register). An analysis performed by the Parent company and the Group provides evidence that the net cash inflows from using the trademarks will flow to the Parent company and the Group for an indefinite period. Therefore, the trademarks are carried at cost without amortisation, but are tested for impairment in accordance with note 2 (m).

At the end of 2020, the Management of the Group performed the impairment test of intangible assets. See Note 14.

NOTES

17. INVESTMENTS IN SUBSIDIARIES AND OTHER INVESTMENTS (THE PARENT COMPANY)

	Investments in subsidiary undertakings TEUR	Other investments TEUR	Total TEUR
01.01.2019	13 723	3	13 726
Shares of liquidated subsidiaries	(6)	-	(6)
Sale of shares	(1)	-	(1)
31.12.2019	13 716	3	13 719
Impairment provision	(12 080)	-	(12 080)
Acquisition of shares	8	-	8
31.12.2020	1 644	3	1 647

Financial information on subsidiary undertakings

Name	Address	Equity		(Loss) / Profit	
		31.12.2020 TEUR	31.12.2019 TEUR	2020 TEUR	2019 TEUR
Loyalty Services SIA	Mūkusalas Street 42, Riga, Latvia, LV-1004	1 233	1 903	(670)	715
Air Baltic Training SIA	Pilotu Street 6, Riga, Latvia, LV-1053	1 441	1 497	(56)	88
Aviation Crew Resources AS	Pilotu Street 6, Latvia, LV-1053	1 546	881	665	402
Baltijas Kravu centrs SIA	Ziemeļu Street 18, Riga, Latvia, LV-1053	(176)	23	(199)	5

Name	Carrying value of investments in subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 %	31.12.2019 %
Loyalty Services SIA	1 234	13 314	100	100
Air Baltic Training SIA	3	3	100	100
Aviation Crew Resources AS	127	119	100	92.03
Baltijas Kravu centrs SIA	280	280	100	100
TOTAL	1 644	13 716		

NOTES

18. DIVISION OF FINANCIAL INSTRUMENTS BY CATEGORY

AIR BALTIC					GROUP		
Note	Amortised cost TEUR	FVPL TEUR	Total TEUR	Amortised cost TEUR	FVPL TEUR	Total TEUR	
As at 31.12.2020							
Trade receivables, security deposits and other receivables	19	34 024	-	34 024	31 494	-	31 494
Cash	22	147 981	-	147 981	148 305	-	148 305
TOTAL FINANCIAL ASSETS	182 005	-	182 005	179 799		179 799	
As at 31.12.2019							
Trade receivables, security deposits and other receivables	19	39 526	-	39 526	39 461	-	39 461
Derivative financial instruments	20	-	1 839	1 839	-	1 839	1 839
Cash	22	123 217	-	123 217	123 819	-	123 819
TOTAL FINANCIAL ASSETS	162 743	1 839	164 582	163 280	1 839	165 119	
	Amortised cost TEUR	FVPL TEUR	Total TEUR	Amortised cost TEUR	FVPL TEUR	Total TEUR	
As at 31.12.2020							
Borrowings and lease	24	793 955	-	793 955	796 543		796 543
Derivative financial instruments	20	-	480	480	-	480	480
Trade and other payables	26	42 450	-	42 450	38 772	-	38 772
TOTAL FINANCIAL LIABILITIES	836 405	480	836 885	835 315	480	835 795	
As at 31.12.2019							
Borrowings and lease	24	814 290	-	814 290	817 096	-	817 096
Trade and other payables	26	62 688	-	62 688	60 222	-	60 222
TOTAL FINANCIAL LIABILITIES	876 978	-	876 978	877 318		877 318	

FVPL – fair value through profit or loss

NOTES

19. TRADE AND OTHER RECEIVABLES

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Non-current				
Security deposits	21 310	22 020	21 098	21 808
Prepayments for acquisition of property, plant and equipment	61 163	42 336	61 461	43 416
Prepayments for acquisition of intangible assets	215	676	313	676
Accrued revenue	214	-	213	-
Other receivables	29	63	29	283
TOTAL	82 931	65 095	83 114	66 183
Current				
Prepaid expenses	34 976	25 015	35 059	25 117
Trade receivables	8 418	12 321	6 310	12 021
Other receivables	4 266	5 122	4 057	5 349
Accrued revenue	448	3 216	1 126	2 645
TOTAL	48 108	45 674	46 552	45 132

Security deposits are interest free deposits paid to aircraft lessors and airports. The Parent company and the Group have analysed the creditworthiness of the relevant business partners in order to assess the likelihood of non-performance of liabilities due to the Parent company and the Group. There has been no material impairment loss identified at the end of the reporting year (31 December 2019: no material impairment loss identified).

The fair values of receivables and prepayments do not significantly differ from their carrying amounts. Most of the Parent company's and the Group's trade receivables are in euros, however, majority of security deposits and prepaid expenses are denominated in US dollars. The amount of receivables denominated in US dollars is disclosed in Note 3 b).

The table below shows the analysis of Trade receivables.

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Trade receivables, gross	9 207	12 993	7 245	12 793
Loss allowance	(789)	(672)	(935)	(772)
TRADE RECEIVABLES, NET	8 418	12 321	6 310	12 021
Current	5 716	9 551	5 294	9 714
1 - 30 days past due	2 316	2 294	920	2 024
31 - 60 days past due	110	139	193	150
61 – 90 days past due	36	335	51	370
more than 90 days past due	1 029	674	787	535
TRADE RECEIVABLES, GROSS	9 207	12 993	7 245	12 793
Credit loss allowance made				
Current	(26)	(130)	(26)	(131)
1 - 30 days past due	(115)	(37)	(115)	(37)
31 - 60 days past due	(5)	(16)	(5)	(16)
61 – 90 days past due	(2)	(62)	(2)	(62)
3 - 6 months past due	(38)	(17)	(38)	(19)
More than 6 months past due	(603)	(410)	(749)	(507)
TRADE RECEIVABLES, NET	8 418	12 321	6 310	12 021

NOTES

20. DERIVATIVE FINANCIAL INSTRUMENTS

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Current assets				
Cash flow hedges	-	1 839	-	1 839
Current liabilities				
Cash flow hedges	(480)	-	(480)	-
NET DERIVATIVE FINANCIAL INSTRUMENTS	(480)	1 839	(480)	1 839

The Parent company uses jet fuel swap contracts to manage exposure to jet fuel prices. These are used to hedge the airBaltic's forecasted fuel purchases, and are arranged to match as closely as possible against forecasted fuel delivery and payment requirements. These are designated as cash-flow hedges of forecasted fuel payments and have been determined to be highly effective in offsetting variability in future cash flows arising from fluctuations in jet fuel prices.

The following table indicate the amounts that were reclassified from other comprehensive income into the Income statement in respect of cash-flow hedges realized during the year:

	AIR BALTIC		GROUP	
	2020	2019	2020	2019
	TEUR	TEUR	TEUR	TEUR
Reclassification adjustment recognized in Fuel	(1 839)	288	(1 839)	288

The following table indicates the periods in which cash flows associated with derivatives that are designated as cash-flow hedges are expected to occur and to impact the result of the respective year:

	AIR BALTIC AND GROUP			
	Net carrying amount	Expected cash flows	2020	2021
	TEUR	TEUR	TEUR	TEUR
Commodity swap contracts				
31.12.2020	(480)	(480)	-	(480)
31.12.2019	1 839	1 839	1 839	-

21. INVENTORIES

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Inventory	7 377	7 421	5 373	7 525
Allowance for slow moving and obsolete inventory	(2 414)	(662)	(319)	(662)
TOTAL	4 963	6 759	5 054	6 863

NOTES

22. CASH

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Cash deposits with original maturity over 3 months	25 000	75 000	25 000	75 000
Cash at bank and on hand	122 981	48 217	123 305	48 819
TOTAL	147 981	123 217	148 305	123 819

There has been no credit loss allowance provided at the end of the reporting year due to its insignificance (31 December 2019: no credit loss allowance).

23. SHARE CAPITAL

Following approval from the European Commission of a EUR 250 million Latvian Government measure to recapitalise airBaltic in the context of the coronavirus outbreak, the Shareholders' Meeting increased the share capital of the Parent company in July 2020. The share capital was increased by issuing B and C category shares. The Parent company has issued the following shares:

- A category shares with a nominal value of EUR 1 each,
- B category shares with a nominal value of EUR 0.3 each,
- C category shares with a nominal value of EUR 0.1 each.

Each of the new B and C category shares:

- grant its holder one vote at airBaltic's Shareholders' Meeting,
- entitle its holder to equal rights (regardless of the nominal value of the share) to receive a dividend and a liquidation quota as each A category share (i.e. airBaltic's existing remaining shares prior to the COVID-19 investment),
- give the same priority rights (regardless of the nominal value of the share) as each A category share to acquire newly issued shares in case of a share capital increase and to acquire convertible bonds in case of issue of convertible bonds.

All contributions to the share capital of the Parent company were made by the Republic of Latvia in the amount of EUR 250 million in the form of additional cash injection in July 2020 in accordance with Decree No 256 of the Cabinet of Ministers dated 8 May 2020 (with amendments made in accordance with Decree No 372 of the Cabinet of Ministers dated 15 May 2020), by which the Cabinet of Ministers approved the participation in the share capital increase of the Parent company. The share capital increase was also made in accordance with the decision of the European Commission in case SA.56943.

The shareholders structure as of 31.12.2020 after the capital increase is as follows:

	Participating interest %	A category shares	B category shares	C category shares	Share capital TEUR
Republic of Latvia	96.14	205 318 668	715 681 616	352 955 152	455 319
Aircraft Leasing 1 SIA	3.86	51 152 036	-	-	51 152
Other	0.0002	2 120	-	-	2
TOTAL	100	256 472 824	715 681 616	352 955 152	506 473

The Ministry of Transport as representative of the Republic of Latvia with 96.14% shareholding can adopt majority decisions alone and thus exercise control over the Company. However, the shareholders agreement has been concluded with the second major shareholder - Aircraft Leasing 1 SIA - that provides for co-approval from the Aircraft Leasing 1 SIA representative in several areas at the Supervisory Board level (e.g., acquisition, sale and lease of aircraft, material changes to the Business plan, changes to the Board and Supervisory Board regulations).

Other contributions

According to the agreement signed on 27 October 1997, the former shareholders (e.g., private founders of the Parent company) paid in cash, in proportion to each shareholder's shareholding in the Parent company, as conditional contribution to the Parent company of USD 2.8 million (EUR 2.3 million). The purpose of the conditional contribution was to financially support and ensure that airBaltic is able to operate scheduled flights to and from Russia. The conditional contribution is repayable to the former shareholders as soon as airBaltic has distributable earnings subject to the approval of the shareholders. The contribution referred to above is repayable only if and when airBaltic has distributable earnings. According to the Commercial Law distributable earnings can only be defined by the shareholders (e.g. by current shareholders meeting), after they have approved the annual report. Distribution of earnings, if any, should be subject to the shareholders' decision only. Due to the above conditions, its substance is considered to be similar to equity, and the contribution is, therefore, recorded as a part of the Parent company's equity. No shareholders' decisions have been taken until authorization of these financial statements that would indicate that the contribution would have to be classified differently.

NOTES

24. BORROWINGS AND LEASE LIABILITIES

BORROWINGS	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Non-current				
Eurobond	197 159	196 365	197 159	196 365
Borrowings from the shareholders	36 141	36 141	36 141	36 141
Bank borrowings	-	-	-	2 237
TOTAL	233 300	232 506	233 300	234 743
Current				
Bank borrowings	-	-	2 588	569
TOTAL	-	-	2 588	569

Eurobond

On 23 July 2019 airBaltic placed a 200 million euro issue 6.75 percent 5-year bonds. The bonds are listed on Euronext Dublin stock exchange.

Borrowings from A/S Swedbank

A Group company has received a loan of total amount of EUR 3 266 thousand with an original maturity of 3 years.

Borrowings from the shareholders

The loan is repayable on 31 December 2026 and is issued on market terms.

LEASE LIABILITIES	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Non-current	500 052	520 826	500 052	520 826
Current	60 603	60 958	60 603	60 958

NOTES

24. BORROWINGS AND LEASE LIABILITIES (continued)

The table below shows the movements in major class of borrowings and lease liabilities during the financial year.

AIR BALTIC	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Total TEUR
01.01.2019	323 397	36 141	57 592	417 130
New lease contracts	192 915	-	-	192 915
IFRS 16 adjustment	112 413	-	-	112 413
Currency translation difference	6 919	-	-	6 919
Other	286	-	(3 636)	(3 350)
Repayment, excluding interest payments	(54 146)	-	(61 591)	(115 737)
Loans received	-	-	220 647	220 647
Other settlements	-	-	(16 647)	(16 647)
31.12.2019	581 784	36 141	196 365	814 290
New lease contracts	72 743	-	-	72 743
Other	285	-	794	1 079
Repayment, excluding interest payments	(60 394)	-	-	(60 394)
Currency translation difference	(24 392)	-	-	(24 392)
Other settlements	(9 371)	-	-	(9 371)
31.12.2020	560 655	36 141	197 159	793 955

GROUP	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
31.12.2018	323 397	36 141	57 592	2 461	419 591
New lease contracts	192 915	-	-	-	192 915
IFRS 16 adjustment	112 413	-	-	-	112 413
Currency translation difference	6 919	-	-	-	6 919
Other	286	-	(3 636)	15	(3 335)
Repayment, excluding interest payments	(54 146)	-	(61 591)	(375)	(116 112)
Loans received	-	-	220 647	705	221 352
Other settlements	-	-	(16 647)	-	(16 647)
31.12.2019	581 784	36 141	196 365	2 806	817 096
New lease contracts	72 743	-	-	-	72 743
Other	285	-	794	15	1 094
Repayment, excluding interest payments	(60 394)	-	-	(233)	(60 627)
Currency translation difference	(24 392)	-	-	-	(24 392)
Other settlements	(9 371)	-	-	-	(9 371)
31.12.2020	560 655	36 141	197 159	2 588	796 543

NOTES

24. BORROWINGS AND LEASE LIABILITIES (continued)

The table below shows borrowings by period that interest rates are fixed for (period until earlier of next interest rate repricing date and maturity date).

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Less than 1 year	60 603	60 958	63 191	61 527
Later than 1 year but not later than 5 years	412 323	421 131	412 323	423 368
Later than 5 years	321 029	332 201	321 029	332 201
TOTAL	793 955	814 290	796 543	817 096

Commitments in relation to leases are payable as follows:

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Within one year	92 956	94 763	92 956	94 763
Later than 1 year but not later than 5 years	310 126	323 437	310 126	323 437
Later than 5 years	328 464	348 721	328 464	348 721
MINIMUM LEASE PAYMENTS	731 546	766 921	731 546	766 921
Future finance charges	(170 891)	(185 137)	(170 891)	(185 137)
RECOGNISED AS A LIABILITY	560 655	581 784	560 655	581 784

The present value of finance lease liabilities is as follows:

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Within one year	60 603	60 958	60 603	60 958
Later than 1 year but not later than 5 years	215 164	224 765	215 164	224 765
Later than 5 years	284 888	296 061	284 888	296 061
MINIMUM LEASE PAYMENTS	560 655	581 784	560 655	581 784

The table below shows the weighted average effective interest rates of borrowings.

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Lease liabilities, borrowings and financial liabilities	5,89%	6,02%	5,89%	6,02%

During 2020 the Group has complied with the financial covenants of its borrowing facilities. Please see Note 2 b) for more on the Group's expectations on meeting the financial covenants for next 12 month.

Information on pledged assets is disclosed in the Note 30 (a).

NOTES

25. PROVISIONS

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Aircraft maintenance provision	10 381	19 752	10 381	19 752
Provision for onerous contracts	32 822	-	32 822	-
Provision for legal disputes (see Note 30 (b))	11 500	-	11 500	-
Other	-	255	-	255
TOTAL	54 703	20 007	54 703	20 007

The table below shows the movements in each class of provision during the financial year.

AIR BALTIC AND THE GROUP	Provision for onerous contracts TEUR	Aircraft maintenance provision TEUR	Provision for legal disputes TEUR	Other TEUR	Total TEUR
31.12.2018		13 768	6 755	279	20 802
Additional provision charged to PPE	-	5 984	-	-	5 984
Charged / (credited) to profit or loss					
additional provisions recognised	-	-	-	89	89
unused amounts (reversed)	-	-	(6 755)	-	(6 755)
Amounts used during the year	-	-	-	(113)	(113)
31.12.2019	-	19 752	-	255	20 007
Additional provision charged to PPE	-	1 748	-	-	1 748
Reclassification to onerous contracts	10 097	(10 097)	-	-	-
Charged to Income statement					
additional provisions recognised	22 725	-	11 500	-	34 225
Amounts used during the year	-	(1 022)	-	(255)	(1 277)
31.12.2020	32 822	10 381	11 500	-	54 703

Aircraft maintenance provision

Long-term aircraft maintenance provisions are expected to be settled in 2030 – 2032.

Provision for onerous contracts

Following the Management decision of phasing out the Bombardier Q400 aircraft the provision for onerous lease contracts was established. The provision is made for by discounting the unavoidable costs related to the lease contracts, such as redelivery costs, maintenance costs and other.

Provision for legal disputes

The Parent company has created a provision for historic claims related to ex-shareholders and their creditors about their obligations towards the Parent company and the Republic of Latvia back in 2011 and 2012. These provisions have been made due to prolonged procedural complexities triggering restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position and the Management believes that no future expense to the airline will arise from this case. The airline has also created a provision for potential loss from the settlement with one of its suppliers.

26. TRADE AND OTHER PAYABLES

	AIR BALTIC		GROUP	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TEUR	TEUR	TEUR	TEUR
Trade payables	11 024	27 090	7 247	20 502
Accrued liabilities	30 996	35 527	31 452	39 623
Other payables	430	71	73	97
TOTAL	42 450	62 688	38 772	60 222

NOTES

27. TAX LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Non-current				
Social insurance contributions	3 225	-	3 385	-
Personal income tax	1 402	-	1 452	-
TOTAL	4 627	-	4 837	-
Current				
Social insurance contributions	1 534	963	1 660	1 540
Personal income tax	30	50	392	208
Corporate income tax	-	-	-	4
Other	-	-	43	38
TOTAL	1 564	1 013	2 095	1 790

Non-current tax liabilities are repayable by June 2023.

28. CONTRACT LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Deferred income from ticket revenue and travel vouchers	20 830	31 068	20 830	31 068
The amount of airport taxes collected	5 122	6 285	5 122	6 285
Deferred income from loyalty program revenue	-	-	606	497
Other	-	112	14	359
TOTAL	25 952	37 465	26 572	38 209

Contract liabilities represent the value of tickets and airport taxes paid by passengers for which the flight service is yet to be performed. It also includes the value of loyalty program points sold, but not yet redeemed and the value of travel vouchers (see Note 2 f).

29. RELATED PARTY TRANSACTIONS

During 2020 the Parent company has performed the following transactions with other Group companies.

Related party		Services provided TEUR	Services received TEUR	Amounts owed by related parties TEUR	Amounts owed to related parties TEUR
Aviation Crew Resources AS	2020 /31.12.2020	43	26 827	238	5 098
	2019 /31.12.2019	643	34 468	333	6 045
Baltijas Kravu Centrs SIA	2020 /31.12.2020	135	135	300	26
	2019 /31.12.2019	143	376	297	109
Air Baltic Training SIA	2020 /31.12.2020	667	302	2 266	-
	2019 /31.12.2019	1 009	271	880	-
Loyalty Services SIA	2020 /31.12.2020	187	1 101	31	1 285
	2019 /31.12.2019	401	1 999	14	1 131
TOTAL 2020 /31.12.2020		1 032	28 365	2 835	6 409
TOTAL 2019 /31.12.2019		2 196	37 114	1 524	7 285

NOTES

29. RELATED PARTY TRANSACTIONS (continued)

The following table provides the information on dividends received and receivable:

Related party		Dividends received TEUR	Amounts owed by related parties TEUR
Aviation Crew Resources AS	2020 /31.12.2020	18	18
	2019 /31.12.2019	81	-
Baltijas Kravu Centrs SIA	2020 /31.12.2020	-	284
	2019 /31.12.2019	-	284
TOTAL 2020 /31.12.2020		18	302
TOTAL 2019 /31.12.2019		81	284

The Parent company has entered into transactions with Ministry of Transport of the Republic of Latvia (the holder of 96.14% of the Parent company's shares) and with other state-owned companies. The major transactions were carried out with RIGA International airport (purchase of airport infrastructure capacity and collection of passenger duty payments) amounting to EUR 7.1 million (2019: EUR 16.5 million) and VAS Latvijas Gaisa Satiksme (purchase of navigation service) amounting to EUR 1.1 million (2019: EUR 2.9 million). The agreements with both companies for the services described were effective at the end of each reporting year.

The following balances are outstanding at the end of the reporting years in relation to transactions with related parties:

	AIR BALTIC		GROUP	
	31.12.2020 TEUR	31.12.2019 TEUR	31.12.2020 TEUR	31.12.2019 TEUR
Payables to RIGA International airport	1 025	2 282	1 026	2 282
Payables to VAS Latvijas Gaisa Satiksme	93	317	93	317

All transactions with related parties are related to the operating activities of the Parent company and the Group companies.

30. COMMITMENTS AND CONTINGENCIES

(a) Guarantees and pledges

The Parent company has pledged its current and future trademarks, its current and future rights for claims to the Ministry of Finance as security for the loans received (see Note 24). The book value of assets pledged as at 31 December 2020 was EUR 25.5 million (31 December 2019: EUR 24 million). Additionally, the Parent company has registered a mortgage on its aircraft maintenance hangar in favour of the Ministry of Finance. The book value of the maintenance hangar as at 31 December 2020 was EUR 5.1 million (31 December 2019: EUR 5.3 million). The Parent company has also established a financial collateral for the benefit of the Ministry of Finance - 3-year deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million.

The Parent company has pledged the shares of its subsidiary Baltijas Kravu Centrs SIA, the real estate (except aircraft maintenance hangar) and other assets of the Parent company (except trademarks and current and future rights for claims) to a bank incorporated in Latvia. The book value of the pledge as at 31 December 2020 was EUR 38 million (31 December 2019: EUR 36.8 million). The bank operated as a credit card acquirer for the Parent company's e-commerce transactions by 31 December 2019. Although the agreement ended 31 December, 2019, due to COVID-19 pandemic many customers who bought their tickets before 31 December 2019 and whose flights were cancelled selected travel vouchers instead of monetary refund. It is expected that the travel vouchers will be used during 2021, hence guarantees will be gradually released during 2021.

The aircraft leased by the Parent company are used as a collateral to secure the rights of aircraft financiers and/or lessors. That is a standard element of the asset based financing transactions common in aviation worldwide. The book value of such aircraft as at 31 December 2020 was EUR 589 million (31 December 2019: 638 million).

A Group company has pledged its fixed and intangible assets for the total amount of EUR 4 572 thousand to a bank incorporated in Latvia as security for the loan received (see Note 24). The pledge agreement is effective until complete fulfilment of the loan agreement. The Parent company has issued a guarantee for the full amount of the loan.

NOTES

30. COMMITMENTS AND CONTINGENCIES (continued)

(b) Legal disputes

The Parent company is involved in a number of lawsuits in Latvia and in other countries. Typical lawsuits relate to claims that arise in the ordinary course of the Parent company's business. The most common of such lawsuits relate to flight service disruptions, including flight delays, cancellations, lost or damaged luggage etc. In addition, the Parent company and the Group are involved in number of lawsuits relating to matters of employment law. Material legal claims are described below. The below cases include those where the legal provision (see Note 25) is expected to cover any future outlays and others where it is assessed to only be a contingent liability and as such no provision is established.

AB flyLAL-Lithuanian Airlines

On 12 August 2008 the Lithuanian company AB flyLAL-Lithuanian Airlines (hereinafter - flyLAL) filed a claim in the Vilnius Regional Court against airBaltic and RIGA International Airport. AirBaltic and RIGA International Airport were accused of having entered into a prohibited agreement and abuse of dominant position infringing Articles 101 and 102 of the Treaty on the Functioning of the European Union. On 27 January 2016 the Lithuanian court announced its judgement whereby it rejected the majority of the claims, but nevertheless found that the airBaltic and RIGA International Airport had concluded a prohibited agreement regarding application and use of discounts in the RIGA International Airport and that the airBaltic had abused its dominant position in 5 out of 9 disputed routes operated from the Vilnius airport by applying predatory prices and driving flyLAL out of the Vilnius airport market. Consequently, the claim of flyLAL has been satisfied partially and the Lithuanian court awarded from the airBaltic in favour of flyLAL damages for EUR 16 million, 6% annual interest and some litigation expenses. The judgement was appealed by the airBaltic.

The judgment was passed on 12 February 2020 and the Court of Appeal has rejected the claim of FlyLAL in its entirety, but on 12 February 2021 the Supreme Court annulled the decision of the Court of Appeal and returned the case to the Court of Appeal for further consideration. The Supreme Court has upheld part of the findings of the Court of Appeal, however, the Supreme Court did not see sufficient evidence to support motives and argumentation for the other findings of the Court of Appeal and consequently ordered the Court of Appeal to review and substantiate that part of findings. No dates for the hearing at the Court of Appeal are scheduled yet.

AKB Investbank

Since March 2012 the Parent company has been involved in litigation processes with AKB Investbank (hereinafter – Investbank), currently under a bankruptcy procedure. The initial three civil cases in Russia were brought against the former shareholder of airBaltic – Baltijas Aviācijas Sistēmas SIA - and airBaltic as co-defendant claiming EUR 18.4 million including interest and penalties stemming from three Loan Agreements entered into between Investbank and Baltijas Aviācijas Sistēmas SIA and three Guarantee Agreements supposedly entered into between Investbank and airBaltic. At the beginning of 2019 the courts in Russia confirmed that the negative decisions against the Company on the recovery cannot be enforced in the Russian Federation. In June 2019 Investbank administrator, however, has started attempts to reconsider some of the cases upon discovery of new facts. These attempts were refused by the courts in Russia in July and September 2019.

On 30 January 2020 the Russian court also refused the filed claim to invalidate loan and guarantee agreements considering the Parent company (and not Baltijas Aviācijas Sistēmas SIA) to be the real debtor under the loan agreement, however, appeal in this case is still being reviewed by the court.

Latvian Aviation Trade Union and Latvian Aviation Trade Union Federation

In September 2018 Latvian Aviation Trade Union and Latvian Aviation Trade Union Federation brought a collective claim against airBaltic due to alleged unlawfulness of the airBaltic's meal compensation regulations. The claimants have requested the court to declare that their interpretation of the 12 October 2012 Cabinet of Ministers Regulation No.969 is correct and that airBaltic must recalculate the compensations paid to the crew members represented by the claimants from 1 April 2016. Since filing the claim, the Parent company has received partly positive judgement at the first court instance, positive judgement at the second court instance and positive judgement at the last court instance. Nevertheless, the trade unions have communicated to their members that they wish to take this case to other courts, e.g., Constitutional Court, European Court of Human Rights. It is difficult to evaluate if these courts would consider relevant claim and if such claim would come to a different outcome with other courts, but the Management ultimately do not expect that the Group would be required to pay any material amount under any scenario.

NOTES

30. COMMITMENTS AND CONTINGENCIES (continued)

(b) Legal disputes (continued)

Litigation proceedings with Taurus Asset Management Fund Limited and SIA Eurobalt Junipro

Taurus Asset Management Fund Limited ("Taurus"), a company registered in the Bahamian Islands and related to former shareholders of the Parent company, and SIA Eurobalt Junipro ("Eurobalt"), since 2012 are trying to reclaim EUR 5 million from the Parent company. Initial litigation process was terminated by the judgement of the Supreme Court dated as of 5 December 2018. However, on 13 January 2020 Eurobalt brought a claim against the Parent company for EUR 5 million, as well as for statutory late payment interest in the amount of EUR 2 225 thousand. The claim is based on an assumption that under the agreement dated 3 October 2011 on restructuring and financing of the Parent company, one of the creditors – Taurus has retained the claim of EUR 5 million and on 14 May 2012 could have legally assigned that claim to Eurobalt, which now claims that amount with interest as the assignee. The Parent company has continuously and clearly rejected that, arguing that Taurus lost its rights to that claim according to the agreement dated 3 October 2011 and Taurus did not have any such rights at the moment of assignment, among other arguments. The courts have ruled in favour of the Parent company in an equivalent case arising from the agreement dated 3 October 2011 on restructuring and financing of the Parent company one of the creditors.

In 2020 the court of first instance issued a negative decision against the Parent company in this case, however, the Parent company appealed the court decision on 24 November 2020. The appeal has been accepted and a court hearing has been scheduled for 19 April 2021.

(c) Commitments

In May 2018, airBaltic ordered 30 firm deliveries for Airbus A220-300. The aggregate list price for the aircraft to be delivered in 2021 and future years is above EUR 2 billion.

As at 31 December 2012 Air Baltic Training SIA had a contractual liabilities relating to the acquisition of 2 Diamond DA40NG aircraft. The aggregate list price for the aircraft is above EUR 1 million.

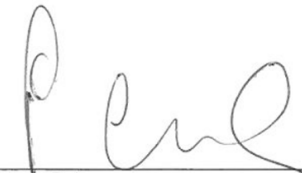
31. IMPACT OF COVID-19

The Company and the Group are continuously monitoring COVID-19 pandemic developments and amending where necessary their short term operating plans accordingly. Impact of COVID-19 has been significant on the Company and the Group and the impact has been disclosed in this Annual report sections Management Report, Note 2 b) Going concern and Note 14. The Company's and the Group's performance will depend, to a great extent, on the continued duration and spread of the pandemic and the success of the vaccinations programmes currently being rolled out in Latvia and the rest of Europe and ultimately on the extent of the current and future travel advisories and restrictions (see Note 2b). It is not possible to reliably estimate the full future impact of COVID-19 due to the uncertainties described in this Annual report.

32. SUBSEQUENT EVENTS

During the period between the last day of the reporting year and the date of signing this report, there have been no events that could materially impact the financial position of the Parent company and the Group as of 31 December 2020 and should be reflected in this report.

The financial statements set out on pages 111-155 were signed on 13 April 2021 by:

 MARTIN ALEXANDER GAUSS Chairman of the Executive Board	 VITOLDS JAKOVĻEVS Member of the Executive Board	 PAULS CĀLĪTIS Member of the Executive Board
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The Annual Report was prepared by the Chief accountant Anda Līce.


ANDA LĪCE
 Chief Accountant



airBaltic