

**AIR BALTIC CORPORATION GROUP CONSOLIDATED ANNUAL REPORT
AND AIR BALTIC CORPORATION AS ANNUAL REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2019

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION**

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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	80.054746%
	Aircraft Leasing 1 SIA	19.944427%
	OJSC Transaero Airlines	0.000602%
	Frontier Enterprises SIA	0.000188%
	Karl Gunther Sollinger	0.000035%
	Other	0.000002%
Executive Board Members	Martin Gauss	Chairman of the Board
	Vitolds Jakovļevs	Member of the Board
	Martin Sedlacky	Member of the Board
Supervisory Board Members	Nikolajs Sigurds Bulmanis	Chairman of the Supervisory Board
	Kaspars Briškens	Deputy Chairman of the Supervisory Board
	Kaspars Āboliņš	Member of the Supervisory Board
	Lars Thuesen	Member of the Supervisory Board
Financial year	1 January 2019 – 31 December 2019	
Auditors	Certified auditor company:	Certified auditor in charge:
	PricewaterhouseCoopers SIA Certified auditor license No. 5 Kr. Valdemāra Street 21 – 21 Riga, LV-1010, Latvia	Jana Smirnova Latvian Certified auditor Certificate No. 188

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Overview

Air travel plays a substantial role in the Baltic region. For the last three decades, it has brought together people, businesses, knowledge and ideas, connecting Baltics to the world and helping region's development. According to a study by Boston Consulting Group, air connectivity is proportionally more critical for Latvia and the Baltics and air links have a higher direct GDP return than in other countries.

As a growing airline ensuring the connectivity from Latvia and Baltics to more than 80 destinations worldwide, airBaltic plays an important role in the development of Baltic aviation infrastructure and providing air connectivity to the region. As a result, the total impact of airBaltic on Latvian economy reached directly and indirectly 2.5% of GDP in 2018 as measured by a Roland Berger study.

While continuing its growth path, top priorities of airBaltic are safety, punctuality in service. In addition, the airline is making sure to minimize its environmental footprint and maintain good governance principles by improving its strategies in a more sustainable and responsible way. airBaltic aims to make an important contribution to the UN's 17 sustainable development goals in connection with its activities. The Company also is willing to make sure that its employees are satisfied and contented at their workplace.

Sustainability

airBaltic comes from a region rich in forests, which lies in the caress of the sea – the Baltics. Naturally, cherishing and preserving the natural treasures of the Baltics are deeply rooted in the Company's core values.

As one of the most innovative airlines globally, airBaltic is strongly committed to reduce its impact on the environment. airBaltic's goal is to become the greenest airline in Europe, thus in 2019 airBaltic placed great emphasis on sustainability. Already today the Company flies a growing number of Airbus A220-300, the greenest commercial aircraft available, and have introduced various other notable initiatives to decrease CO₂ emissions.

airBaltic continues to modernize its fleet, introducing a single Airbus A220-300 type fleet by 2023. Currently it is the greenest commercial aircraft in its class, as Airbus A220-300 is the first aircraft with fully transparent life-cycle declaration, helping to reduce CO₂ and NO_x emissions by 20% and 50% respectively. The new aircraft saves up to 22% fuel compared to the Boeing 737 fleet.

By modernizing its fleet and optimizing the landing procedures, airBaltic has been able to reduce the amount of CO₂ emissions released per revenue passenger km flown by 33% compared to 2008. Decreased fuel consumption, quieter engines, improved flight efficiency, precision, and less plastic on board and at the headquarters are the goals that the airline is working towards every day. While continuing to receive brand new aircraft, fuel efficiency and CO₂/RPK are expected to further decrease in the upcoming years.

Finding safe ways to use less jet fuel and spend less time in air, thereby creating less emissions is a challenging task. At airBaltic, several efficiency projects have been carried out over the years. The satellite systems on the Bombardier Q400 NextGen fleet (E-gen project) already allow pilots to perform greener high-precision landings, while the AMBER project, which airBaltic started back in 2012, has now grown into a multi-year re-planning of the Latvian airspace in cooperation with JSC "Latvijas Gaisa satiksme". This project aims to optimize flying trajectories, thus saving fuel and reducing CO₂, and avoiding flying overpopulated areas, which in turn minimizes the noise level.

Being acutely aware of the impact of plastic on the environment, airBaltic is implementing greener solutions. Starting with 2020, airBaltic has begun carrying out a new strategy regarding single-use plastics on board. Plastic items are gradually being replaced by nature-friendlier alternatives, such as paper packaging, wooden cutlery, and biodegradable materials.

Governance

Code of Business Conduct and Ethics

airBaltic's Business Ethics and Corporate Culture is part of the Personnel Handbook, which is made available to airBaltic's employees on airBaltic's Intranet. According to Personnel Handbook airBaltic's Business Ethics and Corporate Culture is based on generally accepted norms of ethics, legislation, core competencies and company values. Mutual respect, high emotional intelligence, positive attitude and service orientation are vital, both, when meeting customers and for creating a favourable working climate.

Compliance

Due to being headquartered in Latvia, airBaltic has to comply not only with national laws and regulations, but also with those of the European Union and every country served by airBaltic. Furthermore, as an airline, airBaltic has to comply with the applicable international laws and regulations specific to the aviation.

NON-FINANCIAL REPORT

Governance (continued)

Compliance (continued)

This includes not only requirements of the Commercial law, Regulation (EC) No 261/2004¹ or Convention on International Civil Aviation, industry best practice standards mandated by the International Air Transport Association (IATA), etc., which automatically derives from the field of activity of the Company, but also such requirements as compliance with Latvian sanctions laws, which provide that airBaltic (or any other Latvian entity) has to comply also with sanctions laws of a number of other countries (EU and NATO countries). airBaltic has developed internal Sanction Policy in order to help employees from various departments to ensure the compliance with sanctions laws and Company's contractual obligations. Know your client questionnaire is one of the key elements of the overall sanctions policy.

Given the fact that airBaltic's transferable securities are traded on a regulated market (*Euronext Dublin*), there are various financial market regulations the Company has to comply with in this regard.

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 Company's documents containing the main anti-corruption measures of the Company – Purchasing Policy (for all corporate purchases) as well as Continuing Airworthiness Management and Maintenance Organization Exposition (CAMMOE) (specific for aircraft related technical purchases).

Considering the size and scope of airBaltic within Latvian economy, from time to time the Company gets involved into debate over various issues of public interest. In 2019, airBaltic faced an issue related to Riga Tourism Development Office ('RTAB'), in which airBaltic is a passive minority shareholder, and RTAB's proceedings with the Corruption Prevention and Combating Bureau ('KNAB'). airBaltic itself is not in any way involved in any proceedings with the KNAB, nor has it been involved in the day-to-day activities of RTAB.

airBaltic cooperates with KNAB whenever it receives a request from KNAB to provide information (which only airBaltic is able to provide) for the purposes of a particular investigation. Due to the requirements of Article 375 (1) of the Criminal Procedure Law, airBaltic is prohibited from disclosing any details of such investigations. airBaltic is currently not subject to any investigations, nor is it part of any proceedings initiated by KNAB.

Diversity

airBaltic has a strict zero discrimination recruitment policy and we are committed to an environment where the best people work and in which the respect for the individual is important.

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. 25 by 2025 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 25 by 2025 campaign is an initial step to making the aviation industry more gender balanced².

It should be pointed out that, airBaltic is already firmly committed to this principle not only in overall gender breakdown in the Company, but also at the Top Management Team level – 5 out of 12 members of the senior management team are women. airBaltic's Top Management Team is comprised of 12 professionals whose qualifications, experience, knowledge and personal qualities ensure the highest level of corporate governance. The Top Management Team consists of the following members:

- Martin Alexander Gauss, Chairman of the Executive Board, CEO;
- Martin Sedlacky, Member of the Executive Board, COO;
- Vitolds Jakovļevs, Member of the Executive Board, CFO;
- Imants Jansons, Senior Vice President Legal Affairs;
- Ilze Mākalne, Senior Vice President Finance and Control;
- Eva Plakane, Senior Vice President Revenue Management;
- Wolfgang Reuss, Senior Vice President Network Management;
- Pauls Juris Cālītis, Senior Vice President Flight Operations;
- Alīna Roščina, Vice President Human Resources;
- Alise Briede, Vice President Corporate Communications;
- Laura Vecvanaga-Pukīte, Senior Vice President Ground Operations and Customer Care;
- Andris Vaivads, Senior Vice President Technical Operations.

¹ Regulation (EC) No 261/2004 of the European Parliament and of the Council of 11 February 2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights, and repealing Regulation (EEC) No 295/91 (Text with EEA relevance) - Commission Statement

² Improving Gender Balance by 2025. Available: <https://www.iata.org/en/policy/25-by-2025/>, viewed on: 08.02.2020.

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Governance (continued)

Open communication with stakeholders

airBaltic keeps its stakeholders' interests with a great care at all levels of stakeholders, therefore, an open communication regarding the Company's results, progress, daily life and plans is of a big importance to the Company.

In this regard, airBaltic CEO Martin Alexander Gauss holds weekly staff briefings, where he briefs Company's employees on various items regarding the performance and development of the Company.

Also, the Top Management Team (which includes also the Executive Board) 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.

In turn, the Supervisory Board 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 meetings are held on a regular basis, ensuring that the interests of the shareholders are being observed at all times.

airBaltic highly values its commitments towards its creditors. Since the Company's Bonds are listed on Euronext Dublin, the Company has to report all the required information to the Euronext Dublin and to the respective authorities.

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

Service

Punctuality

Punctuality is one of the main priorities of airBaltic. The Company commits to keeping flight departure punctuality rate high with all possible efforts from involved operational divisions, like: Flight Operations, Ground Operations and Technical Operations.

airBaltic aims to be one of the most punctual airlines in Europe, and it has succeeded it for many years. In 2019 airBaltic's OAG (on-time performance (OTP) measured by flights that arrive or depart within 15 minutes of their scheduled arrival/departure times) ranking has slightly dropped to fifth place for various reasons: airports arrival and departure slots, terminal and apron infrastructure limitations, weather conditions in winter with heavy de-icings and in summer with unexpected thunderstorms all over the Europe, as well as air traffic controllers (ATC) and other service provider's strikes. To mention various operational irregularities in flights operational period, like, technical issues, transfer passenger flows, aircraft swaps and other, were main reasons to have lower punctuality results in 2019.

Continuous growth of the new Airbus A200-300 fleet comes with additional workload for technical team and crew planning, nevertheless challenges are different. Because of professional flight dispatch team and their effort in reducing slots was a great help in maintaining punctuality. However, as mentioned before weather conditions with a lot of snow in Q1 2019 and unexperienced amount of thunderstorms in Europe during summer were causing extra workload with aircraft swaps in order to keep punctuality high.

One of the main targets for airBaltic is to ensure that 99% of all planned flights are performed in scheduled time and good service to customer provided. In 2019 airBaltic cancellation or regularity rate was 99.6% which is very high and good achievement by the team of airBaltic.

Safety

Safety is an integral part of airBaltic core business, and its safety management system is developed considering high-level safety objectives focusing on customers, employees and suppliers. The safety management system imposes requirements on occupational health and safety of airBaltic staff and contracting parties. Senior management endorses and is committed to sustainable and reliable operations. Safety management system is integrated across all operational departments and meets the regulatory requirements of the Civil Aviation Authority of Latvia and is subject to regular oversight audits. The Company has not had any passenger, crew or contractor fatality as a result of an accident with any of its aircraft in its 24-year operating history.

In addition, the Company's fleet and crew is regularly assessed at its home base and through the European Aviation Safety Agencies Safety Assessment of Community and Foreign Airlines (the "SACA/SAFA") program that provides additional and independent assurance of consistently reliable safety standards. Through the years airBaltic has been delivering consistently good ratings in regard to such safety inspections, providing independent assurance of safe and reliable operations.

NON-FINANCIAL REPORT

Service (continued)

Safety (continued)

Additionally, the use of substances by the Company's employees such as alcohol, drugs or medication with side-effects is strictly prohibited while on duty. All of the Company's employees, including its Board members and management are subject to regular checks on the levels of alcohol, narcotic, psychotropic or toxic substances in their bodies. The Company regards any of the following as a serious violation of an employee's employment contract and the Company's working procedures:

- a positive alcohol test result of over 0.2 millilitres without a mitigating excuse;
- a positive drug test result without a mitigating excuse; or
- non-compliance with the alcohol and drug testing procedure.

Employees whose duties have an immediate direct impact on flight safety are subject to mandatory alcohol tests before beginning a work shift. Furthermore, random drugs tests are frequently performed by a contracted third-party company or security staff.

To enable convenient partnerships with a range of recognized partner airlines, designates as codeshare and interline cooperation partners, the airBaltic was amongst the first to fulfil the rigorous operational safety accreditation under the IATA Operational Safety Audit (the "IOSA") program of which airBaltic has been accredited continually, since the IOSA commenced its operations. The Company also incorporates into its aircraft numerous safety technologies to enhance operational safety, exceeding regulatory requirements. airBaltic has an active flight operations data monitoring program and the Company continues to develop and enhance proactive and predictive hazard identification methodologies. airBaltic is an active participant in the global aviation safety community, engaging with industry bodies and organizations including European Union Aviation Safety Agency, various IATA safety collaborations as well as actively participating and contributing into Fuel and De/Anti-Icing Quality Pools, and being a member of Flight Safety Foundation since 1997.

Security

The goal of airBaltic security organization is to implement policies, procedures and systems to ensure that security risks and threats are minimized to an acceptable level in the most cost-efficient manner.

The overall responsibility for security of airBaltic operations rests with the Accountable Manager. Accountable Manager appoints Head of Security and Emergency Response, who has the authority and responsibility to develop and implement airBaltic's Security Program. Accountable Manager shall approve Security Program. airBaltic Security Management and Compliance Manual (Security Program) consists of 3 parts:

- Security Operations Program,
- Security Training Program,
- Security Quality Control Program and Annexes.

The development of airBaltic Security Management and Compliance Manual (Security Program) is based on International, EU and Latvian National legislation and requirements. Security Program is the key document to refer for security related requirements, processes and procedures. In addition, security related issues are reflected in respective sector's manuals (e.g., Operation Manuals, Cabin Crew Handbook, Station passenger Manual, Cargo Operations Manual etc.)

Emergency Response

airBaltic Emergency Response Manual and Emergency Response Procedures has the purpose to serve as a guide for handling any emergency and possible crisis situation 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 closely 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 of airBaltic, it is our 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 cause of the occurrence,
- Fulfil our obligations towards involved crew, passengers, cargo and postal consignors,
- Limit the economic consequences and allow Company business to continue. It means, the Company continue its daily operations, except employees who are involved in ER activities. In case employees' daily responsibilities involve any managerial or supervisory functions, replacement shall be nominated according to Corporate Manual Chapter 3 or management decision.

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Service (continued)

Accessibility

airBaltic is working hard to meet all passenger needs and carry out comfortable journey for all type of passengers. As a responsible company airBaltic is paying extra attention to passengers with disabilities of any kind and need for assistance during their journey.

To ensure that passengers are given the best possible experience, it is asked from passengers to make request at the time of booking. As soon as request is received for special assistance, we pass this information to the airport of respective flight as they provide the assistance locally. Departure and arrival services vary considerably depending on where passenger is flying.

Assistance may include help to get from a designated meeting point in the airport through customs and security to the boarding gate. Qualified staff help passengers to get on board the plane and into their seat, stow cabin bag. Passengers needing assistance are met after arrival and are assisted to get off the plane after landing through luggage claim up to the designated meeting point in the airport.

airBaltic also provides connecting flight assistance for ambulatory individuals or those who may need help getting from one departure gate to another.

If a passenger with disabilities or reduced mobility is travelling with an escort, the airline will do all it can, to ensure that the escort and the passenger with disabilities or reduced mobility are seated next to each other. The airline takes all necessary measures to ensure that both ground and cabin personnel are informed of a passenger's special needs.

Along with the above-mentioned procedures undertaken to maximize the passenger's comfort and well-being and having taken into account the passenger's requirements for special care and attention, safety procedures – such as coordinating correct seat allocation and informing the staff of the passenger's disability or status – are also implemented.

airBaltic is working in close cooperation with Association of Disabled People and Their Friends "Apeirons" and Civilās Aviācijas Aģentūra (CAA). airBaltic Ground staff is trained to work in close cooperation with Passengers with restricted mobility (PRM passengers), training performed by PRM Assistance Manager Riga Airport. Last training where Ground Operation department attended was Training "How to improve PRM travel experience during flight". airBaltic crew is trained according to CAA approved program once every 2 years.

Online check-in available for all PRM passengers, Special assistance can be requested in AIRBALTIC web page, by phone and Ticket office.

European Union's Regulation (EC) No. 1107/2006 is followed in each step of the way.

Customer satisfaction

Customer service is one of the core values of airBaltic. Each day employees are working hard to ensure the best possible service and highest passenger satisfaction rates, focusing on improving passenger experience from the flight reservation until arrival at the desired destination. Satisfied and happy customers are the key of business success and growth.

In 2019 airBaltic recorded highest customer retention rate among private customers in the Company's history, reaching 78 index points. The rate is significantly higher than that of the biggest competitors in the Baltic market. It shows that the overall passenger experience is continuing to improve, which is important for the long-term success of the Company.

airBaltic is constantly monitoring customers' mood by analysing complaints, feedback in public review portals, e.g., Tripadvisor, as well as via after-flight surveys and yearly Customer Retention Survey. In order to improve the customer service, airBaltic is easily approachable on social media such as Twitter and Facebook for customer service issues. To further improve the service, in spring 2019 airBaltic launched its Facebook Chatbox service. Also, regular service checks are performed at the airports and during the flights to ensure that passengers are served according to procedures and service standards. These inspections allow to observe directly provided service level from passengers' perspective in real life and make necessary improvements more effectively.

In addition, airBaltic maintains its world-class punctuality, nevertheless flight irregularities happen time to time. In order to improve passengers' experience in those rare situations when their flights are delayed or cancelled, in 2019 airBaltic launched flight irregularity improvement project. System for automated care and assistance vouchers issuance is already implemented for Riga hub, while its coverage for outstations will be gradually extended in 2020. In cooperation with Amadeus IT Group by the end of 2020 it is planned to go live with the automated flight rebooking system which will significantly reduce passengers handling time during irregular operations and passengers will receive confirmations of their new flight within minutes after the irregularity is announced.

Sustainable procurement

airBaltic Ground Operations department works closely with our Procurement department and Ground Handling companies to fulfil sustainable procurement process. Ground Handlers (GH) and Airports are committed to minimize the impact of all our activities on the environment and to comply with all legal and other environmental requirements applicable to our business. GH companies already today are thinking about sustainability when it comes to Ground Support Equipment (GSE) procurement; meanwhile Airports are becoming stricter on their requirements in regard to GSE specifics that are allowed to participate in Airport operations. All involved parties have developed their own specific procurement strategies and processes, to be sustainable in a long run. For example, in Europe our GH are taking measurements to become a sustainable ground handler and set long-term strategic environmental objectives and targets. Human and financial resources are provided to continuously improve our environmental performance.

NON-FINANCIAL REPORT

Service (continued)

Sustainable procurement (continued)

Taking into consideration human resource limitations in Europe, airBaltic is working with stations to deploy more and more self-service solutions reducing need for human resources and giving an option to passengers use machines for their check-in and baggage handling. airBaltic has worked a lot to reach high number of passengers using online check-in, making it a sustainable trend among passengers and reducing the need for printed boarding passes.

The key points of airBaltic's environmental strategy are:

- Protection of the environment,
- Prevent pollution at all levels,
- Minimize the waste,
- Reuse or recycle as much as possible,
- Minimize greenhouse gas emissions focusing on GSE replacement and fuel consumption,
- Encourage the use of alternative means of transport and car sharing,
- Encourage the adoption of similar principles by our suppliers and other stakeholders.

Catering supplier LSG Sky Chefs Latvia performs purchasing, storage and operations of goods on behalf of airBaltic, therefore following action plan is created:

- Primary packaging – three years substitutions plan has been launched in the framework of plastic substitution project that includes:
 - procurement approved only for sustainable packaging,
 - facilitating the reduction of the volume of packaging materials, but not changing either the intended or existing functions therefore,
 - promoting the reuse of packaging,
 - determining the requirements for the packaging permitted for placing on the market in Latvia.
- Foodstuff – long shelf life: principles of reusing of unopened packaging and other,
- Inflight service (in cooperation with airlines) – service level is oriented to exact passenger needs (pre-orders).

Data privacy and protection

airBaltic knows the importance of personal data protection in the modern information age. airBaltic understands that appropriate data protection has impact on trust of its customers and employees, as well as on reputation and sustainability of the Company. Therefore, airBaltic pays attention to appropriate data protection and is working to comply with the applicable regulatory enactments and apply data protection regulations in 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. airBaltic aims to ensure inter alia:

- Transparency – airBaltic aims to become more transparent about data collection and processing so that data subjects have comprehensive information on how airBaltic process 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 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.

airBaltic has taken organizational measures to ensure the above mentioned, including established Privacy Program, appointed Data Protection Officer, implemented appropriate policies and procedure and is conducting trainings for its employees on data protection rules to support compliance with the applicable regulatory enactments. During 2019 Data Protection Officer organized 14 trainings for airBaltic employees, and the goal for the next year is to organize around 12 trainings. airBaltic strongly believes that employees need to be trained and provided with the latest information in the specific field.

Privacy Program within airBaltic is managed by Data Protection Officer, who reports directly to top management of airBaltic.

Responsible marketing

At airBaltic, relationships with customers and mutual trust are always one of the main focuses. In order to reach over 5 million customers in more than 120 countries, Company use a combination of various marketing channels. Thus, airBaltic believes it is our responsibility to make sure that our communication with customers follows consistent principles and standards.

NON-FINANCIAL REPORT

Service (continued)

Responsible marketing (continued)

airBaltic follows the principle that all marketing activities are always legal, decent, honest and truthful. When advertising our services, we apply the highest possible transparency. Specifically, this means we take full responsibility for transparent pricing and available, and clear ticket rules, product availability in all of our channels, user-friendly internet booking engine and available customer service both to specify any information the customers might need. Call centre employees speak 7 languages and our social media team is available for our customers 24/7. Furthermore, all brand managers follow a specific tone of voice to keep our marketing communication friendly, focused and easy to understand.

Innovation

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.

airBaltic is one of the most awarded airlines in the region in terms of digital innovation. airBaltic has scaled its digital advertising activity by using user centric direct marketing (e-mail marketing, web pushes, etc), retargeting, interest and look-alike targeting to find people interested in air travel, broad audience targeting with dynamic ads within framework of applicable regulatory enactments.

airBaltic.com accounts for 52% of all airBaltic flight bookings, thus digital marketing and e-commerce playing a crucial role for B2C sales and the Company's revenue stream. 75% of bookings are made on desktop, while 25% on mobile phones and tablets. As customer habits are changing, each year the number of people that purchase their flight tickets on mobile devices grows significantly. To provide a seamless booking process, last June a new mobile friendly version of airBaltic website was launched. It has helped to increase mobile conversions significantly - 84% increase in the number of mobile bookings in 2019, compared to the year before.

airBaltic digital marketing follows closely industry trends. In order to stimulate awareness and build brand, the key media tools are targeting in Google, YouTube, Facebook, Instagram. Social media content plays a crucial role to reach brand engagement targets. When it comes to raising product (destination, flight) awareness, the key channels are Google display network, Facebook broad audience, search on non-branded keywords. In 2019 more than 12,4 million flight searches were done, a 22.5% growth compared to 2018.

Direct marketing tools are used on day to day bases and are accounting for 10% of purchased on airBaltic.com. airBaltic has a database of more than 500 000 newsletter subscribers, a 12% increase over 2018, from the key target markets, and web push notification subscribers of more than 700 000 or 25% more than previous year. AirBaltic is also very actively using pre departure communication with the customers via e-mails, in order to improve customer service and sell ancillary products, like baggage, meal pre-order and assigned seating.

Google and Facebook are the key marketing strategic partners for achieving the business goals. AirBaltic has leveraged Google Analytics 360 and Google Data Studio to measure the effectiveness of marketing campaigns. Data-driven approach in managing Google AdWords accounts and campaigns in Google display network has resulted in clear revenue uplifts and exceptionally low cost per sales (CPSs).

The Company was one of the first airlines in Europe to cut the cost of acquisition with Facebook's broad audience targeting across the entire Facebook family. airBaltic is one of three airlines in the world to have two Facebook Success stories published worldwide.

Environment

Environmental management

Environmental consideration is taken into account in all departments on all levels within airBaltic, resulting in an increasing environmental awareness within the whole organization. Within the framework of airBaltic economic and quality goals, all the activities within the Company shall be performed in such a way that they have a minimal negative effect on the environment. Internally the Company continuously works on implementation of production methods which are environmentally sound, lean on energy consumption, facilitating re-cycling processes and having a lowest possible emission.

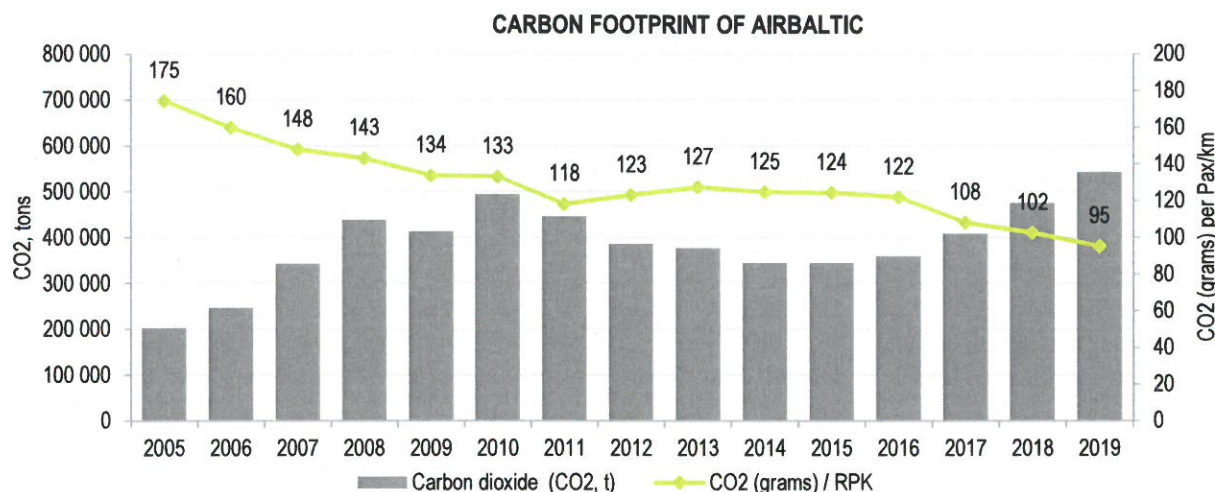
Airline is committed to deliver a sustainable future in line with the Paris Agreement and the ambitions of the EU Green Deal.

NON-FINANCIAL REPORT

Environment (continued)

Climate change and carbon footprint

Since the introduction of EU ETS in aviation sector airBaltic annually complies with the scheme. The amount of produced emissions are reported, verified and surrendered according to the governing regulation. The Company's priority is to reduce the emissions, and significant achievement was reached by introducing the new aircraft type – Airbus A220-330 in the operational fleet.



Route Optimization

airBaltic uses LIDO flight planning system provided by Lufthansa Systems. LIDO system calculates the most suitable route for each flight based on all flight-related data, weather conditions and the current airspace situation including any restrictions. LIDO enables us to lower our fuel consumption and thus our costs.

Optimized Flight Operations and Fuel Efficiency

airBaltic uses such Fuel Efficiency practises such as Idle Reverse, Single-Engine Taxi-In, Continuous Descent Arrival, Take-off in Direction of Flight and others to reduce the amount of fuel burned. By using these saving practices, airBaltic saved more than 300 tons of Fuel and thus 900 tons of CO2 were not released. To further increase Efficiency, airBaltic pilots receive quarterly reports on their performance and are provided with training.

The A220-300's advanced aerodynamics combined with specifically-designed Pratt & Whitney PurePower PW1500G geared turbofan engines contribute to an aircraft that delivers 20% lower fuel burn per seat than previous generation aircraft, half the noise footprint, and decreased emissions, making it a true community-minded jetliner.

Noise hindrance

Comparing to Boeing 737-300, Airbus A220-300 and Bombardier Q400 aircrafts have two times smaller noise footprint (at approach). As well Airbus and Bombardier fleets have modern navigational equipment, which allows the Company to precisely navigate into airports avoiding highly populated areas (where required by authorities).

Waste management

Company Facilities Environmental controls are generally imposed under Latvian Law. At Riga International Airport, airBaltic operates on land controlled by Riga International Airport (RIX). Planning permission for airBaltic facilities is granted in accordance with both the zoning and planning requirements of Riga International Airport. Latvian environmental legislation contains applicable EU directives and regulations, to which airBaltic adheres.

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Environment (continued)

Waste sorting

There are several categories of waste sorting at airBaltic offices. In regular office space, employees are able to sort:

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

In the Technical department, where employees are working with a wide range of chemicals and other materials, additionally to the above-mentioned sorting, the sorting of Hazardous waste is in place.

Household and mixed packaging waste

Evaluating this factor in relation to the total number of employees and its growth, the amount of municipal waste has been decreasing over the last three years. In 2017, on average one airBaltic employee produced 0.42 m³ household waste, compared to 2018 when one airBaltic employee produced 0.38 m³ and 2019 of a result of 0.35 m³ per one employee, per one year.

General Waste

Waste amount on one employee per year, m3	2017	2018	2019
Total waste, m3	595	605	597
Number of employees	1 415	1 585	1 716
Waste amount per employee	0.42	0.38	0.35

Often the household waste amount is reduced by starting the sorting of paper and packaging. In the case of airBaltic, waste sorting has already been active and in this area, decrease has been reached over the last three years.

Mixed Packaging Waste

In 2017 on average one airBaltic employee produced 0.35m³ of mixed packaging waste (cardboard, paper, plastic), in 2018 the amount decreased to 0.33 m³ and in 2019 to 0.30 m³ per employee, per one year.

Waste amount on one employee per year, m3	2017	2018	2019
Total waste, m3	502	518	523
Number of employees	1 415	1 585	1 716
Waste amount per employee	0.35	0.33	0.30

This positive waste reduction is due to various internal initiatives and processes, such as cease the use of plastic water bottles for meetings, the introduction of more and more electronic documents with electronic approval system, and the SafeQ print system (documents printed out only when employee confirms it on the device thereby reducing the number of forgotten printouts).

Destroyed documents – wastepaper

In addition to everyday paper waste sorting, airBaltic destroys sensitive documents, which also goes to paper recycling. Data shows that in 2018 airBaltic destroyed 855.5kg of paper, while in 2019 – 1179.2 kg.

Utilized electronics

In addition to all the above-mentioned types of waste, airBaltic is handing over also light bulbs, batteries, electronics, and other recyclable waste separately, for utilization process.

UTILIZED ELECTRONICS, LIGHT BULBS, MOBILE DEVICES, PRINTING DEVICES ETC. FROM JANUARY 2018 TILL OCTOBER 2019

Waste type	Utilized amount, kg
Monitoring and control tools	104
Consumer equipment, e.g. TV's, radio devices, audio amplifiers etc.	882
IT and electronic devices	215
Galvanic elements and galvanic batteries, small household appliances, IT and electronic devices	105
Electronic tools	51
PC monitors	108

NON-FINANCIAL REPORT

Environment (continued)

Hazardous waste

airBaltic Technical Department carries out the sorting of hazardous waste, which includes several categories that are sorted separately according to the law.

On October 31, 2019, Order no. 2-2.2.1.-461-1 / 2019 for the establishment of Environmental management working group was issued and the group established. 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.

The management system also includes the training of employees about waste sorting, conducting tests and internal checks to make sure that all involved staff understand and follow the procedure on a daily basis.

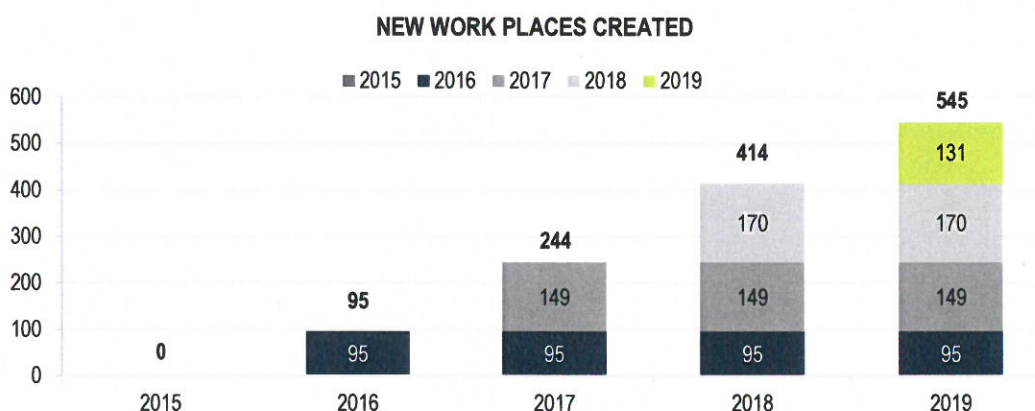
Management approach of inflight (e.g. food and other items), recycling and utilization:

- Tertiary (transport) & secondary packaging – agreement with packaging agent who organizes and co-ordinates the management of packaging waste including recycling,
- Primary packaging – agreement with packaging agent who organizes and co-ordinates the management of packaging waste including recycling,
- Foodstuff – agreement with agent who organizes and co-ordinates the management of waste including proper utilization,
- Hazardous waste – agreement with agent who organizes and co-ordinates the management of hazardous waste and its utilization in accordance with legislation.

Employees

Employment

Total number of the Group employees in 2019 has reached 1716 in comparison with 1585 employees by the end of 2018. Respective growth trend of average increase of the number of employees by 10% continues for several years in a row, which follows the Group's business growth plan. In the past 5 years the Group growth has created 545 new work places.



During 2019 in total 398 employees joined the Group. There were 211 internal promotions and approximately 40 interns had their long-term internship (longer than a month). airBaltic cooperates with Universities on extensive practical experience and internship provision for engineering students in Maintenance area, hence around 30 technical apprentices have been onboarded in 2019.

Five main employee groups identified within the Group, i.e. 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 differs.

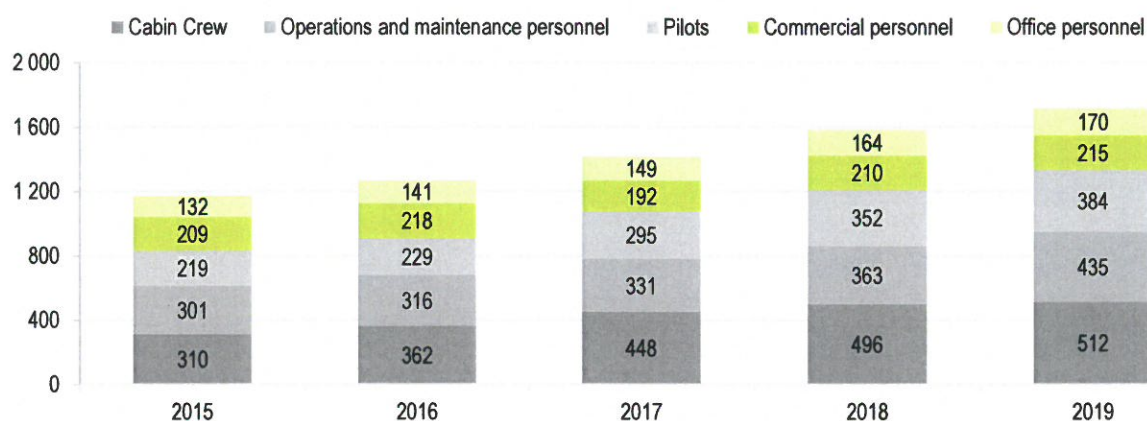
Almost 80% of the Group employees are directly involved in operations flight performance and fleet maintenance. These employee groups has seen the highest employee number increase in the past years and it is projected to continue in line with airBaltic volumes expansion.

NON-FINANCIAL REPORT

Employees (continued)

Employment (continued)

EMPLOYEES BY GROUPS

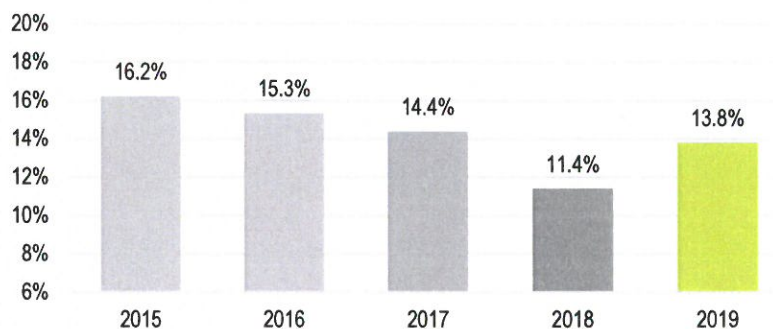


Average tenure of employees at the Group is 6 years. On average approx. 2% of employees in 2019 has been employed on temporary contract conditions on project base or as a replacement for the employee on temporary leave, such as parental leave. On the contrary, a relatively high proportion of pilots (8%) have been employed on a temporary basis on a Boeing aircraft type until the Boeing phase-out process ends.

Based on employee initiative part-time work is more popular among parents with kids below age of 14. Group employs 10% of Cabin Crew on part-time, however in other employee groups the percent is significantly lower, from 1% in Pilot group up to 5% among Office personnel.

In 2019 on average 5 employees per week left the Group due to voluntary and non-voluntary reasons. Since 2015 the Group operated with the positive voluntary turnover reduction rate and kept it below 15% level for 3 years in a row.

VOLUNTARY TURNOVER RATE



In 2019 Voluntary turnover in Cabin Crew area increased and drew overall rotation up by 2.4% due to labour market dynamics which airBaltic addressed with an immediate action of salary system improvements and new recruitment approaches to ensure sufficient resources.

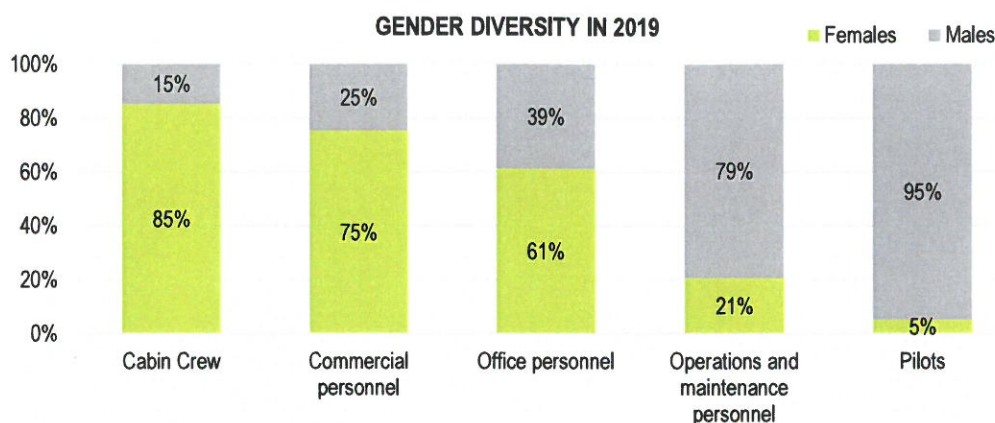
Diversity and non-discrimination

The Group keeps gender equality close to 50/50 across the organization since 2013. In 2019 the proportion between men and women was 53/47. In 2019 airBaltic together with more than 20 airlines joined the initiative and signed an International Air Transport Association (IATA) 25by2025 gender diversity pledge, committing to increase female participation at senior levels and in underrepresented groups, such as pilots and maintenance, by 25% by the year 2025. Currently there is 50/50 proportion on all managerial levels at airBaltic and 59/41 proportion among the Top Management at airBaltic in the result of zero discrimination policy in all people management processes within the Group.

NON-FINANCIAL REPORT

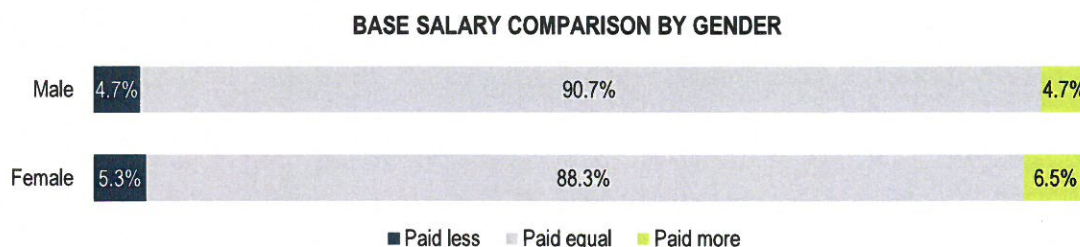
Employees (continued)

Diversity and non-discrimination (continued)

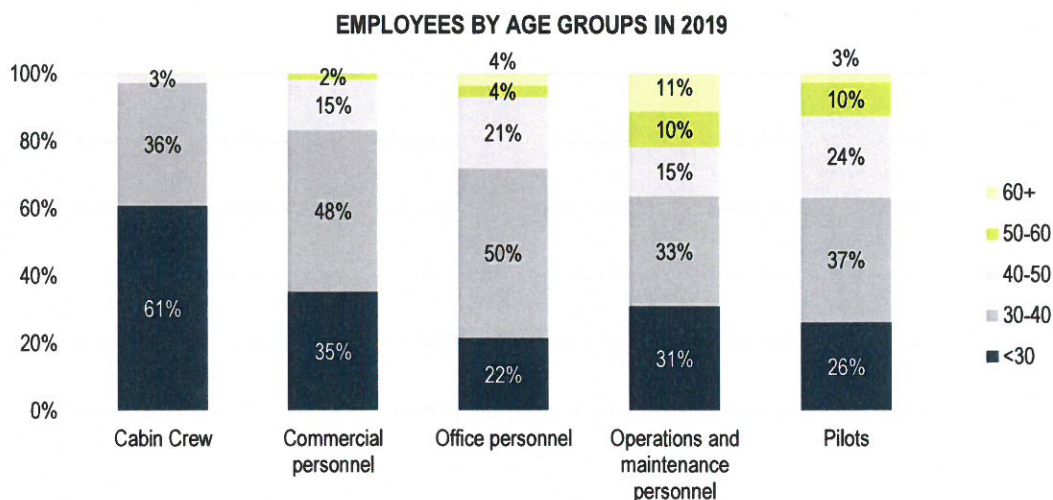


Male and female proportions in major employee groups have remained stable since 2015. The Group is working continually on society perception change and fighting stereotypes to attract more females into historically masculine positions and roles.

The Group has implemented proper remuneration policies in the bigger employee groups which are based on employee's performance, experience and qualification and avoid any pay gap. Based on the rough comparison of same positions holders, if position has both male and female position holders, not taking into account seniority, performance, previous experience and other deviation for proper equal pay measurements, the Group has concluded that in those 4.7% of cases males are less paid in average by 11%. In 5.3% cases, when females are paid less, the difference is by 14% in average. The Group continues to work on compensation system improvement and any pay gap elimination in cooperation with external consultant. Started in 2019, airBaltic is looking forward to re-evaluation of job grades to be finalized in 2020.



The average age of the Group employees is 35 years (34 years in 2018) and it is slowly increasing throughout the years, which can be explained with Latvia's demographic situation and trends. Nevertheless, the diversity in age groups is wide in different employee groups, where operations and maintenance personnel integrate all generations.



NON-FINANCIAL REPORT

Employees (continued)

Labour relations and working conditions

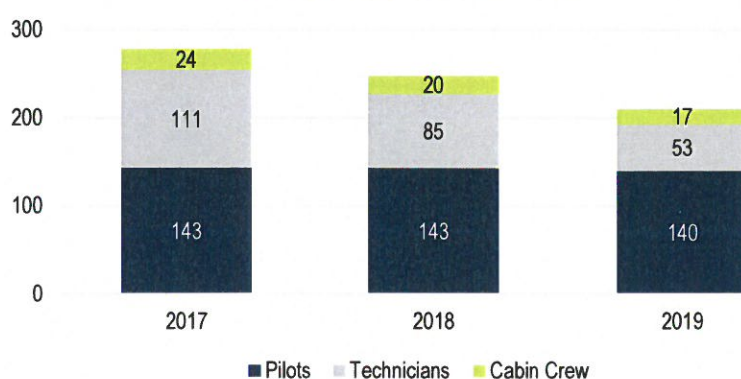
airBaltic is engaged in Collective agreement with 4 trade organizations since 2009. the Group applies Collective agreement conditions to all employees.

Within the Group significant number of employees in Cabin Crew, Pilots and Maintenance personnel groups are members of the unions. airBaltic Group keeps an active dialogue process with all unions through the monthly meetings on actual topics and through the dedicated Employee representative coordination person on a daily basis.

Training and development

The Group has invested significant resources into Pilot Academy development that was launched in 2018 and provides with full pilot training in 18 months. The first 12 cadets' group joined the Group as pilots already in November 2019. the Group supports aviation professionals to obtain required qualification to work as Cabin Crew. In 2019 almost 130 newcomers passed the program, as well as airBaltic provide program on modules training and examination for the employed mechanics to get Technician B1 or B2 categories.

TRAINING HOURS PER EMPLOYEE

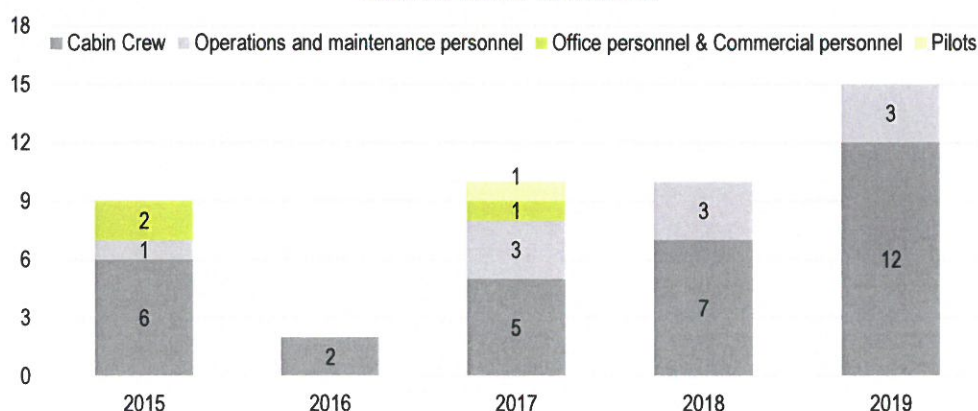


Aviation industry is heavily regulated in terms of maintenance of employee's qualification. In addition, Cabin Crew, Pilots and Technicians are going through different recurrent training programs on annual basis. The biggest part of the trainings in the past years were related to fleet modernization program and new aircraft in operation, hence the training hours are reducing in the path of more employees have got requalified for Airbus A220 aircraft operations. On top of that, training becomes more efficient by reducing instructors workload by implementing more digital solutions.

Health and safety

In 2019 the Group registered 15 job accidents. 9 of 15 happened due to inattention of employee or incorrect working methods applied. Respective accidents are always addressed in the regular job safety trainings to employees to avoid the same mistakes in the future.

WORK-RELATED ACCIDENTS



NON-FINANCIAL REPORT

Employees (continued)

Health and safety (continued)

The majority of accidents happen with Cabin Crew members which is driven by increase of respective group and flight volumes. Accidents per million available seat kilometres (ASK) is not fluctuating significantly in the past 3 years as indicated below.

SHARE OF WORK ACCIDENTS PER 1 MILLION ASK



The Group ensures health insurance coverage for all employees and accident insurance 24/7, as well as cover costs of the regular medical checks and provide compensation for optical expenses.

NUMBER AND RATE OF 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

Engagement

The Group carries out continuous listening strategy and runs regular employee's 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.

EMPLOYEE COMMITMENT INDEX



NON-FINANCIAL REPORT

Society

Driving the economy

Serving more than 80 destinations from Riga, Tallinn and Vilnius, *airBaltic* is the leading connectivity provider in the Baltics, providing convenient connections to its network spanning Europe, Scandinavia, Commonwealth of Independent States (CIS) and the Middle East. By connecting people, businesses and knowledge, *airBaltic* serves a major role in the economic development of the region. Many industries rely on efficient air links. A recent study by *Roland Berger* outlines that *airBaltic* directly and indirectly contributed approximately 2.5% (EUR 730 million) to Latvia's GDP in 2018 and supported overall close to 30,000 jobs in the country.

Notably, *airBaltic* opens Baltic countries for international tourism and devotes significant resources each year in advertising Riga, Tallinn and Vilnius all across Europe and beyond. Alongside sustainable growth of *airBaltic*, the number of tourists arriving to Latvia continues to increase. In 2019, *airBaltic* brought more than 650 000 tourists to Riga.

Many other industries rely on effective air links provided by *airBaltic*. It offers possibilities for local businesses to collaborate with companies located in different countries, enables international investments and helps Latvia to participate in the worldwide economy.

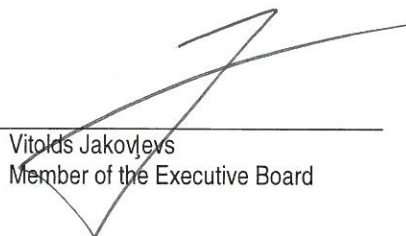
Industry development

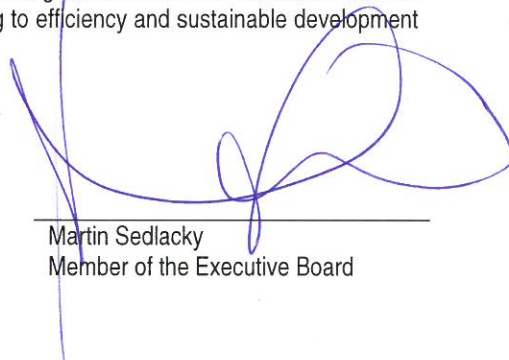
airBaltic is continuously working to develop and improve the Company's results and targets, which includes daily work. Nevertheless, *airBaltic* is also a very important part of Baltic tourism, therefore, the Company executed many campaigns to promote Baltics to the world. One of examples is how *airBaltic* honoured Baltic States in the 30th anniversary of the Baltic Way with a special gift - three aircraft painted in the colours of Baltic country flags. It is worth adding that in December 2018 when *airBaltic* received the 14th Airbus A220-300 one of 14 most beloved Latvian cities had been painted on each aircraft. It was done to honour the Centenary of Latvia. The Company aims to raise Latvia's, Estonia's and Lithuania's international profile even more. *airBaltic* is promoting not just Baltics and its tourism, but also aim to show how important for the Company is being located in Baltic States.

Currently *airBaltic* is working on new projects to become more sustainable and corporate responsible company as this is one of the Company's main priorities for the upcoming years.

In 2020, *airBaltic* is supporting organization of the first scientific conference at the Riga Aviation Forum. The goal of the conference is to provide an international forum to scientists, students and professionals in academia, industry and government to address recent research results and to discuss ideas and progress on all theoretical and practical issues contributing to efficiency and sustainable development of the industry.



Martin Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Martin Sedlacký
Member of the Executive Board

CORPORATE GOVERNANCE STATEMENT

Akciju sabiedrība "Air Baltic Corporation", registration number 40003245752 (hereinafter – airBaltic or the Company) a capital company whose transferable securities are traded on a regulated market (*Euronext Dublin*), 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 information on its bodies in the Statement.

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 for 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*'.
- Internal Audit Department, which oversees airBaltic internal processes in accordance with the Audit Plan approved by airBaltic's Supervisory Board and 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 Audit Department 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.
- 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, it is planned to set up an Audit Committee during the next airBaltic Shareholders' Meeting which will, *inter alia*, supervise the efficiency of the internal control and risk management system.
- 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 Parent company's financial statements and the financial statements of the Group (airBaltic and its subsidiaries) are independently audited; as a result, independent auditors provide statements whether the Company's financial statements and consolidated financial statements prepared in accordance with IFRS, 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 procedure – CAMMOE (Continuing Air Worthiness Management and Maintenance Organization Exposition).

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 possesses 80.05% of the Company's shares. The Ministry of Transport of the Republic of Latvia holds the government-owned shares. The second largest shareholder is Lars Thuesen who holds 19.94% of the Company's shares indirectly through his fully owned company Aircraft Leasing 1 SIA.

CORPORATE GOVERNANCE STATEMENT

The governing bodies of airBaltic (continued)

Shareholders' Meeting (continued)

The Shareholders' Meeting has competency to adopt decisions on the following matters:

- Annual Report,
- Distribution of the previous year's profits,
- Election and removal of members of the Supervisory Board, auditors, Company's controllers and liquidators,
- Bringing claims against members of the Executive or Supervisory Board or auditors, or waive claims against them, as well as appointing the Company's representatives to maintain claims against members of the Supervisory Board,
- Amendments to the Company's Articles of Association,
- Increase or decrease of the share capital,
- Issuing and conversion of the Company's financial instruments,
- Determining remuneration for members of the Supervisory Board and the auditor,
- Termination, continuation, suspension, resumption or re-organization of the Company's activity,
- General principles, types and criteria for determining remuneration for members of the Executive and Supervisory Board,
- Allocation of the Company's shares to employees and members of the Executive and Supervisory Board.

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 2019, two airBaltic Shareholders' Meetings took place. At the ordinary Shareholders' Meeting, the annual and the consolidated annual reports for 2018 were approved, it was resolved to allocate the profit of EUR 5,378,395 to covering losses from previous years, and an auditor was elected. While at the extraordinary Shareholders' Meeting, it was resolved to issue bonds worth EUR 200,000,000 and other related resolutions were adopted.

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. In 2019, 21 Supervisory Board meetings took place. The term of office of the current Supervisory Board ends in April 2020.

Members of the Supervisory Board:

- Nikolajs Sigurds Bulmanis, Chairman of the Supervisory Board,
- Kaspars Briškens, Deputy Chairman of the Supervisory Board. Business Development Manager, Rail Baltica,
- Lars Thuesen, Member of the Supervisory Board. Lars Thuesen indirectly owns 100% of Aircraft Leasing 1 SIA (shareholder of airBaltic). Among other interests, Lars Thuesen also owns the Danish airline Jet Time and the Danish bank Basisbank,
- Kaspars Āboliņš, Member of the Supervisory Board. Kaspars Āboliņš is also the governor of the State Treasury, the Chairman of the Supervisory Board of the Akciju sabiedrība "Conexus Baltic Grid" and the Chairman of the Supervisory Board of the Akciju sabiedrība "Augstsprieguma tīkls".

The Supervisory Board of airBaltic is formed by high-qualified professionals who have knowledge and experience in the field of aviation.

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 2019, 67 Executive Board Meetings took place.

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).

CORPORATE GOVERNANCE STATEMENT

The governing bodies of airBaltic (continued)

Members of the Executive Board:

- Martin Alexander Gauss, Chairman of the Executive Board. He has been serving on airBaltic's Executive Board since November 2011,
- Martin Sedlacky, Member of the Executive Board. He has been serving on airBaltic's Executive Board since May 2012,
- Vitolds Jakovļevs Member of the Executive Board. He has been serving on airBaltic's Executive Board since October 2011.

The Company has been successfully re-organized under the management of this Executive Board, enabling airBaltic to achieve its financial and operating targets. The Executive Board is comprised of professionals who have relevant experience in the Company's field of activity. Mr. M. A. Gauss, the Chairman of the Executive Board who also serves as the Company's Chief Executive Officer, has more than 27 years of experience in the aviation industry. Member of the Executive Board and the Chief Operations Officer, M. Sedlacky has taken part in developing restructuring programs for various companies, including airlines, in Central and Eastern Europe, Scandinavia, USA, Singapore, Malaysia. In turn, V. Jakovļevs who serves as a Member of the Executive Board and the Chief Financial Officer, worked in Latvian asset management and investment banking sectors for more than 10 years before joining airBaltic.


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 12 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 Board and the following individuals:

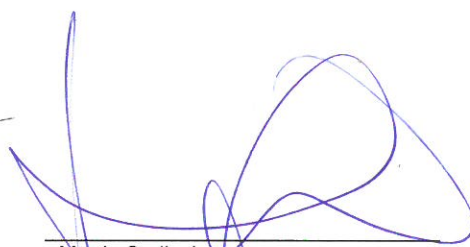
- Imants Jansons, Senior Vice President Legal Affairs,
- Ilze Mālkalne, Senior Vice President Finance and Control,
- Eva Plakane, Senior Vice President Revenue Management,
- Wolfgang Reuss, Senior Vice President Network Management,
- Pauls Juris Cālitis, Senior Vice President Flight Operations,
- Alīna Roščina, Vice President Human Resources,
- Alise Briede, Vice President Corporate Communications,
- Laura Vecvanaga - Puķīte, Senior Vice President Ground Operations and Customer Care,
- Andris Vaivads, Senior Vice President Technical Operations.

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 balanced³. It should be pointed out that, at the Top Management Team level, airBaltic is already firmly committed to this principle - 5 out of 12 members of the senior management team are women.



Martin Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Martin Sedlacky
Member of the Executive Board

³ Improving Gender Balance by 2025. Available: <https://www.iata.org/en/policy/25-by-2025/>, viewed on: 08.02.2020.



Independent Auditor's Report

To the Shareholders of AS "Air Baltic Corporation"

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 AS "Air Baltic Corporation" ("the Company") and its subsidiaries (together - "the Group") as at 31 December 2019, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Supervisory Board dated 27 February 2020.

What we have audited

The Company's and the Group's separate and consolidated financial statements comprise:

- the separate and consolidated balance sheet as at 31 December 2019;
- 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 separate and consolidated 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 separate and consolidated 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

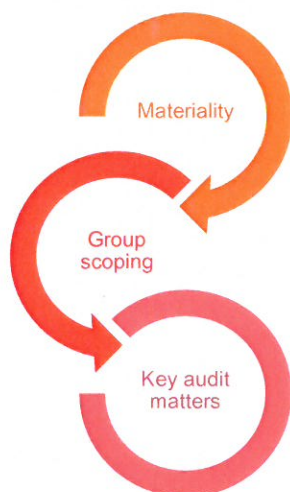
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in 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 2019 to 31 December 2019, are disclosed in Note 8 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Company materiality: EUR 5,000 thousand
- Overall Group materiality: EUR 5,069 thousand
- Full scope audit was conducted for five Group entities.
- The Group audit team performed the work on all five entities and have performed group level analytics in respect of other subsidiaries.
- Impairment assessment of property, plant and equipment, right of use asset and intangible assets (Company and Group)
- Accounting for the adoption of International Financial Reporting Standard 16 Leases (Company and Group)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company was EUR 5,000 thousand and to the Group was EUR 5,069 thousand.
How we determined it	1% of revenue of 2019.

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Rationale for the materiality benchmark applied	<p>We chose revenue as the benchmark because revenue is the key performance indicator that determines the Company's and the Group's performance and is monitored by the management and investors.</p> <p>We chose 1%, which, based on our judgment, is within the range of acceptable quantitative materiality thresholds for this benchmark.</p>
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We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above EUR 500 thousand for the Company and 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of property, plant and equipment, right of use assets and intangible assets (Company and Group)</i>	
<p>As outlined in Notes 13 and 15 to the separate and consolidated financial statements, in the balance sheet as at 31 December 2019, property, plant and equipment (including right of use assets) of the Company and the Group amounts to EUR 701,885 thousand and EUR 708,511 thousand, respectively, and intangible assets of the Company and the Group amount to EUR 18,084 thousand and EUR 18,886 thousand, respectively. Property, plant and equipment, right of use assets and intangible assets together represent 73% of the total assets of the Company and 75% of the total assets of the Group. As required by IFRS, the management performed an annual impairment test of the Company's and the Group's intangible assets with indefinite useful life. For each Cash Generating Unit (CGU) that includes such intangible assets, the impairment test compared the carrying value of its property, plant and equipment (including right of use assets) and intangible assets against the calculated value in use estimate for each relevant CGU. The comparison includes the property, plant and equipment (including right of use assets) as it is not possible to separate out the cashflows used in the calculation of the Value in Use arising from the use of the property, plant and equipment (including right of use assets), from those arising from the use of the intangible assets. The value in use</p>	<p>We obtained impairment assessment prepared by the management and gained an understanding of the process of the management's evaluation of the recoverability of property, plant and equipment, right of use assets and intangible assets. 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 particular those related to the forecasted growth rate estimates and discount rates for all material CGUs. We considered other significant assumptions used by the management in the estimation of cash flows forecasts and assessed quality of management forecasts by comparing their past forecasts of revenues and expenses to the actual historical performance levels. We assessed whether future cash flows were based on the approved business plans and other relevant developments in the business of each particular CGU. We tested the mathematical accuracy of the cash flow models used for value in use testing.</p> <p>We reviewed the disclosures in the separate and consolidated financial statements included in</p>

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estimation requires significant estimates by the Company's and the Group's management, including the assumptions related to cash flow forecasts of the CGU, selection of discount rate and growth rate. The result of management's impairment tests was that there was no need to recognise any impairment charge. The annual impairment test was significant to our audit given the size of the amounts involved, as well as the significance of management's judgments and assumptions in order to estimate the value in use as disclosed in Notes 13 and 15.

Notes 13 and 15 to determine whether they meet the disclosure requirements of IFRS.

Accounting for the adoption of International Financial Reporting Standard 16 Leases (Company and Group)

As at 1 January 2019 the Company and the Group has implemented IFRS 16 *Leases*. As outlined in Note 13 to the separate and consolidated financial statements, in the balance sheet as at 31 December 2019, right of use asset of the Company and the Group amount to EUR 645,861 thousand. Right of use assets represent 66% of the total assets of the Company and 66% of the total assets of the Group. The adoption of the new standard has significant impact on the separate and consolidated financial statements. The relevant accounting policies are presented in Note 2a and Note 13 includes description of the impact on the separate and consolidated financial statements as the result of implementation of the new standard.

We obtained management's impact assessment in respect of the new accounting standard and proposed accounting policies. We assessed the appropriateness of the initial assessment to ensure the proposed treatment was in line with the requirements of the standard. This included a consideration of any exemptions or practical expedients to be exercised. We considered the completeness of the leases included in right of use assets. Following the completion of the initial assessment we obtained management's calculations for determining the quantum impact of the adoption of the standard. We tested the mathematical accuracy of the schedules obtained and tested the accuracy of a sample of the input data, including the discount rates and assessment of lease extension options used in calculating the value of the lease liabilities, to ensure this was appropriate.

We reviewed the disclosures in the separate and consolidated financial statements included in Note 13 and the Accounting policies (Note 2a) to determine whether they meet the disclosure requirements of IFRS.

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 its four subsidiaries. We covered 100% of the Group's revenues and 100% of the Group's total assets. We performed group level analytics in respect of remaining items to obtain sufficient appropriate audit evidence for our opinion on the Group's financial statements as a whole.

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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 29 to 37 of the accompanying Annual Report;
- the Statement of Responsibility of the Management, as set out on page 37 of the accompanying Annual Report;
- the Non-financial report, as set out on pages 4 to 18 of the accompanying Annual Report;
- the Corporate Governance Statement for the year 2019, as set out on pages 19 to 21 of the accompanying Annual Report;

but does not include the separate and consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the separate and consolidated 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 separate and consolidated 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 Report, our responsibility is to consider whether the Corporate Governance Report 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 separate and consolidated financial statements are prepared is consistent with the separate and consolidated 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 Statement of Corporate Governance 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 Statement, our responsibility is to report whether the Company and the Group has prepared the Non-financial Statement and whether the Non-financial Statement 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 prepared as separate element of the Annual 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

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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 separate and consolidated financial statements

Management is responsible for the preparation of the separate and consolidated 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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated 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 separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 separate and consolidated 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.

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- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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 consolidated 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 separate and consolidated 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 by the shareholders resolution representing a total period of uninterrupted engagement appointment of 5 years.



Eva Jansen-Diener
Persona per procura

Riga, Latvia
28 February 2020

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Jana Smirnova
Certified auditor in charge
Certificate No. 188

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MANAGEMENT REPORT

28 February 2020

Air Baltic Corporation AS Group key figures

In 2019 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 achieved revenue of EUR 509 million, which is 23% above previous year.

Financial figures (EUR thousand)	2019	2018
Revenue	508 955	413 920
EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent costs as well as before the release of provisions for legal disputes)	126 372	93 386
EBITDAR margin	25%	23%
Operating profit before release of provisions for legal disputes	32 630	15 922
Profit before tax	(7 238)	4 566
Net result	(9 114)	2 960
Total assets	971 236	563 097
Non-current assets	793 583	524 369
Total equity	33 912	41 660
Borrowings, including lease liabilities	817 096	419 591
Net debt	693 277	412 857
Cash and cash equivalents	123 819	6 734

Taxes

In 2019, the Group paid in taxes EUR 30.7 million which is 19% increase over 2018. Of the taxes paid:

EUR 18,887 thousand were social security tax,
 EUR 10,572 thousand were personal income tax,
 EUR 1,251 thousand were corporate income tax,
 EUR 24 thousand other taxes.

Personnel

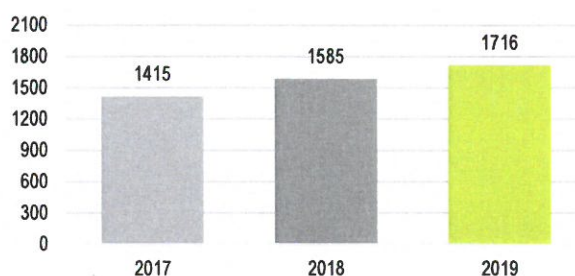
At the end of 2019, the Group employed over 1.7 thousand people, an 8% growth over previous year. During 2019 in total 398 employees had joined the Group.

Currently the Group employs people of more than 30 different nationalities; average age of employees – 35; average length of employment in the Group – 6 years. Proportion between men and women is 53/47. airBaltic has joined more than 20 airlines to sign the International Air Transport Association (IATA) 25by2025 gender diversity pledge, committing to increase female participation at senior levels by 25% by the year 2025.

The airline has been named as a Top Employer in Transport and Logistics industry in Latvia for 8 years in a row.

2019 was the second financial year of the new business project - Pilot Academy, implemented by group company Air Baltic Training SIA. The Pilot Academy has been an immediate success – it received on average 10 applications for one pilot training spot. All the first group of students successfully finished the academy and joined the airline by the end of 2019, a few months earlier than planned.

GROUP EMPLOYEE HEADCOUNT (YEAR END)



MANAGEMENT REPORT

Air Baltic Corporation AS

Key milestones in 2019

- In 2019 airBaltic carried over 5 million passengers which is a new high representing a 22% increase over 2018
- In line with the passenger growth, the airline reached record revenues of EUR 503 million that was 23% increase over 2018
- The airline served over 80 destinations from Riga, Tallinn and Vilnius offering the largest variety of direct destinations and convenient connections via Riga
- On July 23, 2019 airBaltic successfully placed a EUR 200 million issue of 5-year senior unsecured bonds becoming the largest corporate bond issue originated from Latvia. The transaction was well received by international and local investor community resulting in final allocation to more than 100 investors from 25 countries and the demand for the securities exceeded supply. The proceeds were used for refinancing some of its long-term obligations, for new aircraft PDP financing as well as for strengthening the liquidity position going forward. With the new funding secured, the Company has sufficient cash to execute its business plan Destination 2025 that foresees becoming an operator with a single type fleet of at least 50 Airbus A220-300 aircraft
- airBaltic maintained its position as the market leader in the region to further improve connections between the Baltic states and the rest of the world. In 2019, airBaltic has reached a 36% market share in the capitals of the Baltics. In Riga, which is the main hub for airBaltic operations and the biggest airport in the region, the Parent company's market share was 59%
- In 2019 airBaltic launched 9 new routes and became the largest carrier in Tallinn Airport
- In 2019 airBaltic received 8 new Airbus A220-300 aircraft and by the end of the year the fleet included 22 modern A220-300s
- airBaltic significantly reduced its Boeing 737 fleet and had only five 737-300s left in its fleet at the end of the year. The management intends to finish the phase out of Boeing 737s by the end of 2020
- The Company became the first airline to win ATW Airline Industry Award the Airline Market Leader two years running
- In December, airBaltic received the CAPA Regional Airline of the Year award for the second time
- The Parent company plays an important role in ensuring air connectivity to Latvia and the Baltics. According to a 2019 study by business strategy consultants Roland Berger, airBaltic directly and indirectly contributed 2.5% to Latvia's GDP in 2018 and indirectly supported close to 30 000 jobs
- In 2019 the first group of students graduated from airBaltic Pilot Academy and are now joined the airline as first officers
- In December, the Company installed the Airbus A220 full flight simulator
- airBaltic signed IATA gender diversity pledge, committing to increase female participation at senior levels by 25% by 2025
- The Parent company became the first airline to obtain full scope maintenance capability for Airbus A220-300 and performed the world's first Airbus A220-300 C check
- airBaltic Cargo handled record high +21% cargo and mail in 2019

Network & strategy

In 2019, the airline continued to strengthen its market position in Riga airport where the airline's market share grew from 54% in 2018 to 59% in 2019. The airline increased its seat capacity by 21% and the number of carried passengers by 22%. In 2019 the airline carried out over 62 thousand flights to more than 80 destinations. A number of new flights were launched from Riga including Riga to Dublin, Dubrovnik, Kos, Lviv, Menorca, Stuttgart and Tallinn to Brussels, Copenhagen and Malaga.

In 2020 the airline is opening the following routes: from Riga to Manchester, Trondheim, Bergen, Yekaterinburg and Yerevan, from Tallinn to Rome, Zurich, Hamburg and Nice, and from Vilnius to Hamburg, Zurich, Gothenburg, Rijeka and Dubrovnik.

MANAGEMENT REPORT

Air Baltic Corporation AS (continued)

The main new partnership that was launched in 2019 was with SAS – Scandinavian Airlines, covering a reciprocal codeshare between main points from Latvia to Denmark, Norway and Sweden. Other partnerships have been deepened and expanded for example with KLM/Air France and Iberia.

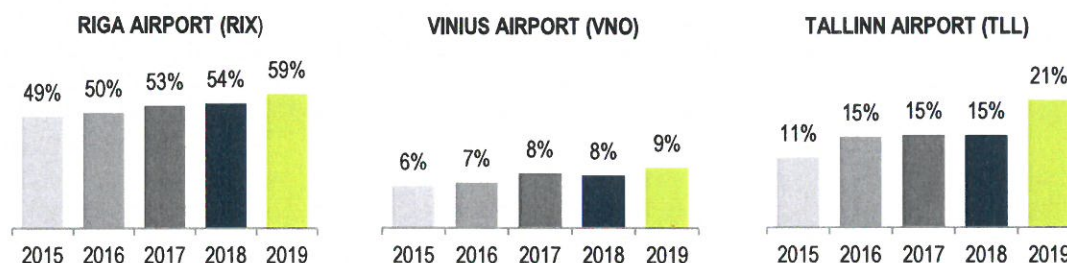


Number of routes operated from Baltic countries	2018 actual	2019 actual	2020 planned
Riga	67	72	76
Tallinn	7	11	15
Vilnius	5	5	10

Fleet deployment (average fleet per year)	2018 actual	2019 actual	2020 planned
Riga	30.2	33.7	33.3
Tallinn	1.2	2.7	3.8
Vilnius	1.0	1.0	1.8

Market share development

The airline's strategy is to become the number one carrier in all three Baltic States. The airline increased its market share in Riga from 54% in 2018 to 59% in 2019. The airline achieved a number one market share in Tallinn – growing from 15% in 2018 to 21% in 2019. In Vilnius the market share increase by 1 percentage point and reached 9%. With the exit of Nordica in Q4 of 2019 from Tallinn market, airBaltic is now the only Baltic airline offering scheduled flying to the customers of Latvia, Estonia and Lithuania simultaneously.



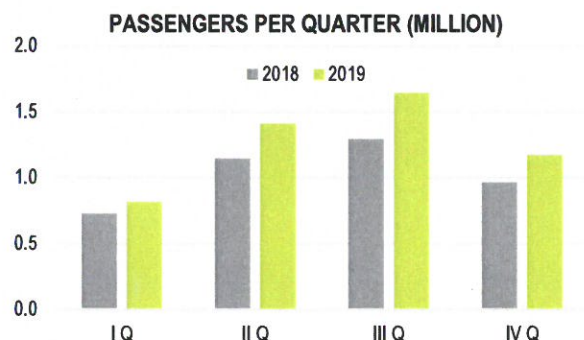
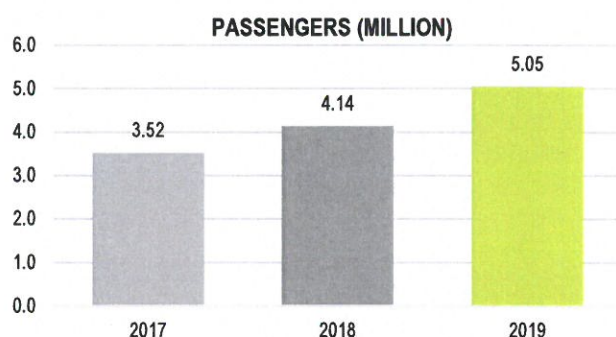
MANAGEMENT REPORT

Air Baltic Corporation AS (continued)

Operating performance

In 2019, the airline deployed in average 36 aircraft in scheduled and charter operations undertaking more than 62.7 thousand flights. The airline had achieved a record number of passengers exceeding 5 million which was a 22% growth compared to 2018. The airline increased its seat capacity by 21% and was able to match the increase with the passenger growth while sustaining a minimal decline in the yields in 2019. The load factor grew by 0.9 percentage points and reached 75.8%.

	2019	2018	Change
Capacity			
Number of aircraft at end of period	39	34	15%
Utilization (block hours per aircraft per day)	8.76	8.80	(0.5%)
Total block hours	114 669	102 500	12%
Total flight hours	95 880	85 603	12%
Flights	62 748	56 261	12%
Average departures per day per aircraft	4.8	4.8	0%
Seat capacity ('000)	6 855	5 658	21%
Average aircraft stage length (km)	973	960	1%
Total ASKs ('000)	7 515 010	6 184 725	22%
Operating data			
RPKs (revenue passenger kilometers) ('000)	5 697 281	4 635 268	23%
Load factor (%)	75.8%	74.9%	0.9pp
Number of passenger segments ('000)	5 049	4 136	22%



Punctuality

Punctual operation is one of the main priorities for the airline. We aim to be amongst the most punctual airlines in Europe and following 5 year track record of being the most punctual airline in Europe, in 2019 our OAG ranking has dropped to the 5th place. Lower levels of punctuality could be attributed to the fast growth of the airline and unusually difficult weather conditions.

airBaltic targets for at least 99% of all planned flights to be performed. In 2019 airBaltic cancellation rate was 0.4% and respectively the regularity rate was 99.6% which we consider to be a good achievement considering the high growth and challenging operational conditions.

Financial performance

In 2019, the airline reached record revenues of EUR 503 million which was 23% increase over 2018. Passenger revenue reached EUR 460 million of which EUR 34.7 million were ancillary revenues which grew 36% compared to 2018. In 2019, the airline upgraded its internet booking engine and improvement in ancillary revenues is partially attributable to this upgrade and partially to several initiatives which were implemented in 2019. Thus, the ancillary revenue per passenger grew from EUR 6.2 in 2018 to EUR 6.9 in 2019.

Almost EUR 20 million were generated from ACMI activities where one of the most visible customers was Lufthansa Group which had two A220-300s on an ACMI contract for the duration of summer season flying out of its Munich base to such destinations as Luxemburg, Lyon, Budapest, Bucharest.

MANAGEMENT REPORT

Air Baltic Corporation AS (continued)

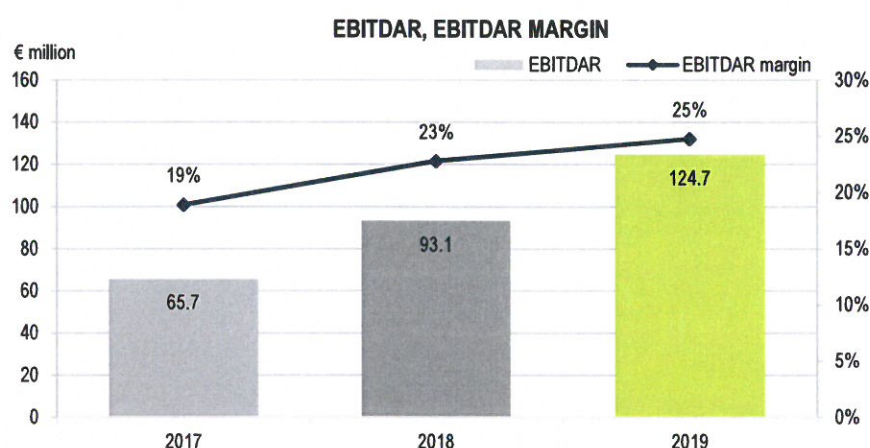
While overall revenues increased by 23%, the operating costs went up by 20%. Fuel was one of the major contributors increasing 21% compared to 2018 while the volume in metric tons increased only by 14%.

airBaltic hedges the risks of jet fuel price fluctuations using jet fuel swap contracts. The average hedge coverage in 2019 was 24%. As of 31 December 2019, 42 000 jet fuel tons had been hedged for 2020 of which 18 000 MT at the average price of 515 EUR/MT and 24 000 MT at the average price of 590 USD/MT. During February 2020, the airline hedged additional 22 500 MT for the year 2020 at the average price 575 USD/MT thus the total hedged volume for 2020 increased to 34%.

Personnel costs went up 6%, which was generally driven by cost increases for technicians. In 2019 airBaltic similar to the experience of its peers saw significant increase in denied boarding compensations, delayed flight compensations and flight cancellation compensations.

Other operating expenses which include mainly overheads, crew administration expenses and aircraft insurance increased by 5%.

The table below shows overall airBaltic's EBITDAR and EBITDAR margins in 2019.



As the airline has implemented IFRS 16 Lease and capitalized its leases, the lease costs now include only the costs of short term aircraft lease, wet lease (ACMI), short-term engine lease and the supplemental lease related to maintenance reserves on the leases of the 12 Q400 aircraft. As a result of this accounting change the lease costs went down by about 54%. Meanwhile the same change of the accounting policy resulted in significant increase of the depreciation costs which increased by about EUR 43 million or 157% vs. 2018. EBIT (earnings before interest and taxes as well as before the release of provisions for legal disputes) grew significantly and increased from EUR 6.8 million in 2018 to EUR 26.6 million in 2019.

The interest costs also increased significantly, going up by 88%. One of the reasons for the increase is adoption of IFRS 16 which effectively splits the lease payments into depreciation and interest bringing the total negative impact of IFRS 16 implementation to about EUR 7 million in 2019. The other main driver of increase of interest expenses was the 6.75% interest on the EUR 200 million unsecured bond issued in July 2019.

As the airline was successful in its legal proceedings related to the Investbank court claim, the management recognized EUR 6.76 million in income as a result of the release of the respective provisions.

Overall the airline generated net loss of EUR 7.7 million in 2019.

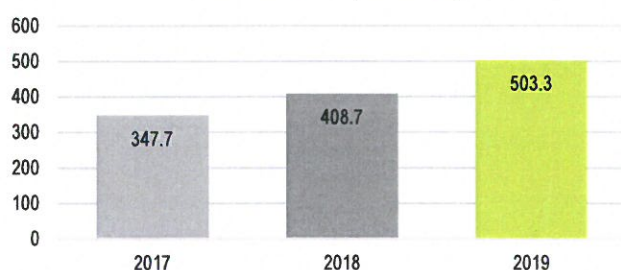
MANAGEMENT REPORT

Air Baltic Corporation AS (continued)

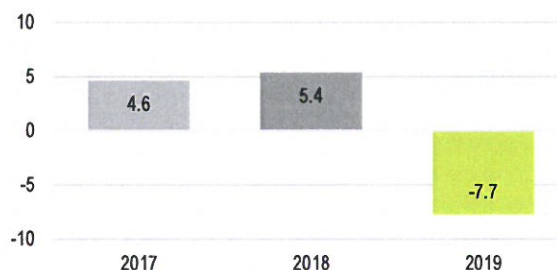
(EUR thousand, except where otherwise stated)

	2019	2018	Change
Financial metrics			
Revenue	503 281	408 706	23%
Passenger revenue,	460 414	382 272	20%
including Ancillary revenue	34 691	25 503	36%
EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent costs as well as before the release of provisions for legal disputes)	124 698	93 145	34%
EBITDAR margin (%)	25%	23%	2.0pp
EBIT (earnings before interest and taxes as well as before the release of provisions for legal disputes)	26 559	6 779	292%
Net result	(7 729)	5 378	(244%)
Net Debt	691 073	411 356	68%
Cash and cash equivalents	123 217	5 774	2034%
Yield (€ cents)	7.8	7.7	2%
RASK (€ cents)	6.83	6.66	3%
CASK (€ cents)	(6.49)	(6.49)	0%
CASK ex fuel (€ cents)	(5.02)	(5.02)	0%

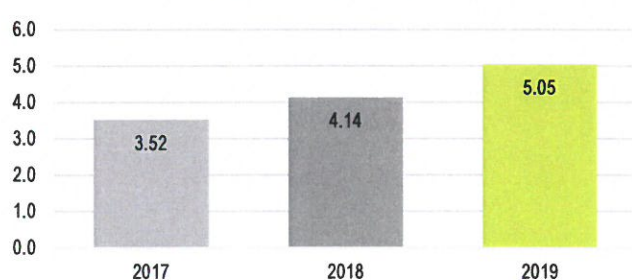
TOTAL REVENUE (€ MILLION)



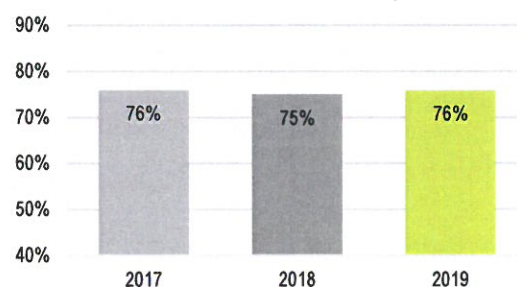
NET INCOME (€ MILLION)



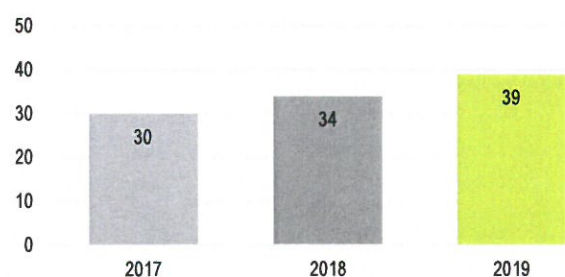
PASSENGERS (MILLION)



LOAD FACTOR



YEAR-END FLEET



CASK (€ CENTS)



MANAGEMENT REPORT

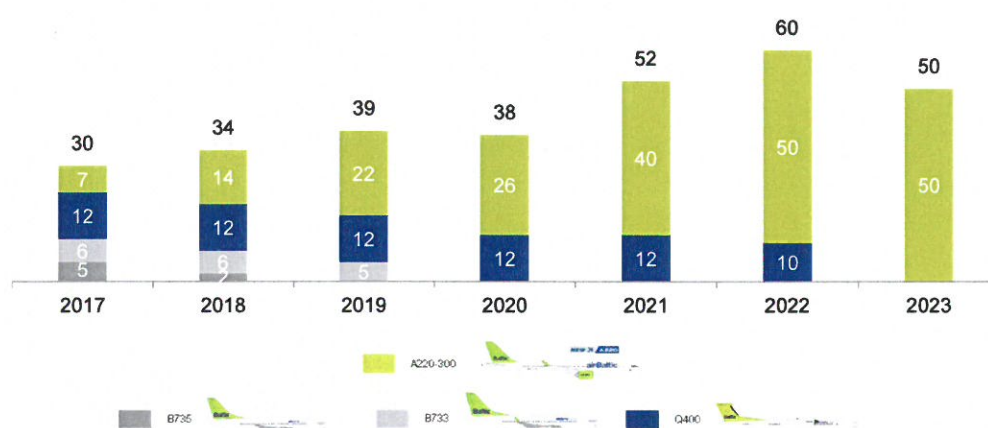
Air Baltic Corporation AS (continued)

Fleet renewal

In 2019, the Company incorporated 8 additional Airbus A220-300 aircraft in its fleet thus the total number of A220s reaching 22 and the total number of aircraft at the end of the year reaching 39. All the new deliveries were financed through sale and lease back transactions. In the second half of 2019 the airline entered into a new sale and lease back transaction for the total of five aircraft of which 2 were delivered in December 2019 and three will be delivered during the course of 2020. Overall the airline expects to add four new A220-300s during 2020.

As part of its fleet transition the airline phased out four B737s of which three were sold by the end of 2019 and one was sold in early January 2020. As a result of these transactions, airBaltic will have only four Boeing 737-300 left in its fleet and they are expected to be phased out by the end of 2020.

YEAR-END FLEET



	December 2019 Actual	December 2020 Planned
Airbus A220-300 (145 seats)	22	26
Boeing 737-300 (142 seats)	5	-
Bombardier Q400 (76 seats)	12	12
Fleet size	39	38
Share of Airbus fleet	56%	68%
Average seats per aircraft	123	123

Cash flow and liquidity

In 2019 the airline issued EUR 200m 5-year senior unsecured bonds which were supported by the S&P rating of BB- and listed the bonds at Euronext Dublin. The airline used about EUR 50 million of the proceeds to refinance the long term debts to Latvijas Krājbanka LAS and Snoras BAB and to repay the maturing obligation to Riga International Airport. The rest of the proceeds will be used to finance the predelivery payments for the new fleet and provide necessary additional liquidity buffer to support airBaltic's fast growing operations. One of the covenants of the bond issue prospectus is that airBaltic needs to maintain in cash and cash equivalents a minimum amount of EUR 25 million. At the end of 2019 the airline had EUR 123 m in cash and cash equivalents which was significant improvement to 2018.

EUR thousands	2019	2018	Change
Cash and cash equivalents at the beginning of the year	5 774	12 348	(6 574)
Net cash generated by operating activities	85 554	48 122	37 432
Net cash used in investing activities	(38 116)	(22 996)	(15 120)
Net cash generated from / (used in) financing activities	70 005	(31 700)	101 705
Cash and cash equivalents at the end of the year	123 217	5 774	117 443

MANAGEMENT REPORT

Air Baltic Corporation AS (continued)

Shareholders' structure and equity

In 2019, the shareholder's structure remained unchanged. However, the airline has retained Greenhill, a highly reputable global investment bank, to attract a private investor and raise the necessary capital to finance the ambitious new business plan Destination 2025.

	Participating interest %
Republic of Latvia	80.054746
Aircraft Leasing 1 SIA	19.944427
OJSC Transaero Airlines	0.000602
Frontier Enterprises SIA	0.000188
Karl Gunther Sollinger	0.000035
Other	0.000002

Legal Risks

As of the date of this report airBaltic is a party in several lawsuits described in detail in the Note 29 (b) of the Financial statements. 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. Management cannot guarantee the outcome of each single court case, however, a prudent approach has been taken to assess any hypothetical negative decisions and the necessary action steps have been taken in order to ensure that the assets and operations of the Company are not jeopardized.

Coverage of losses

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

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. In 2019, the ABT continued demonstrating positive results by increasing total revenues and keeping a controlled cost base. The aviation sector continued growing in the region during 2019 and the ABT was able to reach turnover of EUR 3.9 million - 9% higher than previous year. The net result for the financial year was a profit of EUR 88 thousand.

2019 was the second financial year of the new business project - Pilot Academy. The Pilot Academy has been immediate success – it received on average 10 applications for one pilot training spot. All the first group students have successfully finished the academy and joined the airline by the end of 2019, a few months earlier than planned.

Purchase of A220-100/300 FFS by the parent company - AS Air Baltic Corporation - has been executed and the simulator was successfully installed and qualified by ABT in accordance with tight new European Aviation Safety Agency rules in November 2019, almost two month earlier than originally planned.

Two hangars for Diamond aircraft maintenance have been built in 2019 as planned. They will be used for parking and maintenance of ABT owned aircraft as well as the third party aircraft maintenance starting February 2020.

Initial pilot training program will reach its optimal level in 2020 with 11 aircraft in operation and 76 students in training. The number of the Diamond training aircraft will reach 9 DA40 and 1 DA42. In accordance to the general purchase agreement with "Diamond Aircraft Industries GmbH" ABT will execute the planned additional 3 Diamond DA40NG aircraft purchase orders in April - May 2020. Additional aerobatic aircraft for Upset Recovery and Prevention Training (UPRT) will be purchased at the same time following the changes in respective training requirements since 20 December 2019.

B737 FFS will continue generating high value for the ABT as it is the only B737CL simulator approved for UPRT in Europe with other main upgrades such as Performance based Navigation capabilities.

MANAGEMENT REPORT

Loyalty Services SIA

Loyalty Services SIA (hereinafter also – the LS) was established in 2010 and it runs a frequent flyer program. 2019 was the tenth year of operations of the subsidiary. The net result of the year was profit of EUR 715 thousand. This showed that structural changes done in 2018 (the narrowing of focus on Baltics market and new services focusing on the partner brand and tailor-made loyalty solutions) are proving to be the right direction for the LS. Development of the airBaltic Club loyalty program was continued, which significantly increased the number of active airBaltic members to 185,467, an increase of 30% compared to 2018. The digital stamp card created in 2018 received a lot of response and by the end of 2019 45% of the active airBaltic program members were using the service, thus contributing to the overall popularity of the program in the market. The number of program participants continued to grow, reaching 2.85 million, of which 200 848 were new program members joining in 2019.

Baltijas Kravu Centrs SIA

Baltijas Kravu Centrs SIA (hereinafter also – BKC) operates at Riga International Airport since 1 February 2001. BKC 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 BKC has handled more than 15.3 thousand tons of cargo and mail transportation, which is 13% increase compared to the previous year. Total revenue increased to EUR 888 thousand mainly driven by the transit mail and cargo volume.

Aviation Crew Resources AS

Aviation Crew Resources AS (hereinafter also – ACR) 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 2019 ACR generated over EUR 34.5 million in revenues resulting in EUR 402 thousand of net income. The year was challenging due to the increased competition among pilots recruiting agencies in Europe. It affected the activities of the ACR at recruitment and retention of the pilots.

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, as they believe that the Company and the Group will continue the successful implementation of its new business plan Destination 2025.


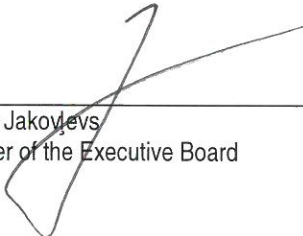
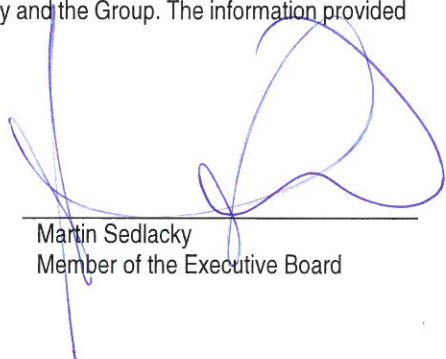
Subsequent events

The Company and the Group are monitoring coronavirus COVID-19 outbreak development. The Company's and the Group's performance will depend, in part, on the duration and spread of the outbreak, as well as any future travel advisories and restrictions.

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 financial statements or notes.

Statement of Management Responsibility

Based on the information available to the Executive Board, these financial statements 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 Gauss
Chairman of the Executive Board
Vitolds Jakovļevs
Member of the Executive Board
Martin Sedlacký
Member of the Executive Board

INCOME STATEMENT

		AIR BALTIC		GROUP	
	Note	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
OPERATING REVENUE					
Revenue	5	500 001	405 595	502 255	407 806
Other revenue		3 280	3 111	6 700	6 114
		503 281	408 706	508 955	413 920
OPERATING EXPENSES					
Fuel		(110 461)	(91 212)	(110 461)	(91 212)
Airport, handling and en-route charges		(106 696)	(89 154)	(106 696)	(89 154)
Amortization and depreciation		(69 948)	(27 272)	(70 938)	(27 834)
Distribution and sales costs		(42 574)	(34 994)	(43 458)	(35 207)
Personnel costs	6	(41 336)	(38 886)	(74 535)	(64 554)
Pilot lease		(35 630)	(27 795)	(1 162)	(1 280)
Aircraft lease		(22 804)	(49 630)	(22 804)	(49 630)
Aircraft maintenance		(21 921)	(17 519)	(21 921)	(17 519)
Other operating costs	7	(16 585)	(15 825)	(20 970)	(21 432)
Passenger service		(7 922)	(5 881)	(7 922)	(5 881)
Claim compensation		4 542	5 705	4 542	5 705
Expenses of current activities		(471 335)	(392 463)	(476 325)	(397 998)
Release of provisions for legal disputes	11	6 755	20 150	6 755	20 150
		(464 580)	(372 313)	(469 570)	(377 848)
FINANCE INCOME / (EXPENSE)					
Finance costs	9	(41 194)	(21 955)	(41 348)	(21 997)
Foreign currency exchange loss, net		(5 387)	(9 464)	(5 397)	(9 512)
Finance income	10	151	404	122	3
		(46 430)	(31 015)	(46 623)	(31 506)
(LOSS) / PROFIT BEFORE TAX		(7 729)	5 378	(7 238)	4 566
Corporate income tax	12	-	-	(1 876)	(1 606)
(LOSS) / PROFIT FOR THE YEAR		(7 729)	5 378	(9 114)	2 960

The notes on pages 44 to 82 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Note	AIR BALTIC		GROUP	
		2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
(LOSS) / PROFIT FOR THE YEAR		(7 729)	5 378	(9 114)	2 960
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS					
(Loss) / gain on cash flow hedges		1 839	(482)	1 839	(482)
Hedging gains reclassified to profit or loss	19	(288)	(2 257)	(288)	(2 257)
		1 551	(2 739)	1 551	(2 739)
Gain on revaluation of property, plant and equipment / depreciation of revaluation reserve		(310)	2 471	(233)	2 536
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		1 241	(268)	1 318	(203)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(6 488)	5 110	(7 796)	2 757

The notes on pages 44 to 82 form an integral part of these financial statements.

BALANCE SHEET

		AIR BALTIC		GROUP	
	Note	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	13	701 885	449 475	708 511	455 262
Investment properties	14	4 930	2 797	-	-
Intangible assets	15	18 084	16 092	18 886	17 006
Investments in subsidiaries and other investments	16	13 719	13 726	3	3
Trade and other receivables	18	65 095	51 591	66 183	52 098
		803 713	533 681	793 583	524 369
CURRENT ASSETS					
Inventories	20	6 759	5 497	6 863	5 603
Trade and other receivables	18	45 674	24 451	45 132	25 275
Derivative financial instruments	19	1 839	1 116	1 839	1 116
Cash	21	123 217	5 774	123 819	6 734
		177 489	36 838	177 653	38 728
TOTAL ASSETS		981 202	570 519	971 236	563 097
EQUITY AND LIABILITIES					
EQUITY					
Share capital	22	256 473	256 473	256 473	256 473
Other contributions	22	2 511	2 462	2 511	2 463
Revaluation reserve		3 967	4 277	3 542	3 775
Reorganization reserve		1 932	1 932	-	-
Cash flow hedging reserve	19	1 839	288	1 839	288
Accumulated loss:					
accumulated loss brought forward		(213 254)	(218 632)	(221 339)	(224 299)
(loss) / profit for the year		(7 729)	5 378	(9 114)	2 960
TOTAL EQUITY		45 739	52 178	33 912	41 660
LIABILITIES					
NON-CURRENT LIABILITIES					
Lease liabilities	23	520 826	301 080	520 826	301 080
Borrowings	23	232 506	81 116	234 743	81 116
Provisions	24	20 007	20 802	20 007	20 802
		773 339	402 998	775 576	402 998
CURRENT LIABILITIES					
Trade and other payables	25	62 688	52 507	60 222	51 528
Lease liabilities	23	60 958	22 317	60 958	22 317
Contract liabilities - deferred income	27	37 465	26 160	38 209	27 129
Current tax liabilities	26	1 013	914	1 790	1 559
Borrowings	23	-	12 617	569	15 078
Derivative financial instruments	19	-	828	-	828
		162 124	115 343	161 748	118 439
TOTAL LIABILITIES		935 463	518 341	937 324	521 437
TOTAL EQUITY AND LIABILITIES		981 202	570 519	971 236	563 097

The notes on pages 44 to 82 form an integral part of these financial statements.

CASH FLOW STATEMENT

		AIR BALTIC		GROUP	
	Note	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES					
(LOSS) / PROFIT BEFORE TAX		(7 729)	5 378	(7 238)	4 566
Adjustments for:					
Depreciation, net of depreciation of revaluation reserve	13	68 976	26 525	69 746	26 864
Net interest expenses		40 223	21 293	40 360	21 520
Foreign exchange loss		6 967	7 529	6 966	7 526
Amortization	15	972	747	1 198	972
(Profit) / loss from disposal of property, plant and equipment		(578)	166	(522)	356
Fair value adjustment to investment property		(2 133)	-	-	-
Change in provisions and financial liabilities	24	(6 755)	(22 505)	(6 755)	(20 150)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		99 943	39 133	103 755	41 654
(Increase) / decrease in receivables		(21 407)	5 124	(20 435)	5 562
Increase in deposits and restricted cash		(3 782)	(3 189)	(3 780)	(3 136)
Increase in inventories		(1 262)	(1 087)	(1 260)	(1 193)
Increase in payables		12 062	8 141	10 296	4 964
Corporate income tax paid		-	-	(1 251)	(442)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		85 554	48 122	87 325	47 409
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment and intangible assets		(32 415)	(20 685)	(34 745)	(23 859)
Advances paid for aircraft		(30 622)	(29 199)	(30 622)	(29 199)
Purchase of additional shares in subsidiary		(4)	(4)	-	-
Refund of advances paid for aircraft		16 816	25 955	16 817	25 955
Proceeds from sale of property, plant and equipment		8 101	1 863	8 101	1 863
Interest received		8	3	8	3
Loans issued		-	(929)	-	-
NET CASH USED IN INVESTING ACTIVITIES		(38 116)	(22 996)	(40 441)	(25 237)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	23	220 647	-	221 352	2 519
Repayment of borrowings	23	(61 591)	-	(61 966)	(58)
Payments of principal on leases	23	(54 146)	(10 336)	(54 146)	(10 336)
Interest paid		(34 905)	(21 364)	(35 039)	(21 438)
NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES		70 005	(31 700)	70 201	(29 313)
Increase / (decrease) in cash		117 443	(6 574)	117 085	(7 141)
Cash at the beginning of the reporting year		5 774	12 348	6 734	13 875
CASH AT THE END OF THE REPORTING YEAR		123 217	5 774	123 819	6 734

The notes on pages 44 to 82 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	(Loss) / profit for the year TEUR	TOTAL TEUR
31.12.2017	256 473	2 352	1 806	1 932	3 027	(222 375)	3 743	46 958
COMPREHENSIVE INCOME								
Profit for the year	-	-	-	-	-	-	5 378	5 378
Other comprehensive income	-	-	2 471	-	(2 739)	-	-	(268)
TOTAL COMPREHENSIVE INCOME	-	-	2 471	-	(2 739)	-	5 378	5 110
Currency translation difference	-	110	-	-	-	-	-	110
Allocation of prior year result	-	-	-	-	-	3 743	(3 743)	-
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

The notes on pages 44 to 82 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	(Loss) / profit for the year TEUR	TOTAL TEUR
31.12.2017	256 473	2 353	1 239	3 027	(205 620)	(18 679)	38 793
COMPREHENSIVE INCOME							
Profit for the year	-	-	-	-	-	2 960	2 960
Other comprehensive income	-	-	2 536	(2 739)	-	-	(203)
TOTAL COMPREHENSIVE INCOME	-	-	2 536	(2 739)	-	2 960	2 757
Currency translation difference	-	110	-	-	-	-	110
Allocation of prior year result	-	-	-	-	(18 679)	18 679	-
31.12.2018	256 473	2 463	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

The notes on pages 44 to 82 form an integral part of these financial statements.

NOTES

1. Corporate information

Air Baltic Corporation AS (hereinafter also – airBaltic, 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 80.05% shares of the Parent company and Aircraft Leasing 1 SIA - holding 19.94% shares of the Parent Company.

The Parent company is an airline organizing passenger traffic to over 80 destinations in Europe and beyond from Riga, Vilnius and Tallinn. As of 31 December 2019, airBaltic had in its operations 22 Airbus A220-300 jet aircraft, 12 Bombardier Q400 turboprop aircraft and 5 Boeing 737 jet aircraft (31 December 2018: 14 Airbus A220-300 jet aircraft, 12 Bombardier Q400 turboprop aircraft and 8 Boeing 737 jet aircraft).

Air Baltic Corporation AS runs the airBaltic group (hereinafter – the Group) that includes the following entities (hereinafter together with airBaltic – the Group companies):

- 100% of the share capital of Baltijas Kravu Centrs SIA (31 December 2018: 100%),
- 92.03% of the share capital of Aviation Crew Resources AS, 8% are issued in the form of preference shares, thus by the substance of the arrangement, airBaltic holds 100% of voting and participation rights (31 December 2018: 93.31%),
- 100% of the share capital of Air Baltic Training SIA (31 December 2018: 100%),
- 100% of the share capital of Loyalty Services SIA (31 December 2018: 100%). Loyalty Services SIA holds 100% ownership in the Coalition Rewards Asset Management OY (31 December 2018: 100%).

The stand-alone financial statements and the consolidated financial statements (hereinafter together – the financial statements) for the year ended 31 December 2019 were approved by a resolution of the Parent company's Executive Board on 28 February 2020.

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.

Changes and corrections to already published financial statements

When preparing these financial statements, the changes and corrections were introduced that led to the restatement of financial information for the year ended 31 December 2018 presented here as compared to already published financial statements for the year ended 31 December 2018. The management has not presented the third balance sheet as none of these restatements affected the net result for 2018 or the reported opening or closing net assets in 2018. The key changes resulting from the restatement relate to:

Stand-alone financial statements:

- classification of some line items of the Income statement for 2018. The reclassification has been performed in order to reflect more appropriately the substance of the transactions carried out in the respective year. The following line items of the Income statement for the year ended 31 December 2018 were affected by reclassification:
 - line item Revenue was increased and line item Other revenue decreased by EUR 5 232 thousand;
 - line item Other income, net was decreased and line item Other operating costs was decreased by EUR 648 thousand;
 - line item Claims compensation was presented separately and line item Other income, net decreased by EUR 5 705 thousand;
 - line item Other income / expense, net was renamed to line item Release of provisions for legal disputes.
- classification of some line items of the cash flow statement for 2018. The reclassification has been performed in order to reflect more appropriately the substance of the transactions carried out in the respective year. The following line items of the Cash flow statement for the year ended 31 December 2018 were affected by reclassification:
 - line item Change in provisions and financial liabilities was increased by EUR 3 671;
 - line item Acquisition of property, plant and equipment and intangible assets was decreased by EUR 6 915 thousand;
 - line item Advances paid for aircraft was created in amount of EUR 29 199 thousand;
 - line item Refund of advances paid for aircraft was created in amount of EUR 25 955 thousand;
 - line item Interest paid was increased and line item Finance lease payments decreased by EUR 16 925 thousand
 - line item Finance lease payments was decreased and line item Payments of principal on leases increased by EUR 10 336 thousand.

As a result of the reclassification of the Cash flow statement for 2018 the line item Net cash flows generated from operating activities decreased by EUR 3 671 thousand and line item Net cash used in investing activities increased by EUR 3 671 thousand.

NOTES

2. Summary of significant accounting policies (continued)**a) Basis of preparation (continued)****Changes and corrections to already published financial statements (continued)***Consolidated financial statements:*

- classification of some line items of the Income statement for 2018. The reclassification has been performed in order to reflect more appropriately the substance of the transactions carried out in the respective year. The following line items of the Income statement for the year ended 31 December 2018 were affected by reclassification:
 - line item Revenue was increased and line item Other revenue decreased by EUR 5 761 thousand;
 - line item Personnel costs was increased and line item Dividends on preference shares decreased by EUR 6 110 thousand;
 - line item Other income, net was decreased and line item Other operating costs was decreased by EUR 645 thousand;
 - line item Claims compensation was presented separately and line item Other income, net decreased by EUR 5 705;
 - line item Other income / expense was renamed to line item Release of provisions for legal disputes.
- classification of some line items of the Balance sheet as at 31 December 2018. The following offsetting has been performed in order to reflect more appropriately the substance of the transactions carried out in the respective year relate to:
 - line items Trade and other receivables and Trade and other payables were both decreased by EUR 6 312 thousand.
- classification of some line items of the Cash flow statement for 2018. The reclassification has been performed in order to reflect more appropriately the substance of the transactions carried out in the respective year. The following line items of the Cash flow statement for the year ended 31 December 2018 were affected by reclassification:
 - line item Change in provisions and financial liabilities was increased by EUR 3 671 thousand;
 - line item Decrease / (increase) in receivables was increased by EUR 3 734 thousand;
 - line item Increase in payables was decreased by EUR 2 041 thousand;
 - line item Acquisition of property, plant and equipment and intangible assets was decreased by EUR 6 915 thousand;
 - line item Advances paid for aircraft was created in amount of EUR 29 199 thousand;
 - line item Loans issued was decreased by EUR 6 109 thousand;
 - line item Refund of advances paid for aircraft was created in amount of EUR 25 955 thousand;
 - line item Received repayment of the issued loans was decreased by EUR 334 thousand;
 - line item Interest paid was increased and line item Finance lease payments decreased by EUR 16 925 thousand
 - line item Finance lease payments was decreased and line item Repayment of borrowing increased by EUR 10 336 thousand.

As a result of the reclassification of the Cash flow statement for 2018 the line item Net cash flows generated from operating activities decreased by EUR 9 446 thousand and line item Net cash used in investing activities increased by EUR 9 446 thousand.

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Group companies from 1 January 2019:

IFRS 16, Leases

The standard is effective for the annual periods beginning on or after 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Parent company and the Group have applied the standard from 1 January 2019, using the modified retrospective application with the effect of initially applying this standard as an adjustment to the opening balance of the respective balance sheet items in the period of initial application, i.e. 1 January 2019. Comparative prior year periods were not restated.

The effect from adoption of IFRS 16 on the financial statements

The Parent company and the Group have decided to implement the new standard retrospectively with the cumulative effect on initial application recognised as at the date of initial application of IFRS 16, i.e. 1 January 2019 with the corresponding effects recorded in the opening balance sheet items. This means that the data presented for 2018 and 2019 is not comparable.

As required by the standard, this election has been consistently applied to all leases in which the Parent company and the Group are a lessee.

NOTES

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Adoption of new or revised standards and interpretations (continued)

For all leases, except for short-term leases and leases of low-value assets, previously classified as operating leases:

- as at 1 January 2019 the Company and the Group have recognised a lease liability measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019;
- for all leases the Company and the Group have elected to recognise a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to those leases recognised in the balance sheet immediately before the date of initial application.

The Company and the Group elected the following practical expedients:

- have applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- not to apply the new lease accounting model to leases for which the lease term ends within 12 months after the date of initial application. Instead, they had accounted for those leases as short-term leases.

The finance lease previously accounted in accordance with IAS 17 'Leases' has been reclassified to the right of use assets category under IFRS 16.

The following line items were affected by the adjustments and reclassifications made with respect to the amounts recognised at the date of initial application – 1 January 2019:

	AIR BALTIC			GROUP		
	IAS17	IFRS16	IFRS16	IAS17	IFRS16	IFRS16
	31.12.2018	adjustments	01.01.2019	31.12.2018	adjustments	01.01.2019
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Land and buildings	-	8 882	8 882	-	8 882	8 882
Aircraft	392 617	104 511	497 128	392 617	104 511	497 128
Non-current assets	533 681	113 393	647 074	524 369	113 393	637 762
Current assets	36 838	(6)	36 832	38 728	(6)	38 722
TOTAL ASSETS	570 519	113 387	683 906	563 097	113 387	676 484
Provisions	-	974	974	-	974	974
Lease liabilities	301 080	87 589	388 669	301 080	87 589	388 669
Non-current liabilities	402 998	88 563	491 561	402 998	88 563	491 561
Lease liabilities	22 196	24 824	47 020	22 196	24 824	47 020
Current liabilities	115 343	24 824	140 167	118 439	24 824	143 263
TOTAL LIABILITIES	518 341	113 387	631 728	521 437	113 387	634 830

The Company and the Group do not present the right of use assets separately in the balance sheet.

The right of use assets are included within the same line item as that within which the corresponding underlying assets would be presented if they were owned.

The explanation of the difference between operating lease commitments disclosed as at 31 December 2018 when applying IAS 17 to the lease liabilities recognised as at 1 January 2019 is presented in the table below:

	Land and buildings	Aircraft
	TEUR	TEUR
Operating lease commitments as at 31.12.2018	-	111 224
The effect of discounting using the incremental borrowing rate at 01.01.2019	-	(9 736)
Amount equal to lease liabilities as at 01.01.2019 under IFRS 16	-	101 488
Leases previously not included (aircraft)	8 876	2 049
LEASE LIABILITIES AS AT 01.01.2019	8 876	103 537

NOTES

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Adoption of new or revised standards and interpretations (continued)

The initial value of the right of use assets is determined as follows:

	Land and buildings TEUR	Aircraft TEUR
Amount equal to lease liability as at 01.01.2019 under IFRS 16	8 876	103 537
Lease prepayments recognised as of 31.12.2018	6	-
Provision for aircraft redelivery	-	974
RIGHT OF USE ASSETS AS AT 01.01.2019	8 882	104 511

The following amounts are recognized in the cash flow statement:

	AIR BALTIC		GROUP	
	IFRS 16 2019 TEUR	IAS 17 2018 TEUR	IFRS 16 2019 TEUR	IAS 17 2018 TEUR
CASH OUTFLOW FOR LEASES (IFRS 16)				
Principal	54 146	10 336	54 146	10 336
Interest	31 213	16 925	31 213	16 925
Cash outflow for leases – operating activity	1 166	31 745	1 227	31 784
TOTAL CASH OUTFLOWS	86 525	59 006	86 586	59 045

The following amounts are recognized in the income statement

	AIR BALTIC		GROUP	
	IFRS 16 2019 TEUR	IAS 17 2018 TEUR	IFRS 16 2019 TEUR	IAS 17 2018 TEUR
Depreciation charge for the right of use assets by class of assets				
Aircraft	54 102	13 188	54 102	13 188
Land and buildings	1 363	-	1 363	-
Total depreciation charge	55 465	13 188	55 465	13 188
Interest expense on lease liabilities (included in Finance cost)	31 213	16 925	31 213	16 925
Expense relating to short-term leases (included in Aircraft maintenance and Other operating expense)	1 166	-	1 227	-
Operating lease expense (IAS 17) (included in Aircraft maintenance, Aircraft lease and Other operating expense)	-	31 745	-	31 784
TOTAL EXPENSES RELATED TO LEASES	87 844	61 858	87 905	61 897

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 2019 that would be expected to have a material impact to the Company and the Group.

New standards and interpretations not yet adopted

Definition of materiality – Amendments to IAS 1 and IAS 8

The amendments are effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU. 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. The amendments may have an effect on the extent of the information disclosed by the Group or airBaltic.

NOTES

2. Summary of significant accounting policies (continued)**a) Basis of preparation (continued)****New standards and interpretations not yet adopted (continued)***Amendments to the Conceptual Framework for Financial Reporting*

The amendments are effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU. 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. The amendments may have an effect on the extent of the information disclosed by the Group or airBaltic.

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) Consolidation (Group)

The financial statements of the Group comprise the financial statements of Air Baltic Corporation AS, Baltijas Kravu Centrs SIA, Loyalty Services SIA and its subsidiary, 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.

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

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Changes in 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 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 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. The recoverable amount is most sensitive to the expected future cash flows and the growth rate used for extrapolation purposes. The impairment test involves estimating the future cash flows based on the business plan Destination 2025. See Notes 13 and 15 for more information.

Recognition and revaluation of provisions

As at 31 December 2019, airBaltic has set up provisions for aircraft maintenance costs totalling EUR 20 million (31 December 2018: EUR 14 million) (see Note 24). 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 expenditure may also differ from the provisions recognised because of possible changes in legislative norms.

Deferred revenue on ticket sales

Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused. The breakage rate used in the estimates is 5-6%. A management's estimate of the expected breakage amount is 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.

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.

NOTES

2. Summary of significant accounting policies (continued)**c) Use of estimates and judgements in the preparation of the financial statements (continued)***Recognition of Sales and leaseback transactions*

The Parent company enters into transactions whereby it sales the newly acquired aircraft and leases it back from the same party. On delivery of the aircraft, the Company leases the aircraft back from the same party. The Company accounts the transaction as a sales and leaseback. 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 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 aircraft market price and others. There are also other factors that lead to the conclusion that the original buyer of the aircraft is airBaltic.

Indications that determine whether a transfer of an aircraft can be considered as a sale under IFRS 15 are related to whether the buyer obtains physical control, whether the buyer is entitled to payment, obtains a legal title, etc.

In 2019 the Parent company has recognised the profit of EUR 1 787 thousand from the sales 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, 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.

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 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.

d) 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.

	31.12.2019 USD	31.12.2018 USD
1 EUR	1.1234	1.1450

e) 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 flights seats and ancillary revenue. All tickets sold by the Parent company are changeable, subject to certain conditions, including fee payment and applicable upgrade charges. However, tickets are generally non-cancellable and non-refundable and must be paid for at the time of reservation. The value of non-refundable tickets is recognised as revenue over time only upon the completion of the applicable air transportation in accordance with previously signed agreements.

The value of tickets sold and still valid, but not used by the balance sheet date is reported as contract liabilities - deferred revenue. 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 - deferred revenue includes tickets sold that are expected to remain unutilized. A management's estimate of unutilized tickets expected share of the contract liabilities - deferred revenue is set at each balance sheet date and is based on the historical statistics, the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger. The value of expected share of unutilised tickets is recognized as revenue in the reporting year.

NOTES

2. Summary of significant accounting policies (continued)**e) Revenue recognition (continued)**

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 – deferred revenue 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.

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 include 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 relate to compensation of 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.

f) 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 a property, plant and equipment when maintenance, including enhancement, is carried out. Such assets are depreciated over the 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.

g) 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 (Note 29).

h) 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.

NOTES

2. Summary of significant accounting policies (continued)**h) Financial assets and liabilities (continued)**

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 and impairment losses are presented as finance cost or finance income in profit or loss.

As at 31 December 2019 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 i).

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. They are carried as current liabilities or non-current liabilities. Derivatives are measured at fair value.

i) 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 in each financial statement. 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 financial statement, 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.

j) 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 management.

	% per annum
Intangible assets	20
Buildings	4 - 33
Aircraft equipment	16 - 50
Fixtures and fittings	20 - 50

NOTES

2. Summary of significant accounting policies (continued)**j) Intangible assets and property, plant and equipment (continued)**

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.

The intangible assets mainly consist of trademarks acquired by the Parent company. The trademarks are with infinite useful life and are not subject to amortization, but are tested for impairment annually. It is assumed that intangible asset has infinite useful life if, based on analysis of relevant factors, the period during which the economic benefits from the use of the asset will flow to the Company and the Group, is infinite.

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.

k) 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.

l) 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.

NOTES

2. Summary of significant accounting policies (continued)**m) 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.

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.

n) 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.

o) 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.

p) 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. Due to the short term nature the book value of trade and other receivables is expected to be equal to their fair value.

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 accumulated impairment losses. Gains and losses are recognised in the income statement when loans are derecognised or impaired, as well as through the amortisation process.

NOTES

2. Summary of significant accounting policies (continued)**q) 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.

r) 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.

s) Leases

As of 1 January 2019 leases 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.

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 liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. The lease term is a non-cancellable period of a 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.

Accounting policies applied until 31 December 2018

Finance leases, which transfer to the Company and the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged in the Income statement as Finance costs. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. The commitments undertaken by the Company and the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

NOTES

2. Summary of significant accounting policies (continued)**t) 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.

u) 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.

New Corporate Income tax law was introduced starting 1 January 2018. Due to the new tax law, there are no longer differences between the tax bases and carrying amount of assets and liabilities and hence, deferred income tax assets and liabilities no longer arise.

v) 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 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.

w) 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 management's estimates. Provisions are not recognized for future operating losses.

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 is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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..

NOTES**2. Summary of significant accounting policies (continued)****w) Provisions (continued)***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

x) 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.

y) 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.

z) 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.

aa) 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.

The Company and the Group have not used financial derivatives to hedge its foreign currency risk during the year. 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, expressed in euros, was as follows:

AIR BALTIC	31.12.2019		31.12.2018	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	19 352	18 330	13 977	10 897
Borrowings and lease payments	327 460	493 123	256 608	163 465
Trade and other payables	5 025	19 888	6 088	18 912
GROUP	31.12.2019		31.12.2018	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	20 784	16 557	15 409	4 807
Borrowings and lease payments	327 460	495 928	256 608	165 926
Trade and other payables	5 025	11 656	6 088	17 300

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 Company's policy is to hedge minimum 30% and up to 50% of the monthly estimated consumed volumes up to 36 months ahead on a rolling basis. The average hedge coverage in 2019 was 24% (2018: 31%). As at 31 December 2019, 42 000 jet fuel tonnes had been hedged for the year 2020 (31 December 2018: 46 500 tonnes for the year 2019).

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	31.12.2019 Difference in equity TEUR	31.12.2018 Difference in equity TEUR	2019 Difference in net result TEUR	2018 Difference in net result TEUR
Fuel price sensitivity				
Fuel price USD 50 higher per metric ton	(1 869)	(2 225)	-	-
Fuel price USD 50 lower per metric ton	1 869	2 225	-	-
USD/EUR rate sensitivity				
USD/EUR rate increase 5%	(12 922)	(18 238)	(12 852)	(18 238)
USD/EUR rate decrease 5%	14 282	20 157	14 205	20 157
Interest rate sensitivity				
Interest rate is higher by 0.5 pp	(14)	(288)	(14)	(288)
Interest rate is lower by 0.5 pp	14	288	14	288

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 management monitors rolling forecast of the Company's and the Group's liquidity requirements to ensure they have sufficient cash to meet operational needs. The Company's and the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet operational needs.

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 month TEUR	Between 3 month 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 31.12.2019						
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	1 074 357	814 290
Contractual maturities of financial liabilities at 31.12.2018						
Trade payables	29 145	-	-	-	29 145	29 145
Accrued liabilities	23 307	-	-	-	23 307	23 307
Borrowings and lease	13 680	52 248	222 758	294 957	583 643	417 130

NOTES

3. Financial risk management (continued)

b) Risk analysis (continued)

GROUP	Within 3 month TEUR	Between 3 month 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 31.12.2019						
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
Contractual maturities of financial liabilities at 31.12.2018						
Trade payables	24 790	-	-	-	24 790	24 790
Accrued liabilities	26 545	-	-	-	26 545	26 545
Borrowings and lease	13 779	52 589	225 043	294 957	586 368	419 591

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	A+	A-	BB+	BBB+	Other	Unrated	Total
31.12.2019	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
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
31.12.2018							
Financial instruments							
Trade receivables, security deposits and other receivables	-	1 245	-	11 815	26	16 486	29 572
Derivative financial instruments	-	703	-	-	-	413	1 116
Cash	74	4 960	205	95	440	-	5 774
TOTAL FINANCIAL ASSETS	74	6 908	205	11 910	466	16 899	36 462

NOTES

3. Financial risk management (continued)

b) Risk analysis (continued)

GROUP	A+	A-	BB+	BBB+	Other	Unrated	Total
31.12.2019	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
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

31.12.2018

Financial instruments

Trade receivables, security deposits and other receivables		1 245	-	11 815	26	17 207	30 293
Derivative financial instruments	-	703	-	-	-	413	1 116
Cash	74	5 737	221	173	529	-	6 734
TOTAL FINANCIAL ASSETS	74	7 685	221	11 988	555	17 620	38 143

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 (n) and 2 (p). Detailed analysis of trade accounts receivable is shown in Note 18.

Capital risk

The Parent company's and the Group's policy is to preserve a strong capital base to keep investor, creditor and market confidence and to maintain sufficient financial resources to mitigate against risks and unforeseen events. The Executive Board periodically reviews the capital structure of the Parent company and the Group companies, considering the cost of capital and the risks associated with each class of capital. The Executive Board approves any material adjustments to the capital structure in terms of the relative proportions of debt and equity.

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 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

NOTES

3. Financial risk management (continued)

b) Risk analysis (continued)

The following table presents the airBaltic's and the Group's assets and liabilities that are measured at fair value at 31 December 2018.

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	8 668	8 668
Investment property	-	-	2 797	2 797
Derivative financial assets	-	1 116	-	1 116
Derivative financial liabilities	-	828	-	828
GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	11 465	11 465
Derivative financial assets	-	1 116	-	1 116
Derivative financial liabilities	-	828	-	828

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 13 and Note 14 on the principles of setting the fair value of buildings.

All other financial assets and financial liabilities are measured at amortized cost. 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 'all other segments' column.

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:

	2019 TEUR	2018 TEUR
Operating revenue of the Parent company	503 281	408 706
Revenue of other segments	42 873	34 661
Intersegment elimination arising from other segments	(37 199)	(29 447)
TOTAL REVENUE	508 955	413 920
(Loss) / profit of the Parent company	(7 729)	5 378
Profit / (loss) of other segments	1 132	-
Intersegment elimination	(2 517)	(2 418)
TOTAL NET (LOSS) / PROFIT	(9 114)	2 960
Other segment information:		
Amortization and depreciation	(70 938)	(27 834)
Interest revenue	122	3
Interest expense	(40 470)	(21 438)
	31.12.2019	31.12.2018
	TEUR	TEUR
Reportable segment of the Parent company's assets	981 202	570 519
Reportable segment of the other segments assets	14 848	12 112
Intersegment elimination arising from other segments	(24 814)	(19 534)
TOTAL ASSETS	971 236	563 097
Reportable segment of the Parent company's liabilities	935 463	518 341
Reportable segment of the other segments liabilities	11 325	8 894
Intersegment elimination arising from other segments	(9 464)	(5 798)
TOTAL LIABILITIES	937 324	521 437

All non-current assets 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	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Europe	487 412	394 642	492 741	399 538
Other	15 869	14 064	16 214	14 382
TOTAL	503 281	408 706	508 955	413 920

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

5. Revenue

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Tickets revenue	425 723	356 769	427 465	358 451
Ancillary revenue	34 691	25 503	34 691	25 503
Charter revenue	11 969	11 495	11 969	11 495
Cargo revenue	7 822	6 596	8 334	7 125
Aircraft lease revenue	19 796	5 232	19 796	5 232
TOTAL	500 001	405 595	502 255	407 806

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

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Passenger revenue	26 329	21 276	26 329	21 276
Revenue from loyalty program	-	-	497	577

6. Personnel costs

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Remuneration	33 008	30 938	53 581	46 595
Social insurance contributions	7 937	7 455	12 905	11 226
Other personnel expense	391	493	8 049	6 733
TOTAL	41 336	38 886	74 535	64 554

Compensations paid to Board members of the Parent company

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Executive Board members				
Remuneration	2 590	2 409	2 590	2 409
Social insurance contributions	624	580	624	580
Supervisory Board members				
Remuneration	154	154	154	154
Social insurance contributions	37	37	37	37
TOTAL	3 405	3 180	3 405	3 180

NOTES

6. Personnel costs (continued)

	AIR BALTIC		GROUP	
	2019	2018	2019	2018
Average number of employees during the reporting year, including:	1 257	1 169	1 663	1 514
<i>Executive Board members</i>	3	3	3	3
<i>Supervisory Board members</i>	4	4	4	4

7. Other operating costs

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Administration expenses	7 286	8 647	9 681	9 264
Crew administration expenses	7 514	6 547	7 358	6 165
Other costs	1 785	631	3 931	6 003
TOTAL	16 585	15 825	20 970	21 432

8. Auditor's remuneration

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Audit of financial statements	49	44	66	59
Other audit related services	218	-	218	-
Tax and other consulting services	34	63	39	65
TOTAL	301	107	323	124

9. Finance costs

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Interest expense on borrowings and lease	40 323	21 494	40 470	21 438
Other interest and similar expenses	871	461	878	559
TOTAL	41 194	21 955	41 348	21 997

10. Finance income

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Interest income on bank deposits and other	151	404	122	3

11. Release of provisions for legal disputes

	AIR BALTIC		GROUP	
	2019 TEUR	2018 TEUR	2019 TEUR	2018 TEUR
Release of provisions for legal disputes (see Note 29)	6 755	20 150	6 755	20 150

In 2018, 2019 and at the beginning of 2020 several litigations processes where the Parent company was involved were terminated or clarified. Majority of these processes were related to debt recovery and were resolved in favour of airBaltic. Another process, which related to attempts to reclaim amounts from the Parent company (against the agreement dated 3 October 2011 on restructuring and financing of the Parent company) was clarified in a way that gives legal certainty. In 2019 the Supreme Court already ended the litigation processes in a way that ended legal uncertainty and the latest attempts brought in 2020 are contrary to well settled court judgements. The courts have consistently ruled in favour of the Parent company in equivalent case arising from the agreement dated 3 October 2011 on restructuring and financing of the Parent company. As a result, the Parent company has released historically made provisions for these cases.

NOTES

12. Corporate income tax

	AIR BALTIC		GROUP	
	2019	2018	2019	2018
	TEUR	TEUR	TEUR	TEUR
Corporate income tax on dividends	-	-	(1 927)	(1 606)
Corporate income tax on conditionally distributed profit	-	-	(4)	-
Corporate income tax adjustment for 2018	-	-	55	-
TOTAL	-	-	(1 876)	(1 606)

Corporate income tax resulting from distributable profits

As at 31 December 2019 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 profit in the future years.

As at 31 December 2019 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 profit in the future years.

13. Property, plant and equipment

Impairment test

At the end of 2019 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. For impairment test purposes the business of each separate Group company was considered as a cash generating unit. The Parent company is the only significant cash generating unit. The recoverable amount of the assets was estimated based on their value in use. The result of the impairment test did not reflect the need for recognising an impairment loss because the assets' value in use significantly exceeds their carrying amount.

Several key assumptions (e.g., discount rate, growth rate of financial performance, USD/EUR exchange rate and jet fuel price) used in impairment test are sensitive to changes, which might affect the estimated recoverable value of assets. The recoverable amount was based on discounted future cash flow for the period of 2020 – 2025. The expected future cash flows were discounted using a discount rate of 8.5% (2018: 8.5%). The recoverable amount of the assets is sensitive to changes in unit revenue per revenue passenger kilometre (yield). In conducting the impairment test the near term yield was forecasted based on the current industry trends as well as on experts' evaluations. It was assumed that from 2020 onwards the yield would gradually decrease. The market price of jet fuel for the near term was forecasted based on relevant forward prices. The USD/EUR exchange rate for the near term was forecasted based on relevant forward prices. Any reasonable change of key inputs would not cause impairment loss for year 2019.

The Company and the Group are monitoring coronavirus COVID-19 outbreak development. The Company's and the Group's performance will depend, in part, on the duration and spread of the outbreak, as well as any future travel advisories and restrictions.

Fully depreciated assets

Property, plant and equipment at 31 December 2019 include fully depreciated assets with a total cost of EUR 18.9 million (31 December 2018: EUR 16.8 million) for the Group and EUR 18.7 million (31 December 2018: EUR 16.4 million) for airBaltic.

Pledged assets

Information on pledged assets is disclosed in the Note 29 (a).

Revalued assets

In 2019, the revaluation of the Parent company's and the Group's buildings was performed by certified independent estate valuers using the combination of income and cost approach results.

If buildings were recorded at cost less accumulated depreciation, their net book value would be as follows:

	AIR BALTIC		GROUP	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Cost	6 335	6 333	9 321	9 312
Accumulated depreciation	(1 044)	(766)	(2 575)	(2 161)
NET BOOK VALUE	5 291	5 567	6 746	7 151

NOTES

13. Property, plant and equipment (continued)

AIR BALTIC	Buildings and land TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2017.	7 160	6 644	261 332	42 483	317 619
Additions	5 568	764	188 224	16 180	210 736
Disposals	-	(367)	(6 841)	(330)	(7 538)
Revaluation	3 100	-	-	-	3 100
31.12.2018.	15 828	7 041	442 715	58 333	523 917
Accumulated depreciation					
31.12.2017.	6 549	4 766	20 948	20 755	53 018
Charge for 2018	67	590	17 773	7 952	26 382
Charge on revalued amount	544	-	-	-	544
Disposals	-	(359)	(5 001)	(142)	(5 502)
31.12.2018.	7 160	4 997	33 720	28 565	74 442
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					
31.12.2019.	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
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
Net book value 31.12.2018.	8 668	2 044	408 995	29 768	449 475

NOTES

13. Property, plant and equipment (continued)

GROUP	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2017.	11 719	8 068	261 332	42 483	323 602
Additions	5 568	1 212	190 422	16 180	213 382
Disposals	-	(421)	(6 841)	(330)	(7 592)
Revaluation	3 100	-	-	-	3 100
31.12.2018.	20 387	8 859	444 913	58 333	532 492
Accumulated depreciation					
31.12.2017.	8 084	5 573	20 948	20 755	55 360
Charge for 2018	274	790	17 845	7 952	26 861
Charge on revalued amount	564	-	-	-	564
Disposals	-	(412)	(5 001)	(142)	(5 555)
31.12.2018.	8 922	5 951	33 792	28 565	77 230
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
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
Net book value 31.12.2018.	11 465	2 908	411 121	29 768	455 262

Right of use assets

Information presented for the comparative period ended 31 December 2018 is presented in accordance with IAS 17 for both the Group and airBaltic. Information presented for the current period ended 31 December 2019 is presented in accordance with IFRS 16.

Aircraft with net book value of EUR 368 million (2018: EUR 388 million) which were classified as finance leases in 2018 are now included within the right of use assets created on adoption of IFRS 16 as at 1 January 2019.

Right of use assets with a net book value of EUR 113 million were recognised as at 1 January 2019 which were previously treated as operating leases.

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 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 majority of the 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.

NOTES

13. Property, plant and equipment (continued)

The table below shows the movement in each class of right of use assets during 2019.

AIR BALTIC AND THE GROUP	Buildings TEUR	Aircraft TEUR	Total TEUR
Balance at 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
Leasehold improvements	58	5 725	5 783
Depreciation	(1 363)	(53 853)	(55 216)
Balance at 31.12.2019	7 808	638 053	645 861

14. Investment properties (the Parent company)

	TEUR
Fair value	
31.12.2017.	3 025
Loss from fair value adjustment	(228)
31.12.2018.	2 797
Gain on fair value adjustment	2 133
31.12.2019.	4 930

Information on pledged assets is disclosed in the Note 29 a).

In 2019 the revaluation of the Company's buildings was performed by the certified independent estate valuers using the combination of income and cost approach results.

Amounts recognized in the Income statement for investment properties

	2019 TEUR	2018 TEUR
Rental income	420	419
Direct operating expenses from Investment property	(249)	(286)

NOTES

15. Intangible assets

	AIR BALTIC TEUR	GROUP TEUR
Cost		
31.12.2017.	24 391	25 987
Additions	1 989	2 180
Disposals	(2 102)	(2 234)
31.12.2018.	24 278	25 933
Accumulated amortization		
31.12.2017.	9 539	10 125
Charge for 2018	747	972
Disposals	(2 100)	(2 170)
31.12.2018.	8 186	8 927
31.12.2018.	24 278	25 933
Additions	2 963	3 133
Disposals	(662)	(838)
31.12.2019.	26 579	28 228
Accumulated amortization		
31.12.2018.	8 186	8 927
Charge for 2019	972	1 198
Disposals	(662)	(782)
Reclassification	(1)	(1)
31.12.2019.	8 495	9 342
Net book value 31.12.2019.	18 084	18 886
Net book value 31.12.2018.	16 092	17 006

Information on pledged assets is disclosed in the Note 29 (a).

Intangible assets at 31 December 2019 include fully amortized assets with a total cost of EUR 6.2 million (31 December 2018: EUR 6.4 million) for Parent company and a cost of EUR 6.4 million (31 December 2018: EUR 6.5 million) for the Group.

Several trademarks of the Parent company are with indefinite useful life. As at 31 December 2019 the net book value of such trademarks was EUR 13 million (31 December 2018: 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 2019 the management of the Group performed the impairment test of intangible assets. See Note 13.

NOTES

16. Investments in subsidiaries and other investments (the Parent company)

	Investments in subsidiary undertakings TEUR	Other investments TEUR	Total TEUR
Cost less impairment losses			
01.01.2018	412	3	415
Share issue	13 311	-	13 311
31.12.2018	13 723	3	13 726
Shares of liquidated subsidiaries	(6)	-	(6)
Sale of shares	(1)	-	(1)
31.12.2019	13 716	3	13 719

Financial information on subsidiary undertakings

Name	Address	Equity		Profit	
		31.12.2019 TEUR	31.12.2018 TEUR	2019 TEUR	2018 TEUR
Loyalty Services SIA	Mūkusalas Street 42, Riga, Latvia, LV-1004	1 903	1 188	715	17
Air Baltic Training SIA	Pilotu Street 6, Riga, Latvia, LV-1053	1 497	1 409	88	47
Aviation Crew Resources AS	Pilotu Street 6, Latvia, LV-1053	881	700	402	349
Baltijas Kravu centrs SIA	Ziemeļu Street 18, Riga, Latvia, LV-1053	23	18	5	5

Name	Carrying value of investments in subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 %	31.12.2018 %
Loyalty Services SIA	13 314	13 314	100	100
Air Baltic Training SIA	3	3	100	100
Aviation Crew Resources AS	119	120	92.03	94.97
Baltijas Kravu centrs SIA	280	280	100	100
Other	-	6	-	100
TOTAL	13 716	13 723		

NOTES

17. 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 31.12.2019							
Trade receivables, security deposits and other receivables	18	39 526	-	39 526	39 461	-	39 461
Derivative financial instruments	19	-	1 839	1 839	-	1 839	1 839
Cash	21	123 217	-	123 217	123 819	-	123 819
TOTAL FINANCIAL ASSETS		162 743	1 839	164 582	163 280	1 839	165 119
As at 31.12.2018							
Trade receivables, security deposits and other receivables	18	29 572	-	29 572	30 293	-	30 293
Derivative financial instruments	19	-	1 116	1 116	-	1 116	1 116
Cash	21	5 774	-	5 774	6 734	-	6 734
TOTAL FINANCIAL ASSETS		35 346	1 116	36 462	37 027	1 116	38 143
		Amortised cost TEUR	FVPL TEUR	Total TEUR	Amortised cost TEUR	FVPL TEUR	Total TEUR
As at 31.12.2019							
Borrowings and lease	23	814 290	-	814 290	817 096	-	817 096
Trade and other payables	25	62 688	-	62 688	60 222	-	60 222
TOTAL FINANCIAL LIABILITIES		876 978	-	876 978	877 318		877 318
As at 31.12.2018							
Borrowings and lease	23	417 130	-	417 130	419 591	-	419 591
Trade and other payables	25	52 507	-	52 507	51 528	-	51 528
Derivative financial instruments	19	-	828	828	-	828	828
TOTAL FINANCIAL LIABILITIES		469 637	828	470 465	471 119	828	471 947

FVPL – fair value through profit or loss

NOTES

18. Trade and other receivables

	AIR BALTIC		GROUP	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Non-current				
Security deposits	22 020	18 237	21 808	18 026
Prepayments for acquisition of fixed assets	42 336	33 020	43 416	33 454
Prepayments for acquisition of intangible assets	676	334	676	334
Other receivables	63	-	283	284
TOTAL	65 095	51 591	66 183	52 098
Current				
Prepaid expenses	25 015	12 420	25 117	12 524
Trade receivables	12 321	9 506	12 021	9 808
Other receivables	5 122	1 829	5 349	2 175
Accrued revenue	3 216	696	2 645	768
TOTAL	45 674	24 451	45 132	25 275

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 2018: 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Trade receivables, gross	12 993	10 134	12 793	10 502
Loss allowance	(672)	(628)	(772)	(694)
TRADE RECEIVABLES, NET	12 321	9 506	12 021	9 808
Current	9 551	8 381	9 714	6 391
1 - 30 days past due	2 294	505	2 024	2 373
31 - 60 days past due	139	67	150	397
61 - 90 days past due	335	37	370	76
more than 90 days past due	674	1 144	535	1 265
TRADE RECEIVABLES, GROSS	12 993	10 134	12 793	10 502
Credit loss allowance made				
Current	(130)	(115)	(131)	(115)
1 - 30 days past due	(37)	(10)	(37)	(10)
31 - 60 days past due	(16)	(3)	(16)	(3)
61 - 90 days past due	(62)	(2)	(62)	(2)
3 - 6 months past due	(17)	(88)	(19)	(123)
More than 6 months past due	(410)	(410)	(507)	(441)
TRADE RECEIVABLES, NET	12 321	9 506	12 021	9 808

NOTES

19. Derivative financial instruments

	AIR BALTIC		GROUP	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Current assets				
Cash flow hedges	1 839	1 116	1 839	1 116
TOTAL ASSETS	1 839	1 116	1 839	1 116
Current liabilities				
Cash flow hedges	-	(828)	-	(828)
TOTAL LIABILITIES	-	(828)	-	(828)
NET DERIVATIVE FINANCIAL INSTRUMENTS	1 839	288	1 839	288

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. No material ineffectiveness has been recorded on these arrangements in the current or preceding year.

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	
	2019	2018	2019	2018
	TEUR	TEUR	TEUR	TEUR
Reclassification adjustment for gains recognized in Fuel operating expenses	288	2 257	288	2 257

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	2019	2020
	TEUR	TEUR	TEUR	TEUR
Commodity swap contracts				
31.12.2019	1 839	1 839	-	1 839
31.12.2018	288	288	288	-

20. Inventories

	AIR BALTIC		GROUP	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Finished goods	7 421	6 063	7 525	6 169
Allowance for slow moving and obsolete inventory	(662)	(566)	(662)	(566)
TOTAL	6 759	5 497	6 863	5 603

During 2019 the allowance for slow moving and obsolete inventory was increased by EUR 96 thousand (2018: EUR 86 thousands).

NOTES

21. Cash

	AIR BALTIC		GROUP	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	TEUR	TEUR	TEUR	TEUR
Cash deposits with maturity over 3 month	75 000	-	75 000	-
Cash at bank and on hand	48 217	5 774	48 819	6 734
TOTAL	123 217	5 774	123 819	6 734

Cash is subject to the impairment requirements of IFRS 9. There has been no credit loss allowance identified at the end of the reporting year (31 December 2018: no credit loss allowance identified).

22. Share capital

The shareholders structure as at 31 December 2019 and 31 December 2018 is as follows:

	Participating interest %	Number of shares	Share capital TEUR	Other contributions TEUR
Republic of Latvia	80.054746	205 318 668	205 319	1 282
Aircraft Leasing 1 SIA	19.944427	51 152 036	51 152	-
OJSC Transaero Airlines	0.000602	1 543	1.5	-
Frontier Enterprises SIA	0.000188	483	0.5	-
Karl Gunther Sollinger	0.000035	89	0.01	-
Other	0.000002	5	0.01	1 229
TOTAL	100	256 472 824	256 473	2 511

The Ministry of Transport as representative of the Republic of Latvia with 80% 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 shareholders 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 2.5 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 payable to the shareholders as soon as airBaltic has distributable earnings subject to the approval of the shareholders. The contribution referred to above is payable only if and when airBaltic has distributable earnings. According to the Commercial Law distributable earnings can only be defined by the shareholders, 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

23. Borrowings and lease liabilities

Borrowings

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Non-current				
Eurobond	196 365	-	196 365	-
Borrowings from the shareholders	36 141	36 141	36 141	36 141
Bank borrowings	-	-	2 237	-
Financial liabilities to Latvijas Krājbanka LAS and Bankas Snoras BAB	-	44 975	-	44 975
TOTAL	232 506	81 116	234 743	81 116
Current				
Financial liabilities to RIGA International airport	-	8 587	-	8 587
Bank borrowings	-	-	569	2 461
Financial liabilities to Latvijas Krājbanka LAS and Bankas Snoras BAB	-	4 030	-	4 030
TOTAL	-	12 617	569	15 078

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

The Group company has received a loan of total amount of EUR 3 266 thousand with maturity of 3 years.

Borrowings from the shareholders

The loan is repayable on 31 December 2026 and is issued on market terms.

Financial liabilities to Latvijas Krājbanka LAS and Bankas Snoras BAB

In August 2019 the liabilities to both banks have been fully repaid.

Financial liabilities to RIGA International airport

In November 2019 the liabilities have been fully repaid.

Lease liabilities

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Non-current	520 826	301 080	520 826	301 080
Current	60 958	22 317	60 958	22 317

Information presented for the comparative period is presented in accordance with IAS 17 Leases. Information presented for the current period is presented in accordance with IFRS 16. Lease obligations relate to aircraft.

NOTES

23. Borrowings and lease liabilities (continued)

The table below shows the movements in major class of borrowings during the financial year.

AIR BALTIC	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Total TEUR
01.01.2018	151 968	36 141	57 689	245 798
Finance lease	176 878	-	72	176 950
Repayment, excluding interest payments	(10 288)	-	(48)	(10 336)
Other	(3 202)	-	(121)	(3 323)
Foreign exchange adjustment	8 041	-	-	8 041
31.12.2018	323 397	36 141	57 592	417 130
IFRS 16 adjustment	112 413	-	-	112 413
New lease contracts	192 915	-	-	192 915
Loans received	-	-	220 647	220 647
Repayment, excluding interest payments	(54 146)	-	(61 591)	(115 737)
Other settlements	-	-	(16 647)	(16 647)
Other	286	-	(3 636)	(3 350)
Foreign exchange adjustment	6 919	-	-	6 919
31.12.2019	581 784	36 141	196 365	814 290

GROUP	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
01.01.2018	151 968	36 141	57 689	-	245 798
Finance lease	176 878	-	72	-	176 950
Loans received	-	-	-	2 519	2 519
Repayment, excluding interest payments	(10 288)	-	(48)	(58)	(10 394)
Other	(3 202)	-	(121)	-	(3 323)
Foreign exchange adjustment	8 041	-	-	-	8 041
31.12.2018	323 397	36 141	57 592	2 461	419 591
IFRS 16 adjustment	112 413	-	-	-	112 413
New lease contracts	192 915	-	-	-	192 915
Loans received	-	-	220 647	705	221 352
Repayment, excluding interest payments	(54 146)	-	(61 591)	(375)	(116 112)
Other settlements	-	-	(16 647)	-	(16 647)
Other	286	-	(3 636)	15	(3 335)
Foreign exchange adjustment	6 919	-	-	-	6 919
31.12.2019	581 784	36 141	196 365	2 806	817 096

NOTES

23. 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	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Less than 1 year	61 223	34 926	61 777	37 387
Later than 1 year but not later than 5 years	420 866	118 064	423 118	118 064
Later than 5 years	332 201	264 140	332 201	264 140
TOTAL	814 290	417 130	817 096	419 591

Commitments in relation to leases are payable as follows:

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Within one year	94 763	44 525	94 763	44 525
Later than 1 year but not later than 5 years	323 437	171 379	323 437	171 379
Later than 5 years	348 721	248 523	348 721	248 523
MINIMUM LEASE PAYMENTS	766 921	464 427	766 921	464 427
Future finance charges	(185 137)	(141 030)	(185 137)	(141 030)
RECOGNISED AS A LIABILITY	581 784	323 397	581 784	323 397

The present value of finance lease liabilities is as follows:

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Within one year	61 223	22 310	61 223	22 310
Later than 1 year but not later than 5 years	224 500	98 463	224 500	98 463
Later than 5 years	296 061	202 624	296 061	202 624
MINIMUM LEASE PAYMENTS	581 784	323 397	581 784	323 397

The table below shows the weighted average effective interest rates of borrowings.

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Lease liabilities, borrowings and financial liabilities	6,02%	6,31%	6,02%	6,31%

Information on pledged assets is disclosed in the Note 29 (a).

NOTES

24. Provisions

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Aircraft maintenance provision	19 752	13 768	19 752	13 768
Provision for legal disputes (see Note 29 (b))	-	6 755	-	6 755
Other	255	279	255	279
TOTAL	20 007	20 802	20 007	20 802

The table below shows the movements in each class of provision during the financial year.

AIR BALTIC AND THE GROUP	Aircraft maintenance provision TEUR	Provision for legal disputes TEUR	Other TEUR	Total TEUR
31.12.2017	10 097	26 905	365	37 367
Additional provision charged to PPE	3 622	-	-	3 622
Charged / (credited) to profit or loss				
additional provisions recognised	49	-	-	49
unused amounts reversed	-	(20 150)	-	(20 150)
Amounts used during the year	-	-	(86)	(86)
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

Aircraft maintenance provision

Long-term aircraft maintenance provisions are expected to be settled in 2023 – 2030.

25. Trade and other payables

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Trade payables	27 090	29 145	20 502	24 790
Accrued liabilities	35 527	23 307	39 623	26 545
Other payables	71	55	97	193
TOTAL	62 688	52 507	60 222	51 528

NOTES

26. Current tax liabilities

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Social insurance contributions	963	857	1 540	1 324
Personal income tax	50	57	208	196
Corporate income tax	-	-	4	24
Other	-	-	38	15
TOTAL	1 013	914	1 790	1 559

27. Contract liabilities - deferred income

	AIR BALTIC		GROUP	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Deferred income from ticket revenue	31 068	22 179	31 068	22 730
The amount of airport taxes collected	6 285	3 897	6 285	3 897
Deferred income from loyalty program revenue	-	-	497	418
Other	112	84	359	84
TOTAL	37 465	26 160	38 209	27 129

Contract liabilities - deferred income represents 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.

28. Related party transactions

During 2019 the Parent company has performed the following transactions with other Group companies.

		Services provided TEUR	Services received TEUR	Amounts owed by related parties TEUR	Amounts owed to related parties TEUR
Related party					
Aviation Crew Resources AS	2019 /31.12.2019	643	34 468	333	6 045
	2018 /31.12.2018	26	26 515	225	4 021
Baltijas Kravu Centrs SIA	2019 /31.12.2019	143	376	297	109
	2018 /31.12.2018	144	257	313	51
Air Baltic Training SIA	2019 /31.12.2019	1 009	271	880	-
	2018 /31.12.2018	1 314	303	127	-
Loyalty Services SIA	2019 /31.12.2019	401	1 999	14	1 131
	2018 /31.12.2018	438	1 836	33	791
TOTAL 2019 /31.12.2019		2 196	37 114	1 524	7 285
TOTAL 2018 /31.12.2018		1 922	28 911	698	4 863

NOTES

28. Related party transactions (continued)

The following table provides the total amount of loans to related parties and related interests accrued for the relevant financial year, as well as information on dividends received:

Related party		Interest income TEUR	Dividends received TEUR	Amounts owed by related parties TEUR
Aviation Crew Resources AS	2019 /31.12.2019	-	81	-
	2018 /31.12.2018	-	15	-
Baltijas Kravu Centrs SIA	2019 /31.12.2019	-	-	284
	2018 /31.12.2018	-	-	309
Loyalty Services SIA	2019 /31.12.2019	-	-	-
	2018 /31.12.2018	198	-	-
TOTAL 2019 /31.12.2019		-	81	284
TOTAL 2018 /31.12.2018		198	15	309

The Parent company has entered into transactions with Ministry of Transport of the Republic of Latvia (the holder of 80,054746% 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 16.5 million (2018: EUR 14.2 million) and VAS Latvijas Gaisa Satiksme (purchase of navigation service) amounting to EUR 2.9 million (2018: EUR 2.4 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	
	31.12.2019 TEUR	31.12.2018 TEUR	31.12.2019 TEUR	31.12.2018 TEUR
Payables to RIGA International airport	2 282	2 091	2 282	2 091
Payables to VAS Latvijas Gaisa Satiksme	317	288	317	288

All transactions with related parties are related to the operating activities of the Parent company and the Group companies.

29. Commitments and contingencies**(a) Guarantees and pledges**

The Parent company has a guarantee agreement with the bank incorporated in Latvia to maintain the limits of the Parent company's business credit cards for the total amount of EUR 450 thousand. The guarantee has no defined maturity.

The Parent company has pledged its current and future trademarks, its current and future rights for claims to the Ministry of Finance as a security for the loans received (see Note 23). The book value of assets pledged as at 31 December 2019 was EUR 24 million (31 December 2018: EUR 28 million). Additionally, the Parent company has registered mortgage on its aircraft maintenance hangar in favour of Ministry of Finance. The book value of the maintenance hangar as at 31 December 2019 was EUR 5.3 million (31 December 2018: EUR 6 million). The Parent company has decreased the interest rate of the Ministry of Finance loan by establishing a new financial collateral for the benefit of the Ministry of Finance – 3-year deposit with the bank incorporated in Latvia in the amount of EUR 16 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 the bank incorporated in Latvia. The book value of the pledge as at 31 December 2019 was EUR 36.8 million (31 December 2018: EUR 34.5 million). The agreement ends in 2019 and guarantees will be gradually released during 2020.

NOTES

29. Commitments and contingencies (continued)**(a) Guarantees and pledges (continued)**

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 2019 was EUR 638 million (31 December 2018: 388 million).

The Group company has pledged its fixed and intangible assets for the total amount of EUR 4 572 thousand to the bank incorporated in Latvia as a security for the loan received (see Note 23). Pledge agreement is effective until complete fulfilment of loan agreement. The Parent company has issued a guarantee for the full amount of the loan.

The Parent company has signed a cooperation agreement with the bank incorporated in Latvia concerning cooperation for financing students of initial pilot training program. Agreement states that airBaltic guarantees the bank 50% from students' unsettled loan amount, but not more than EUR 25 thousand per student.

(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.

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. At the end of 2016 the Court of Appeal in Vilnius, Lithuania started reviewing the case and litigation is continuing.

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.

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. On 5 March 2019, the court rejected the claim (including recalculation request) except in part, which confirms that the aforementioned regulations have to be taken into account and applied accordingly. The Parent company has appealed the decision. If the appeal is unsuccessful, the Parent Company does not expect the damages it will be required to pay in respect of this case to be material to the Parent company and the Group.

NOTES

29. 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 5 mln EUR 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 a reclaim of 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 objected to 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 equivalent case arising from the agreement dated 3 October 2011 on restructuring and financing of the Parent company one of the creditors.

(c) Commitments

In May 2018, airBaltic has made a new aircraft order of 30 firm deliveries for Airbus A220-300. The aggregate list price for the aircraft to be delivered in 2020 and future years is over EUR 2 billion.


As at 31 December 2019 Air Baltic Training SIA had a contractual liabilities relating to the acquisition of 3 Diamond DA40NG aircraft. The aggregate list price for the aircraft is EUR 1,5 million.


30. Subsequent events

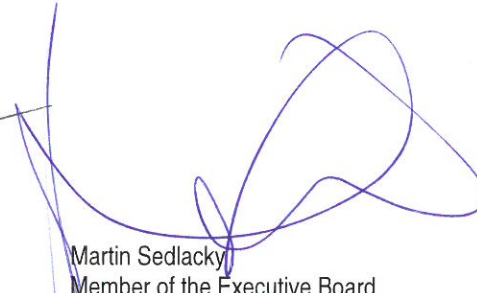
The Company and the Group are monitoring coronavirus COVID-19 outbreak development. The Company's and the Group's performance will depend, in part, on the duration and spread of the outbreak, as well as any future travel advisories and restrictions.

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 2019 and should be reflected in this report.

The financial statements set out on pages 38 to 82 were signed on 28 February 2020 by:




Martin Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Martin Sedlacký
Member of the Executive Board

The Annual Report was prepared by the Chief accountant Anda Līce.



Anda Līce
Chief Accountant