

JOINT STOCK COMPANY AIR BALTIC CORPORATION

(UNIFIED REGISTRATION NUMBER 40003245752)

CONDENSED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED 30 JUNE 2021

**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	96.14%
	Aircraft Leasing 1 SIA	3.86%
	Other	0.0002%
Executive Board Members	Martin Gauss	Chairman of the Board
	Vitolds Jakovļevs	Member of the Board
	Pauls Juris Cālītis	Member of the Board
Supervisory Board Members	Nikolajs Sigurds Bulmanis	Chairman of the Supervisory Board
	Kaspars Āboliņš	Deputy Chairman of the Supervisory Board
	Lars Thuesen	Member of the Supervisory Board
	Toms Siliņš	Member of the Supervisory Board
Financial period	1 January 2021 – 30 June 2021	

MANAGEMENT COMMENTARY

August 27, 2021

(EUR thousands, except where otherwise stated, unaudited)	Six months ended		Change
	30 June 2021	30 June 2020	
Operating revenue	49,963	82,523	(39.5%)
Passenger revenue	41,916	75,533	(44.5%)
Ancillary revenue	5,031	7,979	(36.9%)
EBITDAR	(11,555)	(115,547)	(90.0%)
EBITDAR margin (%)	(23.1%)	(140.0%)	116.9 ppt
Net debt	748,728	758,572	(1.3%)
Airline operating statistics			
Number of aircraft at the end of period	27	38	(28.9%)
Average fleet age (years)	2.6	6.2	(58.4%)
Destinations	53	70	(24.3%)
Flights	6,110	12,501	(51.1%)
Aircraft departures per day per aircraft	0.90	1.81	(50.0%)
Number of passengers ('000)	329	810	(59.4%)
Seat capacity ('000)	869	1,384	(37.3%)
Passenger Load factor (%)	42.5	60.8	(18.4) ppt
Yield (€ cents)	9.0	8.2	10.1%
RASK (€ cents)	5.0	5.8	(14.9%)
CASK (€ cents)	8.5	10.8	(20.8%)
CASK (ex-fuel)	7.5	9.0	(17.1%)
ASK (millions)	1,024	1,423	(28.0%)

KEY HIGHLIGHTS AND DRIVERS OF THE RESULTS

As the COVID-19 infection rates peaked in Latvia in January 2021 and the government imposed significant restrictions on travel, the airline was operating at a small fraction of its capacity during Q1 and then as the epidemiological situation in Latvia and the rest of Europe started to improve in Q2, the capacity was gradually increased. Overall during the first 6 months the Group generated EUR 50 million in revenues which is 39.5% less than in first half of 2020 and 77.2% less than in the first half of 2019. In terms of capacity deployed, the airline deployed 27.1% from its seat capacity compared to 2019. Due to airline's limited number of flights it was not possible to offer a convenient transfer during the first half of 2021 and therefore the transfer share went down from 44.2% in 2019 to 24.9% in 2021. Shift to the point to point traffic and less elastic demand had positive impact on the yields with the average increase of 10.1% vs 2020 and 16.7% vs 2019. As the network density and frequencies are restored to normal the airline expects the transfer traffic to return, the load factors to increase and the yields decrease to historic averages.

Monthly seat capacity ('000)

	Jan	Feb	Mar	Apr	May	Jun	Total
2021	123	68	94	144	186	253	869
2020	489	438	266	3	33	155	1,384
Change	(74.8%)	(84.4%)	(64.5%)	4925.0%	461.2%	63.3%	(37.3%)

As can be seen from the table above, the airline was operating at particularly low levels during the first quarter of 2021.

MANAGEMENT COMMENTARY

KEY HIGHLIGHTS AND DRIVERS OF THE RESULTS (continued)

Based on the booking trends and epidemiological outlook in Europe and in Latvia in particular, the airline had to significantly downgrade its revenue expectations for the remainder of 2021. Based on the new reality of slower recovery, the airline updated the financial forecasts of its strategic business plan Destination 2025 CLEAN. The updated plan served as a basis for the request of additional equity investment from the Government of Latvia. The request was submitted to the Government of Latvia via the Ministry of Transport on 15 June and approved at the Cabinet of Ministers meeting on 17 August. In order to compensate for the losses caused by the spread of Covid-19 and to ensure the liquidity of the company, as well as to help overcome the economic crisis and stabilize the sector, the Government decided to support the increase of the company's share capital by investing up to EUR 90 million. The decision is conditional upon approval by the EU Commission before the actual capital increase takes place.

The main change in the updated forecasts is the medium-term network capacity reduction, and specifically in 2021 and 2022 compared to the previous version of the plan. During this period airBaltic will seek to wet lease out its spare capacity to other carriers.

By the end of June, the fleet of the airline consisted of 27 A220-300 aircraft from which the latest aircraft was delivered on June 25, 2021. Five additional A220-300 deliveries expected in the second half of 2021. All the remaining deliveries of 2021 will be financed by means of sale and lease back.

The airline still has 12 De Havilland Canada Dash 8 (Bombardier Q400) in storage which are to be delivered to the lessor starting from second half of 2022 and ending in Q3 of 2023. As these aircraft are permanently phased out from the operations they are not included in the total fleet and average fleet age calculations in 2021 in the KPI table above.

During the first 6 months of 2021 the passenger volume reached 329 thousand which was 59.4% less than in the same period in 2020. The market share in Riga increased from 54% in 1H 2020 to 66% in H1 2021, while the market share in Tallinn decreased from 24% to 18% and the market share in Vilnius increased from 10% to 11%.

On the consolidated basis in the first half of 2021 the Group generated EUR 50.0 million in revenue compared to EUR 82.5 million in the first half of 2020 and the net loss of EUR 61.5 million compared to EUR 184.8 million in the first half of 2020.

SUBSEQUENT EVENTS

Following airBaltic's request for additional capital investment, on 17 August 2021 the Cabinet of Ministers decided to support the increase of the company's share capital by investing up to EUR 90 million. The decision is conditional upon approval by the EU Commission before the actual capital increase takes place.

The airline accepted another delivery of A220-300 aircraft on August 15, thus increasing its total fleet of A220s to 28 aircraft.

OUTLOOK FOR THE SECOND HALF OF THE YEAR

The second half of the year is difficult to forecast with any reasonable degree of certainty and a lot will depend on the epidemiological situation in Europe and in Latvia. The current booking patterns do not provide visibility into Q4, as vast majority of passengers are booking their flights less than 8 weeks in advance of the expected departure date.

Martin Gauss
Chairman of the Executive Board

Vitolds Jakovļevs
Member of the Executive Board

Pauls Čālītis
Member of the Executive Board

For further information, please contact Chief Financial Officer Vitolds Jakovļevs, vitolds.jakovlevs@airbaltic.lv

FORWARD-LOOKING STATEMENTS

This Report includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include, but are not limited to, statements regarding the intentions of the Group, and beliefs or current expectations concerning, among other things, the business, results of operations, financial position and/or prospects of the Group.

FORWARD-LOOKING STATEMENTS (continued)

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group, and the development of the markets and the industries in which the Group operates, may differ materially from those described in, or suggested by, the forward looking statements contained in this Report. In addition, even if the Group's results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements.

These forward-looking statements are made only as at the date of this Report. Except to the extent required by law, the Group is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Report whether as a result of new information, future events or otherwise. As a result of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements as a prediction of actual results or otherwise.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
OPERATING REVENUE			
Revenue	5	47 343	78 713
Other revenue		2 620	3 810
		49 963	82 523
OPERATING EXPENSES			
Amortization and depreciation		(22 076)	(37 528)
Personnel expenses		(23 924)	(32 076)
Fuel		(10 678)	(24 768)
Airport, handling and en-route charges		(14 834)	(20 948)
Distribution and sales expenses		(3 901)	(11 041)
Aircraft maintenance		(3 438)	(9 341)
Other operating expenses	6	(4 174)	(24 980)
Aircraft and equipment lease		(1 435)	(5 079)
Passenger service		(758)	(2 135)
Net impairment charges on right-of-use assets	6	-	(72 891)
Claim compensation		189	110
Expenses of current activities		(85 029)	(240 677)
FINANCE EXPENSES, NET			
Finance expenses	7	(24 661)	(25 424)
Foreign currency exchange loss, net		(1 091)	(265)
Finance income		76	50
		(25 676)	(25 639)
LOSS BEFORE TAX		(60 742)	(183 793)
Income tax expense		(773)	(977)
LOSS FOR THE HALF-YEAR		(61 515)	(184 770)

The notes on pages 12 to 18 form an integral part of these consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	6 months ended 30 June 2021	6 months ended 30 June 2020
	TEUR	TEUR
LOSS FOR THE HALF-YEAR	(61 515)	(184 770)
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
(Loss) / gains on cash flow hedges	484	(11 084)
Hedging gains / (loss) reclassified to profit or loss	240	(920)
	724	(12 004)
Gain on revaluation of property, plant and equipment / depreciation of revaluation reserve	5	(119)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR	759	(12 123)
TOTAL COMPREHENSIVE LOSS FOR THE HALF-YEAR	(60 786)	(196 893)

The notes on pages 12 to 18 form an integral part of this consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30.06.2021 TEUR	30.06.2020 TEUR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	678 685	601 437
Intangible assets		18 545	18 425
Other investments		3	3
Trade and other receivables		92 916	83 672
		790 149	703 537
CURRENT ASSETS			
Inventories		5 644	7 432
Trade and other receivables		55 942	37 858
Derivative financial instruments		244	101
Cash		68 160	46 653
		129 990	92 044
TOTAL ASSETS		920 139	795 581
EQUITY AND LIABILITIES			
EQUITY			
Share capital		506 473	256 473
Other contributions		2 299	2 511
Revaluation reserve		3 802	3 423
Cash flow hedging reserve		244	(10 165)
Accumulated loss:			
accumulated loss brought forward		(495 050)	(230 453)
loss for the period		(61 515)	(184 770)
TOTAL EQUITY		(43 747)	(162 981)
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities		510 197	504 078
Borrowings	9	233 697	232 903
Non-current tax liabilities		6 774	5 742
Provisions		55 251	37 537
Derivative financial instruments		-	560
		805 919	780 820
CURRENT LIABILITIES			
Trade and other payables		46 756	56 661
Lease liabilities		63 417	59 784
Borrowings	9	2 803	2 718
Contract liabilities - deferred income		42 369	45 314
Current tax liabilities		2 622	3 559
Derivative financial instruments		-	9 706
		157 967	177 742
TOTAL LIABILITIES		963 886	958 562
TOTAL EQUITY AND LIABILITIES		920 139	795 581

The notes on pages 12 to 18 form an integral part of this consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES		
LOSS BEFORE TAX	(60 742)	(183 793)
Adjustments for:		
Depreciation and impairment of assets	21 227	109 583
Net interest expenses	24 045	24 495
Foreign exchange loss / (gain), net	610	265
Amortization	853	852
Loss / (gain) from disposal of property, plant and equipment	(2 850)	793
Change in provisions and financial liabilities	-	17 530
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	(16 857)	(30 275)
(Increase) / decrease in receivables	(11 277)	7 926
(Increase) / decrease in deposits and restricted cash	(4 108)	344
Increase in inventories	(590)	(569)
(Decrease) / increase in payables	19 447	(10 784)
Corporate income tax paid	(771)	(5)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(14 156)	(33 363)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(15 414)	(9 238)
Advances paid for aircraft	(14 861)	(6 496)
Proceeds from sale of property, plant and equipment	2 883	2 387
Interest received	-	13
Refund of advances paid for aircraft	8 219	-
NET CASH USED IN INVESTING ACTIVITIES	(19 173)	(13 334)
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance lease payments	(31 064)	(18 135)
Interest paid	(15 545)	(12 239)
Repayment of borrowings	(207)	(95)
NET CASH USED IN FINANCING ACTIVITIES	(46 816)	(30 469)
Decrease in cash	(80 145)	(77 166)
Cash at the beginning of the reporting period	148 305	123 819
CASH AT THE END OF THE REPORTING PERIOD	68 160	46 653

The notes on pages 12 to 18 form an integral part of this consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Share capital TEUR	Other contribu- tions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumulated loss TEUR	Loss for the period TEUR	Total TEUR
Balance as at 1 January 2020	256 473	2 511	3 542	1 839	(221 339)	(9 114)	33 912
Comprehensive income							
Loss for the half-year	-	-	-	-	-	(184 770)	(184 770)
Other comprehensive income	-	-	(119)	(12 004)	-	-	(12 123)
Total comprehensive income for the half-year	-	-	(119)	(12 004)	-	(184 770)	(196 893)
Allocation of prior year result	-	-	-	-	(9 114)	9 114	-
Balance as at 30 June 2020	256 473	2 511	3 423	(10 165)	(230 453)	(184 770)	(162 981)
	Share capital TEUR	Other contribu- tions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumulated loss TEUR	Loss for the period TEUR	Total TEUR
Balance as at 1 January 2021	506 473	2 299	3 797	(480)	(230 453)	(264 597)	17 039
Loss for the half-year	-	-	-	-	-	(61 515)	(61 515)
Other comprehensive income	-	-	5	724	-	-	729
Total comprehensive income for the half-year			5	724			729
Allocation of prior year result	-	-	-	-	(264 597)	264 597	-
Balance as at 30 June 2021	506 473	2 299	3 802	244	(495 050)	(61 515)	(43 747)

The notes on pages 12 to 18 form an integral part of this consolidated interim financial statements.

NOTES

1. Corporate information

Air Baltic Corporation AS (hereinafter – airBaltic 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. As at the date of authorising these consolidated interim financial statements the main shareholder of the airBaltic is the Republic of Latvia - holding 96.14% shares of the Parent company.

The Parent company is an airline organizing passenger traffic to destinations in Europe and beyond from Riga, Vilnius and Tallinn. As of 30 June 2021, airBaltic had in its fleet 27 Airbus A220-300 jet aircraft and, in storage 12 Bombardier Q400 turboprop aircraft (30 June 2020: 22 Airbus A220-300 jet aircraft, 12 Bombardier Q400 turboprop aircraft and 4 Boeing 737 jet aircraft).

On 30 June 2021 the Parent company holds ownership in the following companies:

- 100% of the share capital of Baltijas Kravu Centrs SIA (30 June 2020: 100%),
- 97.34% of the share capital of Aviation Crew Resources AS (3% are issued in form of preference shares, thus by the substance of the arrangement, AirBaltic holds 100% of voting and participation rights. The 3% do not hold any economic interest.) (30 June 2020: 93.29%),
- 100% of the share capital of Air Baltic Training SIA (30 June 2020: 100%),
- 100% of the share capital of Loyalty Services SIA (30 June 2020: 100%).

2. Summary of significant accounting policies

a) Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standard No. 34 Interim Financial reporting as adopted by EU (hereinafter – IAS 34).

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by airBaltic during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim period, except for the adoption of new and amended standards as set out below.

New and amended standards adopted

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Impact of standards issued but not yet applied by the Group

There are no 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.

3. Financial risk management

There was no change in the risk management policies of the Group since the year end.

Hedge effectiveness

At the beginning of this financial year, the airline had a total of 4% (6 000 tonnes) of the originally estimated 2021 jet fuel consumption hedged at the average price of \$573 per tonne (2020: 39% at the average price of \$573 per tonne). The total exposure from the open hedged fuel positions at June 30, 2021 was approximately gain EUR 244 thousand (2020: losses EUR 11 million). No material ineffectiveness has been recorded on these arrangements in the current or preceding period.

Fair value estimation

The Group classifies its 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).

NOTES**3. Financial risk management (continued)**

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2021.

	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	10 809	10 809
Derivative financial assets	-	244	-	244

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

	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	11 229	11 229
Derivative financial liabilities	-	(480)	-	(480)

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 obtains 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.

All other financial assets and financial liabilities are measured at amortized cost. The Group estimates 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.

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.

NOTES

4. Segment information (continued)

Reportable segment information is presented as follows:

	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
Operating revenue of the Parent company	48 120	80 226
Revenue of other segments	12 107	19 143
Intersegment elimination arising from other segments	(10 264)	(16 846)
TOTAL OPERATING REVENUE	49 963	82 523
Loss of the Parent company	(61 740)	(197 202)
Profit of other segments	358	994
Intersegment elimination	(133)	(11 438)
TOTAL NET LOSS	(61 515)	(184 770)
Other segment information:		
Amortization and depreciation	(22 076)	(37 528)
Interest revenue	76	50
Interest expense (see note 7)	(24 661)	(25 424)
	30.06.2021	30.06.2020
Reportable segment of the Parent company's assets	917 455	791 870
Reportable segment of the other segments assets	15 393	19 631
Intersegment elimination arising from other segments	(12 709)	(15 920)
TOTAL ASSETS	920 139	795 581
Reportable segment of the Parent company's liabilities	963 969	957 845
Reportable segment of the other segments liabilities	10 991	14 284
Intersegment elimination arising from other segments	(11 074)	(13 567)
TOTAL LIABILITIES	963 886	958 562

All non-current assets are located in Latvia.

Entity-wide disclosures

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

	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
Europe	46 811	79 129
Other	3 152	3 394
TOTAL	49 963	82 523

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.

NOTES

5. Revenue

	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
Tickets revenue	36 914	67 246
Ancillary revenue	4 992	7 593
Cargo revenue	2 341	2 319
Charter revenue	3 096	1 555
TOTAL	47 343	78 713

6. Other operating expenses

In 2020 first half year the management of the Group announced the decision of phasing out the Bombardier Q400 NextGen fleet. The related costs of EUR 90 million were recognised as part of Expenses of current activities (impairment of Right of use assets in amount of EUR 72.8 million and Other operating expenses – EUR 17 million).

7. Finance expenses

	6 months ended 30 June 2021 TEUR	6 months ended 30 June 2020 TEUR
Interest expense on borrowings and lease	24 045	24 551
Other interest and similar expenses	616	873
TOTAL	24 661	25 424

8. Property, plant and equipment

	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2020	31 146	21 912	786 222	32 371	871 651
Additions	171	295	41 500	18 593	60 559
Reclassification	6	(20)	17	-	3
Disposals	-	(861)	-	(128)	(989)
30.06.2021	31 323	21 326	827 739	50 836	931 224
Accumulated depreciation					
31.12.2020	13 404	8 368	124 512	13 029	159 313
Charge for the half-year	1 055	839	17 335	1 865	21 094
Charge on revalued amount	128	-	-	-	128
Reclassification	4	(6)	-	-	(2)
Disposals	-	(780)	-	(105)	(885)
30.06.2021	14 591	8 421	141 847	14 789	179 648
Impairment loss 2020	-	-	(72 891)	-	(72 891)
Net book value 31.12.2020	17 742	13 544	588 819	19 342	639 447
including Right of use assets	6 513	-	585 334	-	591 847
Net book value 30.06.2021	16 732	12 905	613 001	36 047	678 685
including Right of use assets	5 923	-	609 673	-	615 596

NOTES**9. Borrowings**

	30.06.2021 TEUR	30.06.2020 TEUR
Non-current		
Eurobond, net of transaction costs	197 556	196 762
Borrowings from the shareholders	36 141	36 141
Bank borrowings	2 803	2 718
TOTAL	236 500	235 621

10. Related party transactions

The Group has related party relationships with Ministry of Transport of the Republic of Latvia (the holder of 96.14% of the Parent company's shares) and with other state-owned companies. There were no related party transactions in the period ended 30 June 2021 that materially affected the financial position or the performance of the Group during that period and there were no changes to the related party positions described in the 2020 annual report that could have a material effect on the financial position or performance of the Group in the same period.

11. Seasonality of operations

The Group's results of operations have varied significantly from quarter to quarter, and management expects these variations to continue. Among the factors causing these variations are the airline industry's sensitivity to general economic conditions and the seasonal nature of air travel.

12. The use of the aid received by airBaltic

The state aid provided to airBaltic has been used to restore airBaltic's equity and its access to liquidity in the context of the COVID-19 outbreak that led to severe disturbances of the real economy of Latvia.

airBaltic's cash flow adequacy assessment indicates that, with regard to the use of the share capital increase, airBaltic has used it to finance its fixed and variable costs. Of the aid invested in airBaltic in 2020 (EUR 250 million), in the first year more than EUR 200 million have already been used to cover costs of the Company.

The main cost items for which the state aid has been used are aircraft leasing payments, which make up the largest part of the used state aid, purchase of required aircraft engines, aircraft pre-delivery payments, interest on Eurobonds, wages, salaries and related personnel costs and taxes, airport and air navigation services, aircraft maintenance costs, fuel, settlements with other airlines and IATA, payments of aircraft maintenance reserves as well as other operating expenses.

Other operating expenses include interest payments on the State Treasury loan, airframe and other risks insurance and other expenses. In addition to the above, airBaltic has used the aid in support of the EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050. Detailed information on airBaltic's activities in this area is provided in the airBaltic 2020 Sustainability Report.

The monitoring of the use of the allocated funds is based on the control processes developed (documented in writing) and implemented by airBaltic in the pre-crisis period. During the crisis situation, airBaltic introduced additional steps (for example, more regular and detailed reporting of cash flow changes and budget deviations, introduction of cash flow forecasting).

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

There has been no significant change during the period in guarantees and pledges compared to those disclosed in the financial statements for the year ended 31 December 2020.

(b) Legal disputes

The Parent company is involved in a number of lawsuits in Latvia and in other countries. Typical lawsuits relate to claims that arise in the ordinary course of the Parent company's business. The most common of such lawsuits relate to flight service disruptions, including flight delays, cancellations, lost or damaged luggage etc. In addition, the Parent company and the Group are involved in number of lawsuits relating to matters of employment law. Material legal claims are described below. The below cases include those where the legal provision is expected to cover any future outlays and others where it is assessed to only be a contingent liability and as such no provision is established.

NOTES

13. Commitments and contingencies (continued)**(b) Legal disputes (continued)*****AB flyLAL-Lithuanian Airlines***

On 12 August 2008 the Lithuanian company AB flyLAL-Lithuanian Airlines (hereinafter - flyLAL) filed a claim in the Vilnius Regional Court against airBaltic and RIGA International Airport. AirBaltic and RIGA International Airport were accused of having entered into a prohibited agreement and abuse of dominant position infringing Articles 101 and 102 of the Treaty on the Functioning of the European Union. On 27 January 2016 the Lithuanian court announced its judgement whereby it rejected the majority of the claims, but nevertheless found that the airBaltic and RIGA International Airport had concluded a prohibited agreement regarding application and use of discounts in the RIGA International Airport and that the airBaltic had abused its dominant position in 5 out of 9 disputed routes operated from the Vilnius airport by applying predatory prices and driving flyLAL out of the Vilnius airport market. Consequently, the claim of flyLAL has been satisfied partially and the Lithuanian court awarded from the airBaltic in favour of flyLAL damages for EUR 16 million, 6% annual interest and some litigation expenses. The judgement was appealed by the airBaltic.

The judgment was passed on 12 February 2020 and the Court of Appeal has rejected the claim of FlyLAL in its entirety, but on 12 February 2021 the Supreme Court annulled the decision of the Court of Appeal and returned the case to the Court of Appeal for further consideration. The Supreme Court has upheld part of the findings of the Court of Appeal, however, the Supreme Court did not see sufficient evidence to support motives and argumentation for the other findings of the Court of Appeal and consequently ordered the Court of Appeal to review and substantiate that part of findings. On 28 June the Court of Appeal passed a judgment rejecting all claims against the Parent company.

AKB Investbank

Since March 2012 the Parent company has been involved in litigation processes with AKB Investbank (hereinafter – Investbank), currently under a bankruptcy procedure. The initial three civil cases in Russia were brought against the former shareholder of airBaltic – Baltijas Aviācijas Sistēmas SIA - and airBaltic as co-defendant claiming EUR 18.4 million including interest and penalties stemming from three Loan Agreements entered into between Investbank and Baltijas Aviācijas Sistēmas SIA and three Guarantee Agreements supposedly entered into between Investbank and airBaltic. At the beginning of 2019 the courts in Russia confirmed that the negative decisions against the Company on the recovery cannot be enforced in the Russian Federation. In June 2019 Investbank administrator, however, has started attempts to reconsider some of the cases upon discovery of new facts. These attempts were refused by the courts in Russia in July and September 2019. On 30 January 2020 the Russian court also refused the filed claim to invalidate loan and guarantee agreements considering the Parent company (and not Baltijas Aviācijas Sistēmas SIA) to be the real debtor under the loan agreement, however, appeal in this case is still being reviewed by the court.

Litigation proceedings with Taurus Asset Management Fund Limited and SIA Eurobalt Junipro

Taurus Asset Management Fund Limited ("Taurus"), a company registered in the Bahamian Islands and related to former shareholders of the Parent company, and SIA Eurobalt Junipro ("Eurobalt"), since 2012 are trying to reclaim EUR 5 million from the Parent company. Initial litigation process was terminated by the judgement of the Supreme Court dated as of 5 December 2018. However, on 13 January 2020 Eurobalt brought a claim against the Parent company for EUR 5 million, as well as for statutory late payment interest in the amount of EUR 2 225 thousand. The claim is based on an assumption that under the agreement dated 3 October 2011 on restructuring and financing of the Parent company, one of the creditors – Taurus has retained the claim of EUR 5 million and on 14 May 2012 could have legally assigned that claim to Eurobalt, which now claims that amount with interest as the assignee. The Parent company has continuously and clearly rejected that, arguing that Taurus lost its rights to that claim according to the agreement dated 3 October 2011 and Taurus did not have any such rights at the moment of assignment, among other arguments. The courts have ruled in favour of the Parent company in an equivalent case arising from the agreement dated 3 October 2011 on restructuring and financing of the Parent company one of the creditors.

In 2020 the court of first instance issued a negative decision against the Parent company in this case, however, the Parent company appealed the court decision on 24 November 2020. On 1 June 2021 the second instance court revoked the negative decision against the Parent company.

(c) Commitments

There has been no significant change during the period in capital commitments compared to what was disclosed in the financial statements for the year ended 31 December 2020.

NOTES**14. Subsequent events****(a) COVID-19 impact**

As of the date of this report the COVID-19 pandemic is still a significant factor on the airline's operations. The full extent of the ongoing impact of COVID-19 on the Group's operational and financial performance will depend on future developments. The Group has limited control over many aspects, including the duration and spread of COVID-19 and any existing or potential future travel advisories and restrictions, the impact of COVID-19 on overall long-term demand for air travel, the impact of COVID-19 on the financial health and operations of the Group's partners, all of which are highly uncertain and cannot be predicted.

(b) Expected capital increase

Following airBaltic's request for additional capital investment, on 17 August 2021 the Cabinet of Ministers decided to support the increase of the company's share capital by investing up to EUR 90 million. The decision is conditional upon approval by the EU Commission before the actual capital increase takes place.

(c) Other

During the period between the last day of the reporting period and the date of signing this report, there have been no other events that could materially impact the financial position of the Group as of 30 June 2021 and should be reflected in this report.