

SUSTAINABILITY AND ANNUAL REPORT

2021



THINK GREEN, FLY GREEN!

airBaltic

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GENERAL INFORMATION ON THE GROUP'S PARENT COMPANY

Name of the Parent company	Air Baltic Corporation	
Legal status of the Parent company	Joint stock company	
Registration number, place and date	40003245752 Riga, 8 February 1995	
Main activities	Passenger and cargo aviation transportation	
Registered office	Riga International airport, Tehnikas Street 3, Marupe municipality, Latvia, LV-1053	
Shareholders	Republic of Latvia Aircraft Leasing 1 SIA Other	96.14%, since 17.01.2022 97.03% 3.86%, since 17.01.2022 2.97% 0.0002%, since 17.01.2022 0.000123255%
Executive Board Members	Martin Gauss Vitolds Jakovļevs Pauls Juris Cālītis	Chairman of the Board Member of the Board Member of the Board
Supervisory Board Members	Nikolajs Sigurds Bulmanis Kaspars Āboliņš Lars Thuesen Toms Siliņš	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board
Financial year	1 January 2021 – 31 December 2021	

GLOSSARY

AVIATION TERMINOLOGY

ACMI aircraft leasing arrangement between two airlines, whereby one airline (the lessor) provides an aircraft, crew, maintenance, and insurance (ACMI) to another airline (the lessee)

IATA International Air Transport Association

ICAO International Civil Aviation Organization

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

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

CASK denotes the operating expenses divided by available seat kilometres.

RASK denotes the revenue divided by available seat kilometres

Yield average traffic revenue earned per unit of output; calculated passenger and charter revenue per revenue passenger kilometre flown

RNP AR Required Navigation Performance with Authorization Required

SDG Sustainable Development Goals

LV CAA Latvian Civil Aviation Agency

FINANCIAL TERMINOLOGY

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

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

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

Operating result¹ before release/charge of provisions for legal disputes

Operating result² before release/charge of provisions for legal disputes and net impairment /charges on right-of-use assets

Net debt financial indicator denoting borrowings, including lease liabilities less cash and cash equivalents

Independent Limited Assurance Report

To the Management of Air Baltic Corporation AS:

Introduction

We have been engaged by the Management of Air Baltic Corporation AS ('the Company') to provide limited assurance on the selected information described below and included in the Sustainability report of the Company for the year ended 31 December 2021 on pages 9 to 80 of the Sustainability and Annual report 2021 of Air Baltic Corporation AS ('the Sustainability report 2021'). The Sustainability report 2021 represents information related to the Company and its subsidiaries (together the 'Air Baltic Corporation Group')

Selected information

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2021 and referred to or included in the GRI Content Index (hereinafter – the "Selected Information"). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (Core option) (hereinafter – the "GRI Standards"), published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2021. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2021 and, therefore, do not express any conclusion thereon.

Reporting criteria

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (hereinafter – the "Reporting Criteria"). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

Responsibilities of the management of the Company

The Management of the Company is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the accuracy, completeness and presentation of the Selected Information.

Our Responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company's management.

This report, including our conclusion, has been prepared solely for the Company's management in accordance with the agreement between us, to assist management in reporting on the Air Baltic Corporation Group sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2021, which will be published on the Company's website¹, to assist management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the management of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

Professional standards applied and level of assurance

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

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

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

¹ The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the Sustainability report 2021. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2021 in accordance with the GRI guidelines.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2021;
- Comparing data from selected information to internal documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the Sustainability report 2021 to the financial statements 2021 of Air Baltic Corporation Group; and
- Evaluating the overall format and content of the Sustainability report 2021, taking into account the compliance of the disclosed information with the applicable criteria.

Reporting and measurement methodologies

Under the GRI Standards there is a range of different, but acceptable, measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by management as described in the Sustainability report 2021, and for which the Company is solely responsible.

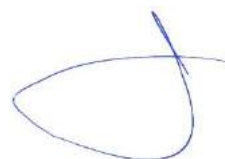
Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2021 has not been prepared, in all material respects, in accordance with the Reporting Criteria.



Eva Jansen-Diener
Persona per procura

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
4 April, 2022

ABOUT THE REPORT

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

This Sustainability Report 2021 (hereinafter – the Sustainability Report) is prepared in accordance with GRI Standards Core option requirements. It supplements the Management Report of the Annual Report and the Corporate Governance Statement, and includes information on the key elements of Air Baltic Corporation AS non-financial performance by indicating its operational impact on the environment, social and employment aspects, its anti-corruption and anti-bribery measures, wider community engagement and support, and other non-financial elements.

The Sustainability Report of Air Baltic Corporation AS discloses sustainability information of Air Baltic Corporation AS along with its subsidiaries: Air Baltic Training SIA, Baltijas Kravu Centrs SIA and Aviation Crew Resources AS (altogether hereinafter – airBaltic, the Group, the Company, airline). Reporting on non-financial and sustainability topics is done annually since year 2019. There are no restatements of information given in the previous reports. The reporting method and material topics are the same.

The Sustainability Report covers the period from January 1st until December 31st, 2021, and it is a part of the Air Baltic Corporation AS Group Consolidated Annual Report and Air Baltic Corporation AS Annual Report.

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

The report is made public on the 14th of April 2022. The previous report was made public on the 15th of April 2021.

FOREWORD



airBaltic is well known for its innovation, sustainability, diversity, and inclusion efforts. The Company's mission is to ensure vital connectivity between the Baltic states and the world, thus delivering a significant contribution to the economy and helping the Baltics become one of the key European business centres.

In line with the Company's business plan, airBaltic's vision sees itself being a sustainable carrier in the EU aviation market while maintaining a continuous growth path and innovative improvement of the passenger experience. By 2025, the Company plans to carry 10 million passengers per year, thereby increasing its impact on the local economy.

Throughout 2021, airBaltic and the industry as a whole have taken various significant and challenging steps in ensuring it will meet its climate goals. By committing to aviation industry objectives as defined by Airlines for Europe (A4E) under the Destination 2050 commitment, airBaltic has committed to being part of a long-term sustainable airline community. In October 2021 airBaltic agreed to the IATA Fly Net Zero resolution committing to reach net zero carbon emissions by 2050. By the same token, in July 2021 as part of the European Green Deal, the EU set itself a binding target of achieving climate neutrality by 2050 through adoption of the Fit for 55 package of proposals. Fit for 55 refers to the EU's target of reducing net greenhouse gas emissions by at least 55% by 2030, therefore, airBaltic will also align to EU set targets.

As many aspects of the sustainability becomes more significant, the Company has introduced various digitalisation and operational efficiency projects, further decreasing

its impact on the environment. The Company started RNP AR high-precision flight approaches in Riga, and digitalised both pilot flight plans and ground handling post-flight reports. Notably, the Company uplifted 20% more sustainable aviation fuel than in 2020 and introduced new electric cars for its apron personnel in Riga.

In 2020, when COVID-19 caused a global disruption, the Company revised its business. It also led airBaltic to rethink the Company's core values and introduce *We deliver. We care. We grow.* Since then, the Company has taken mindful actions in promoting each of these values in the airline's strategies and day-to-day work. During 2021 all airBaltic managers have undergone a diversity and inclusion course.

By promoting gender equality in all areas of the Company, airBaltic is helping to drive progress in the aviation industry as well as in the Baltic region. Highlighting the Company's achievements, in 2021 airBaltic was shortlisted for the IATA Diversity & Inclusion Team Award for the second time. The airline has signed on to the IATA 25by2025 gender diversity pledge, committing to increase female participation at senior levels by 25% by year 2025.

In 2021, the travel industry experienced a partial recovery, yet various changing Covid-19 restrictions across Europe still heavily impacted the industry. The Company carried a total of 1.6 million passengers, which was in line with airBaltic's targets for the year; however, that was still 68% lower than pre-pandemic 2019 levels.

Due to the partial recovery, airBaltic was able to rehire 150 of its former employees and attract 423 new motivated professionals to its team. Going forward, airBaltic will attract additional employees to support the Company's sustainable growth path.

airBaltic expects further recovery of the European aviation market, however, changing travel habits and short-term trends will continue to pose challenges for the Company. 2022 will also see the launch of the Company's first base outside of the Baltics – in Tampere, Finland – and the addition of eight additional Airbus A220-300 aircraft to the Company's fleet.

MARTIN ALEXANDER GAUSS,
Chairman of the Management
board, Chief executive officer

AIRBALTIC AT A GLANCE

airBaltic is the leading airline in Latvia and Estonia and one of the largest carriers in Lithuania operating direct flights out of all Baltic state capitals – Riga (Latvia), Vilnius (Lithuania) and Tallinn (Estonia). The Company provides the best connectivity to and from the Baltic region and performs direct flights to more than 70 destinations in Europe and beyond. airBaltic is part of the airline industry and offers air transport services, including passenger transportation on regular and charter flights, cargo transportation and ACMI services. Being a hybrid airline, airBaltic takes the best practices from both traditional network airlines and low-cost carriers. Also, being a network airline allows airBaltic to establish Riga as a connecting hub. The Company has a significant direct and indirect impact on the Latvian economy. The Company's services are available to different types of customers and beneficiaries: business passengers, leisure passengers, VFR (visiting family and friends) passengers, charter, ACMI and cargo customers.

airBaltic is a joint stock company established in 1995, with headquarters located at Tehnikas Street – 3, Riga International Airport, Latvia. On 31st December 2021, the Company's primary shareholder is the Latvian State, which holds 96.14% of the stock, while Lars Thuesen with his wholly owned SIA "Aircraft Leasing 1" and the rest of the minority shareholders own the remaining 3.86%. However, since 17th January 2022 the Latvian state holds 97.03% and the rest of the shareholders 2.97%. The Company has 1 559 employees. In 2021 the Company carried 1.63 million passengers on more than 23 444 flights and had EUR 204 million of revenue. Equity of the Company reaches negative result in 118.3 million EUR, while its net debt is EUR 858 million.

VISION: airBaltic becoming a sustainable carrier in the EU aviation market while maintaining a continuous growth path, innovatively improving the passenger experience, and developing the Baltic states as a key European business centre.

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

VALUES

The core values of airBaltic were revised in 2020 after having organised various employee workshops and surveys for airBaltic customers and stakeholders.



We deliver

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



We care

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

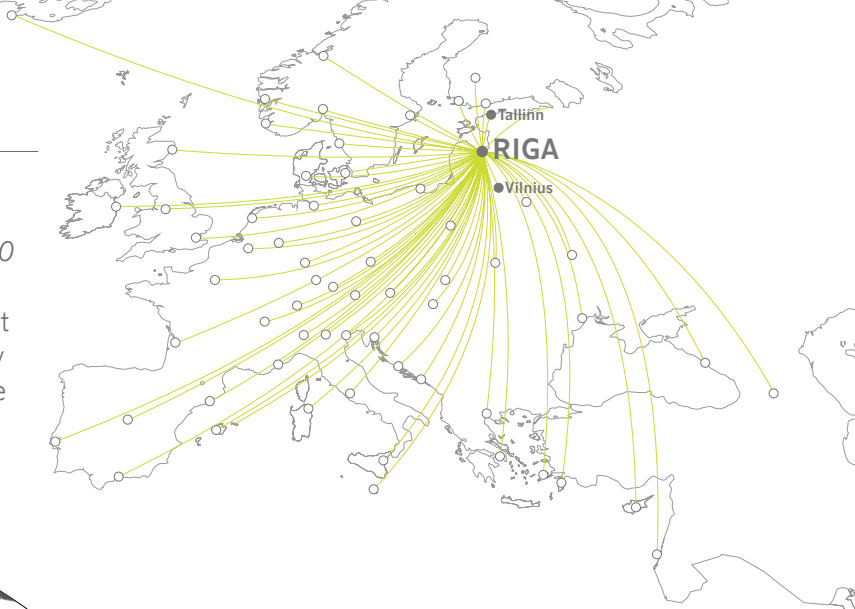


We grow

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

FLEET

This year the airline has received seven *Airbus A220-300* aircraft, becoming the largest operator of this aircraft type globally. At the same time, in Europe it is the largest operator of *Airbus A220* aircraft. The Company currently has 32 aircraft of this type in its fleet, and eight more are expected to join at the end of 2022.



BACKGROUND:

1995

FOUNDED: in 1995



Subsidiaries:

Air Baltic Training, SIA; Baltijas Kravu Centrs, SIA; Aviation Crew Resources, AS and Loyalty Services, SIA (liquidated in December 2021).

RIGA

HEADQUARTERS:
in Riga (Latvia)

SCOPE AND ACHIEVEMENTS IN 2021

(At the end of the year):

76 & 94

76 destinations across
94 routes during the year

33%

MARKET SHARE in the capitals
of the Baltics, including
57 % in Riga (2020: 57%),
22% in Tallinn (2020: 27%),
11% in Vilnius (2020: 14%).

32

aircraft in service
(2020: 25)

3 319 316

SEAT CAPACITY
(2020: 2 776 344)

0.6 M

599 400 airBaltic Club LOYALTY
PROGRAMME MEMBERS
(2020: 2.36)

1 559

employees
(2020: 1195)

SUSTAINABILITY FOOTPRINT IN 2021



94

Number of routes served
(76 in 2020)



1 627 958

Passengers carried
(1.34 million in 2020)



9.0 million kg

of freight
(7.5 million kg in 2020)



23 444

Number of flights performed
(22 342 in 2020)



53.6 %

Load factor
(52% in 2020)



98.6 %

Regularity rate
(99.9% in 2020)



66.3 %

3 MIN punctuality rate
(84.82% in 2020)



84.9 %

15 MIN punctuality rate
(94.6% in 2020)



78 869

Tons of fuel consumed
(58 256 tons in 2020)



45

Paid in salaries: million EUR
(51 million in 2020)



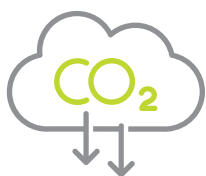
65

Net Promoter Score: index points
retention rate among private
customers, expressing customer
satisfaction and loyalty based on
surveys among 12 351 respondents
(75 points among
3 095 respondents in 2020).



13.5

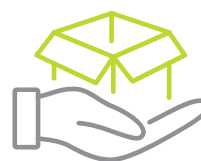
Taxes paid in Latvia: million EUR
(20.7 in 2020)



115 grams
carbon emissions
per passenger km
(2020: 126)



248 437
tons of flight CO₂ emissions
(Scope 1)
(183 505 tons in 2020)



39 m³
waste of
mixed packaging
(443 m³ in 2020)



0
serious occupational
accidents / fatalities
(2020: 0)



54% / 46%
share of men/women in
the Group:
(52%/48% in 2020)



47
hours of training provided for
employees (flight deck, cabin
crew and technicians)
(73 in 2020)



436
tons waste of paper
(866 tons in 2020)



35
Employee Net Promoter
Score in Q3 2021
(22 in Q3 2020)

KEY SUSTAINABILITY MILESTONES IN 2021

MONTH BY MONTH

JANUARY



The health and safety of passengers stand above all. That is why airBaltic was truly honoured to become the first airline globally to receive a 5-star COVID-19 safety rating from Skytrax.

FEBRUARY



Caring for the wellbeing and mental health of its employees, airBaltic launched the Peer Support programme for safety-sensitive personnel. In August the programme was expanded to include all of the Group's employees.

MARCH



In order to reduce the consumption of paper, airBaltic introduced electronic flight plans for pilots. These replaced printed pilot briefing packages, one of the last pieces of documentation that pilots had to print before each flight.



Known for its innovativeness by being the first airline to accept Bitcoin as a form of payment, the next step for airBaltic was to use blockchain technology to issue NFTs (non-fungible tokens) – another ‘world’s first’ for airBaltic.



To ensure succession planning in the long term, 31 high potential employees were selected for the internal ALFA Leadership programme. airBaltic Leaders for Future (ALFA) is a tailor-made, internal people-development programme with the aim of developing the Company’s internal talents and enhancing their potential according to the Company’s vision for airBaltic’s future. The ALFA programme is an integral part of the career and personal development strategy of airBaltic and an additional support in sustainability development.

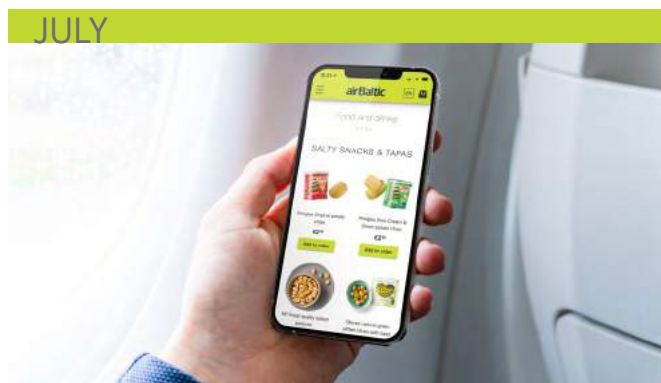


Contributing to the development of aviation architecture and the country’s overall economic growth, airBaltic announces its plan to build the Baltic Cargo Hub at Riga Airport. It will be the largest air cargo handling facility in the Baltics.



In order to support the Company’s future growth plans as well as meet industry recovery estimates, airBaltic began to actively rehire former staff. New professional hires also gradually grew. In total, the Company rehired 150 employees in 2021.

Front row: Martin Gauss, CEO and President of airBaltic, Ingūna Andže, VP Cabin Crew, Vilmantas Vaclovas Mažonas, SVP Flight Operations



Continuing the airline's innovative vision, airBaltic introduces digital SKY Service, online delayed baggage service, and new cobrowsing functionality for its Call Center operations, thereby further enhancing the high level of service provided to passengers.



Contributing to saving fuel and cutting CO₂ and noise emissions, airBaltic cocreates and is the first to fly sustainable [RNP AR high-precision approaches](#) at Riga Airport.



To ensure continuous dialogue with employee representatives, the Company initiates negotiations to review the conditions of the existing Collective Labor Agreement (CLA), which has been in place since 2009.



airBaltic surpasses its 2019 number of routes, connecting the Baltic region with almost 90 routes. Throughout 2021, the Company managed to maintain its market shares in the Baltics, providing the best connectivity to and from the region.

OCTOBER



Laila Odiņa, Chairwoman of the Executive Board at Riga International Airport; Martin Gauss, CEO and President of airBaltic; Dimitrijs Trofimovs, State Secretary of the Ministry of Interior; Gunta Viksne, board member of the social shelter 'Drošā Māja'; Iluta Lāce, Head of the association 'Martas Centrs'

In order to support Human Rights and educate employees as well as passengers on the topic, airBaltic works closely together with Riga International Airport and the Ministry of the Foreign Affairs in order to raise awareness of [human trafficking in airports](#).

airBaltic, together with the [Members of IATA](#), [commits to Fly Net Zero](#) in order to achieve net zero carbon by 2050. It is a crucial step in ensuring a sustainable future in the aviation industry.

NOVEMBER



airBaltic introduces digital post-flight reports for ground handling in order to reduce the consumption of paper. Each year the Company develops various digital solutions that enable it to become more efficient.

DECEMBER



To increase connectivity, airBaltic announces that as of May 2022 it will open a new base in Tampere, Finland, which will be the Company's first base outside of the Baltics. airBaltic will connect Tampere with six direct flights in addition to continued operations to Riga, Latvia.



To reduce CO₂ emissions, airBaltic increases the use of sustainable aviation fuel (SAF) by 20% compared to SAF volumes uplifted in 2020. The airline believes that SAF will play a crucial role in the aviation industry.

RECOGNITIONS RECEIVED IN 2021

Throughout the pandemic airBaltic provided essential connectivity to and from the Baltic region, and maintained its market leader positions at both Riga and Tallinn airports. To recognize the impact of connectivity which airBaltic has provided to Estonia, Prime Minister of Estonia Kaja Kallas and Prime Minister of Latvia Krišjānis Kariņš presented airBaltic the [Livonia Award](#). This award is presented annually to the most successful Latvian company in Estonia.

Since 2020 airBaltic has been flying the most modern single-type Airbus A220-300 fleet. Investment in the new fleet has enabled the company to reduce its CO₂ emissions by more than 20%. In 2021 the airline's A220-300 fleet grew to 32 aircraft and, therefore, airBaltic was recognised by the web-based service provider ch-aviation as the winner of [Europe's Youngest Aircraft Fleet Award 2021](#).

On May 21, 2021, airBaltic secured third place in the award contest "[Gada preču zīme pasaulei](#)" 2020 (Trademark of the Year for the World). The competition was organised by the Latvian Chamber of Commerce, the Patent office of the Republic of Latvia, and the Latvian Designers' Society. The award was received for airBaltics' new trademark *Think Green, Fly Green*, which the Company uses in communications regarding sustainability topics and the airline's modern fleet.

The Latvian airline airBaltic was also named [best employer in the transport and logistics sector](#) for the tenth year in a row according to a nationwide survey carried out by the recruitment agency CV-Online Latvia. Such recognition serves as proof that airBaltic made the right decision to focus on open communication, social responsibility and transparency during the pandemic.

Over the years, airBaltic has continued working on achieving gender equality in the company and promoting well-paid professions among women. As a result of this set target, the International Air Transport Association (IATA) announced the Latvian airline airBaltic as one of three airlines shortlisted for its [IATA Diversity & Inclusion Team Award](#).



Kaja Kallas, Prime Minister of Estonia, Martin Gauss, CEO and President of airBaltic, Krišjānis Kariņš, Prime Minister of Latvia



Avis Brodiņš, Country Business Manager at CV-Online Latvia, Martin Gauss, CEO and President of airBaltic, Kristīne Jēkabsone-Nazarova, CEO Office Manager/Assistant to the President, Gatis Stanga, Cabin Standard Specialist





SUSTAINABILITY AT AIRBALTIC

Increased awareness of sustainability and environmental impacts from different sectors globally, as well as airBaltic's ambition to become a sustainable carrier in the EU aviation market, ensure airBaltic's continuous focus on the topic. Sustainability aspects build an important part of the Company's future development as we acknowledge that among consumers, employees and investors alike, green factors are becoming more dominant criteria next to service quality and punctuality. Consequently, airBaltic is evaluating in more detail the challenges and opportunities being faced regarding sustainable operations in all areas of the company.



In 2021 the airline industry took the next steps forward on a global level as well, namely, at the IATA Annual General Meeting on 4 October 2021, where IATA member airlines passed the resolution Fly Net Zero 2050 in which they commit to achieving net-zero carbon emissions from airline operations by 2050. Moreover, Europe's aviation sector unveiled its own flagship sustainability initiative, Destination 2050 – A Route to Net Zero European Aviation.

In considering these factors, airBaltic will also try to achieve the industry's set targets, which include increased usage of sustainable aviation fuel as well as improvements in air traffic management and aircraft operations.

In addition, seeing as airBaltic is a major airline in the Baltic region, the Company does have an essential impact on the community. The growing expectations of stakeholders, changes in public policies and legislation, and increasing public attention to the greater role of the business sector all serve to encourage the Company to manage its environmental, social and governance impact more consciously than ever before. In 2021 airBaltic enacted a policy of educating employees, passengers and the general public in more detail on several important issues, one of which was human-trafficking at airports. airBaltic believes that such educational policies can really make a difference and that the effort is worth it in making the world a better place for everyone.

SUSTAINABILITY GOVERNANCE APPROACH

For several years airBaltic implemented various initiatives towards more sustainable business operations, but with 2019 the Company began placing considerably greater emphasis on a conscious approach to sustainability topics. Since 2019, the Company reports on sustainability matters in the "Sustainability and Annual Report", which is approved by the Executive Board, the Supervisory Board, and Shareholders, all of whom together hold the highest responsibility when it comes to sustainability matters at airBaltic. In order to achieve even more sustainable business operations and reach set Sustainable Development Goals (SDGs), in the near future the Company will reorganise the framework of how sustainability aspects are managed across departments. Until then, all areas of airBaltic are being treated as a uniform whole regarding sustainability-related aspects, and collaboration between departments is crucial.

In 2021, sustainability management and the assessment of sustainability aspects in day-to-day decision-making at airBaltic were particularly influenced by the following factors:

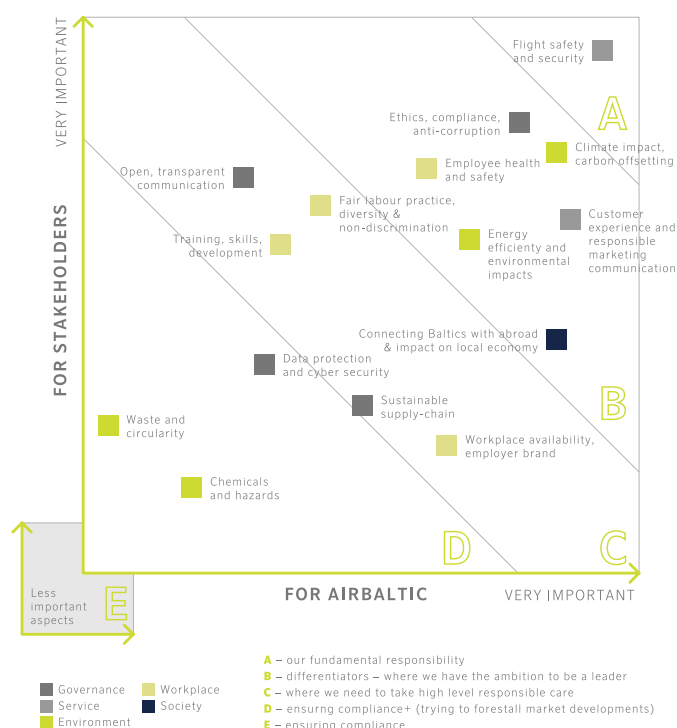
- adoption of external regulations, such as Fit for 55;
- the industry's commitment to Fly net Zero as adopted by IATA airline members;
- the desire of partners, customers and investors for the Company to become more sustainable.

As a result, sustainability aspects are increasingly embedded in long-term planning documents as well as the Company's financial and non-financial goals as they apply to day-to-day decision-making.

Additionally, in 2021 airBaltic updated its internal policies supporting sustainability development goals. When making decisions on various matters that may influence the environment or any other aspect of sustainability, every department tries to select the most environmentally friendly option. Consequently, many initiatives and actions taken during the year have markedly brought the company closer to even more sustainable operations.

SUSTAINABILITY FOCUS TOPICS

airBaltic started analysing its material sustainability aspects more carefully in 2019. The aim of this step was to initiate internal and external discussions around sustainability, increase the dedication of the organisation and its partners to the topic, and gather any and all expectations and suggestions for improvements from relevant stakeholders. Through an online survey and the meeting of major external stakeholders, around 120 corporate customers, suppliers, regulators and policy makers, aviation sector professionals from Latvia and abroad, financiers, NGOs, environmental organisations, and educational institutions were involved. Additionally, labour unions and all employees were invited to share their thoughts through two surveys and a dedicated event, the result of which was almost 300 contributions. At the end of the analysis, the Executive Board and the Top Management Team of airBaltic formed their view based on strategic relevance of sustainability aspects. As a result of the above-mentioned process, 15 material sustainability aspects were defined. The matrix presents the priority of these for stakeholders and from the point of the Top Management Team of the Company.



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

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

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



Nevertheless, the United Nations Sustainable Development Goals (SDGs) also have a very important role in airBaltic's approach to sustainability topics. The Company has evaluated their relevance and aims to make an important contribution to all seventeen SDGs. Based on the materiality matrix with a focus on sustainability aspects and priorities of the Company, which has been created by airBaltic employees, stakeholders and management, the Company has prioritised five SDGs that are the most relevant and are in line with established sustainability focus topics. The five SDGs selected as focus points are: decent work and economic growth (SDG 8), industry innovation and infrastructure (SDG 9), responsible consumption and production (SDG 12), climate action (SDG 13), and peace, justice, and strong institutions (SDG 16).

STAKEHOLDER ENGAGEMENT

airBaltic impacts and engages with a wide network of stakeholders – customers, employees, shareholders, creditors, NGO representatives, numerous suppliers, and other business and cooperation partners. To ensure credibility in its stakeholder relations, the Company strives to maintain good governance principles as described in the Corporate Governance Statement.

Another key aspect of stakeholder engagement management is open communication regarding the Company's results, progress, daily life, and plans; this is of significant importance to the Company and its engagement with stakeholders. Such communication is maintained daily and is a part of the Company's stakeholder engagement management.



The Company prioritizes close engagement with its employees, customers, creditors and shareholders to ensure continuous economic activity of airBaltic as well as to create an environment in which the Company is able to develop and prosper. airBaltic also engages in dialogue with parties: that are essential to ensuring the Company's compliance with the requirements provided for in regulatory enactments; that promote sustainability; and that develop and shape the Company's public image, for instance, governmental and supranational authorities and organisations, the media, the public, politicians, NGO representatives, etc.

To illustrate the Company's communication practices with stakeholders, please see below for a more detailed explanation regarding major stakeholder groups.

EMPLOYEES. Since 2013 the Company has been implementing a strategy of continuous listening, regular conduction of employee engagement surveys, and collecting feedback on other specific activities, changes, processes, etc. The engagement index is a summary assessment that shows the level of employee satisfaction, involvement, retention, loyalty and motivation at work. Overall, the Group's employees show a high level of engagement. Employee engagement surveys are conducted on a regular quarterly basis to monitor dynamics and to make immediate decisions in the event of deviations. In 2021 the employee engagement level has shown a positive trend and reached 81 points in the Q3 survey.

In regular employee briefings as well as through updates on the Company's Intranet, the CEO and managers update all employees about the effect of the pandemic on the Company, its plans and efforts to minimise the impact of the pandemic, and the applicable safety and epidemiological measures undertaken to help the government limit the spread of the pandemic. This regular and transparent communication helps to achieve one of the best employee engagement results ever received in the Company.

Main communication topics concern changes affecting personnel, occupational health and wellbeing at work, equality, diversity and inclusion, Company core values and business practices, safety and security, career and educational and professional development opportunities, etc.

CUSTOMERS. The principle of transparent, regular and open communication became very important in 2020. Its importance only grew in 2021 with the unprecedented impact of the COVID-19 pandemic, especially in the aviation sector. To maintain and improve the level of transparency, airBaltic enhanced its communication with customers on topics like travel experience, regularity and punctuality of flights, quality of customer service, safety and security, and various sustainability topics.

airBaltic pays great attention to the experience customers gain while travelling on Company flights. The customer experience mirrors the quality of services offered by airBaltic. Therefore, airBaltic exercises high efforts to reach out to customers and ensure effective two-way communication. This is done with the help of customer experience surveys, feedback received from customers via official channels and social media, customer encounters, etc. airBaltic also communicates back to customers with the help of various channels, for example, the airBaltic.com website, e-mails and messages, the airBaltic mobile app, social media, Baltic Outlook magazine, etc.

CREDITORS AND SHAREHOLDERS. airBaltic highly values its commitments towards its creditors and tries to deliver on its partners' expectations as well as promptly addresses any concerns that they may have. Since the Company's bonds are listed on Euronext Dublin, the Company must report all required information to Euronext Dublin and to the respective authorities. Regular and transparent communication with the Company's partners – for instance, aircraft lessors and other creditors – is of utmost importance to the Company and proved to be particularly essential during the COVID-19 pandemic, and continues to be so as we move forward.

The Company's creditors and shareholders are regularly informed of the Company's operations, business strategy and financial position. This information is made available through regular disclosures made to Euronext Dublin, interim reports, financial statements, the Management Board Report, Annual Shareholders' Meetings, etc.

AUTHORITIES. airBaltic strives to maintain effective communication with all involved governmental and supranational authorities. This includes communication with authorities regarding safety and security of flight operations, customer rights, competition and state aid, flight operation impacts on the environment, labour rights, and taxation. Communication is maintained through dialogue with local, national, EU-level authorities and governments in Latvia and any other destination and overflight countries. This often takes the form of official written communication, meetings, trainings, inspections and audits, etc.

MEDIA AND GENERAL PUBLIC. airBaltic's Corporate Communications (PR) Unit makes sure that the media and the public are updated with all the relevant and latest information regarding the Company. This includes information on airBaltic products and the network, daily operations and their irregularities, airBaltic achievements in the aviation industry, emissions reductions, sustainability initiatives, the impact of aviation and airBaltic on the local economy, and the connectivity of the region.

Communication with the media and the public is sustained through Company press releases and conferences, interviews in national and international media, airBaltic's social media channels such as Facebook, Twitter, LinkedIn, Instagram, TikTok, advertisements and campaigns, Baltic Outlook magazine and via the Call Centre.

FUTURE GOALS

Being a member of the IATA, airBaltic is committed to the Fly Net Zero initiative, which is the global commitment of airlines to achieve net-zero carbon emissions by 2050. The main goal is to achieve net-zero carbon emissions from all airline operations by 2050. This pledge brings air transport in line with the objectives of the Paris agreement to limit global warming to 1.5°C. However, in order to succeed, it will require the coordinated efforts of the entire industry (airlines, airports, air navigation service providers, manufacturers) and significant government support, therefore, this is a common goal not just for the industry but for the whole of Europe.



By being a member of Airlines for Europe, airBaltic contributes to the same climate mission goals as the European aviation sector, namely, Destination 2050. The main goal for the aviation sector is similar to the IATA goal, which is reaching net-zero CO₂ emissions by 2050 from all flights within and departing from the EU.

This means that by 2050, emissions from these flights will be reduced as much as possible, with any residual emissions being removed from the atmosphere through negative emissions, a process that will be achieved through natural carbon sinks (e.g. forests) or dedicated technologies (carbon capture and storage). For intra-EU flights, net zero in 2050 could be achieved with close to no market-based measures. Nevertheless, airBaltic also follows the "Fit for 55" package, with which the European Union has unfurled its plans to reduce emissions by at least 55% by 2030 (compared to year 1990), with the ultimate aim of Europe becoming the world's first climate neutral continent by 2050.

In order to achieve these ambitious goals, airBaltic actively participates in the national-level working group on Sustainable Mobility of the National Energy and Climate Council. This group was created at the end of 2021 and currently focuses on matters such as modelling and analysing the economic impact of climate goals. Besides participating in activities on a national level, airBaltic has been an active participant and supporter of the EASA Environmental Label Programme, contributing to the programme's development by participating within the Airlines Technical Expert Group as well as sharing operational and fuel consumption data in order to validate the programme as part of the Demonstrator phase ahead of the anticipated rollout towards the second half of 2022.



MARKET AND STRATEGY

The core aim of the airBaltic business model is to connect people. Unfortunately, the COVID-19 pandemic continued to negatively affect air travel in 2021. A number of measures – including travel bans, border closures, and requirements to test and self-isolate – were in place at different times throughout 2021. Before widespread vaccination became available, most of the restrictive measures were specifically introduced to defer people from travelling. However, most travel bans within the EU were phased out with the introduction of the EU Digital COVID-19 certificate in July 2021, which significantly increased demand for travel.

The recovery continued throughout the summer months and was fueled mainly by leisure demand to sun-and-beach destinations. Later, as new COVID19 variants emerged, some travel restrictions were re-introduced, but vaccinated passengers were exempt in most countries. Throughout the year, airlines in Europe were forced to continuously adjust their schedules due to unpredictable passenger demand. This unpredictability greatly affected the market in which the Company operates and required an adjustment of the Company's business strategy.

In light of the above circumstances, airBaltic improved its business model to adapt to this "new normality". airBaltic continued its flexible approach of introducing new routes and increasing frequencies when it was commercially feasible, and of cancelling loss-making flights when various government restrictions negatively impacted demand for certain destinations. The airline focused on limiting exposure to flights that would not cover variable costs.

The Company is now aiming for higher aircraft utilisation by employing a single aircraft type fleet and streamlining its hub in Riga. An efficient hub model in Riga remains the core pillar of airBaltic's business plan, driving efficient resource utilisation and offering the best connectivity in its home market of Latvia.

airBaltic benefits from the fact that it operates within the Baltics, a growing and not yet matured market compared to Western European markets, which are relatively saturated. In particular, airBaltic expects that as the purchasing power of people living in the Baltic countries increases, so too will their travel by plane.

The hub-and-spoke model employed by airBaltic in Riga airport delivers a competitive advantage to Latvia compared to its closest neighbors. With this model, more non-stop destinations are available and routes are operated at higher frequencies than would otherwise be possible, in turn generating additional passenger flows and income

for the country. This makes the country more attractive for business passengers as well as for tourists.



To adapt to the market situation created by the COVID-19 pandemic, in October 2021 the Company approved the business plan *Above 2026*. The *Above 2026* business plan was developed by reviewing the information and forecasts included in the previous business plan, *Destination 2025 CLEAN 2021 Update*, and adjusting airBaltic's strategy to the new market reality.

The basis for adopting the business plan *Above 2026* is the fact that since the European Commission's previous approval of state aid to airBaltic, the global situation of COVID-19 has deteriorated. The revised business plan *Above 2026* contains revised financial forecasts for the Company until 2026, inclusive. The business plan is based on the latest industry research on the recovery of the aviation industry following the COVID-19 crisis. It also includes updated IATA passenger forecasts specifically for the Baltic aviation market. More detailed information on the basis for adopting the business plan *Above 2026* is available in the Management Report of 2021.

The business plan continues to state that despite COVID-19, air traffic must remain a key part of the world's transport infrastructure. Industry experts are still predicting a relatively rapid market recovery in the "nearby flights" and "visiting friends and relatives" (VFR) customer segments following the lifting of travel restrictions. Latvia's geographical location makes air connections a critical part of the local transport infrastructure. As a result, airBaltic remains the most suitable airline to connect to Latvia and is the only airline to operate the hub-and-spoke model in Riga airport.





FLIGHT SAFETY AND SECURITY

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

SAFETY

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

For the purposes of safety monitoring and objective control of all operations, airBaltic's fleet has been equipped with the Flight Data Monitoring (FDM) programme – quick-access data recorders for quick and smooth transfer and analysis of safety relevant data. Digital data recorders are connected to the aircraft's "black box" and various control systems allowing continuous recording and storage of the most relevant flight parameters such as air speed, throttle and flight control position, various engine parameters, and equipment technical conditions. For example, on the A220 fleet, over 2600 parameters are recorded for every flight. Most safety critical parameters are immediately transmitted to the aircraft manufacturer and airBaltic from the flight, while the majority of the parameters are less time-critical and are transmitted during ground stops. The data capture rate in 2021 on the A220 fleet shows stable and reliable results with 97.0% of data available in FDM for review and analysis. Data loss has been reduced by 0.1% compared to the previous period. Results of the flight data analysis are used for individual case analysis (providing flight animations, panel views and approach trajectories based on collected flight data) or trend detection and statistics to show underlying patterns of operation.

While flight data monitoring provides an objective image of what has happened to the aircraft during the flight, no digital recorder will ever be able to explain why things happened the way they did. Therefore, it is of the utmost importance to obtain human input regarding the encountered operational events or deviations. To support this, the Company encourages its personnel and subcontractors to report any events they come across that could potentially compromise safety. Within the last year, over 5830 reports were received and investigated, including those related to safety (72 flight safety and 238 cabin safety reports, as well as 76 bird incident reports and 3516 voluntary pilot reports). Each report is analysed, classified, and assessed for risk, followed by necessary corrective or preventive actions. In addition, the internal Quality Team performs a series of internal audits analysing all critical and regulated safety activities in order to ensure overall compliance to safety standards. During 2021, there were 170 nonconformities identified from over 323 audits

and inspections, each offering an opportunity for correction and thereby minimising the likelihood of repetitive deviation from published procedures. Such compliance monitoring is not only mandated by aviation regulations, but also offers a rigid element of internal control, ensuring resources are devoted to continuous monitoring and improvement of operational processes.



Being an IATA member, airBaltic is subject to a thorough audit every two years against the IATA Operational Safety Audit (IOSA) standards in order to remain on the IOSA registry. airBaltic has been IOSA-registered since 2006, with the current registration valid until 10 December 2022.

Besides internal and industry monitoring, airBaltic has been regularly subject to numerous inspections conducted by various foreign authorities as part of the EU Ramp Inspection Programme (as regulated by the European Aviation Safety Agency's Air Operations regulations). In total, 42 Safety Assessments were carried out under the programme within year 2021. Performed by 27 different Aviation Authorities, the assessments mainly concerned aircraft documents and manuals, flight crew licenses, the apparent condition of the aircraft, and the presence and condition of mandatory cabin safety equipment. airBaltic has maintained consistently good results throughout these inspections, ranking third out of 18 carriers operating into the home base airport.

The airBaltic aircraft fleet is young, modern and reliable, and the Company has a strong safety culture. Cross-functional safety review meetings are held twelve times per year; they involve both senior management and operational staff, and review any issues that have arisen in the previous months and the actions that were consequently taken. In addition to this, the Company collects detailed data from all aspects of its flight operations to identify trends and the relevant personnel from the Company's operations. Respective and relevant personnel from the Company's operations departments meet every week to discuss any upcoming trends identified and how they are being dealt with.

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

SECURITY

airBaltic is committed to providing sufficient resources to promote security awareness and to establish a security culture within the Company that ensures compliance with applicable security regulations, standards, and internal procedures. Security objectives and performance standards are regularly reviewed to ensure continual improvement of security. The Management and Compliance Manual (Security Programme) establishes security as a fundamental operational priority in the whole Group.

THE OBJECTIVE IS TO:

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

THE MAIN SECURITY GOALS ARE:

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

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



All employees are an important resource and the greatest asset of the security organisation through bringing knowledge and creating an environment of co-operation. All employees can contribute to an overall level of security within their workplace.

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

The level of security against risk and threats that have the aim of causing damage to the company shall be continuously assessed and economically motivated. The basis of valuation of airBaltic customers and partners shall be included.

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

A detailed description of requirements for the application of security procedures implemented to achieve the objective is provided by the airBaltic Security Programme.

The provisions contained in the programme shall be in compliance with national and international regulations, international standards and practices, and requirements adopted by the Latvian Civil Aviation Agency.

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

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

During 2021 there were several incidents of non-compliance with regulations resulting in a fine or penalty and warning. Those cases were mostly related to matters where passengers were transported without proper documentation.

EMERGENCY RESPONSE

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

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

- saving lives and minimising trauma to those directly involved, including passengers and crew, their relatives and friends, airline staff, and others who are involved with the incident;
- minimising any negative effect on the image of the airline;
- minimising 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 that airBaltic uses in its operations, it is the Company's policy to:

- co-operate closely with the authorities and organisations involved in order 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), the media, and other parties involved;
- assist all authorities concerned with investigation of the cause of the occurrence; fulfil the Company's obligations towards involved crew, passengers, cargo and postal consignors;
- limit the economic consequences and allow business to continue. This means that the Company continues its daily operations, except for employees who are involved in Emergency Response activities. In case the employee's daily responsibilities involve any managerial or supervisory functions, replacement shall be nominated according to the Corporate Manual or management decision.

With its variety of limitations and restrictions, the last two years of the pandemic have encouraged airBaltic to increasingly plan ahead for any inevitable changes in crisis management and preparatory training processes.

Within the first week of employment, each new employee now receives an invitation to an Emergency Response Introduction course available on an internal learning platform. This course explains Emergency Response Organisation and its structure and processes in the Company. After listening to and watching the introduction course, the employee must complete a short test to affirm the knowledge they have retained.



airBaltic has successfully introduced a completely new solution on how to organise the Emergency Response Organisation – the Crisis & Incident Management (CIM) tool for Emergency Response Organisation. This gives all relevant parties the opportunity to manage and monitor crisis situations remotely and more transparently. The system provides the opportunity to access all necessary tools from a computer or mobile application and allows for partially automated crisis logging.

It is also worth outlining that the three PARTIAL ERO activations experienced in 2021 resulted in several procedural changes in the Emergency Response Organisation and its structure, which will subsequently lead to even more structured and smooth interactions between different departments, from first responders to each individual active ERO member.

In 2021 there were no incidents of non-compliance with regulations resulting in a fine, penalty, or warning.




ENVIRONMENT

Continuous and systematic improvement of environmental management is a part of the integrated management system at airBaltic. Each department and business unit is responsible for implementing the best processes considering all components of environmental management and sustainability.

Each unit has also identified the key environmental aspects of its operations, the impacts, risks, and opportunities involved, and has set relevant targets. Although the Company's major focus concerns overall operational efficiency through optimising the volumes of jet fuel used for flight operations, expanded activities reach into optimised route planning and increased operational efficiencies at every step of operations on the ramp, in maintenance facilities, and in office support functions. Overall environmental management activities are aimed at gradual reduction of fossil-based fuels, increased use of sustainable aviation fuels, and implementing the use of environmentally sound emerging technologies and products throughout the wide range of services and products offered by airBaltic.

The environmental strategy is defined in the Airline's Corporate Management Manual, indicating that it is fully incorporated within the framework of airBaltic's economic and quality goals. All the activities within the Company shall be performed in a manner having minimal negative effect on the environment. Environmental consideration is taken into account in all departments on all levels within airBaltic, resulting in increased environmental awareness within the whole Company. Environmental considerations are taken into account when decisions are made, and it is airBaltic's policy to utilise/implement production methods that are environmentally sound, conserve energy consumption, facilitate recycling processes, and produce the lowest possible emissions.

By committing to aviation industry objectives as defined by Airlines for Europe (A4E) under the "Destination 2050" commitment, airBaltic has committed to being part of a long-term sustainable airline community supporting the common goal reflected in the global Paris Agreement and the regional derivative known as the European "Green Deal", which provides the aviation industry with clear targets to reduce greenhouse gas emissions. The airline follows the Paris Agreement's requirements with the central aim of strengthening the global response to the threat of climate change with the main goal of limiting the increase of global temperatures to well below 2, preferably 1.5, degrees Celsius as compared to pre-industrial levels.




airBaltic's major technological achievement has been upgrading the Company's fleet to one that currently, and for the foreseeable future, consists of the most modern and environmentally friendly aircraft available on the market.

Besides reduced fuel consumption and reduced levels of emissions, airBaltic is committed to striving even further by reaching carbon neutrality through CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), a global market-based measure developed and agreed upon by the United Nations specialised aviation organisation – the International Civil Aviation Organization (ICAO). The key elements of a global solution should not distort competition and should incorporate the United Nations's CBDR principles (Common But Differentiated Responsibility).

CLIMATE IMPACT, CARBON OFFSETTING (BIOFUEL)

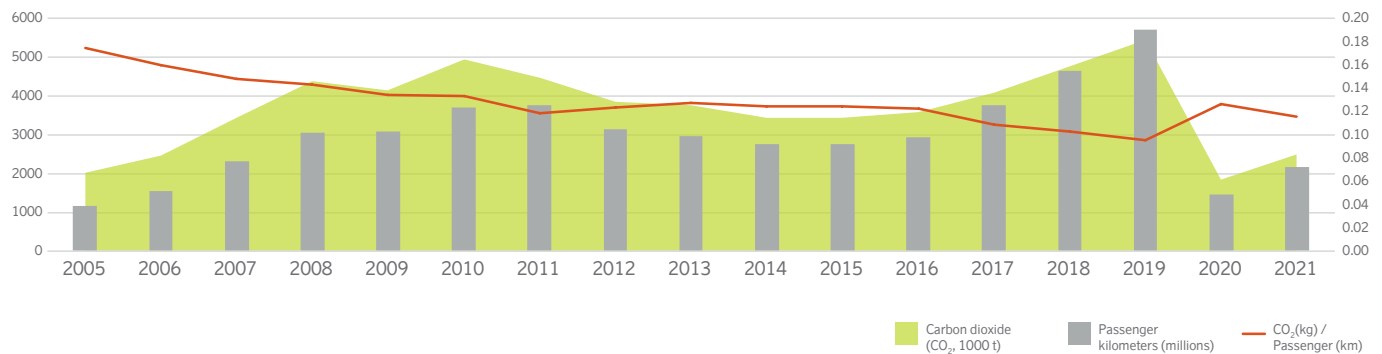
DIRECT (SCOPE 1) GREENHOUSE GAS EMISSIONS

airBaltic is following the governing regulations and annually reporting the amounts of produced emissions as directed under the EU ETS, CH ETS, UK ETS and CORSIA schemes. The reports are verified and emissions surrendered keeping strict control over the set deadlines. In 2021, the direct amount of CO₂ emissions arising from airBaltic's traffic and consumed jet fuel was 248 437 tons (183 505 tons in 2020). The key factors in reducing the amount of carbon emissions released per passenger km flown is careful operation planning and flying more fuel-efficient A220-300 aircraft. In 2021, passenger growth and demand due to COVID-19 implications still played a significant role, nevertheless,



airBaltic operated 5% more flights than in 2020 by increasing flown passenger km by 35%, at the same time achieving a reduction in CO₂ emissions by 10% (0.115 kg vs 0.126 kg) in the amount of carbon emissions released per passenger km in 2021 as compared to 2020.

This improvement is associated with the use of more efficient technology in the core business activity of passenger transportation. Further improvements would require a further increase of the cabin load factor along with a gradual increase in use of sustainable aviation fuels.



According to IATA Recommended Practice 1678, 3.15 is the internationally-recognised constant representing the number of tons of CO₂ produced by burning one tonne of aviation fuel.

INDIRECT ENERGY (SCOPE 2) GHG EMISSIONS

The majority of airline-operated offices and buildings are heated by natural gas. In 2021, the combined CO₂ emissions arising from the production of electricity (264.4 t CO₂) and heating energy (430.3 t CO₂) were lower than in previous years, as calculated according to the emission factor reported by the heating energy supplier (200 g CO₂/kWh). To mitigate the greenhouse gas emissions arising from the energy consumption of its buildings, the Airline provides relevant educational training to employees.

CO ₂ , T	2021	2020	2019
Electricity	264.4	264.6	260.7
Heat	430.3	518.1	522.6

OTHER DIRECT (SCOPE 3) GHG EMISSIONS

A portion of the Company's greenhouse gas emissions arise from vehicle operations for the Airline's production needs. This includes the vehicles, which are owned by airBaltic and used by Top Management and technical, ground operation departments. In recent years the Airline has continuously worked on reducing CO₂ emissions by replacing old equipment with newer and more environmentally friendly equipment. In 2021 airBaltic purchased three electric cars for the Ground Operations division. The purchase of additional electric cars for the Technical department is planned for 2022.

CO ₂ , T	2021	2020	2019
Transportation	105.47	90.67	105.15

ENERGY CONSUMPTION (ENERGY-EFFICIENCY), BIOFUEL



BIOFUEL

airBaltic is following the latest industry resources and regulatory requirements to ensure that its environmental footprint is reduced, and is therefore continuously working on various activities to promote and use alternative and more sustainable aviation fuels (SAF) such as biofuels.

Irrespective the decrease in the absolute amount in kg of renewable fuel used in 2021 versus 2020 (see table below), the Airline has increased the “neat fuel component” in its use of sustainable aviation fuel (SAF) by more than 20% compared to volumes uplifted in 2020, which the Company sees as a positive step forward. This has been achieved in cooperation with Neste using an allocation of Neste MY Sustainable Aviation Fuel™ and other fuel providers in the airBaltic network.

airBaltic also currently continues to work with multiple stakeholders to accelerate the commercialisation of SAF. airBaltic believes that SAF will play a crucial role in ensuring the future of the aviation industry and will help everyone involved to decrease their impact on the environment, which is why the Airline is planning on increasing SAF usage both in 2022 and beyond.

DIRECT ENERGY CONSUMPTION

	2021		2020		2019	
	non-renewable	renewable	non-renewable	renewable	non-renewable	renewable
Jet Fuel, kg	78 667 008	201 992	57 903 660	352 000	172 178 000	0
Jet Fuel, GJ	3 366 948	8 716	2 478 277	15 294	7 429 481	0
Ground Vehicles, kg	36 844	0	35 886	0	36 052	0
Ground Vehicles, GJ	1 558	0	1548	0	1555	0
Total, GJ	2 506 574	8 716	2 479 825	15 294	7 431 036	0

INDIRECT ENERGY CONSUMPTION

	2021		2020		2019	
	non-renewable	renewable	non-renewable	renewable	non-renewable	renewable
Facilities Electricity, MWh	1 321.88	0	1 323.1	0	1 303.74	0
Facilities Electricity, GJ	4758.8	0	4 763.2	0	4 693.5	0
Facilities heat, MWh	2 151.30	0	2 590.3	0	2 613.16	0
Facilities heat, GJ	7 744.7	0	9 325.1	0	9 407.4	0
Total, GJ	12 503.5	0	14 088.2	0	14 100.8	0
Grand total, GJ	2 519 077	0	2 493 913	15294	7 445 137	0



The Company has implemented the energy management system ISO 50001 since 2017 for real estate and ground vehicles. External monitoring, certification and auditing are provided by Bureau Veritas.

When implementing the energy management system, the Company has developed and documented an Energy Performance Assessment (updated 25.10.2021); energy performance indicators have been determined – electricity MWh / m², MWh /number of aircraft serviced (in hangars) and MWh / t (cargo centre); heat energy MWh / m², transport energy MWh / 100 km.

REDUCTION OF ENERGY CONSUMPTION

Direct Energy Consumption Reduction	2021	2020	2019
Jet Fuel, kg	955 448	600 610	1 192 663
Jet Fuel, GJ	41 561	26 126	51 880
Per Flight*, kg	41,40	38,93	43,03
Per Flight*, GJ	1,80	1,69	1,87
TOTAL, GJ	41 561	26 126	51 880
Ground vehicles, kg	485	297	618
Ground vehicles, GJ	21	13	27
TOTAL, GJ	21	13	27
GRAND TOTAL, GJ	41 582	26 139	51 907

Disclaimer*: Flight amount may not match the reported total flight amount due to non-applicable flights (flights with no data, non-commercial, restricted due to weather, etc.) being filtered out.

Reduced energy consumption is on average 6% per flight compared to year 2020. This is a result of fuel efficiency initiatives (like-for-like) described in the “Fuel Efficiency” chapter. The year 2019 was chosen as a baseline due to having pre-pandemic operations and operating Q400 & B737 fleets at the time, which had less restrictive fuel efficiency saving procedures, the fleet and procedures having matured in the company for the specific aircraft types.



Reduction in Jet Fuel energy consumption is estimated using the Honeywell Forge Flight Efficiency Data Analytics platform and related before and after saving initiative analyses within. Specified Direct Energy Consumption Reduction is verifiable, the Actual Direct Energy Consumption Reductions may be larger.

Direct Energy Consumption Reduction of Ground vehicles and Indirect Energy Consumption Reduction is based on the Internal Energy Management Task Group made in accordance with ISO 50001:2018, and was audited by SIA “Bureau Veritas” on 27 October 2021.

Pursuant to Republic of Latvia Cabinet Regulation No. 668 (Regulations Regarding the Energy Efficiency Monitoring and Applicable Energy Management System Standard), airBaltic, as a Large Company, submits annual reports to the State Construction Control Bureau (BVKB) on the implemented energy efficiency improvement measures for real estate and ground vehicles, and the energy savings achieved as a result.

As an additional energy consumption reduction and carbon offsetting measure, the Company made a conceptual decision at the end of year 2021 to gradually switch over the ground vehicle fleet to electric cars. The first order for 9 electric cars to be used for ground handling and technical department activities was placed, and seven electric car charging stations will be installed at the technical facilities. Estimated annual carbon offsetting is ~2,3 T/per unit/per year. The company aims to continue the expansion of electric cars in the ground vehicle fleet in year 2022 by updating all management vehicles to electric cars and installing additional charging stations next to company headquarters.

FUEL EFFICIENCY

airBaltic cares about its impact on the environment and is devoted to reaching short-term and long-term goals set out by IATA such as achieving more efficient flight operations and implementing infrastructure improvements on the ground. airBaltic optimizes its Flight, Maintenance, Dispatch, Ground operations to achieve these goals. Optimization performance is measured and reviewed on a regular basis to further increase fuel efficiency and determine areas for improvement, as every kilogram of jet fuel saved prevents 3.15 kilograms of CO₂ released into the atmosphere.

During 2021, airBaltic continued to use such **FUEL EFFICIENCY INITIATIVES AS:**

- Minimizing the engine thrust used for deceleration on the runway using Idle Reverse.
- Reducing aerodynamic drag and minimizing fuel burn by performing Reduced Flaps Take-off and Landing.
- Shutting down one engine shortly after landing and taxiing to parking stand using Single Engine Taxi-In procedure.
- Performing Continuous Descent Arrival without levelling off or engine thrust increase above flight idle thrust.
- Shortening total distance flown by several miles per each sector flown by Take-off in Direction of Flight and other similar initiatives to reduce the amount of fuel burned and CO₂ emissions released.
- The company continues to focus on fuel efficiency by researching ways to increase adherence to existing Fuel Efficiency initiatives. Changes to flight data recording have allowed the company to begin research on ways to reduce Auxiliary Power Unit use and water uplift on flights. The research is set to be completed in the year 2022.

THE MAJOR ACHIEVEMENTS OF 2021 WERE THE FOLLOWING:

- Introduction of Pilot Workshops in which pilots were provided with deeper and enhanced knowledge of operational and technical topics related to Company operational procedure and to the aircraft itself.
- Completion of trials and approval to perform Required Navigation Performance with Authorization Required (RNP AR) approaches, enabling more efficient arrival routing that contributes to saving fuel and cutting CO₂ and noise emissions. The company participated in RNP AR arrival procedures development for Riga International Airport led by the air traffic service provider "Latvijas Gaisa Satiksme", and was the first airline to fly RNP AR approach at Riga International Airport in early August 2021.

- Increasing pilot participation in achieving the Company's efficiency and sustainability goals by organising an internal selection for the Flight Efficiency Pilot position. The pilots were selected based on previous experience, success in completing given efficiency tasks, understanding main efficiency problems, and providing solutions. Consequently, four pilots in the Company currently perform Flight Efficiency pilot duties in addition to everyday flying.

NOISE

In 2021 airBaltic operations encountered only one noise abatement violation (vs none in 2020) – on departure from the Airport of Valencia, Spain on August 8, 2021. Deviation had been detected by the automated Noise and Track Monitoring System. Early turn was initiated by the crew during an intentional maneuver circumnavigating dense cumulonimbus clouds ahead on the departure track. Such clouds are particularly dangerous to enter, as they tend to induce severe turbulence, inflight icing, and strong electrical discharges affecting aircraft systems as well as severe precipitation in the form of heavy hail and other forms of severe weather such as microbursts or downdrafts. For the reasons of safety, subject deviation should not incur any financial penalties, although the case is still open with the Spanish Aviation Safety and Security Agency AESA.

WASTE MANAGEMENT AND CIRCULARITY

In the aviation industry, waste materials from administration offices are also considered when calculating the total waste produced by an airline, along with any type of "unwanted or useless" products, materials and substances that are no longer usable and have been produced during the preparation of flights or during operated flights. Waste management, therefore, is a complex process considering that the waste comes from several sources and locations. Most of it comes from the aircraft themselves (domestic/international), tenants, maintenance activities, and aircraft and ground vehicle operations. Consequently, an important aspect that needs to be considered is dealing with the different requirements for different types of waste, and the fact that every action taken needs to comply with set legislation. Every year the Company works at evolving as it remains committed to minimising waste generation and meeting regulatory requirements related to waste handling, storage, transport, and disposal. The Company's Technical and Administration departments are responsible for handling these waste streams, including maintaining storage areas, tracking waste generated, and overseeing waste removal by licensed contractors by applicable regulatory requirements.

WASTE SORTING

At airBaltic, various waste streams resulting from regular operations and maintenance activities are managed. Several categories of waste sorting take place on the premises at airBaltic. In office spaces, employees sort household waste, mixed packing waste, batteries, and electronic devices. In the Technical department, where employees work with a wide range of chemicals and other materials, they also sort for hazardous waste in addition to the above-mentioned categories.

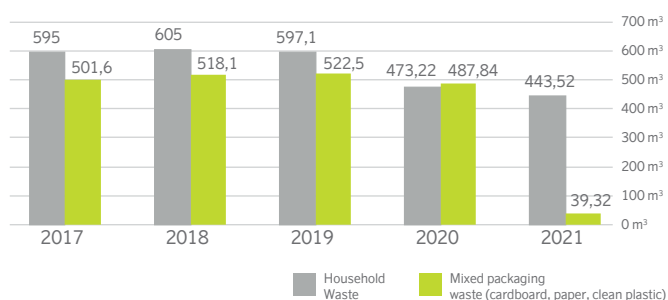
airBaltic keeps encouraging its employees to sort household waste, mixed packaging waste, and batteries. Electronic device and hazardous waste sorting are mandatory for all employees. Hazardous waste is mainly produced by the Technical department, which takes care of the fleet. This work requires the use of various chemicals and materials, and it is each employee's duty to properly use and store (for the short term) hazardous waste in the specified locations, afterwards handing over these materials to airBaltic's partners in hazardous waste management.

HOUSEHOLD AND MIXED PACKAGING WASTE

The amount of recyclable waste has significantly decreased, possibly due to the fact that airBaltic has greatly modernised operations by automating several systems and internal activities which previously used paper. As a result, employees in many departments no longer need to print out information in large quantities. Another viable reason for the decrease in waste is that many employees worked remotely from home due to the Covid 19 restrictions that were implemented across all of Europe. Yet another aspect worth mentioning is the introduction of greener policies at airBaltic severely limiting the use of disposable tableware in the Company's kitchens and break rooms.

Household and mixed packaging waste

2021



DESTROYED DOCUMENTS – WASTE PAPER

In addition to sorting paper waste daily, airBaltic destroys sensitive documents which then ultimately end up in the recycling stream. In 2021 the waste paper stream grew significantly as we began scanning archived documents and destroying all unnecessary paper copies.

DESTROYED DOCUMENTS

Year	Qty, kg
2018	855.5
2019	1179.2
2020	866.06
2021	4361.7

HAZARDOUS WASTE

airBaltic constantly continues to follow good working practice, and in 2021 the Airline submitted over 29.9 t of hazardous waste for recycling. All said waste was incurred from the Technical department. A detailed overview can be seen in the table on the next page.

Waste code	Hazardous waste type	Qty	Unit
80111	Organic solvents and other dangerous substances containing paint and varnishes. Particularly dangerous	0,915	t
161001	Water containing liquid wastes containing dangerous substances	28,12	t
160120	Glass	0,092	t
1000026	PBE (Protective Breathing Equipment)	0,012	t
160213	Discarded equipment containing hazardous components other than those mentioned in 160209,160210,160211 and 160212	0,009	t
160303	Inorganic wastes containing dangerous substances	0,079	t
200136	Other waste electrical and electronic equipment not included in classes 200121, 200123 and 2001355	0,25	t
130208	Motor oils, gear oils and other oil types	0,43	t
n/a	Construction debris	36	m ³

INFLIGHT WASTE

Inflight waste after flights is handled by a third party supplier with whom airBaltic has concluded a cooperation agreement, in this case, a catering company for food waste (and a cleaning company for other waste) produced from the consumption of food and drinks on board. The food catering waste management process is mainly controlled by the supplier following requirements effective in the relevant country; stricter regulations are enforced for flights arriving from third countries where requirements are also controlled by the Food and Veterinary Service. The supplier also separates cardboard materials from other waste. In year 2019, 45% of total inflight waste was reported as food waste (loaded onto the aircraft, but not consumed during the flight);

in 2020 food waste accounted for 42% of total inflight waste, and in year 2021 it had decreased to 38%. This is a result of significant growth in meal pre-orders, in which the preparation and delivery process is planned and does not leave much space for food waste.

The catering supplier has also set sustainability goals, and during their preparation of catering for airBaltic flights, several changes have been implemented and established in their internal processes to reduce their total waste production, such as more efficient usage of water and electricity and increased efficiency in production planning.





SERVICE AND CUSTOMER EXPERIENCE

High quality services and customer satisfaction are one of the top priorities of airBaltic, therefore the Company is constantly evaluating and improving the provided service quality. This aligns with airBaltic's vision as well as with its core values – *We care. We deliver. We grow* – which are deeply integrated into the Company's services and activities.

In August 2021 airBaltic published the new Customer Service Commitment – a clear guideline on customer expectations from the Company during smooth operations and, on rare occasions, during irregular ones. The Company sees high customer satisfaction as part of the airBaltic success story, which in turn positively affects the local economy and therefore has positive societal impact.

Many departments are involved in providing high-level service and an excellent customer experience, each responsible for a specific step in the passenger's journey. The Reservations Department manages passenger requests and questions during the ticket booking process and pre-flight operations. The Social Media Support Department assists passengers through social media platforms, and the Customer Relations Department monitors passenger feedback and satisfaction. Such a diversified approach to handling passenger requests and feedback ensures that requests are answered and the necessary assistance is provided as soon as possible. Constant service quality monitoring is key for further development, which is why relevant data is regularly collected and evaluated.



One of the main goals regarding service development is to move towards providing passengers with self-service opportunities in the various stages of their journey. The first steps have already been taken by introducing customer self-service opportunities on the airBaltic website under the section Manage my booking. It allows passengers to overview their reservation and flight information as well as add additional services such as purchasing extra baggage or ordering a meal.

In July 2021 airBaltic introduced improved online delayed baggage service by providing an online self-service platform for communication between the passenger and the airline in the case of mishandled baggage. Thanks to this new service, passengers can now submit or manage reports as well as track their delayed baggage through the self-service website. In September 2021 baggage-drop off lines

providing passengers with the opportunity to check-in their baggage in a more efficient and convenient manner began to operate at Riga International Airport. airBaltic was the first to offer its passengers the opportunity to use this new service at Riga International Airport. Additionally, in October a Product and Service Improvement working group was established to analyse the complete journey of a customer and, if needed, propose any necessary improvements to each stage of the journey. At the end of November, airBaltic began performing its passenger handling and flight coordination duties at Riga International Airport with its own staff. Improving passenger service in Riga is part of the Airline's service and cost improvement programme.

Customer feedback on the Company's service is the main source of information for evaluating the effectiveness of the management approach of this materiality topic. The collected feedback is as diversified as possible in the strive towards objective evaluation. The feedback is collected from surveys after flights. Service quality is monitored daily and based on passenger direct feedback. The received feedback allows existing challenges to be identified on a regular basis and allows for the work required to mitigate the problem or improve the respective service to begin immediately.

PUNCTUALITY

In 2021 the aviation industry hoped to get back on its feet after the dramatic economic downturn and devastating pandemic effects from 2020. Despite increasing infection levels and new COVID-19 variants, European societies have learned to deal with the crisis, and the aviation industry has been able to provide basic connectivity. Mass vaccination and EU Digital COVID-19 Certificates have helped drive strong summer traffic for airBaltic particularly and the industry in general. This trend has endured despite the widespread Omicron variant and rising numbers of infected persons, proving the sector's resilience as we enter 2022.

Airline punctuality, also referred to as an airline's on-time performance (OTP), is one of the most relevant and reputed quality indicators. In the aviation industry, OTP is understood as a reflection of efficiency. It provides a standardised approach for comparing how well a service provider

WE DELIVER — WE CARE — WE GROW —



performs in following its published schedule. Delays and flight cancellations affect the travel experience; therefore, schedules and their timely execution are an essential part of the value proposition to our customers.

In 2021 airBaltic's cancellation or regularity rate was 98.6% (99.9% in 2020), a high and remarkable result given the unstable environment and demanding circumstances present throughout the year. In 2021 airBaltic's 15-minute punctuality rate was 84.9 % (94.6% in 2020). In the context of punctuality, it should be highlighted that as of November 26, 2021, airBaltic has started to perform its passenger handling and flight coordinator duties at Riga Airport with its own staff.



During the transition period it was truly challenging to ensure smooth flight operations, but performance increased steadily and efficiently and kept up with the Airline's punctuality and service targets. Most importantly, airBaltic's passengers were provided with the highest set of standards. In achieving this, airBaltic once again proved to be a strong and dedicated team.

The Airline's punctuality has served as a quality indicator for the entire industry and a benchmarking quality standard for decades. Taking into consideration that any new virus variants might require additional testing and vaccination controls, thereby compounding the time and resources necessary for airport systems to comply with any new requirements, it is difficult to predict how airline punctuality will be perceived in the post-COVID-19 era. Nevertheless, airBaltic's professional team will continue its dedication to serving our customers as best as conditions allow for and ensuring predictable, punctual and safe service.

OPEN AND TRANSPARENT COMMUNICATION

According to airBaltic's Business Ethics principles, all customers shall be served with respect and consideration for their individual needs and wishes. A respectful attitude towards customers is characterised by quality in all aspects, especially regarding safety, punctuality, and service commitment. Mutual respect, high emotional intelligence, a positive attitude, and service orientation are vital for both serving customers and creating a favourable work climate.

Transparency is also one of the key principles of airBaltic's Purchasing Policy, which requires that all tender documents must provide all necessary information to facilitate submission of appropriate and competitive offers, and ultimately – to ensure fair competition. The Company's Purchasing Policy provides that personal gifts or benefits worth more than EUR 50 must never be accepted. In case of any doubt as to whether to accept or not, VP Procurement and Administration must be consulted to decide on the matter.

Open and transparent communication is the foundation for trust and efficient cooperation between employees and the Company. To ensure that this communication persists and improves, every Tuesday the CEO of airBaltic organises an internal Live Stream broadcast hosted by himself, accessible to all employees via airBaltic's Intranet. During this broadcast, the CEO informs employees on the decisions taken by the Company's Top Management and the Executive Board, as well as briefs employees on other information or news that may affect the Company and the aviation industry as a whole. After the briefing, employees are given the opportunity to ask questions freely and anonymously on any topics related to the Company, thereby providing an opportunity to communicate directly with the Company's Top Management regarding any problems or questions. This allows employees to confide in the Company and be assured that every opinion will be heard and that the Company's management will take any necessary steps to ensure the success of the Company and the wellbeing of its employees.

MARKETING COMMUNICATION

The relationship with the customer and mutual trust are always a priority at airBaltic. To reach over 1.6 million customers (in normal circumstances, around 5 million customers in more than 120 countries), the Company uses a combination of various marketing channels.

airBaltic believes it is the Company's responsibility to make sure that communication with customers follows consistent principles and standards. All marketing activities performed by airBaltic are always legal, decent, honest and truthful.

When advertising the Company's services, the highest possible level of transparency is applied. This means that airBaltic takes full responsibility for transparent pricing and clear ticket rules, product availability in all channels, and a user-friendly internet booking engine and customer service. Customer service is available on social media – airBaltic profile pages/accounts on Facebook, Twitter, LinkedIn, Instagram,

TikTok and via the Call Centre. This is where airBaltic provides its customers with information about the Airline's products and services, and also where one can find answers to specific inquiries about bookings. Call Centre employees speak seven languages, and airBaltic's social media team is available to customers 24/7. Furthermore, all brand managers use a specific tone of voice to keep all marketing communication friendly, focused and easy to understand.

Since the safety and health of airBaltic passengers is top priority, at the start of the COVID-19 pandemic, in addition to everyday safety and health measures, airBaltic introduced even stricter health measures, and all flight operations followed the recommendations issued by authorities. The same applies to everyday communication with customers through other channels – newsletters, web browser notifications, the airBaltic.com web page, the airBaltic blog, on social media, and in inflight communication. airBaltic constantly reminds its customers of relevant health measures before and during the flight, and shares the latest updates about any travel restrictions in all its destinations.



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 its home markets in the Baltics and a strong need to grow sales and brand awareness outside its core market, airBaltic is using the most modern digital tools, on-demand customer intelligence, and marketing platforms. Mobile is the main device generating traffic to airBaltic.com, with a 60.49% share (+2.95 points vs 2020). Although most customers still book their travel on a desktop, 29.28% of bookings are done on mobile devices (mobile phones and tablets). Data was collected using Google Analytics.

Over the last years, airBaltic has been in a strategic partnership with Facebook and Google, and has had the opportunity to utilise their newest targeting possibilities and creative formats. In 2021 the Company tested various new digital creative formats such as "Tap and Hold" Instagram Stories carousel ads, video poll ads, and augmented reality filters on Instagram. In the second half of the year, the Company also started advertising on the social media platform TikTok and launched new Google Performance Max campaigns.

Digital media is also a powerful Human Resources tool for airBaltic. Dedicated website and landing pages have been created in order to build the airBaltic employer brand and attract the best employees. airBaltic is also using a variety of social media channels to find new employees for very specific roles. For example, airBaltic has launched an online retargeting campaign on its social media platforms for those who have visited the job offers website. This campaign reengaged more than 14 000 visitors, generating 337 applications during the second half of 2021.

airBaltic.com is the source of 63.8% (+0.8 points vs 2020) of all airBaltic flight bookings. Despite signs of travel market recovery, the direct sales share stayed stable. Although the flight bookings share made from mobile devices has decreased (-3 points vs 2020) and accounts for 28%, it is seen as a sign of travel market recovery as well – there is more carefully planned leisure travel than just essential travel, which is mostly booked from mobile devices while being on the move. Conversion rate fluctuations during the year are a good reflection of customer reactions towards current world events, however, on average, the conversion rate is above 2020 figures, which is another good sign of travel market recovery.

At the beginning of the year, the Company rebranded the airBaltic Club Mobile app from a pure loyalty app to an app that can also serve as a starting point for one's journey with airBaltic. Flight searches coming from the mobile app were three times more likely to result in a flight booking compared to searches coming from the mobile website.

airBaltic-owned digital channels, such as newsletters and web and app push notifications, play an important role in the company's marketing mix. In 2021, 13% of all flight bookings came from the owned direct media channels, from which the biggest share was emails, with more than 80 000 booked flight segments. At the end of 2021, the airBaltic newsletter subscriber database contained 467 118 active subscribers (+9% vs end of 2020).

Flight metasearch websites play an important role in digital sales. For many years airBaltic has been cooperating with some of the most influential flight metasearch websites, e.g. Skyscanner, Kayak, Momondo, Aviasales and others. In 2021, 7% of bookings on the Company's website came from a metasearch engine. In total, metasearch partners brought more than 65 000 booked flight segments to airBaltic.

As a result of measures taken, there was no non-compliance with regulations regarding marketing communications in 2021.

DATA PROTECTION AND CYBER SECURITY

airBaltic respects the privacy of its customers and is committed to ensuring that personal details and other information provided by customers is processed appropriately.

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.

The COVID-19 pandemic has changed travelling culture. Taking those changes in consideration, the Airline wants to support and be transparent to its customers. Consequently, in 2021 airBaltic updated its privacy policy to reflect topical data processing aspects, in particular those related to the COVID-19 pandemic and measures for containment of the pandemic situation.



The COVID-19 pandemic has helped to improve digitalisation processes. For example, in 2021 paper use within airBaltic's daily work was limited, thereby supporting its sustainability goals. In 2021, remote work became an essential part of everyday life, and ensuring security is one of the top priorities in this process.

Privacy and data protection is important for airBaltic. Protecting its customers' data is not only important for compliance with applicable laws, but also in order to establish a relationship with its customers that is based on a strong foundation of trust.

Accordingly, airBaltic values data protection and aims to ensure ongoing:

- Transparency – to become more transparent about data collection and processing so that data subjects have comprehensive information on how airBaltic processes their data. This information is communicated to 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 obligations provided by such laws.
- Security – airBaltic believes that security is a cornerstone of maintaining customer trust. airBaltic aims to protect

personal data pursuant to industry standards, including having encryption solutions and access control in place, as well as updating security measures when necessary to comply with industry standards. For example, data entered by customers on the airBaltic website is protected through TLS cryptographic protocol, which ensures that data are encrypted according to up-to-date industry standards.

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



In 2021 the Data Protection Officer organised a training session for airBaltic's newly hired employees to ensure that they are also aware of, and comply with, the data protection standards of airBaltic.

In order to be more transparent and maintain the Company's values and standards for protecting and securing the data of its customers, in 2021 the Company approved the Vulnerability Disclosure Policy, which provides provisions on how good-faith security researchers may share their expertise and provide reports of identified potential security vulnerabilities in our products and services.

Throughout 2021 the Company has maintained and supported information technology security for the remote working process to be in line with industry security standards. The Company conducts information technology security audits by independent external partner on a regular basis, and this year was no exception – the Company's information technology security standard is up-to-date. In 2021 several internal policies were approved to improve information technology governance practices in light of the Company's willingness to ensure that its information security management practices comply with ISO27001 Standard on Information Security Management.

In 2021 the Company received no substantial complaints – neither from outside parties nor from regulatory bodies. There was one information request and recommendation letter from a regulatory body on the interpretation of cookies embedded in the website; this was successfully resolved and improvements in the cookies policy were implemented according to the recommendations at the beginning of year 2022.

In 2021 airBaltic also received a data subject's request to access data and delete the said data, however, there were no substantiated complaints on privacy breaching received from any customers.

There were no identified leaks, thefts or losses of customer data with high-risk impact on data subjects.

CUSTOMER AND PASSENGER FEEDBACK AND SATISFACTION

High service quality and customer satisfaction is one of airBaltic's main priorities, therefore continuous evaluation of services provided and customer satisfaction levels is crucial. airBaltic is continually in dialogue with passengers to understand their needs and expectations so as to develop a great customer experience and offer high quality and sustainable products and services. To reach this goal, feedback that is as differentiated as possible is highly important. Therefore, the previous approach of tracking passenger satisfaction levels in surveys and feedback via various channels (e.g., claims, social media, calls, etc.) is constantly monitored. Reported issues are rapidly addressed and mitigated to ensure that customer satisfaction levels do not decrease.

Since 2014, airBaltic, together with its partner KANTAR, has been conducting an annual passenger retention survey to measure customer satisfaction and loyalty rate along the whole travel chain, from flight reservation until arrival at their destination and post-flight services. However, due to COVID-19 impacts and restricted travel, the 2021 retention survey (which would cover passenger travel experiences in 2020) was not conducted.

Since June 2020 airBaltic has been collecting data for calculating the **Net Promoter Score** (NPS®). The data are collected via after-flight surveys. One of the questions is "Would you recommend the airline based on your travel experience?".



The score for 2021 was 65, which is considered an excellent result. In 2020 the score was 75, but that was with an initial respondent count of just 3 095. Although airBaltic's NPS® is at a very high level, airBaltic is continuously monitoring the results and improving provided services and products.

The after-flight survey is one of the greatest tools for monitoring passenger satisfaction levels, as all the data and issues are available to stakeholders via a weekly report, and the survey covers the kind of feedback that would not be received via traditional channels, e.g., calls or formal complaints, because passengers may not perceive them as serious enough to invest their time to complain. The after-flight survey is a quick and easy way to report any concerns without additional effort.

In December 2021 three customer service units – the Call Centre, Customer Relations, and Social Media Support – initiated revising of customer feedback reporting to combine the data received from all three divisions. It is planned that as of January 2022, the new reporting concept will be based on the customer journey principle in which all reported issues are attributed to the relevant customer journey stage. This approach will highlight the areas where most feedback is received and what kind of improvements should be made. The new customer service report will offer a holistic approach to processing passenger comments about airBaltic services and products.





EMPLOYMENT

In its daily work, the Company focuses on environmental, economic, and social sustainability. For years now it has been implementing and supporting initiatives that reflect the core values of the Company and the principles of equal treatment. By joining forces, a diverse, equal, and inclusive working environment can be established for all employees in the Company as well as the aviation industry globally.

EMPLOYMENT POLICY

In its daily work, the Human Resources department focuses on environmental, economic, and social sustainability. For years now it has been implementing and supporting initiatives that reflect the core values of the Company and the principles of equal treatment. By joining forces, a diverse, equal, and inclusive working environment can be established for all employees in the Company as well as the aviation industry globally.

The Company provides a dynamic and modern working environment. Employees' health and safety is high on our priority list. Concern for ongoing safety pertains to both the internal and external working environment. It is of the utmost importance that the rules related to alcohol and drug abuse are always complied with.

The Company values the participation of all employees in its development and success, and therefore promotes two-way internal communication, feedback culture, and a continuous listening approach. Employees are encouraged to take initiative in personal and professional development. In 2020, in collaboration with employees, stakeholders and passengers, *airBaltic's* values were revised. The new values – *We deliver. We care. We grow.* – have been implemented into daily behaviour through employee workshops. Nearly 60 workshops were held at the beginning of 2021 by HR representatives, with up to 800 employees taking part. In the workshops, employees discussed Company core values in their daily activities and behaviours through the perspective of their work routines. Respective behaviour is also integrated as part of the Performance and Feedback management process.



EMPLOYMENT

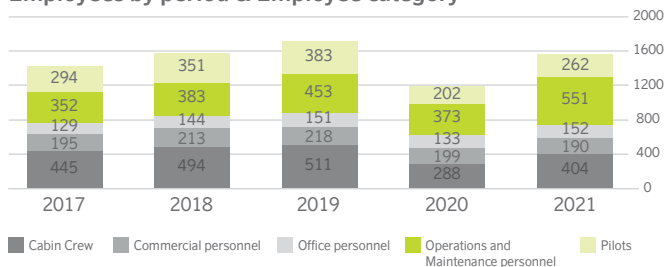
PERSONNEL

The total number of Group employees in 2021 increased by 30% compared to the end of 2020, and has now reached 1 559.

In 2020 there was a significant reduction in staff numbers due to the crisis caused by Covid-19, however, once the Company returned to gradual growth in 2021, 573 employees joined the Group. 150 of these were former employees who were dismissed due to the Covid-19 pandemic. By employee category, the highest numbers of former employees rehired were in Cabin Crew (83) and Pilots (53).

Currently, the Group employs people of more than 30 different nationalities; the average employee age is 35.

Employees by period & Employee category



Data as of 31.12.2021

Pilots, Cabin Crew, Operations and Maintenance personnel, and Commercial and Office personnel are the five main employee categories identified within the Group. Their work routines and working times differ depending on the business function they are involved with. 78% of Group employees are directly involved in flight operations performance and fleet maintenance.

All business functions are covered by employees of the Group; contracted workers (e.g., rented labour, subcontractors) are not relied upon. An absolute majority of employees are permanently employed. Only 3 persons (or 1% of male employees in the Operations and Maintenance department) are on temporary employment contracts related to seasonal work as of 31.12.2021.

Subcontractors provide specific expertise and certain services such as particular training or technical services.

As the Company does not have an IT reporting solution for particular cases, temporary employment contracts in cases of temporary replacement of employees on long-term

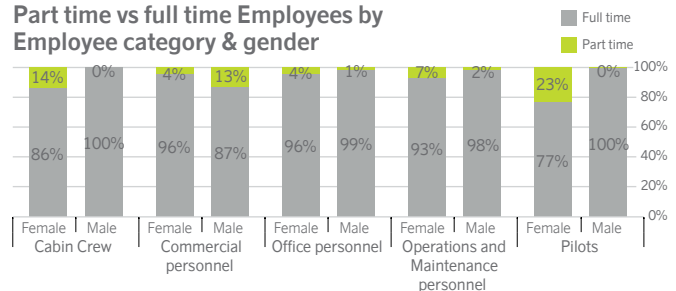
leave is not included in reporting. Temporary workers are entitled to the same benefits and other conditions as full-time employees (e.g. insurance coverage, vacation days, industry-specific benefits, etc.).

PART-TIME EMPLOYMENT

On average, approximately 9% of female and 2% of male employees have part-time employment within the Group.

Employees' needs and wishes related to work time planning are taken into consideration so as to ensure a good work and life balance, and offering part-time work is one of the options employed. Another option is flexible working time, which can be agreed upon with the employee's Direct Manager.

Part time vs full time Employees by Employee category & gender



Data as of 31.12.2021

Part-time work is more common amongst parents with children below age 14. Women choose to return to work after child-care leave on a part-time basis in order to have a better work-life balance while their children are still young. Another reason some employees choose part-time work is to take advantage of the summer season, i.e. spend more time with their children when they are off from kindergarten or school.

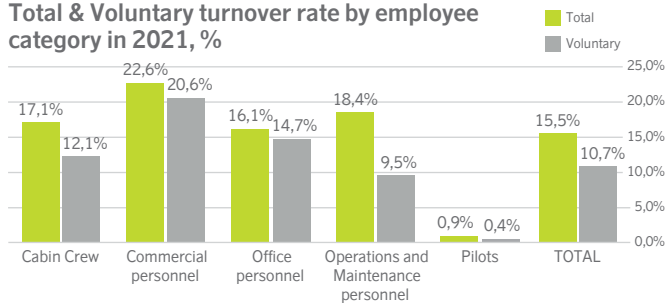
The fixed roster voluntary option for pilots was revised in 2020 and implemented in 2021 as an alternative to the regular roster pattern. For better work and long-term planning, the fixed roster is based on constantly repeating blocks of 5 days on / 4 days off / 5 days on / 3 days off. In 2021 only two pilots chose this roster option; 14 requests have already been received for year 2022, however.

Part-time workers are entitled to the same benefits and other conditions (e.g. insurance coverage, vacation days, industry-specific benefits, etc.) as full-time employees.

EMPLOYEE TURNOVER

The total number of terminated employment relationships in 2021 (213 cases) resulted in a 15.5% total turnover rate (employee has left voluntarily / due to dismissal, retirement, or death in service). Voluntary turnover occurs when an employee voluntarily chooses to resign from the organisation, and this respective metric brings the most insight into retention of employees for business sustainability.

Total & Voluntary turnover rate by employee category in 2021, %

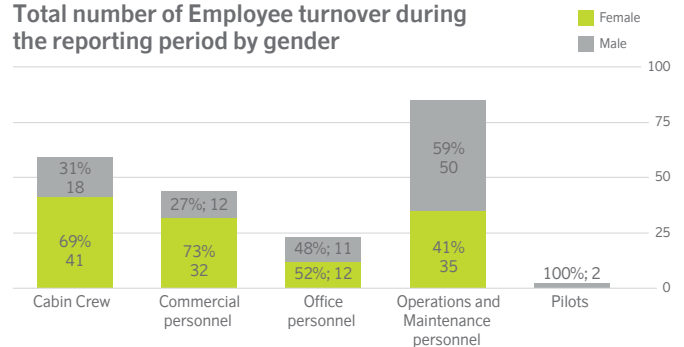


Data for year 2021 average

The total turnover rate split by employee category shows the highest rate to be amongst Commercial personnel (22.6%), which was the trend before Covid-19 as well. This is mainly driven by Call Center employees, and could be explained by the expansion of shared service businesses in the local market where call centre staff are in high demand. The lowest total turnover rate is for Pilots – 0.9%. Currently, the demand for pilots in the aviation labour market since the Covid-19 crisis is still exceptionally low. This will quickly change as soon as the aviation industry resumes growth, thereby providing additional external pressure and driving voluntary turnover up again.

Analysis of voluntary turnover by employee category shows that the data correlate to tendencies of labour market recovery in different job categories. To better understand voluntary turnover tendencies, reasons for leaving have also been analysed. Data show that during 2021, 24% of employees who decided to voluntarily leave the Company indicated “Personal family reasons” as their reason for leaving, followed by 14% “Due to relocation”, and 10% due to “Better offer in terms of salary”.

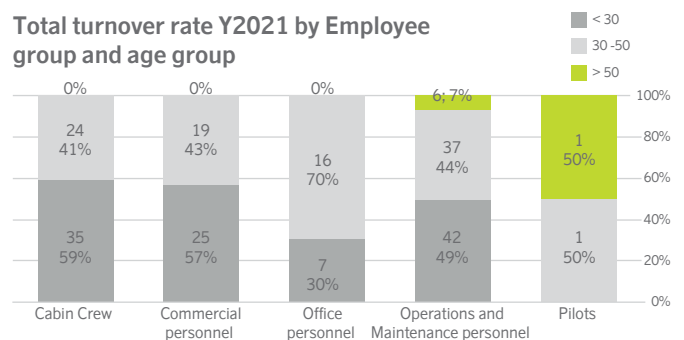
Total number of Employee turnover during the reporting period by gender



Data for year 2021 average

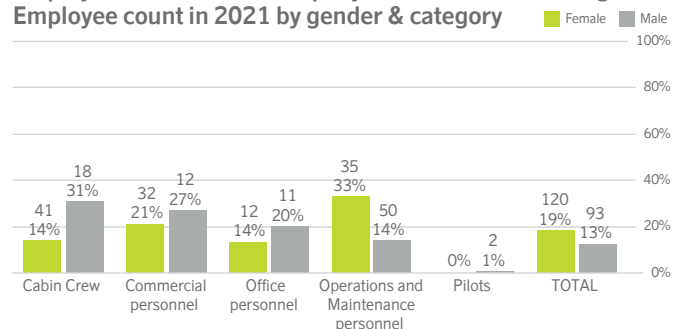
Total turnover rate split by employee category and gender reveals that 100% of pilot turnover was male, which is unsurprising in an employee category with strong single-gender dominance. Only two pilots left the Company in 2021.

Total turnover rate Y2021 by Employee group and age group



Data for year 2021 average

Employees who left the Company in 2021 as % of average Employee count in 2021 by gender & category



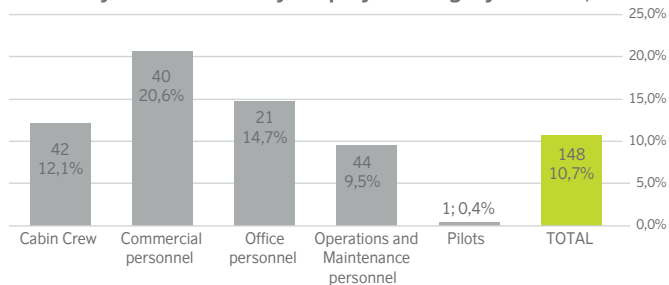
Data for year 2021 average

Split by age group depends mainly on representation within employee categories.

EMPLOYMENT

Since 2017, the Group has operated with a positive voluntary turnover reduction rate, and has kept this rate below 15% (15,3% in 2016) for five years in a row.

Voluntary turnover rate by Employee category in 2021, %



Data for year 2021 average

In 2020, voluntary turnover decreased by more than double; this was driven by the Covid-19 crisis and the fact that demand for crew members and other aviation specific jobs in the aviation labour market was exceptionally low. As economies are recovering from the Covid-19 crisis, voluntary turnover rates are also impacted, having reached 10.7% in 2021.

To mitigate employee turnover risk, the Company is proactively investing in internal retention. Not only does the Company conduct regular quarterly engagement surveys and provide feedback on the results to employees, managers, and the Top Management Team, but it is also

actively addressing the issues discovered through the surveys' open-ended questions and is informing managers and the teams involved on whether any changes in processes or regulations are indicated.

Internal retention is also addressed through developing opportunities at ALFA, the airBaltic Leaders for Future programme. An internal development programme at airBaltic, it provides opportunities for employees to become more engaged through attending internal training sessions in which they can learn from internal experts, get insight on industry-specific topics, bond with colleagues from other departments, and become internal trainers themselves.

airBaltic is also working on high-level external employer brand enhancement with the goal of attracting talent with a long-term perspective, as well as to renew the aviation industry as a stable career choice in the labour market.

The Group's companies have been rapidly increasing employee numbers throughout 2021, in line with business plans. Subsequently, the average length of service, which had increased up to 8.2 years in 2020 due to the process of collective redundancies (one of the criteria for termination as defined by legislation is a lower level of seniority in the Company), decreased to 6.7 years in 2021 as new and former employees joined the Company.

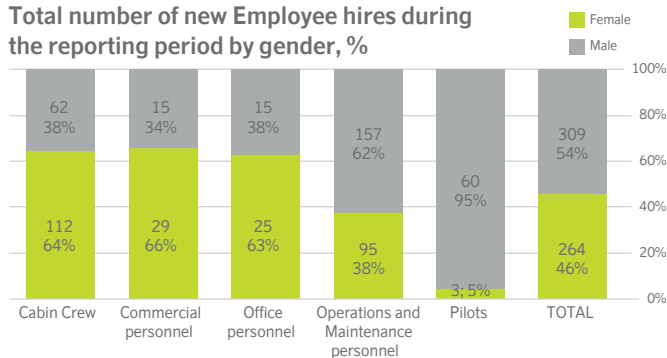


EMPLOYMENT

NEW EMPLOYEES

In 2021, 573 employees in total joined the Company.

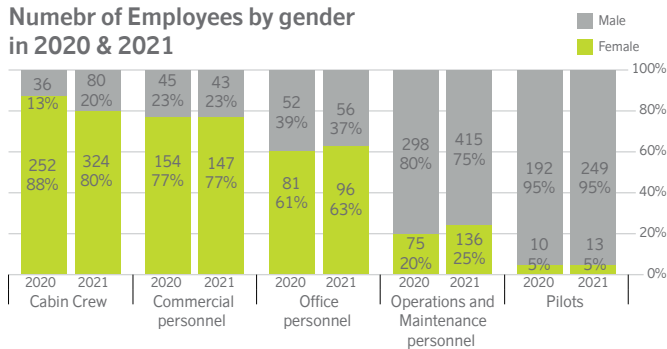
Total number of new Employee hires during the reporting period by gender, %



Data as of 31.12.2021

Split of new employees by gender reveals that in aviation, certain job categories have a strong dominance of male employees, i.e. Pilots and Operations and Maintenance personnel. There are also job categories in which female employees dominate.

Number of Employees by gender in 2020 & 2021



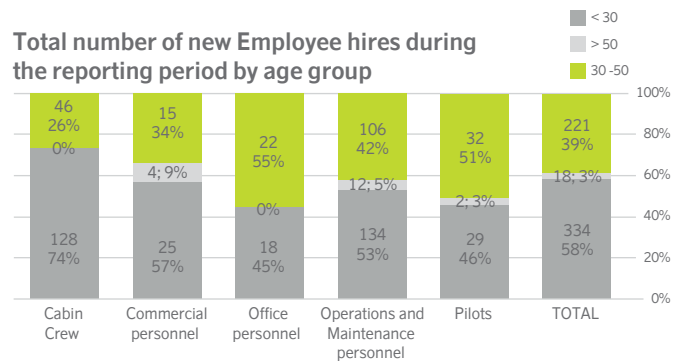
Data as of 31.12.2021

The Group has succeeded in improving gender equality in the Cabin Crew employee category – in total, in 2021 the flight attendant employee ratio was 80% female and 20% male, which is 8% more males compared to 2020, when the ratio was 88% female and 12% male.

Gender proportions among Operations and Maintenance personnel has also slightly improved. 5% more women are being employed in this employee category compared to 2020, when Operations and Maintenance personnel were 80% male and 20% female.

Although recruitment of Pilots in 2021 resulted with three women being hired, the proportion of male vs female employees in this employee category has not changed compared to 2020, and is still significantly disproportionate.

Total number of new Employee hires during the reporting period by age group

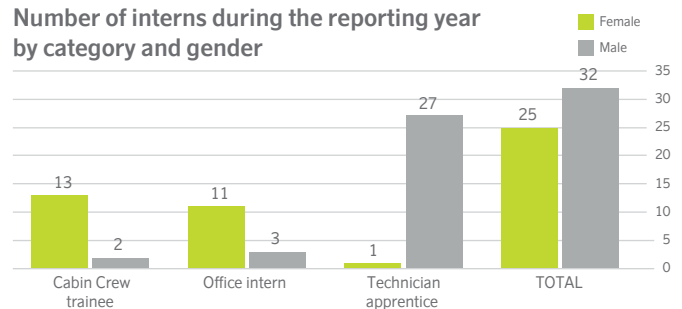


Data as of 31.12.2021

New employees in the Pilots, Operations and Maintenance, and Commercial personnel categories are represented by all age groups. In the categories of Cabin Crew and Office personnel, all new hires were below age 50.

In the Cabin Crew category, employees under age 30 make up the dominant majority. This is driven by the fact that the Company itself provides professional training to become a Cabin Crew member, and the position requires only a secondary education. The job mainly attracts young people, for many of whom it is their first job, enabling them to start a professional career in aviation and a professional career as such.

Number of interns during the reporting year by category and gender



Data as of 31.12.2021

In 2021, nearly 60 new interns joined the Group, the majority as technician apprentices and Cabin Crew trainees.

DIVERSITY AND EQUAL OPPORTUNITIES

airBaltic acts on the basis that every person has equal worth. It is prohibited to discriminate a person based on their age, gender, ethnic background, religion, sexual orientation, disability, political affiliation, marital and/or parental status, or other characteristics. Physical, psychological, verbal or sexual harassment is not acceptable at airBaltic. This applies to all people-related processes: recruitment, employee development and promotion, and others.

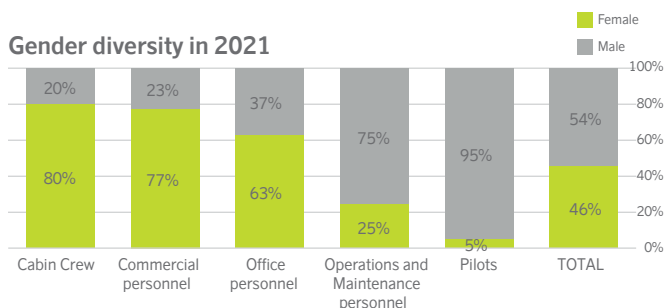
The Group has established and follows a strict non-discrimination policy in all personnel management aspects, including talent attraction, selection, and the hiring process. The non-discrimination policy is stated in the Personnel Handbook, Section 1.5. Equal opportunity.

To improve Diversity and Inclusion understanding and the application of equal opportunities, all people managers have received training under the ALFA Leadership programme (a total of eight hours).

In 2021 there were no confirmed discrimination cases within the Group.

GENDER DIVERSITY

Gender diversity in 2021



Data as of 31.12.2021

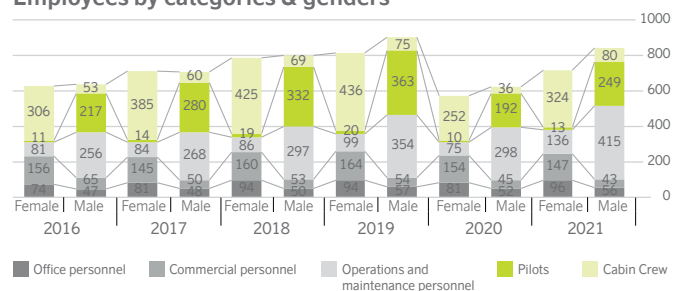
airBaltic has kept gender equality close to a 50/50 proportion across the Group since 2013. In 2021, the proportion between male and female employees was 54/46, respectively.

The Group works purposefully to ensure equality of gender representation within all employee categories and limits a predominance of one gender. This is particularly the case for Pilots, Cabin Crew, and Operations and Maintenance personnel, where there is a clear dominance of females among Cabin Crew and male dominance among Pilots and Operations and Maintenance personnel.

The Group has a goal of ensuring gender equality, therefore, according to the IATA 25by2025 gender diversity pledge, which airBaltic has signed, the Group defined as the aim to increase by 25% or reach 25% representation of women in managerial roles, women in Pilot and Technician roles, and men in Cabin Crew roles. The 25by2025 pledge is a global initiative that includes regular meetings with signatories to discuss issues and approaches towards diversity and inclusion in the aviation industry as well as share experience regarding activities and results. The signatories of the 25by2025 pledge provide yearly data on diversity and progress towards set targets.

By hiring new employees, in 2021 the Company achieved improvements in gender proportionality in the Cabin Crew and Operations and Maintenance categories, maintained the same 5% of women in the Pilots category, and achieved almost 50/50 equality among all senior level roles.

Employees by categories & genders



Data as of 31.12.2021

On average, between 5% to 6% of pilots working in commercial aviation are female¹. The Group's Pilot Academy, however, has successfully attracted women to the programme at a rate of 11% of its students. This has been achieved by purposefully working with the audience of potential candidates and promoting the pilot's profession as being suitable for women as well.



¹ Soaring Through the Glass Ceiling. Korn Ferry // kornferry.com and Women airline pilots: a tiny percentage, and only growing slowly. CAPA // centreforaviation.com

EMPLOYMENT

When the first woman graduated from the Pilot Academy in October 2021, an interview with her was published in the weekly magazine *Ieva*, as well as in the Group's own *Baltic Outlook*.

In addition, at the Pilot Academy's virtual Open Door Day, which was held in December 2021 via the social media platform Instagram, it was a female student of the Pilot Academy who shared her experiences and answered questions from candidates interested in applying to the Pilot Academy.

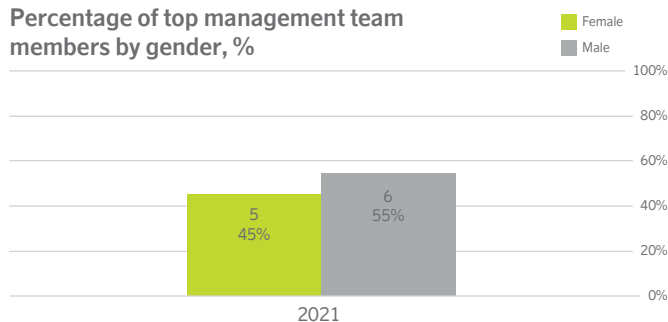
airBaltic has joined the Latvian Diversity Charter, a voluntary commitment by companies and organisations to strive to adhere to the basic principles of diversity management and respectful inclusion in relation to their employees and society. airBaltic is the fourth airline in Europe to sign the Diversity Charter. Currently, the Latvian Diversity Charter unites 50 companies and organisations.

In 2021 airBaltic participated in the Baltic Diversity Business Forum, sharing its experience with diversity in the workplace and the challenges present in the aviation industry.

GENDER DIVERSITY IN TOP MANAGEMENT

As a result of the zero discrimination policy implemented in all people management processes within the Group, the proportion of women and men represented at all managerial levels at airBaltic is currently close to 50/50.

Percentage of top management team members by gender, %



Data as of 31.12.2021

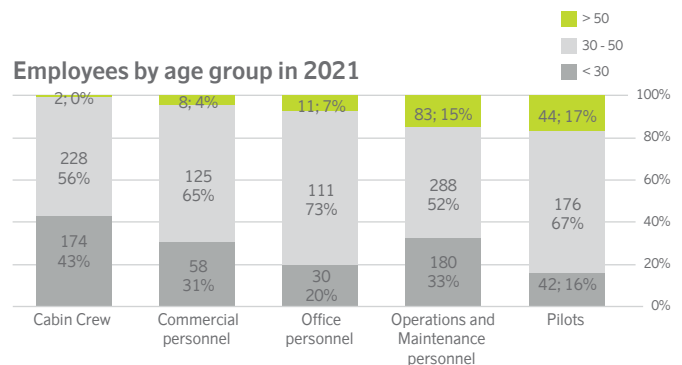
The Group's governing body is the Top Management Team, consisting of 45% of women and 55% men.

AGE DIVERSITY

The average age of Group employees is 35 years (37 in 2020). This decrease in average age can be explained by increased recruitment in 2021, when more young professionals joined the Company and especially in Cabin Crew roles, a common entry-level position in the job market.

Employees in the above-50 age group are more represented within the Pilots and the Operations and Maintenance categories. These are well-established careers which employees tend not to change. The Cabin Crew and the Commercial personnel employee categories exhibit the opposite, with more employees below 30 years of age.

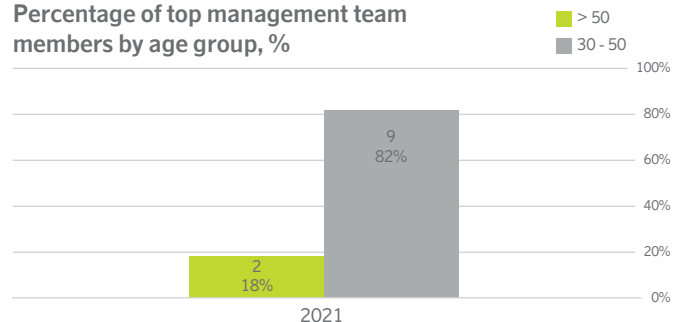
Employees by age group in 2021



Data as of 31.12.2021

In all employee categories, the majority of employees are represented in the 30-50 age group, which is also the main age group represented in the Top Management Team. 18% of the Team's members are age 50 or older.

Percentage of top management team members by age group, %



Data as of 31.12.2021

LABOUR RELATIONS

Since 2009 airBaltic has been engaged in a Collective Agreement with four trade union organisations. The Group applies Collective Agreement conditions to all employees.

The Group keeps an active dialogue with all trade unions on current topics through monthly meetings, and on a daily basis through a Sustainability Workplace Manager, who is the employee representative relationship coordinating person.

The established consultation process with trade unions includes the timely provision of information on planned significant changes in employment conditions within the Company, dialogue with trade unions, listening to /

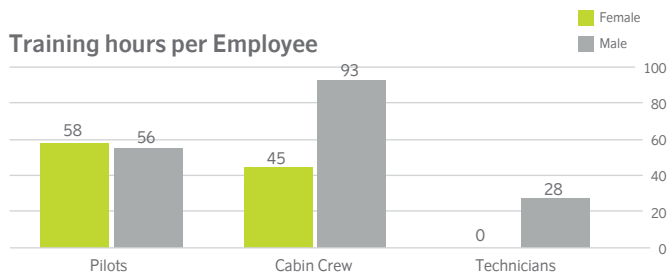
requesting trade union comments and suggestions, and taking these comments and suggestions into account as much as possible. Usually a one-month's notice period is provided to employees and their representatives prior to any significant operational changes that could substantially affect them.

In 2021 the Group initiated a negotiation process with the trade unions to change the collective agreement. Representatives of the Group and the trade unions acknowledged the necessity to review the previously agreed terms of the Collective Agreement and to update it in accordance with more modern needs of employees and business operations.



TRAINING AND DEVELOPMENT

Training hours per Employee



Data as of 31.12.2021

The aviation industry is heavily regulated in terms of maintaining employee qualifications. Pilots, Cabin Crew, and Technicians go through different recurrent training programmes on an annual basis.

LEADERSHIP AND PERSONAL DEVELOPMENT

The first group of participants in the ALFA Leadership programme are all people managers who have finished the Leading Yourself module courses and are continuing practical training under the ALFA Leadership programme pillar Leading People. In total, 105 employees are active members of the first ALFA group.

In 2021, 11 courses were completed in total and one began at the end of the year: Career Planning, Time Management, Stress Management, Communication Skills, Self-motivation, Emotional Intelligence, Diversity, Team Building and Selection, Team Motivation, Communication Skills and Effective Meetings, Conflict Solving, Performance Management & KPI's. In 2021, the participants of ALFA's first group spent 92 hours in training sessions; since the launch of the ALFA programme, this total has been 104 hours.

A second ALFA group was also formed in 2021. 54 participants have been on-boarded in this group – 23 people managers and 31 high-potential employees who all went through the Assessment Centre selection process especially developed for this purpose. All are highly motivated and interested to learn and develop themselves and their teams. Each spent 48 hours in training sessions.

As of September 2021, the ALFA programme has launched the Personal Development course. A wide range of training courses developed by ALFA trainers are available for all airBaltic Group employees. The first courses offered at the end of December 2021 were Time Management, Career Development, Personal Branding, and Communication Skills and Emotional Intelligence. More courses were added gradually, with six courses total having been offered in December.

By the end of December 2021, 12 learning days totaling up to nearly 48 hours of training had been organised and attended as part of the ALFA Personal Development programme. By 15 December 2021, 81 actual bookings resulting in attendance had been made. Attending the training were 45 people from 23 different departments.

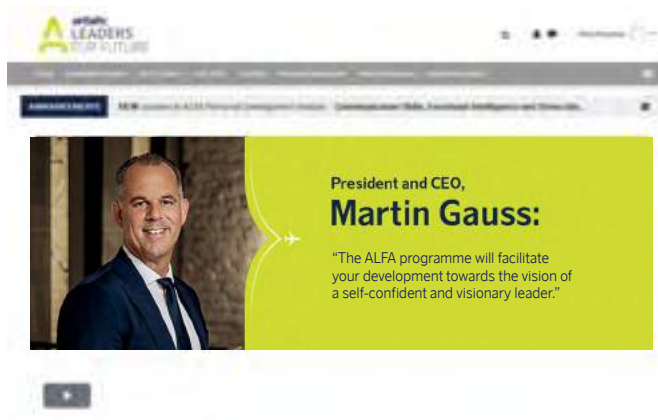
An element of leadership development is the internal live discussion project ALFA Talks, which has been held regularly throughout the year and has covered such important and timely topics as Remote Work, Career Development, Life after Covid-19, EBIT Leaders Conference – Key Takeaways, and Coaching in a Business Environment. Talks have been made available for all airBaltic Group employees, and viewers are invited to interact and ask questions by using various online tools.

Through summer 2021 another people development strategy element under the ALFA programme was accomplished – after six months of intensive study, 15 highly valued airBaltic employees passed their exams and gained European Coach Federation certificates to become airBaltic internal coaches. Individual coaching sessions have been available for all interested airBaltic Group employees since December 2021.



The first group of airBaltic's internal coaches.

The ALFA platform continues to develop and is increasingly more widely used. It not only provides access to ALFA Leadership programme courses and materials, but also introduces all of the ALFA trainers, provides recordings of ALFA Talks events, grants access to and information about ALFA Personal Development courses and the booking system, and supplies Internal Coach information and other features that support self-driven culture development.



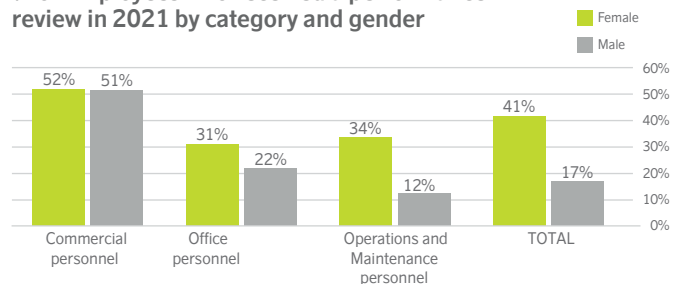
EMPLOYEE PERFORMANCE REVIEW

Performance and Feedback Management (hereinafter PFM) as defined within the Group is an ongoing, structured, and both formal and informal process aimed at continuous Company performance improvement. PFM supports the Company's development and vision execution and ensures business continuity as well as efficient and effective achievement of airBaltic business targets. Direct Managers in PFM align individual employee behaviour with the Company's core values and strategic goals through giving and receiving job-related feedback.

THE SageHR PLATFORM WAS DESIGNED TO:

- Provide feedback about demonstrated behaviours that are unified and required for all employees of airBaltic. Employees can both give and seek 360-degree feedback from different people in the Company at different levels, functions and departments and with various frequency;
- Identify, evaluate, and monitor development of both professional skills and competencies that are specific and valid for each department;
- Plan employee individual development, performance, and demonstrated behaviour improvement; ask for resources where required and follow up on progress;
- Set and agree with the Direct Manager on one's targets (goals) and follow up on progress.

% of Employees who received a performance review in 2021 by category and gender



Data as of 31.12.2021

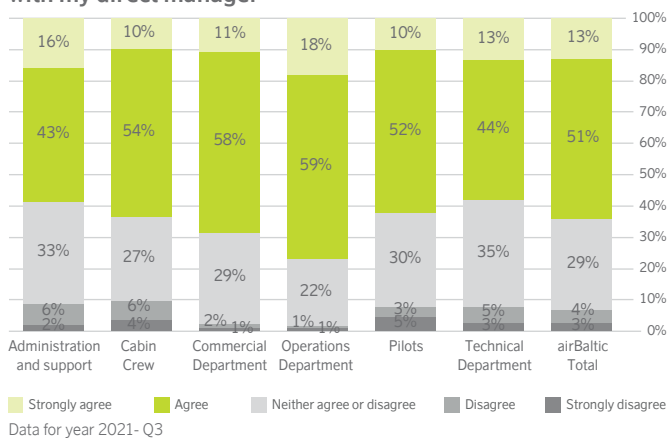
The above chart shows the percentages of Group employees that had a formal PFM dialogue scheduled, completed, or waiting for approval, split by gender and employee category (Cabin Crew and Pilots excluded). As they undergo recurrent training sessions on a yearly basis, employees receive structured feedback about their knowledge, skills and attitude as well as suggestions for development; the Company interprets this process as a formal performance and development review. Employees with less than six months experience are not included in the yearly PFM process.

EMPLOYMENT

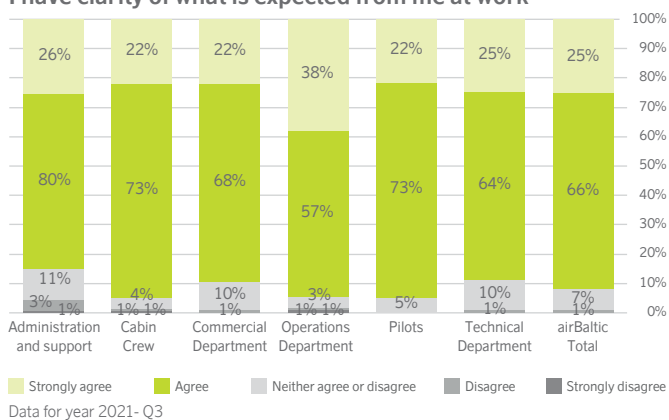
All improvement since 2020 has been gained due to dedicated training from Performance management & KPIs under the ALFA Leadership programme at the end of the year. (During the pandemic period, the PFM regular and formal period has been extended due to changing circumstances and financial year closure until Q1 2022 end.)

In the 2021 Q3 engagement surveys, employees provided their opinions about Performance and Feedback Management indicating that overall, the vast majority is clear about expectations of them and their development plan.

I have aligned my personal development path with my direct manager



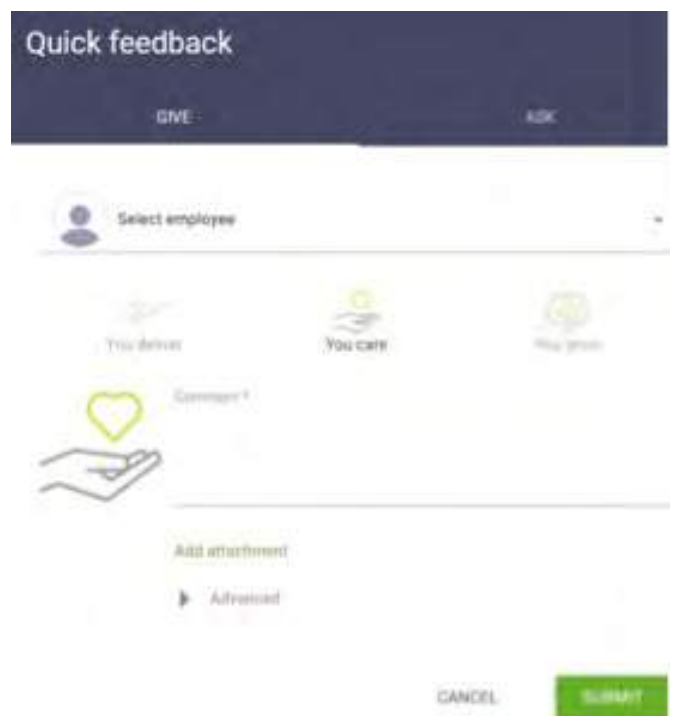
I have clarity of what is expected from me at work



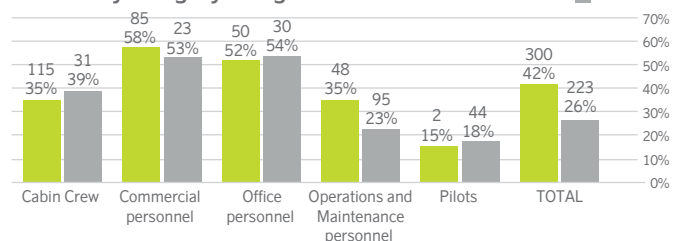
FEEDBACK

Appreciation and feedback culture at airBaltic is important, and employees are invited to recognise colleagues and vote for those whom they see as role models exhibiting a unique perspective and who have remarkable skill at fueling the Company's efforts and inspiring others towards greater achievement.

Instant and frequent feedback provides Direct Managers with input for forming a more complete picture of an employee's strengths and weaknesses, overall performance, and internal recognition. It is also used to boost cooperation and internal communication. It can be provided regularly by fellow employees via Quick feedback on the SageHR web platform or the mobile app to support ongoing feedback collection.



% of Employees who received quick feedback in 2021 by category and gender



Data as of 31.12.2021

The top five employees in each value category are recognised as Core Value Ambassadors both internally and externally, promoting expected behaviours within the Company and translating them in the daily routines for all employees in personal interviews.

HEALTH AND SAFETY

The Occupational Health and Safety Management System in the Group is implemented according to Labour Protection Law and a number of relevant regulations of the Cabinet of Ministers^[1]. The System includes Risk Assessment, internal monitoring of the work environment, training, and mandatory health checks of employees. The Occupational Health and Safety Management System covers all workplaces and all employees within the Group.

According to Labour Protection Law and Regulations of the Cabinet of Ministers No 660/2007, a Risk Assessment is carried out identifying and assessing work-related hazards in every position. The matrix of the Finnish five-point method^[2] is used in this assessment. First, the Group identifies hazards and risk factors that have the potential to cause harm (hazard identification), then analyses and evaluates the risk associated with that hazard (risk analysis and risk evaluation). Risk Assessment is done by the Occupational Health and Safety Manager, who visits workplaces and evaluates work processes. During internal monitoring of the work environment, the Occupational Health and Safety Manager pays attention to workplaces to spot work-related hazards. Employees of the particular workplace are involved in this process and encouraged to give their opinion about the work conditions in their workplaces. The Risk Assessment is documented and signed by the Occupational Health and Safety Manager and the Occupational Physician.

The Occupational Health and Safety Manager has a master's degree in law and a master's degree in Occupational Health and Safety. He or she regularly takes part in seminars and conferences in the Occupational Health and Safety field and is certified according to Latvian legislation.

In 2021, there were no complaints received from employees regarding Occupational Health and Safety. There were also no reprimands received from state institutions.

Information from the Risk Assessment is used in Job Safety training – to inform employees about hazards, what is being done by their employer to eliminate or minimise any hazards, and what employees should do to avoid them. Risk Assessment also provides an insight into the working environment of the Group. According to the results of the Risk Assessment, particular measures are taken to prevent or minimise any risk factors as much as possible.

Some trade unions have elected Employee Representatives on Occupational Health and Safety who are invited to cooperate with the Group Occupational Health and Safety Manager and to participate in the job Risk Assessment process and to propose ideas on how the work environment can be improved.

In 2021, the processes of compensation of Opticals Purchased and mandatory health examinations of employees in the Company were reviewed and made more efficient.

The Group covers the purchase of opticals (glasses, rims, spectacle lenses or contact lenses). Employees buy opticals at their own expense and then the Company reimburses the purchase within the set limit. The previous reimbursement procedure was long and complicated, resulting in late receipt of compensation by employees. The revised and simplified procedure ensures that the employee receives compensation within a few days of submitting the receipt. This applies to all employees, temporary and part-time employees included.

Previously, the documents required for mandatory health examinations of employees as well as the process of informing employees about the need to undergo a mandatory health examination were performed manually by the Occupational Health and Safety Manager. Data processing and reporting were also performed manually. Given that the Company employs more than a thousand people, this number will increase significantly in the near future. The Group has dedicated financial and IT resources to fully automate this process.

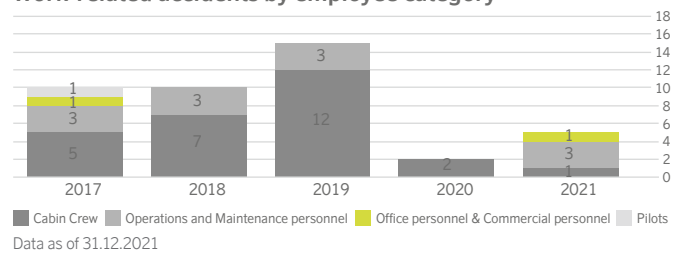
WORK-RELATED ACCIDENTS

In 2021 the Group registered five occupational accidents. Respective accidents are always addressed at the annual job safety training/instruction of employees to avoid the same mistakes in future. One of the 2021 accidents happened to a member of the Cabin Crew due to the inattention of an employee; three accidents happened to Operation and Maintenance personnel due to an icy apron zone and the inattention of an employee; and one accident happened to a member of Office & Commercial personnel due to a wet floor and the lack of warning signs. According to Latvian legislation, all five accidents were classified as an accident with light injuries. There were no fatalities as a result of work-related injury in 2021.

No	Employee's position	The level of the accident	Description of the injury	Reason for the accident
1	Technician	light	Shoulder and arm injury	Icy apron zone
2	Office worker	light	Wound in the palm of the hand	Wet floor, no warning signs
3	Cabin crew	light	Sprained foot	Inattention
4	Technician	light	Broken finger	Inattention
5	Flight coordinator	light	Knee injury	Uncleaned, icy apron zone

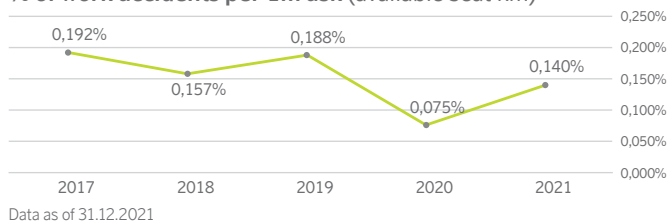
The percentage of work accidents per available seat kilometre has increase from 0.075% in 2020 to 0.140% in 2021. One of the reasons is the increase in total flights in 2021 compared to 2020 and a more intensive workload for Cabin Crew members. Some accidents were related to the weather – ice on roads. Riga International Airport was informed and additional road cleaning was requested in those cases. In the case of the accident on the wet floor and a lack of warning signs, cleaning service employees were informed about the necessity to put up warning signs and the situation was immediately rectified.

Work-related accidents by employee category



This period of intense work began after a period of low intensity in aviation resulting from measures implemented for the control of Covid-19 infection.

% of work accidents per 1m ask (available seat km)



PROMOTING HEALTHY AND SAFE BEHAVIOUR

The Occupational Health and Safety Manager ensures that all employees, including new ones, receive work safety instructions in accordance with the procedures specified in regulations.

Every employee undergoes initial job safety instruction when starting employment at the Group. Once a year annual job safety instruction is given to all employees. Organised practical fire safety training (including staff evacuations from the building) is also undergone. For employees who must fulfil a specific job (working at height for technicians, forklift operation for storekeepers, etc.) additional training is provided. The frequency of this additional training is once every two years for forklift drivers and once every three years for technicians (who work at height).

Some particular training for Cabin Crew members is provided by the Group Training Centre. After finishing the courses, employees have to pass a test in order to receive a certificate.

All courses, including internal occupational health and safety training, are held in a language that all participants in the particular training group understand. Training is conducted in either Latvian, Russian or English.

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

Additionally, the Group promotes a healthy lifestyle for its employees. Every Wednesday, tips for a healthy lifestyle are published on the internal webpage of the Group. Topics such as mental wellbeing, stress awareness, meditation, social tolerance, eye care, and the benefits of drinking more water and walking outdoors are covered.

For Technicians, the Group provides mandatory health examinations more frequently than required by law.

Employees who perform the de-icing function in the Company were provided with completely new functional work equipment (face masks, coveralls) in 2021, thereby providing additional protection against cold and moisture.

The Group ensures that employees have access to health services by providing the following insurance coverage:

- for all employees: Health, Accident, Business Travel/Duty Travel insurance;
- for pilots: Loss of License insurance;
- all employees have the option to get Health and Accident insurance with upgraded coverage;
- all employees have the option to purchase Health and Accident insurance for relatives;
- all employees have the option to buy international health insurance (AXA).

For employees who have passed the probation period, the employer provides a primary package of health insurance with a coverage plan chosen by the employer. This ensures that employees and their relatives have access to non-occupational medical and healthcare services.

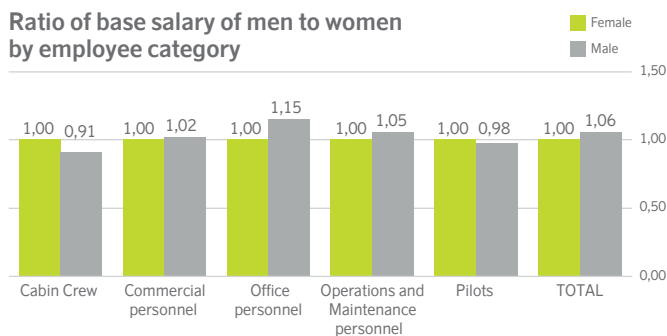


FAIR REMUNERATION

Remuneration within the Company is regulated by an internal document – the Remuneration Policy – which is available for use and reference to all employees of airBaltic and its subsidiaries regarding the process of setting and revising remuneration. The scope of this Remuneration Policy is monetary remuneration for work and it applies to all employees.

All positions are evaluated by previously defined criteria and positions are linked to a specific grade, which allows for the comparing of positions and set remuneration across the Company. For each grade, the pay range is calculated according to Fontes Salary Survey data. Regarding the interpretation of salary survey results, no other remuneration consultants besides Fontes Salary Survey consultants are involved in determining remuneration. Based on Fontes Salary Survey data, pay ranges are adjusted for job categories (e.g., IT, Risk Management, Compliance, Business Analysis, etc).

Ratio of base salary of men to women by employee category



Data as of 31.12.2021

Based on the comparison of different positions evaluated in the same job grade, if there are both male and female position holders in a particular grade, the Group has concluded that, on average, the male base salary is 6% higher than the female base salary within the same job grade, not considering the individual's role, seniority, performance, previous experience and other deviations for proper equal pay measurements. This is 8% less difference than in 2020, when the disparity was 14%. This decrease in base salary disparity has been achieved by dedicated work such as manager training, budgeting process guidelines with defined grades and salary ranges, and dedicated decisions on equalising guaranteed income (base salary) within grades.

The split of male/female base salary ratio by employee category indicates that the biggest differences between the two genders are found within Operations and Maintenance personnel, Office personnel, and Cabin Crew.

The differences within Operations and Maintenance personnel are due to the fact that most of the maintenance personnel are men, and maintenance personnel (particularly technicians, a profession that historically attracts more men than women) remuneration is defined not only by the local labour market but also by the European labour market, which is why the salaries are higher than for positions for which local employees are readily available.

The difference within Office personnel is mainly driven by IT positions, another sector where men dominate, and moreover, IT job market salary levels are significantly higher than in other job categories.

For the largest employee categories (Cabin Crew, Pilots, and Technicians), the Company has implemented remuneration systems based on employee performance, experience and qualification. Remuneration systems are set for a position or group of positions and define the exact same remuneration structures, calculation rules, possible remuneration levels and other conditions for all position holders regardless of gender, age or any other personal aspect, thus allowing for the avoidance of any subjective pay gaps. Current pay gaps seen in categories with set remuneration systems are due to previous experience, qualification and other objective parameters defined in the respective remuneration systems.

EMPLOYER BRAND

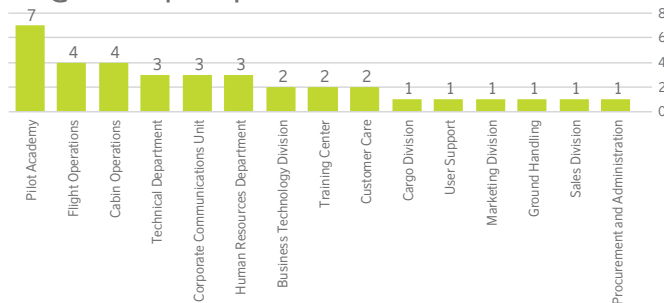
The latest Employee Commitment Survey in Q3 2021 shows a great Employee Net Promoter score of 35 points (+13 points since Q3 2020). This is a reliable indicator of employment sustainability and positive employer brand as represented by our employees.

Employer brand activities play an essential role in seeking new talent and engaging future applicants, as well as in promoting job opportunities in aviation to a diverse audience.

LIFE @AIRBALTIC AMBASSADORS

Life@airbaltic ambassadors is an internal community made up of a diverse range of airBaltic employees who present their careers and daily work activities to a broad online audience, thereby increasing awareness of the Airline's employment conditions, working culture, and other important aspects one considers when choosing an employer. In the long run, the initiative will improve candidate quality, onboarding success, and employee retention. All participants took social media masterclasses that taught them how to establish their branding, elevate the airline's values, and find their voice as airBaltic ambassadors. The ambassadorship includes creating videos, photos and exciting content for both internal and external audiences.

Life@airBaltic participants



Data as of 31.12.2021

AIRBALTIC ALUMNI COMMUNITY

With the intention of keeping a connection with former employees, the Company welcomes them in joining the airBaltic Alumni Community. This allows former employees to maintain a relationship with airBaltic even after termination of their employment at the Company. In the first quarter of 2021, 406 former employees were informed about Alumni Community opportunities and 392 still subscribe to its newsletter. The Alumni Community is one of the top channels funnelling visitors to airBaltic's careers page.

In 2021 airBaltic attended several career days organised by Latvian companies operating in various fields: IT, customer care, and technical sectors. At the Work[IT] and techhill.co recruitment events, airBaltic had the opportunity to converse with IT specialists – these events strive to encourage and empower women and men seeking a career within the IT sector. Interest in airBaltic came from both genders.

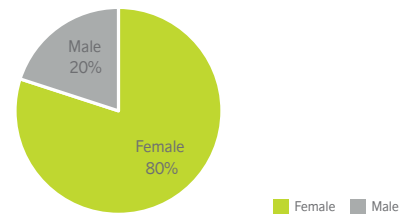
On 30 May, airBaltic organised Technician Open Days to which participants from different Latvian regions, educa-

tional backgrounds, and genders were invited. Speed Dating was an event in which potential candidates looked for new career opportunities or the possibility to combine a career with their studies. In cooperation with the State Employment Agency, airBaltic organised an Open Event targeted to former employees of Latvian Railways, who have a wide range of technical experience that could be carried over to the aviation industry.

INVESTMENT IN FUTURE EMPLOYEES

On 7 October, airBaltic organised Cabin Crew Open Days. 240 potential candidates participated, from both genders and with various educational backgrounds. Candidates had the opportunity to learn about the dynamic training process at airBaltic Training and completed several assessments indicating participant suitability for becoming a Cabin Crew member at airBaltic.

Cabin crew Open days participants



By the end of 2022, airBaltic expects to have a fleet of 40 aircraft, and preparations have begun to make sure there are enough technicians to maintain it. airBaltic has begun to recruit candidates for mechanics jobs with no prior experience or education in aviation, and is also offering module courses for acquiring Technician B category qualification. This is in addition to the already long-established Technician-apprentice programme done in cooperation with Riga Technical University (RTU) and the Transport and Telecommunication Institute (TSI).

In 2021, meetings were organised with Latvian Technical Schools from various regions (Saldus, Valmiera, Ventspils, Aizkraukle) to give their students insight into the professions of mechanic, technician, and sheet metal worker. On 13 May, airBaltic organised a Mechanic Open Event with three Latvian Universities (RTU, TSI, Riga Aviation Institute). A Q&A session was held with a representative from airBaltic Base Maintenance. 60 participants with various educational backgrounds showed an interest in joining the programme.



RESPONSIBLE GOVERNANCE

Sustainability and corporate responsibility are amongst airBaltic's core values. Thereby the Company aims to not only uphold strong traditional corporate governance mechanisms and ethical business practices, but also address wider issues of sustainability.

The management of the Company has always emphasised the importance of the corporate governance principles according to which the Company operates. Following these guidelines, the Company has developed various governance related policies, e.g. the Internal Agreement Approval Procedure, the Authorisations Manual, the Sanction Compliance Policy, the Purchasing Policy, etc. During the year 2021 airBaltic started work on the Whistleblowing Policy. In most of its policies, the Company follows such globally established principles as promoted by OECD Guidelines on Corporate Governance of State-Owned Enterprises and by legal requirements such as set in the Law on Governance of Capital Shares of a Public Person and Capital Companies of the Republic of Latvia. Additionally, the Company has issued a separate corporate governance policy for its subsidiaries, thereby ensuring that the main principles are equally honoured within the Group. Following the high standards set by the Company's management, all employees are expected to act in good faith and ensure fidelity, diligence, and integrity on all occasions, which is reflected in various procedures implemented by the Personnel Handbook.

ETHICS AND TRANSPARENCY

airBaltic's Business Ethics and Corporate Culture is part of the Personnel Handbook, which is made available to all employees on airBaltic's Intranet. The Company's Business Ethics and Corporate Culture is based on generally accepted norms of ethics, legislation, core competencies and company values such as improving sustainability, maintaining continuous growth, and improving the passenger experience. The principles described in the Personnel Handbook guide employees' relations with each other at work as well as business relationships and relationships with business partners around the world. These principles apply to all Company departments and must be followed by all employees. airBaltic's Personnel Handbook provides guidance on the acceptable code of conduct between the Company's management, employees and business partners so as to avoid any cases of conflict of interest and how to report any that might occur. With respect to airBaltic's business partners, employees must not conduct any company business with their spouse, any member of their own family, or with any individual or organisation with whom they or their families are associated in any way. Employees must provide information to the Human Resources department about their positions, shares, or other relations with any current or potential suppliers or business partners.

WHISTLEBLOWING PROCEDURE

In addition to airline industry regulations concerning regular reporting on potential safety, fraud and misconduct actions, airBaltic has taken initiative to implement whistleblower software to enable all employees and business partners to report any concerns regarding potential violations within the Company. The software is to be introduced in February 2022. Guidelines will be implemented in the Company's internal policies, and the internal audit will be responsible for following up on any reported incidents and involving additional responsible managers when appropriate.

SANCTIONS LAWS

airBaltic has developed an internal Sanctions Policy that helps employees from various departments ensure compliance with sanctions laws and the Company's contractual obligations. The Sanctions Policy explains what the sanctions are and what kind of activities are considered illegitimate. Guidelines are provided on how to check cooperation partners. While contracting a cooperation partner, the responsible employee at airBaltic follows the Sanctions Policy and uses various tools to check for sanctions compliance. One of the most used tools for ensuring sanctions compliance with cooperation partners from countries where the Sanctions Policy may have an impact (e.g. Russia, Ukraine) is the widely known KYC, also known as the Know Your Client questionnaire, which provides quite detailed information on the cooperation partner. From time to time employees undergo training on sanctions compliance, but apart from that, the Sanctions Policy is a part of the Personnel Handbook, the content of which must be up to date regarding employee obligations.

ANTI-CORRUPTION

airBaltic places considerable value on ensuring compliance with anti-corruption measures and takes all appropriate steps to safeguard that compliance. Two documents contain the main anti-corruption measures of the Company: the Purchasing Policy (for all corporate purchases); and the Continuing Airworthiness Management and Maintenance Organization Exposition (CAMMOE), which is specific to aircraft related technical purchases.

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

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

Fair competition	The Company must treat all participants with fairness and ensure that they are given the same level of information.
Conflict of interest	Situations of conflict of interest with the business of the Company must be reported to the Human Resources department.
Cost effectiveness	Offers must be evaluated not only on competitiveness in pricing but also factors such as quality and other pre-determined criteria.
Transparency	To ensure transparency, tender documents must provide all the necessary information to facilitate submission of appropriate and competitive offers.

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

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

airBaltic also ensures that charitable donations and sponsorships (financial and in-kind) made to other organisations are not used as a disguised form of bribery. Recipients of charitable donations and sponsorships (financial and in-kind) are screened and approved by the Company's management. All-in-all, airBaltic is very limited in its ability to sponsor or donate to any third party as it needs to fulfil a number of legal requirements to be able to do such activities.

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

FAIR COMPETITION

airBaltic is committed to maintaining fair competition both in respect of its own behaviour on the market, as well as in relation to the tender processes it organises, the recruitment process, etc. The Company therefore adheres to the requirements of the Latvian Competition Law and the applicable provisions harmonised at the EU level, as well as has ensured for the principles of fair competition to be observed when selecting potential suppliers in its Purchasing Policy. airBaltic has a Competition Compliance Policy and carries out extensive competition law training for its management and employees.

airBaltic is currently not subject to any investigations, nor is it part of any proceedings initiated by the Latvian Competition Council nor any other competition authority, except for the 13-year-old litigation against AB flyLAL-Lithuanian Airlines, which is reflected in more detail in airBaltic's Annual Report for 2021.

SUPPLIER MANAGEMENT

airBaltic has more than 2200 suppliers providing a variety of services and products. The Company's supply chain is mostly centred around aircraft operations such as aircraft and engine manufacturers, airport and air navigation service providers, technical maintenance suppliers, and fuel suppliers. Likewise, Information Technology suppliers are also essential, ensuring that airBaltic can use such crucial systems as AMADEUS and CRM. Also of high importance to airBaltic are regional production partners, catering suppliers, and financial services partners.

KEY TYPES OF PROCUREMENT

Key types of procurement	Share
Fuel	34%
Government charges	19%
Ground services and irregularities	17%
Aircraft maintenance	9%
Other operating expenses	8%
Distribution	5%
Selling and advertising costs	5%
Leasing costs	3%
Catering	1%
TOTAL	100%

Source: Management Profit/Loss Statement

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

airBaltic suppliers are mainly located in Latvia and the geographical areas where airBaltic routes are operated. For technical maintenance related purchases, the majority of the Company's suppliers are located outside Latvia – manufacturers of aircraft, engines, smart parts, and equipment.

In line with the Company's operational model, airBaltic is increasingly outsourcing ground handling and customer services to external suppliers. Supplier specifications are continuously reviewed and the most critical suppliers are identified. The responsibility for ongoing follow-up of critical suppliers has also been centralised and standardised. All airBaltic suppliers must meet the requirements set in the Purchasing Policy; this is checked during procurement. Additionally, regarding supplier identification, airBaltic may also request that the Know Your Client form and other relevant documentation be submitted.

PERCENTAGE OF PRODUCTS AND SERVICES PURCHASED

PERCENTAGE OF PRODUCTS AND SERVICES PURCHASED LOCALLY

Products and services purchased locally	Share
Locally (in Latvia)	13%
Non-locally	87%
TOTAL	100%

Note: According to cash flow method



The airBaltic Corporate Management Manual and the airBaltic Purchasing Policy cover all purchasing activities within airBaltic. In addition, the Company maintains a special database for agreements. To conclude any agreement with the necessary service or product supplier, every responsible employee is required to fill out the special forms which are then reviewed and approved by various department representatives.

The Company's Managers are responsible for the Corporate Management Manual and other manuals which are reviewed and updated when needed. Activities are followed-up within the management system and reported when necessary, according to specific needs.

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

The General Purchasing Policy is established to ensure effective, efficient, and targeted Company capital use by securing the lowest cost and minimising the commercial risks entailed by purchasing. The airBaltic Purchasing Policy includes all types of external purchases performed

by airBaltic. The main objective is to secure the lowest cost and minimise the commercial risks entailed by purchasing. This is achieved by maintaining firm control of suppliers and product flows, maximising the Company's purchasing power, and coordinating purchasing activities through optimum use of capital. Cost reductions are to be obtained through competition stimulation, extensive standardisation, binding general contracts, and close cooperation with selected suppliers.

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

RISK MANAGEMENT PROCESS

Risk management is performed by each department within their scope of responsibilities, and the Executive and Supervisory Boards of the Company are informed monthly on any updates to adjust the Company's business plan accordingly.



To further expand the risk management process, airBaltic has initiated a project concerning identification of key non-aviation risks.

The project is overseen by the Audit Committee and will serve as a starting point to have a single point of reference and transparent workflow for risk mitigation actions.

The risk register is administered by an internal control project manager. Key stakeholders are interviewed for their input on possible risk scenarios and their individual

assessment on impact severity, probability, and timeline and history of known incidents. A summary of the top risks identified by the stakeholders is presented in the Top Management meeting, where managers discuss how these risks are mitigated and if any additional actions are required at the moment. Afterwards, once finalised, the summary of top risks identified will be presented to the Supervisory Board (to take place in February 2022) and will be updated yearly.

The main focus of risk mitigation actions in 2021, however, was on minimising the adverse effect of the COVID-19 pandemic, which was still affecting almost all Company operations. It had caused a sharp and unexpected drop in demand for flight bookings worldwide and had created the need for the majority of airlines to reduce flight capacity and even suspend flights on certain routes. In response to various industry forecasts for the negative long-term impact of the COVID-19 pandemic on the aviation industry, airBaltic has continually revised and updated its business plan. To address risks concerning liquidity, airBaltic has implemented various cost cutting measures and switched to a single aircraft type fleet as well as sought funding from its shareholders and increased its share capital.

However, the impact of the crisis caused by the COVID-19 pandemic is still very great, and it is difficult to predict with a high degree of certainty the future spread of the disease both in Latvia and worldwide. This is especially true considering the spread of new COVID-19 variants like Omicron. Consequently, the Supervisory and the Executive Board must follow the changing industry forecasts for the recovery of the aviation industry and constantly adjust the Company's business plan accordingly.

COMPLIANCE

airBaltic has not identified any substantial non-compliance with laws or regulations in the environmental, social and economic area. In general, there have been minor cases related to these areas, but in none of these cases has airBaltic received a fine, at least not a substantial one. Overall, these cases arise from operational mistakes during the ordinary course of business of the Company and do not reflect any systemic failures.



CONNECTING THE BALTICS WITH ABROAD AND THE IMPACT ON THE LOCAL ECONOMY

In 2021 airBaltic gradually increased the number of routes and flights connecting the Baltic states with destinations in Europe and the Middle East. Overall, in 2021 airBaltic served 76 destinations and operated 94 routes from Riga, Tallinn and Vilnius. This is a significant increase over 2020, when 56 destinations and 76 routes were served.

Travel demand started ramping up with the introduction of the EU digital COVID certificate on July 1, 2021, which eased travel for vaccinated travellers. airBaltic launched a total of 15 new routes in 2021, and with leisure demand being particularly strong, nine leisure routes were launched (from Riga to Corfu, Heraklion, Santorini, Naples, Pisa, Valencia, Tenerife and Kittila, as well as from Tallinn to Nice). A record 23 seasonal sun-and-beach routes were operated to six southern European countries in 2021. New VFR routes were also launched to the UK and Norway (from Riga to Manchester, Edinburgh, Bergen and Trondheim) to strengthen connectivity with the Baltic diasporas abroad.

Even though business demand was still weak in 2021, airBaltic started ramping up frequencies on its key business routes, offering convenient morning and evening flights between Riga and Amsterdam, London, Frankfurt, Paris, Munich, Vienna, Berlin, Helsinki, Copenhagen, Stockholm, Oslo, Vilnius and Tallinn. The Amsterdam hub was also connected daily from Vilnius and Tallinn, and the Vilnius-Tallinn route was relaunched in August.

airBaltic continued providing excellent worldwide connectivity with its codeshare partners via European hubs (e.g. Amsterdam, Paris, London, Copenhagen and others), and a new codeshare agreement was signed with Lufthansa for connections via Lufthansa's Munich hub. The Tallinn – Munich route was also launched, and now airBaltic connects Munich with all three Baltic capitals.

A significant milestone was the launch of the non-stop route between Riga and Dubai in September and the codeshare cooperation with Emirates. This is the only non-stop scheduled service between the Baltic states and the UAE, an important economic partner and a big connecting hub, opening up further connections to the Middle East, Africa, South East Asia, Australia and New Zealand.

The Baltic states are geographically remote and do not have functioning railway connections to the rest of Europe; the Baltic Sea separates the Baltic states from the Nordic countries, and it takes anywhere between 10 and 20 hours to drive to the closest capitals of Central Europe. With its extensive and broad route network, airBaltic connects Latvia, Estonia and Lithuania to the rest of the world. Every year, airBaltic brings hundreds of thousands of visitors to the Baltic states, enables business connections, and unites families living abroad. airBaltic also serves many different market segments, from business to leisure/VFR as well as charter and cargo, and in doing so also provides opportunities for the local travel industry.

Due to globalisation, supply chains now span the whole world. Air connectivity is instrumental in facilitating essential travel linked to these supply chains. This is especially evident during the COVID pandemic, when demand for certain goods and services has to be met on very short notice. airBaltic plays a significant role in this by carrying essential cargo such as vaccines and personal protective equipment. By basing a large fleet in the Baltic states, airBaltic has a unique ability to match capacity demands on short notice (e.g. demand for charter and cargo flights, repatriation flights, etc.).



REPRESENTATION AT ASSOCIATIONS, ORGANISATIONS AND UNIONS

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

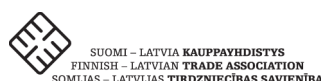
Throughout the year, airBaltic CEO Martin Gauss participated in various industry events such as the World Aviation Festival, the Dubai Airshow, and the Future Flying Forum, among others.

INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

IATA, International Air Transport Association	Airlines for Europe (A4E)	Flight Safety Foundation (FSF)	Estonian Travel and Tourism Organisation
Finnish Business Travel Association	Association of Finnish Travel Agents (SMAL AFTA)	Finnish- Latvian Trade Association	

NATIONAL ASSOCIATIONS AND PROFESSIONAL ORGANISATIONS

Latvian Aviation Association	Latvian Employers Confederation	American Chamber of Commerce in Latvia	Institute for Corporate Sustainability and Responsibility
Latvian Chamber of Commerce and Industry	Association of Latvian Travel Agents and Operators		



COMMUNITY ENGAGEMENT AND SUPPORT

In March, airBaltic announced that it would trial the IATA Travel Pass, helping IATA to establish a well-functioning solution for cross-border travel. The Company has continued to actively inform its passengers about the various changing COVID-19 travel restrictions, and has expressed support for the #ceļoapdomīgi (#travelresponsibly) campaign initiated by the Ministry of Foreign Affairs of the Republic of Latvia.

By committing to aviation industry objectives as defined by Airlines for Europe (A4E) under the [Destination 2050 commitment](#), airBaltic has committed to being part of a long-term sustainable airline community. airBaltic supports the industry's common efforts with clear targets to reduce greenhouse gas emissions by 45% by 2030 (as compared to baseline 2005 levels), with the goal of making Europe climate neutral by 2050.

airBaltic is among the companies that have joined to sign the IATA 25by2025 gender diversity pledge, committing to increase female participation at senior levels by 25% by the year 2025. airBaltic has also joined the Latvian Diversity Charter. The Latvian Diversity Charter is a voluntary commitment of companies and organisations to strive to adhere to the basic principles of diversity management and respectful inclusion in relation to their employees and society. airBaltic is the fourth airline in Europe to sign the Diversity Charter; currently the Latvian Diversity Charter unites 50 companies and organisations.

In April, airBaltic became the world's first airline to issue non-fungible tokens (NFTs). The airline issued limited collector NFTs showcasing an individual Airbus A220-300 with its registration as well as a piece of art featuring one of the most beloved Latvian cities, Kuldīga, to promote tourism and Latvia in the world. Following the first edition in 2021, airBaltic has issued six more digital art pieces honouring the charming Latvian cities of Cēsis, Alūksne, Liepāja, Bauska, Sigulda and Jelgava. All airBaltic NFTs have been issued on the OpenSea marketplace, and since November all of the NFTs have been placed in the Metaverse 3D gallery.

On May 21, 2021, airBaltic secured third place in the award contest “Gada preču zīme pasaulei” 2020 (Trademark of the Year for the World). The competition was organised by the Latvian Chamber of Commerce, the Patent office of the Republic of Latvia, and the Latvian Designers' Society. The award was received for airBaltics' new trademark *Think Green, Fly Green*, which the Company uses in communications regarding sustainability topics and the airline's modern fleet.

To aid prevention of human trafficking in airports, with the main goal of reducing illegal movement and trade of people around the Baltics, Europe and worldwide, on October 18, 2021, airBaltic signed an updated memorandum together with Riga International Airport, the Ministry of the Interior, the Ministry of Foreign Affairs, and two local human rights associations – the Resource Center for Women “Marta” (a women's rescue centre) and the Droša Māja (Safe House) shelter.

On December 12, 2021, airBaltic announced its partnership with the Latvian Olympic Committee, thereby providing the Company's support to Latvian athletes travelling to and from international competitions.



PILOT ACADEMY

Training at the Pilot Academy continues despite the crisis in the aviation industry, and at the end of 2021, 70 students of ten different nationalities were studying at the academy to become future pilots. There were 34 graduates of the Pilot Academy at the end of 2021.

21 new students joined the Pilot Academy during the reporting year, of which 10% were women.

In September 2021, a class of 13 students started their studies at the Pilot Academy.

The first 12 cadets joined the Group as Pilots in November 2019. Due to the COVID-19 pandemic and its effects on the aviation industry, in 2020 the Group did not hire any new pilots, but in 2021, 12 Pilot Academy graduates were hired as Pilots.

COOPERATION WITH LIEPĀJA STATE TECHNICAL SCHOOL

In 2020, the airBaltic Training Centre began a cooperative endeavour with the Vocational Education Competence Centre (VECC) Liepāja State Technical School in which a new educational programme for future aircraft mechanics was created. It is a unique programme that is being implemented in Latvia for the first time. In the programme, students are able to learn practical knowledge in lessons conducted by the Group's leading specialists in the field, as well as gain experience by working with the aircraft of the Group. Practice sessions are held both at the authorised airBaltic Training Diamond Aircraft Service Centre in Liepāja and at the airBaltic Technical Department in Riga.

The first group of 12 students graduated from the programme in October 2021. Five of the graduates are employed as Mechanics in the airBaltic Technical Department, and two are working as Mechanics at the authorised airBaltic Training Diamond Aircraft Service Centre in Liepāja; all are involved in preparing aircraft for technical maintenance, planning the course of technical maintenance, and executing repair work.

The new group of 15 students (14 men and one woman) started their training in 2021 and will become mechanics in four years' time. In 2021 the programme was opened up to students who have graduated elementary school, and the programme then provides the students a secondary school education as well as a profession once they graduate.





CORPORATE GOVERNANCE STATEMENT

Air Baltic Corporation AS, registration number 40003245752 (hereinafter – airBaltic or the Company), is a joint stock capital company which was established on February 8, 1995, and operates under the laws of the Republic of Latvia. The Company's transferable securities are traded on a regulated market (Euronext Dublin) in the form of bonds. Hereby the Company 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), which 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 the FIML, airBaltic has included key information on its governing bodies in this 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 of airBaltic's Subsidiaries.

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

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:

- The 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 "Above 2026".
- The Internal Control Project Manager. In 2021 the Company introduced this position, which combines internal audit and internal control projects. The goal for the Internal Control Project Manager is to oversee non-aviation related internal processes and make sure that necessary controls are working effectively. The Internal Control Project Manager carries out internal audits and any additional control reviews initiated by airBaltic's various departments

and the Executive Board in response to changes and related potential risks. The Internal Control Project Manager is part of the Finance Department, reporting additionally to the Audit Committee, which performs its control functions in accordance with laws and regulations as well as professional practice standards in internal auditing.

- The Audit Committee was established by the Shareholders Meeting in mid-2020 in accordance with Part D, Chapter II of the FIML. The Audit Committee supervises the efficiency of the internal control and risk management system. Members of the Audit Committee are the Chairman of the Supervisory Board and two independent external auditors.
- Process and document management and control systems 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.



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

The Company's financial statements and the financial statements of the Group are independently audited. The independent auditors provide reports indicating if the Company's financial statements and consolidated financial statements are prepared in accordance with IFRS and if they provide a true and fair view.

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

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

OWNERSHIP AND SHAREHOLDERS

On December 31, 2021, the Company's majority shareholder is the Republic of Latvia in the capacity of the Ministry of Transport with 96.14% of shares, while Lars Thuesen with his wholly owned SIA "Aircraft Leasing 1" and the rest of the minority shareholders own the remaining 3.86%. At the end of 2021, the Shareholders Meeting took the decision to increase airBaltic's share capital by 45 million EUR, which was paid by the State, and that will increase the shareholding of the Republic of Latvia respectively. The respective shareholding changes were registered with the Commercial Registry of the Register of Enterprises on January 17, 2022, increasing the shareholding of the Republic of Latvia to 97.03%, and the rest of the shareholders holding 2.97%.

ORGANISATIONAL AND MANAGEMENT STRUCTURE

The management model of airBaltic is based on the best practices of corporate governance and regulatory framework. One of the Company's priorities is to ensure effective corporate governance. This includes maintaining flawless decision making and striving for the achievement of all established goals.

SHAREHOLDERS' MEETING

The Shareholders' Meeting is the main governing body of airBaltic through which shareholders exercise their rights to take part in managing airBaltic.

THE SHAREHOLDERS' MEETING HAS COMPETENCY TO ADOPT DECISIONS ON THE FOLLOWING MATTERS:

- The Annual Report,
- Distribution of the previous year's profits,
- Election and removal of members of the Supervisory Board, auditors, the Company's controllers and liquidators,

- Bringing claims against members of the Executive or Supervisory Boards or auditors, or waiving 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, Increasing or decreasing 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-organisation of the Company's activity,
- General principles, types and criteria for determining remuneration for members of the Executive and Supervisory Boards,
- Allocation of the Company's shares to employees and members of the Executive and Supervisory Boards.

Resolutions at the Shareholders' Meeting are adopted by the 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 2021, two airBaltic Shareholders' Meetings took place. At the Ordinary Shareholders' Meeting, the Annual and the Consolidated Annual Reports for 2020 were approved, it was resolved to cover the losses of EUR 278 267 025 with the profit of future years, the Company's auditors for year 2021 were elected, and the Supervisory Board's self-evaluation of 2020 and the Company's targets and planned results indicators for year 2021 were reviewed. At the Extraordinary Shareholders' Meeting it was resolved to increase the share capital of airBaltic by EUR 45 000 000 and approve the deriving amendments to the Articles of Association and respective documents.

SUPERVISORY BOARD

The activity of the Supervisory Board is regulated by the Commercial Law, the Articles of Association, and the By-Laws of the Supervisory Board's Activity. The Supervisory Board is a supervisory body that represents 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 from amongst themselves. In 2021 the Supervisory Board held 12 ordinary monthly meetings and 16 extraordinary and operationally necessary meetings.

MEMBERS OF THE SUPERVISORY BOARD:

- 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.

EXECUTIVE BOARD

The activity of the Executive Board is regulated by the Commercial Law, the Articles of Association, and 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 and remotely. In 2021, 70 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).

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;
- Vitolds Jakovļevs, Member of the Executive Board. He has been serving on airBaltic's Executive Board since October 2011;
- Pauls Juris Cālītis, Member of the Executive Board. He has been serving on airBaltic's Executive Board since March 2020.

The Company has been successfully reorganised 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. M.A. Gauss, the Chairman of the Executive Board and who also serves as the Company's Chief Executive Officer, has more than 28 years of experience in the aviation industry. 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. Member of the Executive Board and the Chief Operations Officer, P. Cālītis, joined airBaltic as a pilot in 1995 and has gradually developed his career within airBaltic by leading Flight Operations as Senior Vice President up until he was elected as a Member of the Executive Board.

TOP MANAGEMENT TEAM

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

- 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,
- Alina Roščina, Senior Vice President Human Resources,
- Alise Briede, Senior 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-Laws 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 Organisation'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 maximise 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 authorised to represent the Company (within the limits of their respective mandates). They all together currently also hold the highest responsibility towards the values and principles of Environmental, Social and Governance (ESG) at airBaltic. Under the airBaltic Environmental Policy there is a general statement of responsibilities which indicates that each departmental manager is responsible for sustainability matters within their own department area and processes.

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 balanced¹. It should be pointed out that at the Top Management Team level, airBaltic is already firmly committed to this principle – 5 out of 11 members of the senior management team are women.


¹ Improving Gender Balance by 2025.
Available: <https://www.iata.org/en/policy/25-by-2025/>,
viewed on: 21.01.2021.



MARTIN ALEXANDER GAUSS
Chairman of the Executive Board



VITOLDS JAKOVĻEVS
Member of the Executive Board



PAULS ČALĪTIS
Member of the Executive Board

GRI CONTEXT INDEX

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GRI 102: General disclosures 2016	Organizational profile		
	102–1 Name of the organization	4; 9	
	102–2 Activities, brands, products, and services	11	
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	102–10 Significant changes to the organization and its supply chain	11	
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	Strategy		
	102–14 Statement from senior decision-maker	10	
	102–15 Key impacts, risks, and opportunities	25-26; 73	
	Ethics and integrity		
	102–16 Values, principles, standards, and norms of behaviour	11	
	Governance		
	102–18 Governance structure	74	
	102–19 Delegating authority	76	
	102–31 Review of economic, environmental, and social topics	22	
	102–32 Highest governance BOD's role in sustainability reporting	21	
	102–33 Communicating critical concerns	66; 73	
	Stakeholder engagement		
	102–40 List of stakeholder groups	23-24	
	102–41 Collective bargaining agreements	53	
	102–42 Identifying and selecting stakeholders	23-24	

102-43 Approach to stakeholder engagement	23-24	
102-44 Key topics and concerns raised	22	
Reporting practice		
102-45 Entities included in the consolidated financial statements	9	
102-46 Defining report content and topic Boundaries	9	
102-47 List of material topics	9; 22	
102-48 Restatements of information	9	No restatements of information given in previous report
102-49 Changes in reporting	9	Report 2020 has been prepared in accordance with the GRI Standards: Core option'
102-50 Reporting period	9	
102-51 Date of most recent report	9	
102-52 Reporting cycle	9	
102-53 Contact point for questions regarding the report	9	
102-54 Claims of reporting in accordance with the GRI Standards	9	
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102-56 External assurance	6-8	

SPECIFIC STANDARD DISCLOSURES

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Emergency Response				
Environment	GRI 103: Management Approach 2016		31-32	
Climate impact		305-1 Direct (Scope 1) GHG emissions 305-2 Energy indirect (Scope 2) GHG emissions 305-3 Other indirect (Scope 3) GHG emissions 305-5 Reduction of GHG emissions	32-33	
Energy consumption		302-1 Energy consumption within the organization 302-3 Energy intensity	34-35	
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Waste	GRI 2020	306-1 Waste generation and significant waste-related impacts 306-3 Waste generated	37-38	
Service and Customer Experience	GRI 103: Management Approach 2016		39-40	
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Data protection and cyber security		418-1 Substantiated complaints concerning breaches of customer privacy and loss of customer data	44	
Employment	GRI 103: Management Approach 2016		45-46	
Part-time employment		401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	47	
Employee turnover		401-1 New employee hire and employment turnover	48-49	

New employees	401-1 New employee hire and employment turnover	50	
Diversity and equal opportunities	405-1 Diversity of governance bodies and employees 405-2 Ratio and basic salary and remuneration of women and men 406-1 Incidents of discrimination and corrective actions taken	51-52	There were no confirmed discrimination cases in 2020
Labour relations	402-1 Minimum notice periods regarding operational changes	53	
Training and development	404-1 Average hours of training per year per employee 404-2 Programmes for upgrading employee skills and transition assistance programmes	54-55	
Health and safety	403-1 Occupational health and safety management system 403-2 Hazard identification, risk assessment, and incident investigation 403-3 Occupational health services 403-4 Worker participation, consultation, and communication on occupational health services	57	
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Anti-corruption	205-2 Communication and training about anti-corruption policies and procedures	63-64	
Fair completion	206-1 Legal action for anti-competitive behaviour, anti-trust, and monopoly practices	64	
Supply chain	204-1 Proportion of spending on local suppliers	64-65	
Compliance	307-1 Non-compliance with environmental laws and regulations 419-1 Non-compliance with laws and regulations in the social and economic area	66	



Independent Auditor's Report

To the Shareholders of Air Baltic Corporation AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Air Baltic Corporation AS (the "Company") and its subsidiaries (together - "the Group") as at 31 December 2021, and of the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 4 April 2022.

What we have audited

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

- the separate and consolidated balance sheets as at 31 December 2021;
- the separate and consolidated income statements for the year then ended;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated cash flow statements for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

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

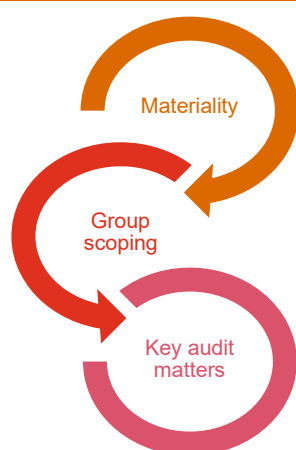
The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 9 to the financial statements.

Material uncertainty related to going concern – Company and Group

We draw attention to note 2(b) to the financial statements, which discusses the ongoing impact of i) COVID-19 and ii) the war in Ukraine on the Company's and on the Group's business and ability to continue as a going concern. In particular, if demand for air travel remains negatively affected by these factors, the Company and the Group may need, within the next 12 months, to obtain additional funding beyond that already committed and/or renegotiate its current debt obligations to enable the Company and Group to remain cash positive and not to be in breach of its current debt obligations. As stated in note 2(b), these events or conditions, along with other matters as set forth in Note 16, indicate that a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Company materiality: EUR 3,160 thousand
 - Overall Group materiality: EUR 3,192 thousand
-
- Full scope audit was conducted for five Group entities.
 - The Group audit team performed the work on all five entities.
-
- Impairment assessment of property, plant and equipment, right of use assets and intangible assets (Company and Group)

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

Materiality

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

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

Overall Company and Group materiality	Overall materiality applied to the Company was EUR 3,160 thousand and to the Group was EUR 3,192 thousand.
How we determined it	Approximately 1% of average revenue for 2017-2021.
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 actively monitored by the management and investors.</p> <p>Given the context of the severe impact of COVID-19 on the Company's operations in 2021, rather than using amount of revenue for the last year, we used an average revenue figure for 2017-2021, as it more properly reflects the size of the operations of the Company and the Group. In determining this benchmark, we also considered other approaches to materiality which could have reasonably been applied including the use of thresholds based on net result or net asset measures. We concluded that the level of materiality applied remained appropriate when considering these possible alternative approaches. For revenue we have chosen 1%, which, based on our judgment, is within the range of acceptable quantitative materiality thresholds for this benchmark for a public interest entity.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 316 thousand for the Company and above EUR 319 thousand for the Group, as well as the misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment, right of use assets and intangible assets (Company and Group)	
<p>As outlined in Notes 16, 17 and 19 to the financial statements, in the balance sheet as at 31 December 2021, property, plant and equipment of the Company and the Group amount to EUR 74,472 thousand and EUR 81,752 thousand, respectively, right of use assets of the Company and the Group amount to EUR 696,921 thousand, and intangible assets of the Company and the Group amount to EUR 19,261 thousand and EUR 18,027 thousand, respectively. Property, plant and equipment, right of use assets and intangible assets together represent 77% of the total assets</p>	<p>We obtained the impairment assessment prepared by the management and gained an understanding of the process of the management's evaluation of the recoverable amount of property, plant and equipment, right of use assets and intangible assets.</p> <p>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</p>



of the Company and 78% of the total assets of the Group.

Further, the intangible assets include non-depreciable assets (trademark) and as such are required to be tested for impairment every year.

In respect of the cash generating unit (CGU) represented primarily by the ongoing business of the Airbus 220 fleet and given the severe ongoing impact on the operations of the business arising from the voluntary and enforced air travel restrictions in 2021, management have undertaken an impairment assessment of the carrying value of this CGU. The key assumptions underlying this assessment are underpinned by the approved business plan "Above 2026", updated for latest estimates of future travel restrictions. In undertaking an impairment assessment management should determine if the carrying value is higher than the recoverable amount which is the higher of fair value and value in use. Management used value in use to determine recoverable amount.

We focused on the risk of impairment as the assets are significant to the financial statements, the value in use estimation involves a number of subjective judgements and estimates by management, many of which are forward-looking, including the assumptions related to cash flow forecasts of the CGU, selection of discount rate and growth rates. The impact of the war in Ukraine is not considered in this impairment calculation as at 31 December 2021 as this is a non-adjusting post balance sheet event.

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

We evaluated and challenged the future cash flow forecasts of the CGU, and the process by which the forecasts were drawn up, and we tested the underlying value in use calculations. In doing this, we compared the forecast used for the impairment test to the latest approved budget and plans and assessed their reasonableness by comparing to a recent years (2019 - 2021) actual results. We reviewed the key assumptions for short-term flying (in particular, the impact of how and for what periods air travel volumes will be impacted by ongoing COVID-19 restrictions) and long-term growth rates in the forecasts by comparing them to third party economic and industry forecasts.

For the discount rate applied by management we reviewed management's methodology and benchmarked it to other European airlines.

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

We analysed the changes in the assumptions over time to assess whether the current assumptions appropriately reflect the observed changes and increased uncertainty in the current operating environment.

We challenged management on inclusion of cash flows from all appropriate assets and liabilities and operations in the cash-generating unit, including the ability to safely defer any capital expenditures previously expected to be undertaken earlier.

We reviewed the disclosures on impairment in the financial statements included in Notes 2(b), 16, 17 and 19 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 all its four subsidiaries. We covered 100% of the Group's revenues and 100% of the Group's total assets.

Reporting on other information including the Management Report

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

- General information on the Group's Parent company, as set out on page 4 of the accompanying Sustainability and Annual Report 2021;
- Glossary, as set out on page 5 of the accompanying Sustainability and Annual Report 2021;
- the Management report, as set out on pages 88 to 99 of the accompanying Sustainability and Annual Report 2021;
- the Statement of Management Responsibility, as set out on page 99 of the accompanying Sustainability and Annual Report 2021;
- the Consolidate non-financial report, as set out on page 99 of the accompanying Sustainability and Annual Report 2021;
- the Corporate Governance Statement, as set out on pages 72 to 76 of the accompanying Sustainability and Annual Report 2021;

but does not include the financial statements and our auditor's report thereon, and the Sustainability Report as set out on pages 9 to 80 of the accompanying Sustainability and Annual Report 2021 to which we have issued a separate limited assurance report on pages 6 to 8.

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

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

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

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

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

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

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

We hereby report that the Company and the Group have prepared a Consolidated non-financial report, and it is included in the Management report.



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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 14 April 2015. Our appointment has been renewed annually, since then, by shareholder resolution. On 23 July 2019 the Company listed Euro denominated bonds on the Euronext Dublin stock exchange and accordingly the first financial year the Company qualified as an EU PIE was the year ended 31 December 2019. Since then, the total period of uninterrupted engagement appointment was 3 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Eva Jansen-Diener
Persona per procura

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
4 April 2022

AIR BALTIC CORPORATION AS GROUP KEY FIGURES

In 2021 the operations of the group were significantly impacted by COVID-19. There were a number of periods with various direct and indirect government restrictions which significantly and negatively affected the demand for air travel. As a result, in 2021, Air Baltic Corporation AS (hereinafter – airBaltic, airline, the Company or the Parent company) along with its subsidiaries - Air Baltic Training SIA, Baltijas Kravu Centrs SIA, Aviation Crew

Resources AS and Loyalty Services SIA (altogether hereinafter - the Group), on the consolidated basis reached the revenue of EUR 204.1 million, which is 41% increase compared to 2020, however 60% below the 2019 levels. The net loss at the Group level reached EUR 135.7 million.

Consolidated financial figures (EUR thousand)	2021	2020
Revenue	204 107	144 825
EBITDAR1	312	(152 305)
EBITDAR1 margin	0.2%	(105.2%)
EBITDAR2	312	(49 146)
EBITDAR2 margin	0.2%	(33.9%)
Operating result1	(55 657)	(224 524)
Operating result2	(55 657)	(121 365)
Loss before tax	(134 190)	(262 868)
Net result	(135 718)	(264 597)
Total assets	1 025 242	941 041
Non-current assets	870 075	744 257
Total equity	(118 311)	17 039
Borrowings, including lease liabilities	937 094	802 384
Net debt	857 780	654 079
Cash and cash equivalents	79 314	148 305

CONTINUATION OF COVID-19 CRISIS AND ADDITIONAL CAPITAL INCREASE

As the COVID-19 pandemic continued to negatively impact the airline industry in 2021, the original expectations of the market recovery that were incorporated in the business plan Destination 2025 CLEAN did not materialize and the Group's financial results were significantly below the projections. As a consequence, the financing of EUR 250 million that the airline received in form of equity investment from the government of Latvia (hereinafter also – the Government) in 2020 was not sufficient for the execution of the business plan. As it became clear in the second quarter of 2021 that the commercial performance of the airline will again be significantly affected by the global pandemic, the management updated airline's business plan and named the new plan Above 2026. The updated plan maintains the same long-term objectives of growing the fleet to 50 aircraft as the Destination 2025 CLEAN plan, however the updated plan incorporates the new industry projections – essentially assuming a slower recovery of the airline sector. The new plan also envisages more emphasis on the ACMI operations compared to the previous versions of the plan.

In parallel to the revision of the business plan, the Company turned to its shareholders for a further equity investment. In August 2021 in order to compensate for the losses incurred in relation to the spread of COVID-19 and to ensure the Company's liquidity, as well as to contribute to overcoming the economic crisis and stabilizing the sector, the Government decided to support the increase of the Company's share capital by investing financial resources in the amount of up to EUR 90 million.

Following Government decision of 23 August 2021, the shareholders approved share capital increase on 22 December 2021, based on which the Government of Latvia invested EUR 45 million and became a 97.03% shareholder of airBaltic. The European Commission found the investment compatible with the EU internal market pursuant to Article 107(2)(b) of the Treaty on the Functioning of the European Union (according to the European Commission decision in case SA.101032 (2021/N) dated 21 December 2021). The minority investors chose not to participate in the new share issue.



The Company is in the process of notifying and receiving the approvals from the EU Commission for the other EUR 45 million. Even though the funds secured are expected to be sufficient to maintain the operations through the 2022, the airline will explore the options to raise additional funding in 2022 to provide liquidity buffers in case the market recovers slower than expected.

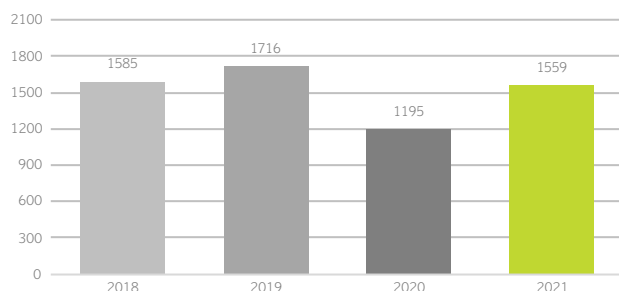
TAXES

In 2021, the Group contributed taxes of approximately EUR 13.5 million to the Republic of Latvia. Of the taxes paid: EUR 8.2 million were social security tax (employer and employee), EUR 3.6 million were personal income tax, EUR 1.5 million were corporate income tax, EUR 0.2 million were other taxes.

PERSONNEL

At the end of 2021, the Group employed approximately 1.6 thousand people, which is 30.5% growth over previous year. The increase in headcount was driven by increased traffic levels compared to 2020 and by the expectations of significant market recovery in 2022 which due to significant lead times for hiring and training crew already impacted the number of crew in the fourth quarter of 2021.

Group employee headcount (year end)



Currently the Group employs more than 30 different nationalities; average age of employees – 35; average length of employment in the Group – 6,7 years. Proportion between men and women is 54/46.

In 2021 the Group initiated a negotiation process with four trade unions representing the Group employees to revise the collective agreement which was effective since 2009. Representatives of the Group and the trade unions acknowledged the necessity to review the previously agreed terms of the Collective Agreement and to update it in accordance with more modern needs of employees and business operations.

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

AIR BALTIC CORPORATION AS

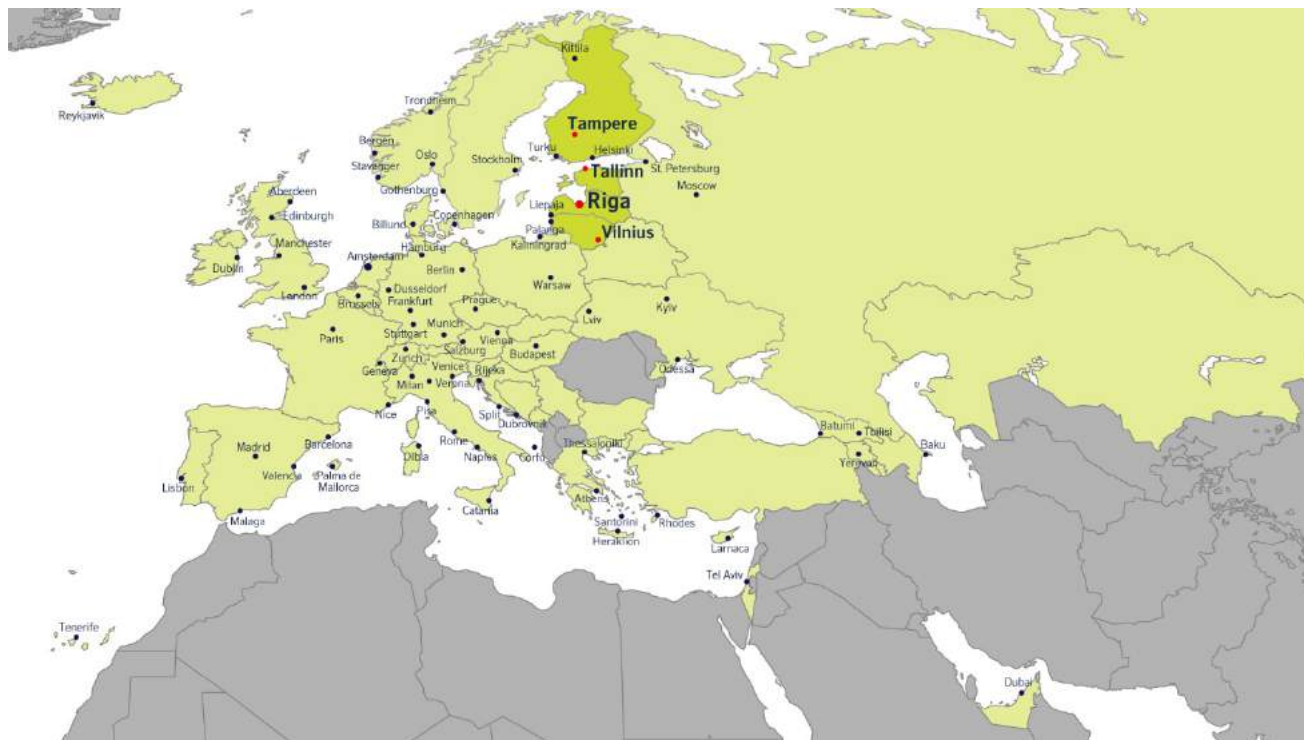
KEY EVENTS AND MILESTONES IN 2021

- The airline continued the expansion of its fleet accepting seven new A220-300 aircraft and four PW1521G spare engines.
- Based on continued COVID-19 pandemic impact on the air travel industry, airBaltic updated its business plan to reflect slower market recovery. This business plan was the basis for the decision of the government of Latvia to approve investment of additional EUR 90 million in the equity of airBaltic.
- To improve punctuality, regularity and overall service level, in the fourth quarter, airBaltic insourced significant part of the ground handling services in its main base – Riga airport.
- The airline initiated the design phase for a heavy maintenance hangar to be built at its Riga base by the end of 2023.
- AirBaltic operated record number of routes in airlines history and opened several significant new destinations such as Dubai and Tenerife.
- AirBaltic signed codeshare agreements with Lufthansa and Emirates thus increasing the number of code share partners to 24 active agreements.
- In December, airBaltic announced opening a new base in Tampere, Finland, which is its first base outside of the Baltic states.

NETWORK & STRATEGY

In 2021 as the COVID-19 pandemic continued to negatively affect air travel, airBaltic continued its flexible approach of introducing new flights when it was commercially feasible and of cancelling

loss-making flights when various government restrictions negatively impacted demand for certain destinations. The airline focused on limiting exposure to flights that would not cover the variable costs.



Number of routes operated from Baltic countries	2020 actual	2021 actual	2022 planned
Riga	55	72	73
Tallinn	11	12	12
Vilnius	10	10	10
Tampere	-	-	6

MARKET DEVELOPMENT

The significant uncertainty caused by various government restrictions related to the pandemic had affected the overall demand for air travel, mainly following the pandemic trends:

- Significant change in booking pattern by passengers. For example, throughout the 2021, about 80% of incoming booked revenue was only for the travel period for 8 weeks beyond the booking date. This was significantly higher proportion compared to pre pandemic period when passengers booked flights further out. This lack of baseload drove the need for many short-term adjustments to the network capacity in order to ensure cash positive operations.
- Slow recovery of corporate traffic compared to pre-pandemic levels meant a slow return of capacity on previous high frequency routes. Corporate travel was coming back however at a slow pace. Corporate travel patterns and policies have changed, affecting this segment. However – also in the

corporate segment – travel sector like marine traffic and construction business have proven to be resilient pillars of airBaltic's customer portfolio.

- Fast recovery of tourism and "VFR" (visiting friends and relatives) traffic made a diversification of airBaltic network portfolio necessary; especially in 2021 airBaltic invested in widening its presence in the touristic segment and in offering key VFR routes from Riga but also from Tallinn and Vilnius.
- Important third country markets (markets outside the EU) remained partly difficult to access for epidemiological and/or aeropolitical reasons. Especially for airBaltic important market of the Russian Federation remains heavily regulated. AirBaltic operated only around 15% of pre-pandemic capacity to/from destinations in the Russian Federation due to epidemiological/aeropolitical restrictions.
- The lower and changed demand negatively affected the number of flights and overall connectivity that airBaltic could offer to its passengers in particular in its home market – Latvia. This meant that the number of convenient connections for the transfer passengers was significantly lower than in the pre COVID-19 era. The airline managed to increase its transfer traffic share to 30%, an increase compared to 2020, however the transfer traffic was still below the 2019 levels when it was 45%.



- Despite the lower capacity and challenging market conditions, the airline operated more routes in 2021 than in 2019 with most notable new destinations being Dubai and Tenerife.

- Also, a significant milestone in airBaltic's network and connectivity development was the codeshare agreement with Lufthansa, which was signed in the first quarter of 2021. With the addition of Emirates to its partner portfolio, the overall number of codeshare partners increased to 24.

Due to significantly lower and unpredictable demand in the Baltic states, the airline sought to sell its spare capacity through the ACMI services to other carriers. In 2021, the airline restarted ACMI operation, contracting Flyr (Norway), Scandinavian Airlines (SAS) and Eurowings over the winter season 2021/22. With on average three aircraft leased out in the last two month of 2021, those contracts form the basis for significantly enlarged ACMI operation in 2022 where airBaltic has total of nine aircraft leased out in ACMI service.

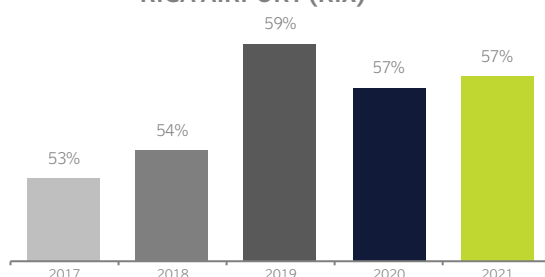
Despite significantly lower operational scale and connectivity options as well as significant competitive pressures from the low-cost competition, airBaltic managed to maintain the number one market shares in Riga and Tallinn airports in 2021.

OPERATING PERFORMANCE

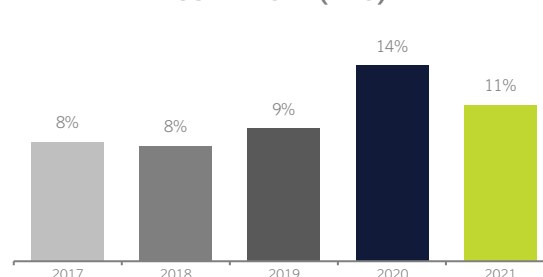
In 2021, the airline continued to operate significantly below its capacity levels due to COVID-19 pandemic. And even though the number of flights and seat capacity increased compared to 2020 it was still below 2019 levels by significant margin – the flights were down by 63% and the seat capacity was down by 52% against 2019. As the travel restrictions were gradually lifted during the first half of 2021, the airline gradually ramped up its capacity for the summer season.

In the second half of the year the airline saw significant demand increase and the operations were on a good recovery trajectory (total passengers: 209 thousand in July 2021 and 282 thousand in August 2021 compared to 152 thousand in July 2020 and 138 thousand in August 2020) until a new COVID-19 wave hit Latvia in October when the government of Latvia declared the state of emergency which was expected to continue until the end of March 2022. Despite the new COVID-19 wave affecting the Baltics and also later several other European countries in the fourth quarter, the airline saw significant boost in operational performance if compared to the same period of 2020 – the load factors increased from 34% to 53% and the number of carried passengers from 161.9 thousand to 575.5 thousand.

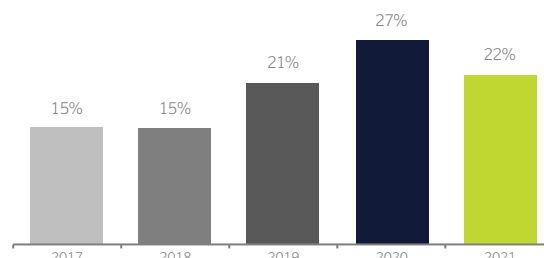
RIGA AIRPORT (RIX)



VILNIUS AIRPORT (VNO)



TALLINN AIRPORT (TLL)



OPERATING PERFORMANCE

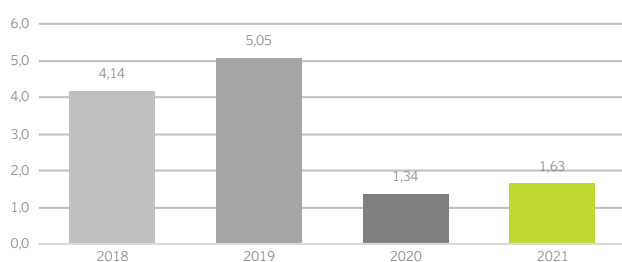
	2021	2020	Change
Capacity			
Number of aircraft at end of period*	44	37	19%
Utilization (block hours per aircraft per day)	4.80	3.69	30%
Total block hours	47 855	38 794	23%
Total flight hours	41 208	32 539	27%
Flights	23 444	22 342	5%
Average departures per day per aircraft	2.3	2.1	10%
Seat capacity ('000)	3 319	2 776	20%
Average aircraft stage length (km)	1 213	1 057	15%
Total ASKs ('000 km)	4 027 037	2 818 585	43%

* Including the phased out and grounded De Havilland Q400 fleet of 12 aircrafts

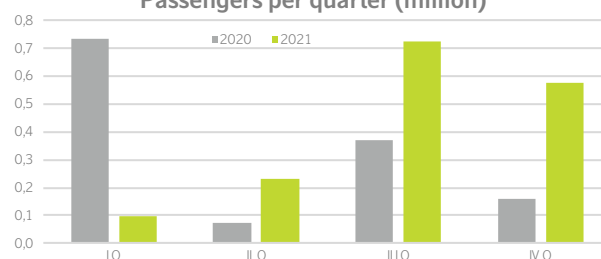
Operating data

RPKs (revenue passenger kilometres) ('000)	2 158 006	1 455 488	48%
Load factor (%)	53.6%	51.6%	2.0%
Number of passenger segments ('000)	1 628	1 341	21%

Passengers (million)



Passengers per quarter (million)



PUNCTUALITY

Considering that airBaltic is a very important part of Latvia's transport infrastructure, the top priorities of airBaltic operations are safety, punctuality and high customer service. Only after ensuring the most essential requirements of flight safety and human health, then the responsibility of the airBaltic is to fulfil its promises of operations regularity and on-time punctuality.

One of the main targets for airBaltic is to ensure that 99% of all planned flights are performed within scheduled times and high standard customer service is provided. The punctuality and regularity deteriorated due to challenging operational environment in Riga. To address the service level issues airBaltic decided to in-source significant part of the ground-handling operations as of year 2022. For the last 18 years, the Company outsourced the ground handling at the Riga Airport. During the pandemic, airBaltic revised its products and service to focus on delivering the core brand values, which include a strong focus on all passenger touchpoints.

Consequently, on April 2021 airBaltic announced that as of January 2022 airBaltic will perform its passenger handling and flight coordinator duties at Riga Airport with its own staff.

At the same time, as an outcome of open tender announced by airBaltic, Riga Airport Ground Handling was awarded to provide ramp-handling duties to airBaltic as of January 2022. Both sides have signed an agreement for five years.

The passenger service improvement at Riga Airport was a part of the cost improvement program of the airline thus simplifying its business and operations. Moreover, such decision enabled airBaltic to re-employ part of its former employees.

In 2021 airBaltic cancellation or regularity rate was 98.6% (2020: 99.9%) which the airline considered as positive achievement, given the unstable environment and demanding circumstances throughout the year. In 2021 airBaltic 15-minutes punctuality rate was 84.9% (2020: 94.6%).





FINANCIAL PERFORMANCE

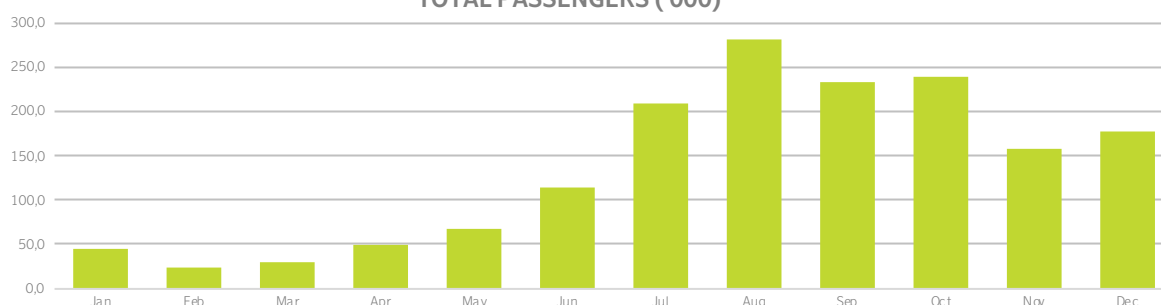
2021 was the first year when airBaltic operated solely with a single type A220-300 fleet and partially due to increasing efficiency, decreasing ownership costs per seat and increasing yields the airline has been able to generate significantly higher EBITDAR margins at similar levels of traffic compared to pre COVID-19 period.

In 2021, the airline revenues were EUR 201.8 million which was a 44% increase over 2020.

The second half of the year was significant improvement over the first half with peak month being August during which the airline transported 281.5 thousand passengers and also recorded the first breakeven month on a net income basis since the beginning of the pandemic.

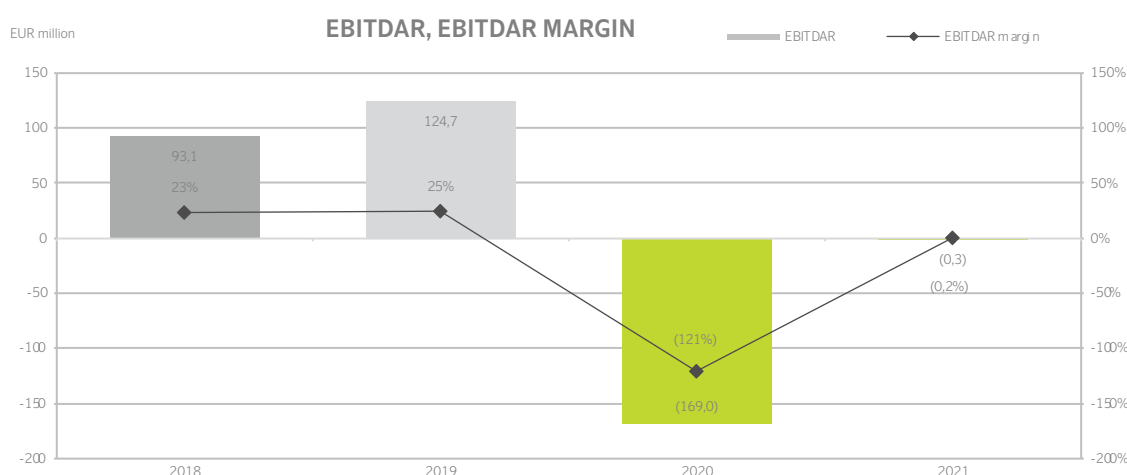
Considering that the average load factor in August was 53%, the average aircraft utilization only at 7.3 block hours per day while the market fuel prices were on average at USD 609 per ton, achieving a net-breakeven month demonstrates the improvement in the operational and commercial efficiency that can be achieved with the new single type fleet approach.

TOTAL PASSENGERS ('000)



The increasing fuel costs combined with overall depressed market demand were the two major factors negatively impacting the financial performance in 2021. The average market fuel price increased from USD 366.4 per ton in 2020 to USD 604.5 per ton in 2021. Fuel cost increase was further affected by steep rise in the price of the carbon emissions allowance where the cost increased from average EUR 20 in 2020 to EUR 80 in December of 2021.

Due to significant uncertainty about the scale of the operations for 2021 and respective fuel consumption levels, the airline had temporarily suspended its jet fuel hedging activities. For 2021 airBaltic had 6 thousand tons (7.61% of the total fuel consumption in 2021) of jet fuel hedged at the average price of USD 528 per ton. The table below shows overall airBaltic's EBITDAR1 and EBITDAR1 margins in 2021.



In 2021, the airline ended with a EUR 134 million loss of which EUR 25.6 million were due to USD and other foreign currency denominated liability revaluation based on the year-end USD/EUR

and other foreign exchange rates. Thus, the total losses during the two years of the pandemic have reached approximately EUR 412 million.

MANAGEMENT REPORT

(EUR thousands, except where otherwise stated)

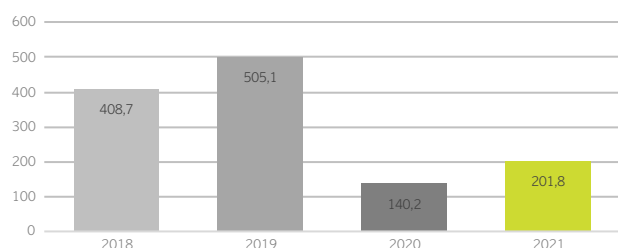
2021

2020

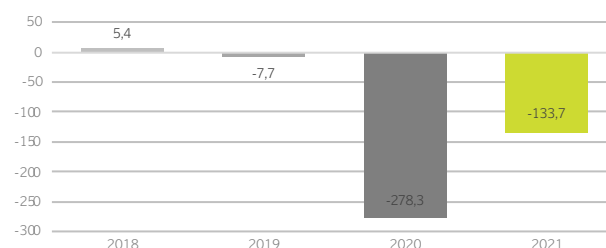
Financial metrics

Revenue	201 756	140 152
Passenger revenue	180 179	127 970
Ticket revenue	162 261	116 102
Ancillary revenue	17 918	11 868
EBITDAR ¹	(347)	(169 047)
EBITDAR ¹ margin	(0.2%)	(121%)
EBITDAR ²	(347)	(65 888)
EBITDAR ² margin	(0.2%)	(47%)
EBIT	(82 393)	(217 415)
Net result	(133 651)	(278 267)
Net debt	855 763	651 815
Cash and cash equivalents	79 155	147 981
Yield (EUR cents)	8.2	8.5
RASK (EUR cents)	5.06	5.26
CASK (EUR cents)	(6.38)	(9.83)
CASK ex fuel (EUR cents)	(5.07)	(8.18)

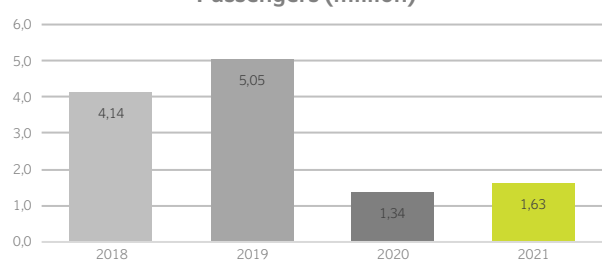
Total revenue (EUR million)



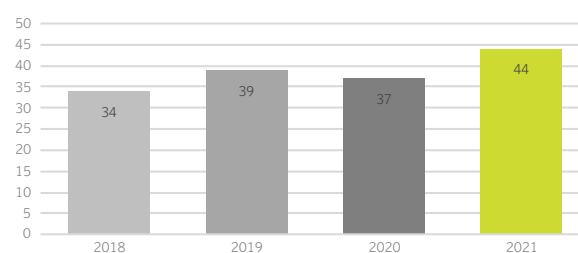
Net Income (EUR million)



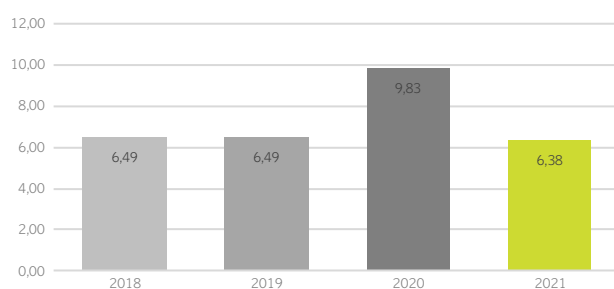
Passengers (million)



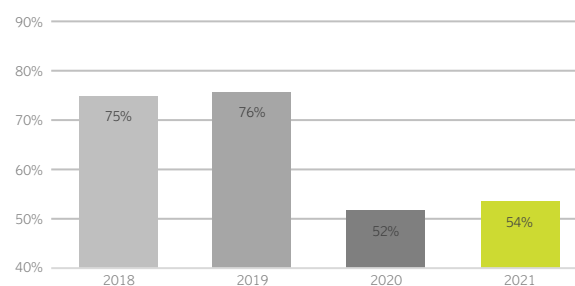
Year-end Fleet



Cash (EUR cents)



Load Factor



FLEET RENEWAL

During 2021, the Company incorporated 7 additional Airbus A220-300 aircraft into its fleet thus the total number of A220s reached 32. As of the date of this report the airline had a total fleet of 44 aircraft – 32 A220-300s and 12 Q400s, latter of which are placed into storage and maintained to be returned to the lessor at the end of the leasing contract. The airline used sale and lease back financing to finance all seven A220-300 deliveries. As the orderbook for A220-300 aircraft type had been increasing, including adoption of this type by many leading global carriers, airBaltic has observed ever increasing interest from the lessor community to participate in our sale and leaseback RFPs and as a result the financial terms have been improving year over year. Overall, the updated business plan ABOVE 2026 still targets airBaltic to increase its fleet to 50 aircraft by the end of 2024 and to add 8 new A220-300 during 2022. As of the date of this report the first four aircraft deliveries of 2022 have already been financed through a sale and leaseback transaction.

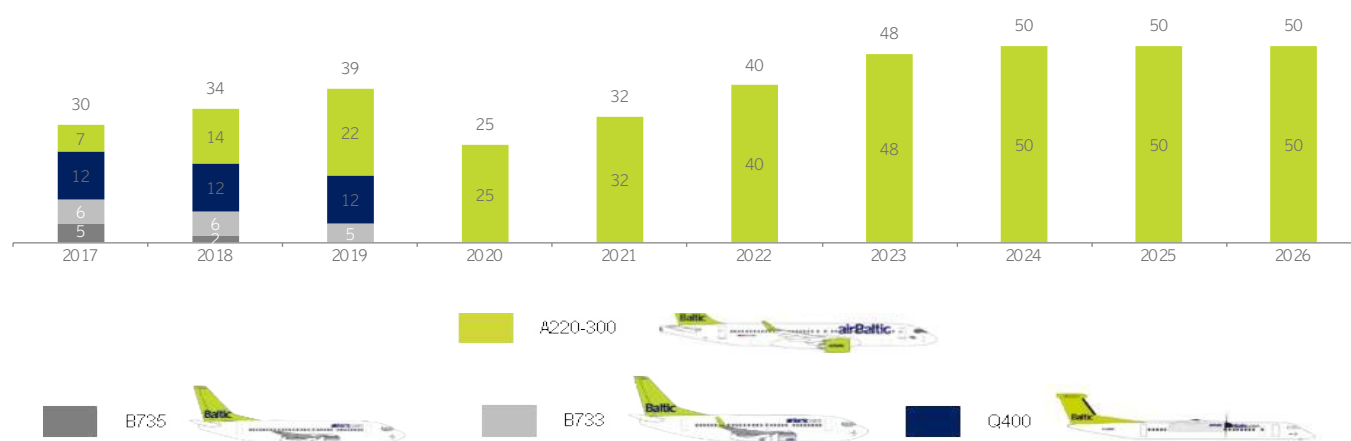
In 2021, the airline also took delivery of four PW1521G aircraft spare engines which were financed by Export Development Canada. In total the airline expects to increase its spare engine capacity to seven before the end of 2023.



To support the A220-300 fleet increase, the airline had initiated the design process for an MRO facility at the Riga airport which is intended to provide heavy maintenance services for airBaltic's expanding fleet and also potentially to third parties operating A220-300. The construction of the MRO facility is expected to begin in 2022 and end in 2023.

As airBaltic was the launch customer for A220-300s and currently has the largest fleet of this aircraft type in Europe, the airline is well positioned to offer its maintenance competence to third parties.

YEAR END OPERATING FLEET



CASH FLOW AND LIQUIDITY

In 2021, the airBaltic was able to significantly reduce the negative cash flow from the operating activities – over EUR 80 million improvement compared to 2020. However, as the aviation sector was significantly affected by the COVID-19 pandemic, the overall cash flow for 2021 remained substantially negative.

To strengthen airBaltic's liquidity and mitigate the impact of the pandemic, in August of 2021, the Government of Latvia approved EUR 90 million equity investment of which EUR 45 million were received in December. The airline expects to receive the remaining EUR 45 million by the end of April 2022. The airline is also considering additional sources of financing, including potentially raising funds in the international bond markets, in order to further

strengthen its liquidity. The Parent company expects that on top of the cash balance of EUR 79 million at the end of 2021, an additional EUR 45 million investment to be received by the end of the first quarter of 2022, together with cash received from operating activities and provided the post-COVID-19 recovery is in line with industry's current expectations, the liquidity is expected to be sufficient for the airline to meet its liquidity needs for 2022 assuming a minimum capital investment program. However, the airline plans to explore the options available to it for raising additional funds in 2022 to provide liquidity buffers in case the market recovers slower than expected and to fund an accelerated capex program.

EUR thousand	2021	2020	Change
Cash and cash equivalents at the beginning of the year	147 981	123 217	24 764
Net cash used in operating activities	(9 990)	(90 784)	80 794
Net cash used in investing activities	(6 503)	(26 053)	19 550
Net cash (used in) / generated from financing activities	(52 333)	141 601	(193 934)
Cash and cash equivalents at the end of the year	79 155	147 981	(68 826)

SHAREHOLDERS' STRUCTURE AND EQUITY

On 17 January 2022 the shareholder structure changed due to the Latvian Government's equity investment of EUR 45 million. As a result the Government increased its stake up to 97.03%. According to the previous decision of the European Commission in the case No.SA.56943 as of July 03, 2020, the state is encouraged to exit

from its COVID-19 shareholding down to at least 80% during the coming 5 to 7 years. Therefore the airline will most probably seek to conduct an initial public offering during the course of the next three years to provide the avenue for such divestment. The shareholders structure as at 31 December 2021 was as follows:

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

The shareholders structure after the capital increase was registered at the Register of Enterprises on 17 January 2022 is as follows:

	Participating interest %	A category shares	B category shares	C category shares	Share capital TEUR
Republic of Latvia	97.03	205 318 668	743 231 511	720 305 467	500 319
Aircraft Leasing 1 SIA	2.97	51 152 036	-	-	51 152
Other	0.00012	2 120	-	-	2
	100	256 472 824	743 231 511	720 305 467	551 473

LEGAL RISKS

As of the date of this report airBaltic is a party in several lawsuits described in detail in the Note 32 (b) of the Financial statements. The status and strategy in each of the litigation processes are closely monitored by the Management of airBaltic with the assistance of its advisors and several reputable law firms. The

Management cannot be certain of the outcome of each single court case. However, management believe they have taken a prudent approach in assessing any hypothetical negative decisions and the necessary action steps have been taken to ensure that the assets and operations of the Company are not jeopardized.

COVERAGE OF LOSSES

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

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.

Due to COVID-19 restrictions the ABT reorganized most of theoretical trainings from regular classroom to on-line platforms. Also practical flight trainings were halted during the first quarter of the year. Later in March, the practical trainings were re-started with increased flying activities during summer to reduce accumulated flight training delays. All above mentioned factors increased the duration of entire course for some of the students resulting in unplanned expenses which were not compensated by proportional increase in revenues. In addition, the number of pilot-students joining the program during 2021 decreased due to COVID-19 travel restrictions into Latvia making them difficult to arrive for aptitude testing which is mandatory to start the course. As a result, the amount of the students joining 2021-2023 programs declined by 40%.

Due to the pandemic's ongoing impact on international air travel and gradual phasing out of B737CL aircrafts in European market, which was main market for our B737CL FFS, the demand for B737CL (classic 300-900 model) training dropped by 85-90%. After careful evaluation of above mentioned factors the management of the ABT decided to sell almost fully depreciated B737CL full flight simulator at a very good price which helped to stabilize the financial result of the company.

General Aviation maintenance base at Liepaja airport, Latvia established in 2019 and certified as the Diamond Aircraft Service center in 2020 increased the number of third party customers for related services. The number of repaired aircraft increased during the year for Lithuanian customers with rising interest from Scandinavia and Russia. Resale of spare parts for other Diamond aircraft operators, which is part of Diamond Service Center activities, generated additional income to the ABT as well.

PART-147 maintenance training is one of the fastest growing products in our portfolio with continuous increase of A220

(theoretical and practical) trainings to customers during 2021. The course is gaining attraction from increasing number of customers from growing fleet of A220 across the globe, with emphasis on Europe, Russia, Middle East and Africa regions.

Important milestone during 2021 was very successful first aviation maintenance mechanics graduation from Liepajas Valsts Tehnikums (LVT) - the program jointly established by LVT and ABT. It allows to assure the constant supply of qualified aviation technicians for future growth of both: Air Baltic training General Aviation Services and Air Baltic Corporation.

Air Baltic Training SIA also received European Cabin Crew Training Organization status after successful certification process by Latvian Civil Aviation Authority at the end of 2021. This will allow to diversify the businesses and expand the services for cabin crew trainings.

The net result for the financial year was a loss of EUR 327 thousand. The management of the subsidiary is confident that the positive business development will be maintained during the third and the fourth quarters of 2022 after governmental plans to ease COVID-19 restriction across the Europe during the first two quarters of 2022. In accordance with IATA data there is a growing need for commercial pilots for upcoming year already as part of furloughed pilots are not returning to previous positions. This will create additional demand for pilot trainings. We expect that the number of initial pilot training program (Pilot Academy) students will increase from current 71 to 100 by the end of 2022. There are 4 new initial pilot training groups planned in 2022 with 40 new students joining integrated Air Transport Pilot Training courses.

The fleet of Diamond aircraft for the training will consist of 1 DA42 and 8 DA40 aircraft to accommodate the training needs. In accordance with the changes in the general purchase agreement with "Diamond Aircraft Industries GmbH" driven by COVID-19 crisis the ABT will postpone planned purchase of additional Diamond DA40NG and will move it into the second quarter of 2023 to accommodate expected increase of students during 2023.

BALTIJAS KRAVU CENTRS SIA

Baltijas Kravu Centrs SIA operates at Riga International Airport since 1 February 2001. The subsidiary is the largest cargo handling company at Riga International Airport in terms of cargo turnover and the number of flights handled.

During the reporting year the subsidiary handled 8 746 tons of cargo and mail, which is 12% more than in 2020. Total revenue increased to EUR 702 thousand. The result for the year 2021 is loss of EUR 96 thousand.

In 2021 Baltijas Kravu Centrs SIA together with the Parent company won the tender for the construction rights of a new air cargo handling terminal at Riga International Airport. The construction is scheduled to be completed by 2024.

AVIATION CREW RESOURCES AS

Aviation Crew Resources AS (hereinafter – also the 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.

During 2021 the total number of contracted crews increased from 200 pilots at the beginning of the year to 264 pilots at the year-end. The aim for 2022 is to have 320 A220 aircraft type pilots by the beginning of the summer.

LOYALTY SERVICES SIA

Loyalty Services SIA (hereinafter – also the LS) was established on 11 February 2010 with the purpose to take over the frequent flyer program of Air Baltic Corporation AS and to continue its development. In recent years the core focus of Loyalty Services SIA was providing tailor made loyalty solutions to travel companies and retailers.

As of the beginning of the COVID-19 pandemic the revenues of LS dropped significantly and the management initiated the restructuring of the LS business model. In August 2021 the loyalty program, including business-related assets and liabilities, was sold to the largest partner and the sole shareholder - airBaltic. Until the date of the business purchase agreement, the LS continued to fully operate the airBaltic Club loyalty program. In December 2021 the Loyalty Services SIA was liquidated.

GOING CONCERN

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

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

SUBSEQUENT EVENTS

In February of 2022, with Russia's military invasion of Ukraine and subsequent closure of both Russian and Ukrainian airspace, the airline had to discontinue its operations to both of these countries. Approximately 10% of the passengers were expected to come from these two markets in 2022, and therefore, the war in Ukraine has material impact on the airline's expected performance. To adjust the airline's management has decided to reallocate its capacity to other destination and ACMI operations. The impact of the war in Ukraine is difficult to assess due to the potential second order effects such as impact on the jet fuel price and the demand for travel to the Baltic states due to potential security concerns. Further analysis of the scenarios and the impact of the Ukraine war is included in the Note 2 (b).

The increase in the share capital of the Parent company was registered in the Register of Enterprises in January 2022, as a result the Government increased its stake up to 97.03%.

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 2021 and should be reflected in this report.

NON-FINANCIAL REPORT

Air Baltic Corporation AS has prepared a non-financial report in accordance with the Law on the Financial Instruments Market (Article 56.4).

Non-financial report is in accordance with the GRI Standards. For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, and non-financial key performance indicators, please see the Sustainability Report 2021 which is available on the airBaltic website: <https://www.airbaltic.com/en-LV/index>. The report is prepared in accordance with the GRI Standards – Core option requirements.

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

STATEMENT OF MANAGEMENT RESPONSIBILITY

Based on the information available to the Executive Board, these financial statements for 2021 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and cash flows of the Parent company and the Group. The information provided in the Management report is accurate.



MARTIN ALEXANDER GAUSS
Chairman of the Executive Board



VITOLDS JAKOVĻEVS
Member of the Executive Board



PAULS CĀLĪTIS
Member of the Executive Board

INCOME STATEMENT

		AIR BALTIC		GROUP	
	Note	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
OPERATING REVENUE					
Revenue and other income	5	195 908	137 915	198 259	142 588
Other revenue	6	5 848	2 237	5 848	2 237
		201 756	140 152	204 107	144 825
OPERATING EXPENSES					
Airport, handling and en route charges		(54 336)	(39 782)	(53 853)	(39 782)
Fuel		(52 841)	(46 523)	(52 841)	(46 523)
Amortization and depreciation	16,17,19	(50 827)	(63 553)	(51 604)	(64 624)
Personnel costs	7	(31 732)	(32 473)	(51 830)	(58 009)
Pilot services		(20 176)	(25 726)	-	-
Other operating costs	8	(17 561)	(43 138)	(18 736)	(42 818)
Marketing and ticket sales costs		(14 217)	(17 517)	(14 268)	(18 038)
Aircraft maintenance		(9 960)	(17 237)	(9 960)	(17 237)
Aircraft and similar lease		(4 365)	(7 595)	(4 365)	(7 595)
Passenger service		(2 998)	(2 519)	(2 998)	(2 519)
Reversals of impairment losses / (impairment losses) on investments in subsidiaries	10	1 027	(12 080)	-	-
Claim compensation		691	687	691	687
Net impairment charges on right-of-use assets	17	-	(72 891)	-	(72 891)
Expenses of current activities		(257 295)	(380 347)	(259 764)	(369 349)
Provisions for legal disputes	11	(312)	(11 500)	(312)	(11 500)
		(257 607)	(391 847)	(260 076)	(380 849)
FINANCE INCOME / (EXPENSES)					
Finance costs	12	(51 374)	(49 478)	(51 519)	(49 727)
Foreign currency exchange (loss) / gain, net	13	(26 854)	22 780	(26 855)	22 775
Finance income	14	428	126	153	108
		(77 800)	(26 572)	(78 221)	(26 844)
LOSS BEFORE TAX		(133 651)	(278 267)	(134 190)	(262 868)
Corporate income tax	15	-	-	(1 528)	(1 729)
LOSS FOR THE YEAR		(133 651)	(278 267)	(135 718)	(264 597)

The notes on pages 106 to 150 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Note	AIR BALTIC		GROUP	
		2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
LOSS FOR THE YEAR		(133 651)	(278 267)	(135 718)	(264 597)
ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS					
(Loss) / gain on cash flow hedges		-	(480)	-	(480)
Hedging gains / (loss) reclassified to profit or loss	23	480	(1 839)	480	(1 839)
		480	(2 319)	480	(2 319)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS					
Depreciation of revaluation reserve		(310)	(310)	(303)	255
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		170	(2 629)	177	(2 064)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(133 481)	(280 896)	(135 541)	(266 661)

The notes on pages 106 to 150 form an integral part of these financial statements.

BALANCE SHEET

		AIR BALTIC		GROUP	
ASSETS	Note	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
NON-CURRENT ASSETS					
Property, plant and equipment	16	74 472	39 990	81 752	47 584
Right-of-use assets	17	696 921	591 863	696 921	591 863
Investment properties	18	2 850	2 850	-	-
Intangible assets	19	19 261	18 029	18 027	18 566
Investments in subsidiaries and other investments	20	409	1 647	3	3
Prepayments for acquisition of property, plant and equipment		47 491	61 163	47 640	61 461
Trade and other receivables	22	25 945	24 895	25 732	24 780
		867 349	740 437	870 075	744 257
CURRENT ASSETS					
Inventories	24	7 575	4 963	7 659	5 054
Prepaid expenses		45 945	31 849	46 001	31 932
Trade and other receivables	22	22 844	13 132	22 193	11 493
Cash	25	79 155	147 981	79 314	148 305
		155 519	197 925	155 167	196 784
TOTAL ASSETS		1 022 868	938 362	1 025 242	941 041
EQUITY AND LIABILITIES					
EQUITY					
Share capital	26	506 473	506 473	506 473	506 473
Other contributions	26	2 490	2 299	2 490	2 299
Revaluation reserve		3 347	3 657	3 494	3 797
Reorganization reserve	26	1 932	1 932	-	-
Cash flow hedging reserve	23	-	(480)	-	(480)
Accumulated loss:					
accumulated loss brought forward		(499 250)	(220 983)	(495 050)	(230 453)
loss for the year		(133 651)	(278 267)	(135 718)	(264 597)
TOTAL EQUITY		(118 659)	14 631	(118 311)	17 039
LIABILITIES					
NON-CURRENT LIABILITIES					
Lease liabilities	27	602 083	500 052	602 083	500 052
Borrowings	27	247 767	233 300	247 767	233 300
Financial injections from the shareholders (with the intention to capitalise)	26	45 000	-	45 000	-
Provisions	28	35 814	54 703	35 814	54 703
Tax liabilities	30	6 571	4 627	6 766	4 837
		937 235	792 682	937 430	792 892
CURRENT LIABILITIES					
Lease liabilities	27	77 329	60 690	77 329	60 690
Trade and other payables	29	39 056	31 023	37 964	27 345
Contract liabilities and airport taxes	31	38 942	25 952	38 984	26 572
Provisions	28	34 799	5 586	34 799	5 586
Tax liabilities	30	6 427	1 564	7 132	2 095
Borrowings	27	7 739	5 754	9 915	8 342
Derivative financial instruments	23	-	480	-	480
		204 292	131 049	206 123	131 110
TOTAL LIABILITIES		1 141 527	923 731	1 143 553	924 002
TOTAL EQUITY AND LIABILITIES		1 022 868	938 362	1 025 242	941 041

The notes on pages 106 to 150 form an integral part of these financial statements.

CASH FLOW STATEMENT

		AIR BALTIC		GROUP	
	Note	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES					
LOSS BEFORE TAX		(133 651)	(278 267)	(134 190)	(262 868)
Adjustments for:					
Depreciation and amortisation	16,17,19	50 827	63 553	51 604	64 624
Interest expense	12,14	50 100	48 029	50 223	48 164
Foreign exchange loss / (gain)	13	25 619	(23 288)	25 619	(23 288)
Change in provisions and financial liabilities	28	17 070	39 726	17 070	39 726
(Profit) / loss from disposal of property, plant and equipment		(7 268)	85	(6 635)	232
(Reversal of impairment) / impairment of investment in subsidiaries	20	(1 027)	12 080	-	-
Interest income		(153)	(126)	(153)	(108)
Net impairment losses on right-of-use assets	17	-	72 891	-	72 891
Fair value adjustment to investment property	18	-	2 080	-	-
OPERATING PROFIT / (LOSS) BEFORE WORKING CAPITAL CHANGES		1 517	(63 237)	3 538	(60 627)
Increase / (decrease) in payables		18 097	(32 187)	20 250	(31 352)
(Increase) / decrease in receivables		(23 110)	3 388	(24 073)	4 623
Increase in deposits		(3 882)	(544)	(3 882)	(545)
(Increase) / decrease in inventories		(2 612)	1 796	(2 605)	1 808
Corporate income tax paid		-	-	(1 511)	(3 254)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(9 990)	(90 784)	(8 283)	(89 347)
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances paid for aircraft		(31 873)	(16 227)	(31 873)	(16 227)
Acquisition of property, plant and equipment and intangible assets		(13 462)	(24 594)	(12 533)	(25 947)
Refund of advances paid for aircraft		29 267	6 217	29 267	6 217
Proceeds from sale of property, plant and equipment		7 297	8 544	7 297	8 544
Proceeds from liquidation of subsidiary	20	2 261	-	-	-
Interest received		3	15	3	15
Purchase of shares in subsidiary		4	(8)	-	-
NET CASH USED IN INVESTING ACTIVITIES		(6 503)	(26 053)	(7 839)	(27 398)
CASH FLOWS FROM FINANCING ACTIVITIES					
Lease principal payments	27	(66 453)	(60 394)	(66 693)	(60 394)
Interest paid		(46 599)	(48 005)	(46 720)	(48 142)
Financial injections from the shareholders (with the intention to capitalise)	26	45 000	-	45 000	-
Borrowings received	27	15 959	-	15 959	-
Repayment of borrowings	27	(240)	-	(415)	(233)
Proceeds from the issue of share capital	26	-	250 000	-	250 000
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES		(52 333)	141 601	(52 869)	141 231
(Decrease) / increase in cash		(68 826)	24 764	(68 991)	24 486
Cash at the beginning of the reporting year		147 981	123 217	148 305	123 819
CASH AT THE END OF THE REPORTING YEAR	25	79 155	147 981	79 314	148 305

The notes on pages 106 to 150 form an integral part of these financial statements.

AIR BALTIC STATEMENT OF CHANGES IN EQUITY

	Share capital TEUR	Other contribu- tions TEUR	Reval- uation reserve TEUR	Reorgan- ization reserve TEUR	Cash flow hedging reserve TEUR	Accumu- lated loss TEUR	Loss for the year TEUR	TOTAL TEUR
31.12.2019	256 473	2 511	3 967	1 932	1 839	(213 254)	(7 729)	45 739
COMPREHENSIVE INCOME								
Loss for the year	-	-	-	-	-	-	(278 267)	(278 267)
Other comprehensive income	-	-	(310)	-	(2 319)	-	-	(2 629)
TOTAL COMPREHENSIVE LOSS	-	-	(310)	-	(2 319)	-	(278 267)	(280 896)
Increase in share capital	250 000	-	-	-	-	-	-	250 000
Currency translation difference	-	(212)	-	-	-	-	-	(212)
Allocation of prior year result	-	-	-	-	-	(7 729)	7 729	-
31.12.2020	506 473	2 299	3 657	1 932	(480)	(220 983)	(278 267)	14 631
COMPREHENSIVE INCOME								
Loss for the year	-	-	-	-	-	-	(133 651)	(133 651)
Other comprehensive income	-	-	(310)	-	480	-	-	170
TOTAL COMPREHENSIVE LOSS	-	-	(310)	-	480	-	(133 651)	(133 481)
Currency translation difference	-	191	-	-	-	-	-	191
Allocation of prior year result	-	-	-	-	-	(278 267)	278 267	-
31.12.2021	506 473	2 490	3 347	1 932	-	(499 250)	(133 651)	(118 659)

The notes on pages 106 to 150 form an integral part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital TEUR	Other contributions TEUR	Revaluation reserve TEUR	Cash flow hedging reserve TEUR	Accumulated loss TEUR	Loss for the year TEUR	TOTAL TEUR
31.12.2019	256 473	2 511	3 542	1 839	(221 339)	(9 114)	33 912
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(264 597)	(264 597)
Other comprehensive income	-	-	255	(2 319)	-	-	(2 064)
TOTAL COMPREHENSIVE LOSS	-	-	255	(2 319)	-	(264 597)	(266 661)
Increase in share capital	250 000	-	-	-	-	-	250 000
Currency translation difference	-	(212)	-	-	-	-	(212)
Allocation of prior year result	-	-	-	-	(9 114)	9 114	-
31.12.2020	506 473	2 299	3 797	(480)	(230 453)	(264 597)	17 039
COMPREHENSIVE INCOME							
Loss for the year	-	-	-	-	-	(135 718)	(135 718)
Other comprehensive income	-	-	(303)	480	-	-	177
TOTAL COMPREHENSIVE LOSS	-	-	(303)	480	-	(135 718)	(135 541)
Currency translation difference	-	191	-	-	-	-	191
Allocation of prior year result	-	-	-	-	(264 597)	264 597	-
31.12.2021	506 473	2 490	3 494	-	(495 050)	(135 718)	(118 311)

The notes on pages 106 to 150 form an integral part of these financial statements.

1. CORPORATE INFORMATION

Air Baltic Corporation AS (hereinafter also – airBaltic, the airline, the Company or the Parent company) was registered with the Republic of Latvia Enterprise Register on 8 February 1995. The registered office of the Parent company is at Tehnikas Street 3, Riga International airport, Marupe district, Latvia. The main shareholders of the airBaltic are the Republic of Latvia - holding 97.03% shares of the Parent company and Aircraft Leasing 1 SIA - holding 2.97% shares of the Parent company.

Air Baltic Corporation AS is the flag carrier of Latvia. Air Baltic Corporation AS is a Parent company of the airBaltic group (hereinafter – the Group) that includes the following entities (hereinafter together with airBaltic – the Group companies) (see Note 20):

- Baltijas Kravu Centrs SIA,
- Aviation Crew Resources AS,
- Air Baltic Training SIA,
- Loyalty Services SIA (liquidated in December 2021).

The separate financial statements and the consolidated financial statements (hereinafter together – the financial statements) for the year ended 31 December 2021 were approved by a resolution of the Parent company's Executive Board on 4 April 2022.

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 separate 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 in the classification of several items were introduced that led to the corresponding changes of the financial information for the year ended 31 December 2020 end for the year ended 31 December 2019 presented here as compared to already published financial statements accordingly for the year ended 31 December 2020 and 31 December 2019.

The key changes resulting from the reclassification reclassification (non-traffic revenue reclassified to the item "Revenue" and profit from sales and leaseback transactions reclassified to item "Other revenue") related to the Income Statement of 2019 are listed below.

	Reported 2019 TEUR	Change TEUR	Reclassified 2019 TEUR	Reported 2019 TEUR	Change TEUR	Reclassified 2019 TEUR
Revenue	500 001	3 280	503 281	502 255	6 700	508 955
Other revenue	3 280	(1 493)	1 787	6 700	(4 913)	1 787
OPERATING REVENUE	503 281	1 787	505 068	508 955	1 787	510 742
Other operating costs	(16 585)	(1 787)	(18 372)	(20 970)	(1 787)	(22 757)
OPERATING EXPENSES	(471 335)	(1 787)	(473 122)	(476 325)	(1 787)	(478 112)
LOSS BEFORE TAX	(7 729)	-	(7 729)	(7 238)	-	(7 238)

NOTES

The key changes resulting from the reclassification (non-traffic revenue reclassified to the item “Revenue” and profit from sales and leaseback transactions reclassified to item “Other revenue”) related to the Income Statement of 2020 are listed below.

	AIR BALTIC			GROUP		
	Reported 2020 TEUR	Change TEUR	Reclassified 2020 TEUR	Reported 2020 TEUR	Change TEUR	Reclassified 2020 TEUR
Revenue	135 934	1 981	137 915	138 921	3 667	142 588
Other revenue	1 981	256	2 237	3 667	(1 430)	2 237
OPERATING REVENUE	137 915	2 237	140 152	142 588	2 237	144 825
Other operating costs	(40 901)	(2 237)	(43 138)	(40 581)	(2 237)	(42 818)
Impairment losses on investments in subsidiaries	-	(12 080)	(12 080)	-	-	-
OPERATING EXPENSES	(366 030)	(14 317)	(380 347)	(367 112)	(2 237)	(369 349)
Impairment losses on investments in subsidiaries	(12 080)	12 080	-	-	-	-
LOSS BEFORE TAX	(278 267)	-	(278 267)	(262 868)	-	(262 868)

The key changes resulting from the reclassification related to the Balance Sheet for the year ended 31 December 2019 are listed below. Reclassification made to better reflect the substance and nature of the transactions, as well as to split positions in more details.

	AIR BALTIC			GROUP		
	Reported 31.12.2019 TEUR	Change TEUR	Reclassified 31.12.2019 TEUR	Reported 31.12.2019 TEUR	Change TEUR	Reclassified 31.12.2019 TEUR
ASSETS						
Property, plant and equipment	701 885	(645 861)	56 024	708 511	(645 861)	62 650
Right-of-use assets	-	645 861	645 861	-	645 861	645 861
Prepayments for acquisition of property, plant and equipment	-	42 336	42 336	-	42 336	42 336
Trade and other receivables	65 095	(42 336)	22 759	66 183	(42 336)	23 847
NON-CURRENT ASSETS	803 713	-	803 713	793 583	-	793 583
Prepaid expenses	-	25 015	25 015	-	25 015	25 015
Trade and other receivables	45 674	(25 015)	20 659	45 132	(25 015)	20 117
CURRENT ASSETS	177 489	-	177 489	177 653	-	177 653
TOTAL ASSETS	981 202	-	981 202	971 236	-	971 236
LIABILITIES						
Lease liabilities	60 958	385	61 343	60 958	385	61 343
Trade and other payables	62 688	(10 734)	51 954	60 222	(10 734)	49 488
Provisions	-	4 606	4 606	-	4 606	4 606
Borrowings	-	5 743	5 743	569	5 743	6 312
CURRENT LIABILITIES	162 124	-	162 124	161 748	-	161 748
TOTAL LIABILITIES	935 463	-	935 463	937 324	-	937 324

NOTES

The key changes resulting from the reclassification related to the Balance Sheet for the year ended 31 December 2020 are listed below. Reclassification made to better reflect the substance and nature of the transactions, as well as to split positions in more details.

	AIR BALTIC			GROUP		
	Reported 31.12.2020 TEUR	Change TEUR	Reclassified 31.12.2020 TEUR	Reported 31.12.2020 TEUR	Change TEUR	Reclassified 31.12.2020 TEUR
ASSETS						
Property, plant and equipment	631 853	(591 863)	39 990	639 447	(591 863)	47 584
Right-of-use assets	-	591 863	591 863	-	591 863	591 863
Prepayments for acquisition of property, plant and equipment	-	61 163	61 163	-	61 461	61 461
Trade and other receivables	82 931	(58 036)	24 895	83 114	(58 334)	24 780
NON-CURRENT ASSETS	737 310	3 127	740 437	741 130	3 127	744 257
Prepaid expenses	-	31 849	31 849	-	31 932	31 932
Trade and other receivables	48 108	(34 976)	13 132	46 552	(35 059)	11 493
CURRENT ASSETS	201 052	(3 127)	197 925	199 911	(3 127)	196 784
TOTAL ASSETS	938 362	-	938 362	941 041	-	941 041
LIABILITIES						
Lease liabilities	60 603	87	60 690	60 603	87	60 690
Trade and other payables	42 450	(11 427)	31 023	38 772	(11 427)	27 345
Provisions	-	5 586	5 586	-	5 586	5 586
Borrowings	-	5 754	5 754	2 588	5 754	8 342
CURRENT LIABILITIES	131 049	-	131 049	131 110	-	131 110
TOTAL LIABILITIES	923 731	-	923 731	924 002	-	924 002

The key changes resulting from the reclassification related to the Cash flow of 2019 statement are listed below. Reclassification made to better reflect the substance and nature of the transactions, as well as to split positions in more details.

	AIR BALTIC			GROUP		
	Reported 31.12.2019 TEUR	Change TEUR	Reclassified 31.12.2019 TEUR	Reported 31.12.2019 TEUR	Change TEUR	Reclassified 31.12.2019 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES						
LOSS BEFORE TAX	(7 729)	-	(7 729)	(7 238)	-	(7 238)
Adjustments for:						
Net interest expenses	40 223	(40 223)	-	40 360	(40 360)	-
Interest expenses	-	40 333	40 333	-	40 470	40 470
Change in provisions and financial liabilities	(6 755)	(4 606)	(11 361)	(6 755)	(4 606)	(11 361)
Interest income	-	(110)	(110)	-	(110)	(110)
OPERATING (LOSS) / PROFIT BEFORE WORKING CAPITAL CHANGES	99 943	(4 606)	95 337	103 755	(4 606)	99 149
(Decrease) / increase in payables	12 062	4 606	16 668	10 296	4 606	14 902
NET CASH FLOWS GENERATED FROM (USED IN) OPERATING ACTIVITIES	85 554	-	85 554	87 325	-	87 325

NOTES

The key changes resulting from the reclassification related to the Cash flow of 2020 statement are listed below. Reclassification made to better reflect the substance and nature of the transactions, as well as to split positions in more details.

	AIR BALTIC			GROUP		
	Reported 2020 TEUR	Change TEUR	Reclassified 2020 TEUR	Reported 2020 TEUR	Change TEUR	Reclassified 2020 TEUR
CASH FLOWS FROM OPERATING ACTIVITIES						
LOSS BEFORE TAX	(278 267)	-	(278 267)	(262 868)	-	(262 868)
Adjustments for:						
Net interest expenses	47 904	(47 904)	-	48 056	(48 056)	-
Interest expenses	-	48 029	48 029	-	48 164	48 164
Change in provisions and financial liabilities	33 203	6 523	39 726	33 204	6 522	39 726
Interest income	-	(126)	(126)	-	(108)	(108)
OPERATING (LOSS) / PROFIT BEFORE WORKING CAPITAL CHANGES	(69 760)	6 523	(63 237)	(67 150)	6 522	(60 628)
(Decrease) / increase in payables	(25 664)	(6 523)	(32 187)	(24 829)	(6 522)	(31 351)
NET CASH FLOWS GENERATED (USED IN)/FROM OPERATING ACTIVITIES	(90 784)	-	(90 784)	(89 347)	-	(89 347)

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2021

- *Covid-19-Related Rent Concessions – Amendments to IFRS 16* (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.
- *Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (effective for annual

periods beginning on or after 1 January 2021). Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:

- for instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform;
- end date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components;

- additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform;
- additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

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 2021 that would be expected to have a material impact to the Company and the Group.

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

- *Amendments to IFRS 4 – deferral of IFRS 9* (effective for annual periods beginning on or after 1 January 2023).
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).
- *IFRS 17 “Insurance Contracts”* (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).
- *Classification of liabilities as current or non-current – Amendments to IAS 1* (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management’s expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. ‘Settlement’ is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity’s own

equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

- *Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41* (effective for annual periods beginning on or after 1 January 2022):
 - The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
 - The amendment to IAS 37 clarifies the meaning of ‘costs to fulfil a contract’. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
 - IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise

contingent assets, as defined in IAS 37, at the acquisition date.

- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.
- *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy

disclosures.

- *Definition of Accounting Estimates* (Amendments to IAS 8) The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

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

b) Going concern

As of 31 December 2021, airBaltic had negative equity of over EUR 118 million, the Company's current liabilities exceeded its current assets by EUR 48.8 million and the cash balance at the end of the year was EUR 79 million. The Group expects to receive another EUR 45 million in equity investment from the Government of Latvia in 2022, in line with the Government's decision to invest EUR 90 million in the equity of airBaltic in August of 2021.

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.

There is material uncertainty arising from the continuing impact of COVID-19 related international travel restrictions and the war in Ukraine, war related travel restrictions and the potential knock-on effects such as impact on the price of fuel and potential decrease of demand for travel to the Baltic destinations that could affect the availability of sufficient funding in the event airBaltic's business recovers slower than expected over the next 12 months.

Even though, at the time of this report, there are fewer travel restrictions than in 2021 and there are positive indications that many governments are preparing to gradually lift all COVID-19 related restrictions during 2022, there is still uncertainty about the speed at which such restrictions will be lifted in various jurisdictions and about any potential setbacks that could negatively impact the travel market, if, for example, a new COVID-19 variant develops.

There are also significant travel restrictions that came into effect after Russian invasion of Ukraine in February 2022. As a result of those restrictions airBaltic had to cease its operations in Russia and Ukraine and redeploy the capacity towards other destinations and additional ACMI business. Assuming both Russian and Ukrainian markets stay closed for the rest of 2022, the negative impact on the passenger revenue is estimated to be EUR 25 million.

In order to estimate its cash flow projections, the airline has considered two key scenarios for the coming 12 months - "slow recovery" and "base case". Both scenarios assume that there will be no flying to Russia and Ukraine for the duration of the 12-month period. The scenarios also assume that the freed-up capacity (two aircraft) will be redeployed on ACMI contracts to other European carriers. The base case scenario predicts a gradual COVID-19 recovery through the second and third quarters of 2022 and is consistent with IATA industry recovery projections for 2022. Without the Ukraine war impact this scenario would have resulted in airBaltic generating approximately 80% of the passenger flow it had in 2019. However, assuming closed airspace over Russia and Ukraine for the remainder of 2022, it has further reduced the base case passenger flow to 71% of 2019 levels. Despite the

significant increase in the fuel price and overall highly inflationary environment, both scenarios assume the average passenger yield for 2022 to be at EUR 98.8 which is below the EUR 106 yield of 2021. If the yields remain at the 2021 levels, it should significantly improve the cash projections at the end of the year – every EUR 1 increase in the average yield generates about EUR 3.5 million in additional cash balance at the end of the year for the base case scenario and about EUR 3.2 million for the slow recovery scenario. The average load factor in the base case scenario is assumed at 67.4% while for the slow recovery scenario is assumed at 62%. In 2021, the average load factor was 53.6%.

The slow recovery scenario assumes greater negative impact from either COVID-19 or the Ukraine war on demand for the air travel and resulting assumption that the airline will carry only 65% of the passengers compared to the 2019 levels. On the cost side both scenarios assume historic high jet fuel average prices of about USD 1 050 per ton and a EUR/USD exchange rate of 1.1.

Both scenarios assume significant capacity sold on wet-lease to other European carriers – at the time of this report, the airline has signed contracts for 9 aircraft to be leased out on the ACMI basis for the period of the summer season of 2022 and is in the process of signing wet-lease contracts for additional 2 aircraft freed up from the Ukrainian and Russian destinations. The total of 11 aircraft on ACMI contracts, provided there are no defaults from the customers, should fulfil airBaltic's ACMI revenue targets for 2022. Both scenarios assume that the airline will be successful in arranging the financing for the four new A220-300 deliveries which are due to take place in the third and fourth quarters of 2022. As the aircraft are financed through the sale and leaseback transactions, they are cash positive events for the airline as it is able to recover the advance payments and a positive price difference for each aircraft.

Assuming the above scenarios and no additional financing beyond the EUR 45 million which is expected to be invested by the Government of Latvia by the end of April of 2022, the cash balance at the end of 2022, which also is the lowest level of cash balance in 2022, is projected to be in the range from EUR 2 million to EUR 32 million if either of the slow recovery or the base case scenario for 2022 or somewhere in between materialise. As the forward bookings in a typical year start generating significant positive working capital starting from mid February, the year end cash balance above EUR 10 million could be sufficient for the airline to sustain its operations until the start of the summer season even in the absence of outside sources of financing. These cash flow projections assume that the Company minimizes the capital investment amount to the levels that are necessary for the current operational scale but would postpone a number of non-critical investment projects to 2023. The total amount of capital investment to be shifted is estimated at EUR 40 million. According to the covenants of the EUR 200 million bond obligation if the cash balance drops below EUR 25 million the Parent company needs to remedy the situation within the period of 60 days. That is a maintenance covenant which is tested semi-annually and annually. If the Company is not able to remediate the cash balance above EUR 25 million within the remedy period of 60

days, the Management will be required to renegotiate with the bondholders. In case negotiations fail and liquidity covenant is not remedied within 60 days after the relevant notice has been given to the Parent company, EUR 200 million bonds shall immediately become due and payable.

If the air travel market, due to COVID-19, the war in Ukraine or any other reasons, recovers slower than management anticipate and near-normal and unrestricted travel within Europe does not materialise during the summer season, the airline's liquidity is unlikely to be sufficient to meet its commitments over the coming 12 months without additional funding. Regardless of the scenarios, the management will explore the options to raise additional financing in 2022 to strengthen its liquidity and to gain funding for additional capital investments related to contracted fleet expansion program and the required infrastructure. Currently the Management sees two realistic sources of such financing:

- Financing from the financial markets in the form of debt
- Financing from the primary shareholder in the form of equity or debt.

As the air travel market is expected to recover significantly above 2021 levels, the Group expects the private sources of capital to be more available than in 2021. However, as of the date of this report, the financial markets, and in particular the public debt markets, were negatively impacted by the war in Ukraine and there is no guarantee that they will recover sufficiently in 2022 for the Group to be able to raise new debt.

The other source for the funding is the current shareholders of the airline and in particular the majority shareholder – the Government of Latvia. In 2020, the airline raised EUR 250 million in equity financing from the Government of Latvia to counteract the consequences of the COVID-19 pandemic. In 2021, the government of Latvia made a decision to invest an additional EUR 90 million in the equity of the airline of which EUR 45 million had been already approved the EU Commission and invested in 2021. Based on the ongoing discussion at the European Commission about different Temporary Frameworks for state aid, the Management believes that if in 2022 the recovery of the air travel market is slower than expected due to continuous COVID-19 impact or the war in Ukraine, there will be good arguments and mechanisms for state intervention and would justify additional investment in 2022, if such investment will be needed.

At the date of issuance of these financial statements the airline plans to rely on private sources for any additional financing and seek financing from the government only in case the private debt capital markets are inaccessible to the airline for the remainder of 2022.

None of the above scenarios is guaranteed to be successful. The European governments could delay the removal of air travel restrictions and/or airBaltic's business could recover much slower than the Management and the various industry experts expect. The bond market may not be willing to supply debt capital even at the higher market rates that the current bond is traded at. The Government of Latvia may choose not to provide additional capital to the airline and, even if it does, the European Commission may refuse to approve any further investment into airBaltic by the

Government of Latvia. These are risks that need to be taken into account, however assessing the past performance and success of airBaltic's management in raising both private debt financing and financing from the Government of Latvia, the Management is of the opinion that these sources of funding are reasonably realistic to assume that airBaltic will be able to continue its operations as a going concern. However, both the COVID-19 pandemic and the ongoing war in Ukraine may negatively affect the availability of sufficient funding to enable the Parent company and Group's level of operations to return to net cash positive and, thus, there is a material uncertainty which may cast significant doubt upon the Parent company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Parent company and the Group were unable to continue as a going concern.

c) Consolidation (Group)

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

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

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

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

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

The Company and the Group companies undertake an impairment

test for its depreciable intangible assets and property, plant and equipment and right of use assets, if there is any indication that those assets may be impaired. The Company and the Group undertake an impairment test for their intangible assets with indefinite useful life on an annual basis. When carrying out impairment tests, the Management uses various estimates for the cash flows arising from the use of the assets, revenue growth rate and the future level of costs. The estimates are based on forecasts of the general economic environment, demand, inflation and others. To test impairment of the indefinite intangible asset held by the Company and the Group requires the test to be done at the relevant Cash Generating Unit (CGU) level where the intangible asset is held. This CGU is the Company itself and as such the impairment test considers the depreciable intangible and property, plant and equipment and right of use assets held by the Company including the fleet. The recoverable amount is thus most sensitive to the assumptions of ticket yield, volume of scheduled passengers, USD/EUR exchange rate, discount rate and the growth rate used for extrapolation purposes. The impairment test involves estimating the future cash flows based on the business plan Above 2026. See Notes 16, 17 and 19 for more information, including sensitivity.

Recognition and revaluation of provisions

As at 31 December 2021, airBaltic has set up provisions for aircraft redelivery costs (see Note 28). The amount and / or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure.

As at 31 December 2021, airBaltic has set up provisions for onerous contracts related to the remaining lease and maintenance costs of the Q400 fleet (see Note 28). The provision includes the future expected storage and maintenance costs as well as the expected redelivery costs. Due to COVID-19, there is a significant oversupply of Q400s in the market and the provisions established at 31 December 2021 assume no future sub-leases are agreed. The amount and/or timing of the settlement of these obligations is uncertain.

As at 31 December 2021, airBaltic has set up a provision for potential costs related to legal disputes for historic claims related to ex-shareholders and their creditors about their obligations towards the Parent company and the Republic of Latvia back in 2011 and 2012. This provision has been prudently made due to prolonged procedural complexities triggering the restart of one of the cases. The airline has also created provisions for potential loss from the settlement with some of its suppliers. The amount and/or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure.

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

Classification of long term cash deposit

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

Recognition of Sales and leaseback transactions

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

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

In 2021 the Parent company has recognised a profit of EUR 5 848 thousand (2020: EUR 2 237 thousand) from sale and leaseback transactions.

Determination of lease term

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

The Management has applied judgement that:

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

e) Foreign currency translation

The functional and presentation currency of the Company 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.

	31.12.2021 USD	31.12.2020 USD
1 EUR	1.1326	1.2271

f) Revenue recognition

Revenue is income arising in the course of the ordinary activities of the Company and the Group. Revenues comprise the invoiced value of airline and other services, net of government taxes. The Company and the Group act as an agent in collecting the air travel related tax from customers, and pay it to the government, therefore revenue is recognised net of tax levied on the customers. Transaction price is the amount of consideration to which the Company and the Group expect to be entitled in exchange of transferring control over services to a customer or promised goods, excluding the amounts collected on behalf of third parties. The Company and the Group recognises revenue when it transfers control of a good or service to a customer.

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

In order to counteract the liquidity issues caused by the COVID-19 pandemic in 2020 the Parent company offered its customers to receive a refund as airBaltic travel voucher that covered a full refund value of the cancelled flight and additional EUR 20 bonus for each segment refunded. The value of the voucher issued and not used by the balance sheet date is reported as contract liabilities. The item is reduced either when the Parent company or another airline completes the transport or when the passenger requests a refund. The cost of the "bonus" (EUR 20) was recognised as a cost within Other operating costs.

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

A portion of contract liabilities includes tickets sold that are

expected to remain unutilized. A management's estimate of unutilized tickets expected share of the contract liabilities is set at each balance sheet date and in previous years was based on the historical statistics, the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger. The value of expected breakage share of unutilised tickets is recognized as revenue in the reporting year. In 2020 and 2021 no breakage was recognised (based on the management estimate).

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 valued according to IFRS 15, and they are recognised as a decrease of revenue and contract liabilities at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the Pins and the customer selection between different awards based on historical customer behaviour. The balance of the contract liabilities is decreased when pins are redeemed or expire.

Ancillary revenue includes sale of ticket related services, like advance seat reservations, baggage fees as well as different service fees, and income on inflight service. The service revenue is recognized when the flight is flown in accordance with the flight traffic program.

Cargo revenue is recognized when the cargo has been delivered to the customer, usually delivery in one day, i.e. at point in time. 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 includes different revenue streams of individually insignificant amounts. All these revenues arise from contracts with customers.

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

Financing component

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

g) Aircraft maintenance costs

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

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

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

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

The Management of the Parent company considers it is relevant to the understanding of its financial performance to present in the Income statement a subtotal within the operating expenses. This subtotal – the alternative performance measure, entitled “Expenses from current activities”, excludes unusual elements that do not have predictive value to the operating activities of the Parent company due to their nature, frequency and/or materiality. Such elements are recognition and reversal of significant provisions for litigations related to transactions with previous shareholders prior to 2012 and other litigations and disputes outside the normal operations of the business (Note 33). If the costs of legal proceedings were classified under expenses of current activities, expenses of current activities in 2020 would increase by EUR 11 500 thousand and in 2021 by EUR 312 thousand for both the Parent Company and the Group.

The users of the financial statements should note that the alternative performance measure, as calculated by the Group, may differ from similarly titled measures reported by other companies. The Group considers this these metrics provides useful information for the readers of the financial statements in order to better understand the underlying business, financial position and results of operations of the Group.

i) Financial assets and liabilities

Financial assets

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

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

The classification depends on the Company's and the Group's business model for managing the financial assets and the contractual terms of the cash flows. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company and the Group companies commit to purchase or sell the asset. Financial assets are derecognised when the rights

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

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

As at 31 December 2021 the following financial assets of the Company and the Group were classified in this category: trade receivables, loans granted, bank deposits, cash and cash equivalents.

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

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

Financial liabilities

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

j) Derivative financial instruments and hedging

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

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

At the inception of hedge accounting, the Company and the Group

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

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

k) Intangible assets and property, plant and equipment

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

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

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

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

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

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

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

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

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

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

l) Investment property (the Parent company)

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

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

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

n) Impairment of non-financial assets

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

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

- the market value of similar assets has decreased,
- the general economic environment and the market situation

have worsened, and therefore it is likely that the future cash flows generated by assets will decrease,

- market interest rates have increased,
- the physical condition of the assets has considerably deteriorated,
- revenue generated by assets is lower than expected,
- results of some operating areas are worse than expected,
- the activities of a certain cash generating unit are planned to be terminated.

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

o) Impairment of financial assets

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

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

p) Inventories

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

When the net realizable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realizable value.

q) Trade and other receivables

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

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

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

r) Cash and cash equivalents

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

s) Accounts payable

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

t) Leases and right-of-use assets

The leases (other than short term leases and leases of low value assets (assets with value below EUR 5 thousand)) 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 the lease liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments. The lease term is the non-cancellable period of the lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

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

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

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

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

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

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.

u) Borrowings

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

v) Taxation

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

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

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

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

w) Employee benefits

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

x) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required

to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Provisions are recognised based on the Management's estimates. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision may be recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low. Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost of an item of PPE or right-of-use assets when the provision is related to the dismantlement, removal or restoration or other obligation, incurred either when the item is acquired or as a consequence of use of the item during a particular period.

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

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

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

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

Provisions for aircraft maintenance costs related to the future redelivery of aircraft

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

y) Contingent liabilities

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

z) Related parties

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

aa) Emissions trading scheme

The Group is required to formally report its annual actual emissions to the relevant authorities and surrender emissions allowances (EUAs) equivalent to the emissions made during the year. Surrendered allowances are a combination of the free allowances granted by the authorities and allowances purchased by the Group from other parties. The free allowances are measured initially and subsequently at cost which for allowances awarded is a nominal value (usually nil). Allowances purchased are recognised when the Group is able to exercise control and measured initially at market value at the date of initial recognition. Allowances subsequently are measured at the amount expected to be paid for the allowances to be purchased. The cost of allowances purchased and to be purchased are recognised as costs in the Income statement under "Fuel".

bb) 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.

cc) 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.

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. Only an insignificant portion of the Company's and the Group's revenues are denominated or linked to the US Dollar, while a significant portion of the Company's and the Group's expenses are US Dollar denominated, including fuel, maintenance, insurance and capital expenditure costs.

During the year the Company has used financial derivatives to hedge its foreign currency risk, however, there were no open hedges as at 31 December 2021. The Executive Board may in the future consider hedging foreign currency risk to reduce the potential Company's and the Group's earnings and cash flow volatility arising from foreign currency fluctuations.

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

AIR BALTIC	31.12.2021		31.12.2020	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	25 479	22 496	19 331	15 753
Borrowings and lease payments	445 286	393 154	320 359	261 070
Trade and other payables	4 169	3 681	2 827	2 304
GROUP	31.12.2021		31.12.2020	
	TUSD	TEUR	TUSD	TEUR
Trade and other receivables	25 479	22 496	19 331	15 753
Borrowings and lease payments	445 286	393 154	320 359	261 070
Trade and other payables	4 169	3 681	2 827	2 304

NOTES

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 Group is exposed to fair value risk of interest.

The Company and the Group have not used financial derivatives to hedge its interest rate risk during the year.

Commodity price risk

One of the most significant costs for the Company and the Group is jet fuel. The price of jet fuel can be volatile and can have direct impact on the Company's and the Group's financial performance. airBaltic hedges against jet fuel price fluctuations using jet fuel swap contracts. The average hedge coverage in 2021 was 7.61% (2020: 39%). As at 31 December 2021 there are no open jet fuel hedge agreements for the year 2022 and beyond (31 December 2020: 6 000 tonnes for the year 2021).

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	31.12.2021 Difference in equity TEUR	31.12.2020 Difference in equity TEUR	2021 Difference in net result TEUR	2020 Difference in net result TEUR
Fuel price sensitivity (only for hedged volumes)				
Fuel price USD 50 higher per metric ton	-	(244)	-	-
Fuel price USD 50 lower per metric ton	-	244	-	-
USD/EUR rate sensitivity				
USD/EUR rate increase 5%	(20 381)	(14 553)	(20 381)	(14 553)
USD/EUR rate decrease 5%	22 527	16 085	22 527	16 085
Interest rate sensitivity				
Interest rate is higher by 0.5 pp	(13)	(16)	(13)	(16)
Interest rate is lower by 0.5 pp	13	16	13	16

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

NOTES

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.

To strengthen airBaltic's liquidity and mitigate the impact of the pandemic, in August of 2021, the Government of Latvia approved EUR 90 million equity investment of which EUR 45 million were received in December. The airline expects to receive the remaining EUR 45 million by the end of April of 2022. The airline is also considering additional sources of financing, including potentially raising funds in the international bond markets, in order to further strengthen its liquidity. The Parent company expects that on top of the cash balance of EUR 79 million at the end of 2021, an

additional EUR 45 million investment to be received by the end of the first quarter of 2022, together with cash received from operating activities and provided the post-COVID-19 recovery is in line with industry's current expectations, the liquidity is expected to be sufficient for the airline to meet its liquidity needs for 2022 assuming a minimum capital investment program. However, the airline plans to explore the options available to it for raising additional funds in 2022 to provide liquidity buffers in case the market recovers slower than expected and to fund an accelerated capex program.

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

AIR BALTIC	Within 3 months TEUR	Between 3 months and 1 year TEUR	Between 1 and 5 years TEUR	More than 5 years TEUR	Total contractual cash flows TEUR	Carrying amount of liabilities TEUR
Contractual maturities of financial liabilities at 31.12.2021						
Trade payables	17 000	-	-	-	17 000	17 000
Accrued liabilities	22 002	-	-	-	22 002	22 002
Borrowings and lease	29 526	107 317	645 958	392 436	1 175 237	934 918
Contractual maturities of financial liabilities at 31.12.2020						
Trade payables	11 024	-	-	-	11 024	11 024
Accrued liabilities	19 569	-	-	-	19 569	19 569
Borrowings and lease	24 162	88 696	552 866	365 165	1 030 889	799 796
GROUP						
	Within 3 months TEUR	Between 3 months and 1 year TEUR	Between 1 and 5 years TEUR	More than 5 years TEUR	Total contractual cash flows TEUR	Carrying amount of liabilities TEUR
Contractual maturities of financial liabilities at 31.12.2021						
Trade payables	12 976	-	-	-	12 976	12 976
Accrued liabilities	24 924	-	-	-	24 924	24 924
Borrowings and lease	31 702	107 317	645 958	392 436	1 177 413	937 094
Contractual maturities of financial liabilities at 31.12.2020						
Trade payables	7 247	-	-	-	7 247	7 247
Accrued liabilities	20 025	-	-	-	20 025	20 025
Borrowings and lease	26 774	88 696	552 866	365 165	1 033 501	802 384

NOTES

Credit risk

Credit risk is the risk that the Parent company and the Group companies will incur a monetary loss caused by the other party to a financial instrument because of that party's inability to meet its obligations. The Parent company and the Group companies are exposed to credit risk through its trade receivables, deposits and cash. The exposure to credit risk from individual customers is limited as large majority of the payments for flight tickets are collected before the service is provided. The Parent company and the Group have no significant concentration of credit risk with any customer. The Parent company and the Group analyse and evaluate partners before commercial transactions are initiated. Further, trade receivable balances are monitored on an ongoing basis to ensure that the Company's and the Group's exposure to bad debts is minimized. Accounts receivable are presented net of allowances for doubtful accounts receivable. Although the collection of receivables can be impacted by economic factors, the Management believes that there is no significant risk of loss beyond the credit loss allowances already recorded. The other

receivables do not contain any impaired assets.

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

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

AIR BALTIC 31.12.2021	A+ TEUR	BBB+ TEUR	Other TEUR	Unrated TEUR	Total TEUR
Financial instruments					
Trade receivables, security deposits and other receivables	-	1 912	11 944	33 669	47 525
Cash	49 783	28 811	-	561	79 155
TOTAL FINANCIAL ASSETS	49 783	30 723	11 944	34 230	126 680
31.12.2020					
Financial instruments					
Trade receivables, security deposits and other receivables	-	12 789	2 680	18 553	34 023
Cash	121 187	26 190	-	604	147 981
TOTAL FINANCIAL ASSETS	121 187	38 979	2 680	19 157	182 004
GROUP 31.12.2021	A+ TEUR	BBB+ TEUR	Other TEUR	Unrated TEUR	Total TEUR
Financial instruments					
Trade receivables, security deposits and other receivables	-	1 912	11 944	31 923	45 779
Cash	49 941	28 812	-	561	79 314
TOTAL FINANCIAL ASSETS	49 941	30 724	11 944	32 484	125 093
31.12.2020					
Financial instruments					
Trade receivables, security deposits and other receivables	-	12 789	2 680	16 025	31 494
Cash	121 471	26 229	-	605	148 305
TOTAL FINANCIAL ASSETS	121 471	39 018	2 680	16 630	179 799

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 balances.

For more detailed information on accounting policy for accounts receivable and their impairment, see Notes 2 (o) and 2 (q). Detailed analysis of trade accounts receivable is shown in Note 22.

NOTES

Capital risk

The Parent company's and the Group's policy is to preserve an optimal capital base to keep investor, creditor and market confidence and to maintain sufficient financial resources to mitigate against risks and unforeseen events.

On 17 January 2022 the shareholder structure changed due to the Latvian Government's equity investment of EUR 45 million. As a result the Government increased its stake up to 97.03%. According to the previous decision of the European Commission in the case No.SA.56943 as of July 03, 2020, the state is encouraged to exit from its COVID-19 shareholding down to at least 80% during the coming 5 to 7 years. Therefore the airline will most probably seek to conduct an initial public offering during the course of the next three years to provide the avenue for such divestment.

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	7 174	7 174
Investment property	-	-	2 850	2 850

GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	10 428	10 428

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

AIR BALTIC	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	7 618	7 618
Investment property	-	-	2 850	2 850
Derivative financial assets	-	480	-	480

GROUP	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Buildings	-	-	11 229	11 229
Derivative financial assets	-	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 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

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 2021.

available the Management considers information from a variety of other sources. Please see Note 16 and Note 18 on the principles of setting the fair value of buildings.

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

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

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 airBaltic Chief Operating Decision Maker (CODM). The results of these operations are included in the 'other segments' line.

airBaltic 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 airBaltic 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:

	2021 TEUR	2020 TEUR
Operating revenue of the Parent company	201 756	140 152
Revenue of other segments	25 706	32 333
Intersegment elimination arising from other segments	(23 355)	(27 660)
TOTAL REVENUE	204 107	144 825
Loss of the Parent company	(133 651)	(278 267)
Profit / (loss) of other segments	890	(196)
Intersegment elimination	(2 957)	13 866
TOTAL NET LOSS	(135 718)	(264 597)
Other segment information:		
Amortization and depreciation	(50 827)	(63 553)
Interest revenue	153	125
Interest expense	(50 100)	(48 031)
	31.12.2021 TEUR	31.12.2020 TEUR
Reportable segment of the Parent company's assets	1 022 868	938 362
Reportable segment of the other segments' assets	14 231	14 179
Intersegment elimination arising from other segments	(11 857)	(11 500)
TOTAL ASSETS	1 025 242	941 041
Reportable segment of the Parent company's liabilities	1 141 527	923 731
Reportable segment of the other segments' liabilities	11 892	10 012
Intersegment elimination arising from other segments	(9 866)	(9 741)
TOTAL LIABILITIES	1 143 553	924 002

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

NOTES

Entity-wide disclosures

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

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Europe	191 049	135 404	193 344	139 955
Other	10 707	4 748	10 763	4 870
TOTAL	201 756	140 152	204 107	144 825

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

5. REVENUE AND OTHER INCOME

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Ticket revenue	162 261	116 102	162 708	118 701
Ancillary revenue	17 918	11 868	17 918	11 867
Charter revenue	6 860	3 656	6 860	3 656
Cargo revenue	5 239	4 308	5 458	4 697
Other revenue	1 462	1 981	3 147	3 667
Revenue from contracts with customers	193 740	137 915	196 091	142 588
Aircraft lease revenue	2 168	-	2 168	-
TOTAL	195 908	137 915	198 259	142 588

6. OTHER INCOME

Other income represents profit from sale and leaseback transactions.

7. PERSONNEL COSTS

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Remuneration	25 391	26 205	36 776	41 248
Social insurance contributions	5 990	6 308	8 699	9 949
Other personnel expense	351	(40)	6 355	6 812
TOTAL	31 732	32 473	51 830	58 009

Compensations paid to Board members of the Parent company

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Executive Board members				
Remuneration	1 377	1 286	1 377	1 286
Social insurance contributions	325	309	325	309
Supervisory Board members				
Remuneration	150	163	150	163
Social insurance contributions	36	39	36	39
TOTAL	1 888	1 797	1 888	1 797

NOTES

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Average number of employees during the reporting year, including:	1 097	1 010	1 377	1 331
<i>Executive Board members</i>	3	3	3	3
<i>Supervisory Board members</i>	4	4	4	4

8. OTHER OPERATING COSTS

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
IT maintenance services	4 081	4 015	4 081	4 015
Professional costs	3 554	3 104	3 554	3 104
Provision for onerous contracts (see Note 28)	3 715	22 725	3 715	22 725
Other costs	3 725	9 369	4 900	11 129
Crew duty trip expenses	2 486	1 845	2 486	1 845
Net loss from fair value adjustment of investment properties	-	2 080	-	-
TOTAL	17 561	43 138	18 736	42 818

9. AUDITOR'S REMUNERATION

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Audit of financial statements	68	68	88	88
Tax and other consulting services	9	20	13	60
Other audit related services	-	4	-	4
TOTAL	77	92	101	152

During 2020 and 2021 various consultations were received on the application of tax legislation and appropriate accounting policies.

10. REVERSALS OF IMPAIRMENT LOSSES/(IMPAIRMENT LOSSES) ON INVESTMENTS IN SUBSIDIARIES (PARENT COMPANY)

	2021 TEUR	2020 TEUR
Reversals of impairment losses / (impairment losses) on investments in subsidiaries (see Note 20)	1 027	(12 080)

In 2020 as a direct consequence of COVID-19 pandemic and following the significant revenue drop the management of the Loyalty Services SIA initiated a revision of a business model. As a result the impairment loss of EUR 12 080 thousand on the

investment in subsidiary undertakings was recognised by the Parent company. In 2021 the impairment was partially reversed considering the operating result of the subsidiary in 2021. The subsidiary was liquidated at the end of 2021. Please see Note 20.

11. PROVISIONS FOR LEGAL DISPUTES

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Provision for legal disputes, net (see Notes 28 and 33(b))	312	11 500	312	11 500

NOTES

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 – the alternative performance measure, entitled “Expenses from current activities”, excludes unusual elements that do not have predictive value to the operating activities of the Parent

company due to their nature, frequency and/or materiality. Such elements are recognition and reversal of significant provisions for litigations related to transactions with previous shareholders prior to 2012 and other litigations and disputes outside the normal operations of the business.

12. FINANCE COSTS

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Interest expense on lease	35 593	33 931	35 593	33 932
Interest expense on borrowings	14 507	14 098	14 630	14 251
Other interest and similar expenses	1 274	1 449	1 296	1 544
TOTAL	51 374	49 478	51 519	49 727

13. FOREIGN CURRENCY EXCHANGE (LOSS) / GAIN, NET

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Exchange (losses) / gain on assets and liabilities, net	(25 619)	23 288	(25 619)	23 288
Exchange losses on foreign currency settlements, net	(1 235)	(508)	(1 236)	(513)
TOTAL	(26 854)	22 780	(26 855)	22 775

14. FINANCE INCOME

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Interest income on bank deposits	153	126	153	108
Other financial income	275	-	-	-
TOTAL	428	126	153	108

15. CORPORATE INCOME TAX

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Corporate income tax on dividends	-	-	(1 537)	(1 701)
Corporate income tax on conditionally distributed profit	-	-	(1)	(28)
Corporate income tax adjustment for 2020	-	-	10	-
TOTAL	-	-	(1 528)	(1 729)

NOTES

16. PROPERTY, PLANT AND EQUIPMENT

The following two tables reflect the reconciliation of the carrying amount at the beginning and the end of the period for airBaltic and the Group.

AIR BALTIC	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2019	15 835	18 472	18 200	61 486	113 993
Additions	141	1 634	-	6 666	8 441
Disposals	-	(63)	(18 200)	(35 793)	(54 056)
31.12.2020	15 976	20 043	-	32 359	68 378
Accumulated depreciation					
31.12.2019	7 750	5 551	11 063	33 621	57 985
Charge for 2020	298	1 500	4 901	7 660	14 359
Charge on revalued amount	310	-	-	-	310
Disposals	-	(56)	(15 964)	(28 246)	(44 266)
31.12.2020	8 358	6 995	-	13 035	28 388
Cost or revalued amount					
31.12.2020	15 976	20 043	-	32 359	68 378
Additions	175	853	-	40 025	41 053
Disposals	-	(707)	-	(263)	(970)
Reclassification	-	33	-	-	33
31.12.2021	16 151	20 222	-	72 121	108 494
Accumulated depreciation					
31.12.2020	8 358	6 995	-	13 035	28 388
Charge for 2021	308	1 571	-	4 348	6 227
Charge on revalued amount	310	-	-	-	310
Disposals	-	(707)	-	(195)	(902)
Reclassification	1	(2)	-	-	(1)
31.12.2021	8 977	7 857	-	17 188	34 022
Net book value 31.12.2021	7 174	12 365	-	54 933	74 472
Net book value 31.12.2020	7 618	13 048	-	19 324	39 990

NOTES

GROUP	Buildings TEUR	Fixtures and fittings TEUR	Aircraft TEUR	Aircraft equipment TEUR	Total TEUR
Cost or revalued amount					
31.12.2019	20 402	20 386	21 810	61 486	124 084
Additions	935	1 685	482	6 666	9 768
Revaluation	494	-	-	-	494
Disposals	-	(163)	(18 230)	(35 793)	(54 186)
31.12.2020	21 831	21 908	4 062	32 359	80 160
Accumulated depreciation					
31.12.2019	9 740	6 725	11 364	33 621	61 450
Charge for 2020	624	1 726	5 190	7 660	15 200
Charge on revalued amount	239	-	-	-	239
Disposals	(1)	(89)	(15 977)	(28 246)	(44 313)
31.12.2020	10 602	8 362	577	13 035	32 576
Cost or revalued amount					
31.12.2020	21 831	21 908	4 062	32 359	80 160
Additions	175	870	499	40 025	41 569
Disposals	-	(1 529)	-	(263)	(1 792)
Reclassification	-	33	-	-	33
31.12.2021	22 006	21 282	4 561	72 121	119 970
Accumulated depreciation					
31.12.2020	10 602	8 362	577	13 035	32 576
Charge for 2021	672	1 663	352	4 348	7 035
Charge on revalued amount	303	-	-	-	303
Disposals	-	(1 500)	-	(195)	(1 695)
Reclassification	1	(2)	-	-	(1)
31.12.2021	11 578	8 523	929	17 188	38 218
Net book value 31.12.2021.	10 428	12 759	3 632	54 933	81 752
Net book value 31.12.2020.	11 229	13 546	3 485	19 324	47 584

Impairment test

At the end of 2021, the Management of the Parent company and the Group performed the impairment test of property, plant and equipment (including right of use assets) and intangible assets. The potential triggers of impairment were considered particularly in the context of COVID-19. For impairment test purposes the business of each separate Group company was considered as separate cash generating units. The Parent company is the only significant cash generating unit. The recoverable amount of the assets was estimated based on their value in use.

In 2020, following the Management's decision of early phase out of Q400 fleet, the net book value of total assets related to the Q400 fleet was treated as a separate asset for which full impairment in amount of EUR 72 891 was recognized. There were no changes in the Management's decision and plans in 2021 therefore the impairment is still applicable.

In 2021 the impairment test of the property, plant and equipment (including right-of-use assets) and intangible asset that were treated as a separate cash generating unit did not reflect the need for recognizing an impairment loss because the assets' value in use exceeds their carrying amount.

The recoverable amount was based on discounted future cash flow for the period of 2022 – 2026 of the current aircraft fleet of the Parent company. The expected future cash flows were discounted using a discount rate of 9.5% (2020: 10.8%). Several key assumptions used in impairment test are sensitive to changes, which might affect the estimated recoverable value of assets:

- unit revenue per revenue passenger kilometre (ticket yield),
- volume of scheduled passengers,
- USD/EUR exchange rate,
- Weighted Average Cost of Capital (WACC).

In conducting the impairment test the near term yield forecasted based on the current industry trends as well as on experts' forecasts. It was assumed that the yield in 2022 would decrease by 11% compared to 2021 and further 2% in 2023 compared to 2022. Further assumed 0.5% yield increase year-over-year. As for the impairment test purposes the model considered only the current fleet of the airline, the yield for the remaining period of the analysis assumed stable. However, such assumption is only valid with constant fleet and hence limited seat capacity offered.

Passenger volumes in 2022 were forecasted to be still affected by the pandemics. The model assumes that the passenger volumes in 2022 will not reach pre-pandemic levels. The total number of scheduled passengers in 2022 assumed to be 20% below 2019. Passenger volume expected to surpass 2019 level in 2023. Passenger growth assumed 44% in 2023 compared to 2022, while being 15% above the level of 2019. Compounded annual passenger increase as from 2024 until 2026 assumed 5%.

The EUR/USD exchange rate forecasted based on relevant forward prices until 2026 and in the model were reduced by 2% to use conservative assumption. Rates vary from EUR/USD 1.11 to 1.19.

The market price of jet fuel forecasted based on relevant forward prices and for the impairment test purpose increased by 2%. Rates vary from 671 to 774 USD/MT.

The table presents a reasonably possible change in each key assumption that would cause the cash generating unit's carrying amount to be equal to its recoverable amount, while other assumptions unchanged.

Assumption	Change
Scheduled passengers	Decrease 2.6%
Ticket yield	Decrease 2.7%
USD exchange rate	Decrease 10.0%
WACC	Increase 18.3%

The Company and the Group are continuously monitoring COVID-19 outbreak developments and amending where necessary their short term operating plans accordingly. The Company's and the Group's short term performance will depend, to a great extent, on the continued duration and spread of the pandemic and the success of the vaccinations programmes currently being rolled out in Latvia and the rest of Europe and ultimately on the extent of the current and future travel advisories and restrictions.

Fully depreciated assets

Property, plant and equipment at 31 December 2020 include fully depreciated assets with a total cost of EUR 15.4 million (31 December 2019: EUR 18.9 million) for the Group and EUR 15.4 million (31 December 2019: EUR 18.7 million) for airBaltic.

Pledged assets

Information on pledged assets is disclosed in the Note 30 (a).

Revalued assets

In 2020, the revaluation of the Parent company's and the Group's buildings was performed by certified independent estate valuers using the income approach. According to the Group's accounting policy, the net book value of buildings was adjusted to the valuation by recognising the gain in Revaluation reserve. In 2021 the management has assessed changes in the criteria used in the valuation since the revaluation and has estimated that the change does not significantly affect the value of the revalued buildings.

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

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Cost	6 652	6 476	9 645	9 469
Accumulated depreciation	(1 648)	(1 342)	(3 504)	(3 009)
NET BOOK VALUE	5 004	5 134	6 141	6 460

17. RIGHT-OF-USE ASSETS

The table below shows the movement in each class of right-of-use assets for airBaltic and the Group:

AIR BALTIC AND THE GROUP	Buildings and land TEUR	Aircraft TEUR	Total TEUR
Cost			
31.12.2019	9 172	715 545	724 717
Additions – new lease contracts	-	66 106	66 106
Improvements to the right of use assets	160	384	544
Disposals	(17)	(136)	(153)
31.12.2020	9 315	781 899	791 214
Accumulated depreciation			
31.12.2019	1 364	77 475	78 839
Charge for 2020	1 444	46 182	47 626
Disposals	(6)	-	(6)
31.12.2020	2 802	123 657	126 459
Cost			
31.12.2020	9 315	781 899	791 214
Additions – new lease contracts	7 190	140 707	147 897
31.12.2021	16 505	922 606	939 111
Accumulated depreciation			
31.12.2020	2 802	123 657	126 459
Charge for 2021	1 655	41 185	42 840
31.12.2021	4 457	164 842	169 299
Impairment loss charge for 2020	-	(72 891)	(72 891)
Net book value 31.12.2021	12 048	684 873	696 921
Net book value 31.12.2020	6 513	585 350	591 863

The weighted average incremental borrowing rate applied to measure lease liabilities is 5% for aircraft and 1.7% - 2.6% for other assets.

NOTES

The following amounts related to the right-of-use assets are recognized in the Income statement:

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Depreciation charge for the right-of-use assets by class of assets				
<i>Aircraft</i>	41 185	46 182	41 185	46 182
<i>Land and buildings</i>	1 655	1 444	1 655	1 444
Total depreciation charge	42 840	47 626	42 840	47 626
Interest expense on lease liabilities (included in Finance cost)	35 593	33 932	35 593	33 932
Expense relating to short-term leases and low value assets (included in Aircraft and similar lease expenses)	4 365	6 994	4 365	6 994
TOTAL EXPENSES RELATED TO LEASES	82 798	88 552	82 798	88 552

The following amounts related to the right-of-use assets are recognized in the cash flow statement:

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Principal	66 453	60 394	66 453	60 394
Interest charge	32 133	33 943	32 133	33 943
Other operating costs	7	304	7	304
TOTAL CASH OUTFLOWS	98 593	94 641	98 593	94 641

Even though the airline intends to develop its business on the basis of its A220 fleet, the Management is not certain if it will exercise any options to extend the leases embedded in some of the lease contracts as all contracts expire in more than 10 years and both the extension terms at the time and the market conditions at the time

are highly unpredictable. No extension option will be exercised for any other lease as the Management concludes that there are no economic incentives to exercise the option.

Neither airBaltic nor the Group provide any residual value guarantees.

18. INVESTMENT PROPERTIES (THE PARENT COMPANY)

	TEUR
Fair value	
31.12.2019	4 930
Loss on fair value adjustment	(2 080)
31.12.2020	2 850
31.12.2021	2 850

Information on pledged assets is disclosed in Note 33 a). In 2020, the revaluation of the Company's buildings was performed by the certified independent estate valuers using the income approach. In 2021 the management has obtained confirmation from the valuers that there have been no significant changes since the previous revaluation and that the fair value estimated

then reflects the market situation.

The investment property is primarily leased out to Group companies.

The following amounts related to the Investment properties are recognized in the Income statement:

	2021 TEUR	2020 TEUR
Rental income	397	396
Direct operating expenses of the Investment property	(257)	(247)

NOTES

19. INTANGIBLE ASSETS

	AIR BALTIC			GROUP		
	Trademarks TEUR	Licences, software and other TEUR	Total TEUR	Trademarks TEUR	Licences, software and other TEUR	Total TEUR
Cost						
31.12.2019	13 000	13 579	26 579	13 000	15 228	28 228
Additions	-	1 522	1 522	-	1 553	1 553
Disposals	-	(43)	(43)	-	(181)	(181)
31.12.2020	13 000	15 058	28 058	13 000	16 600	29 600
Accumulated amortization						
31.12.2019	-	8 495	8 495	-	9 342	9 342
Charge for 2020	-	1 568	1 568	-	1 798	1 798
Disposals	-	(34)	(34)	-	(106)	(106)
31.12.2020	-	10 029	10 029	-	11 034	11 034
Cost						
31.12.2020	13 000	15 058	28 058	13 000	16 600	29 600
Additions	-	3 004	3 004	-	1 204	1 204
Disposals	-	(12)	(12)	-	(930)	(930)
31.12.2021	13 000	18 050	31 050	13 000	16 874	29 874
Accumulated amortization						
31.12.2020	-	10 029	10 029	-	11 034	11 034
Charge for 2021	-	1 760	1 760	-	1 729	1 729
Disposals	-	2	2	-	(916)	(916)
Reclassification	-	(2)	(2)	-	-	-
31.12.2021	-	11 789	11 789	-	11 847	11 847
Net book value 31.12.2021	13 000	6 261	19 261	13 000	5 027	18 027
Net book value 31.12.2020	13 000	5 029	18 029	13 000	5 566	18 566

Information on pledged assets is disclosed in the Note 33 (a). Intangible assets at 31 December 2021 include fully amortized assets with a total cost of EUR 7.9 million (31 December 2020: EUR 6.9 million) for Parent company and EUR 8 million (31 December 2020: EUR 7.1 million) for the Group.

Several trademarks of the Parent company are with indefinite useful life. As at 31 December 2021 the net book value of such trademarks was EUR 13 million (31 December 2020: 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 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 (n).

At the end of 2021, the Management of the Group performed the impairment test of intangible assets. See Note 16.

NOTES

20. INVESTMENTS IN SUBSIDIARIES AND OTHER INVESTMENTS (THE PARENT COMPANY)

	Investments in subsidiary undertakings TEUR	Other investments TEUR	Total TEUR
31.12.2019	13 716	3	13 719
Impairment provision	(12 080)	-	(12 080)
Acquisition of shares	8	-	8
31.12.2020	1 644	3	1 647
Reversal of impairment	1 027	-	1 027
Write-off of the carrying amount of the liquidated subsidiary	(2 261)	-	(2 261)
Decrease of share capital of subsidiary	(4)	-	(4)
31.12.2021	406	3	409

Financial information on subsidiary undertakings

Name	Address	Equity		(Loss) / Profit	
		31.12.2021 TEUR	31.12.2020 TEUR	2021 TEUR	2020 TEUR
Loyalty Services SIA	Mūkusalas Street 42, Riga, Latvia, LV-1004	-	892	1 368	(835)
Air Baltic Training SIA	Pilotu Street 6, Riga, Latvia, LV-1053	1 112	1 439	(327)	(58)
Aviation Crew Resources AS	Pilotu Street 6, Latvia, LV-1053	1 483	1 544	(57)	665
Baltijas Kravu centrs SIA	Ziemeļu Street 18, Riga, Latvia, LV-1053	(258)	(163)	(95)	(185)

Name	Carrying value of investments in subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 %	31.12.2020 %
Loyalty Services SIA	-	1 234	-	100
Air Baltic Training SIA	3	3	100	100
Aviation Crew Resources AS	123	127	100	100
Baltijas Kravu centrs SIA	280	280	100	100
TOTAL	406	1 644		

In 2020 as a direct consequence of Covid-19 pandemic and following the significant revenue drop the management of the Loyalty Services SIA initiated a revision of a business model. As a result the impairment loss of EUR 12 080 thousand on the investment in subsidiary undertakings was recognised by the Parent company. The impairment loss in 2020 was assessed as the total carrying amount of the investment into the subsidiary net of proceeds expected from the liquidation.

In August 2021 the Parent company signed the asset purchase agreement with its subsidiary Loyalty Services SIA for the purchase of the subsidiary's members' programme including the respective liabilities that resulted in the acquisition of the business of subsidiary. The acquired net assets consisted of members' data base, intangible assets and the respective liabilities. The fair value of the respective net assets was recognised by the Parent company in its separate financial statements. Following the transaction, the Loyalty Services SIA was liquidated.

NOTES

21. 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 31.12.2021							
Trade receivables, security deposits and other receivables	22	47 525	-	47 525	45 779	-	45 779
Cash	25	79 155	-	79 155	79 314	-	79 314
TOTAL FINANCIAL ASSETS		126 680	-	126 680	125 093	-	125 093
As at 31.12.2020							
Trade receivables, security deposits and other receivables	22	34 023	-	34 023	31 494	-	31 494
Cash	25	147 981	-	147 981	148 305	-	148 305
TOTAL FINANCIAL ASSETS		182 004	-	182 004	179 799	-	179 799
	Note	Amortised cost TEUR	FVPL TEUR	Total TEUR	Amortised cost TEUR	FVPL TEUR	Total TEUR
As at 31.12.2021							
Borrowings and lease	27	934 918	-	934 918	937 094	-	937 094
Trade and other payables	29	39 056	-	39 056	37 964	-	37 964
Tax liabilities	30	12 998	-	12 998	13 898	-	13 898
TOTAL FINANCIAL LIABILITIES		986 972	-	986 972	988 956	-	988 956
As at 31.12.2020							
Borrowings and lease	27	799 796	-	799 796	802 384	-	802 384
Trade and other payables	29	31 023	-	31 023	27 345	-	27 345
Tax liabilities	30	6 191	-	6 191	6 932	-	6 932
Derivative financial instruments	23	-	480	480	-	480	480
TOTAL FINANCIAL LIABILITIES		837 010	480	837 490	836 661	480	837 141

FVPL – fair value through profit or loss

NOTES

22. TRADE AND OTHER RECEIVABLES

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Non-current				
Security deposits	24 926	21 310	24 713	21 098
Other receivables	958	29	958	29
Financial assets	25 884	21 339	25 671	21 127
Prepayments for acquisition of intangible assets	61	215	61	313
Prepaid expenses	-	3 127	-	3 127
Accrued revenue	-	214	-	213
Non-financial assets	61	3 556	61	3 653
TOTAL	25 945	24 895	25 732	24 780
Current				
Trade receivables	12 842	8 418	10 264	6 310
Other receivables	8 799	4 266	9 844	4 057
Financial assets	21 641	12 684	20 108	10 367
Accrued revenue	1 203	448	2 085	1 126
Non-financial assets	1 203	448	2 085	1 126
TOTAL	22 844	13 132	22 193	11 493

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 2020: 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.

The table below shows the analysis of Trade receivables.

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Trade receivables, gross	13 737	9 207	11 236	7 245
Loss allowance	(895)	(789)	(972)	(935)
TRADE RECEIVABLES, NET	12 842	8 418	10 264	6 310
Current	7 955	5 716	7 855	5 294
1 - 30 days past due	1 616	2 316	1 509	920
31 - 60 days past due	471	110	378	193
61 – 90 days past due	239	36	156	51
3 - 6 months past due	266	236	121	38
More than 6 months past due	3 190	793	1 217	749
TRADE RECEIVABLES, GROSS	13 737	9 207	11 236	7 245
Credit loss allowance made				
Current	(73)	(28)	(73)	(28)
1 - 30 days past due	(60)	(111)	(60)	(111)
31 - 60 days past due	(20)	(6)	(20)	(6)
61 – 90 days past due	(12)	(3)	(12)	(3)
3 - 6 months past due	(10)	(38)	(10)	(38)
More than 6 months past due	(720)	(603)	(797)	(749)
TRADE RECEIVABLES, NET	12 842	8 418	10 264	6 310

NOTES

The Company and the Group apply the IFRS 9 simplified approach to measure the expected credit loss by using a lifetime expected loss allowance for all trade and other receivables. On that basis,

the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows:

AIR BALTIC					
	Not yet due TEUR	1 – 30 days past due TEUR	31 – 60 days past due TEUR	61 – 90 days past due TEUR	more than 90 days past due TEUR
As at 31.12.2021					
Expected loss rate	0.92%	3.71%	4.25%	5.02%	21.12%
Gross carrying amount	7 955	1 616	471	239	3 456
Loss allowance	73	60	20	12	730
As at 31.12.2020					
Expected loss rate	0.49%	4.79%	5.45%	8.33%	62.29%
Gross carrying amount	5 716	2 316	110	36	1 029
Loss allowance	28	111	6	3	641
GROUP					
	Not yet due TEUR	1 – 30 days past due TEUR	31 – 60 days past due TEUR	61 – 90 days past due TEUR	more than 90 days past due TEUR
As at 31.12.2021					
Expected loss rate	0.93%	3.98%	5.29%	7.69%	60.34%
Gross carrying amount	7 855	1 509	378	156	1 338
Loss allowance	73	60	20	12	807
As at 31.12.2020					
Expected loss rate	0.53%	12.07%	3.11%	5.88%	100%
Gross carrying amount	5 294	920	193	51	787
Loss allowance	28	111	6	3	787

23. DERIVATIVE FINANCIAL INSTRUMENTS

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Cash flow hedges, current liabilities	-	(480)	-	(480)

The Parent company uses jet fuel swap contracts to manage exposure to jet fuel prices. These are used to hedge the airBaltic's forecasted fuel purchases, and are arranged to match as closely as possible against forecasted fuel delivery and payment requirements. These are designated as cash-flow hedges of forecasted fuel payments and have been determined to be highly

effective in offsetting variability in future cash flows arising from fluctuations in jet fuel prices.

The following table indicate the amounts that were reclassified from other comprehensive income into the Income statement in respect of cash-flow hedges realized during the year:

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Reclassification adjustment recognized in Fuel	480	(1 839)	480	(1 839)

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 THE GROUP			
	Net carrying amount TEUR	Expected cash flows TEUR	2021 TEUR	2022 TEUR
Commodity swap contracts				
31.12.2021	-	-	-	-
31.12.2020	(480)	(480)	(480)	-

24. INVENTORIES

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Spare parts	9 991	7 377	10 075	7 468
Allowance for slow moving and obsolete inventory	(2 416)	(2 414)	(2 416)	(2 414)
TOTAL	7 575	4 963	7 659	5 054

25. CASH

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Cash at bank and on hand	54 155	122 981	54 314	123 305
Cash deposits with original maturity over 3 months	25 000	25 000	25 000	25 000
TOTAL	79 155	147 981	79 314	148 305

There has been no credit loss allowance provided at the end of the reporting year due to its insignificance (31 December 2020: no credit loss allowance).

The long term cash deposits with the term of more than 3 month is held to meet short term liquidity needs and there is no significant risk of a change in value as a result of an early withdrawal. The

deposits earn the market interest rate. Deposits are available for withdrawal at any time; such early withdrawal would have an effect on the amount of accrued interest. Deposits are classified as short term and readily available also in the daily management liquidity planning reports. However, the need of early withdrawal has never arisen because the Group's liquidity has been sufficient.

26. SHARE CAPITAL

Following approval from the European Commission of a EUR 45 million Latvian Government measure to recapitalise airBaltic in the context of the coronavirus outbreak, the Shareholders Meeting increased the share capital of the Company in December 2021. The Commercial Register of Latvia has registered the changes in the share capital on January 2022. The share capital was increased by issuing new B and C category shares.

The Company has issued the following new shares:

- 27 549 895 B category shares with a nominal value of EUR 0.3,
- 367 350 315 C category shares with a nominal value of EUR 0.1.

Each of the B and C category shares:

- grant its holder one vote at airBaltic's Shareholders Meeting,
- entitle its holder to equal rights (regardless of the nominal value of the share) to receive a dividend and a liquidation quota as each A category share (i.e. airBaltic's existing remaining shares prior to the COVID-19 investment),
- give the same priority rights (regardless of the nominal value of the share) as each A category share to acquire newly issued shares in case of a share capital increase and to acquire convertible bonds in case of issue of convertible bonds.

NOTES

The shareholders structure on 31 December 2021 was as follows:

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

The shareholders structure after the capital increase was registered at the Register of Enterprises on 17 January 2022 is as follows:

	Participating interest %	A category shares	B category shares	C category shares	Share capital TEUR
Republic of Latvia	97.03	205 318 668	743 231 511	720 305 467	500 319
Aircraft Leasing 1 SIA	2.97	51 152 036	-	-	51 152
Other	0.00012	2 120	-	-	2
TOTAL	100	256 472 824	743 231 511	720 305 467	551 473

Proceeds from the share capital increase of EUR 45 million were received in December 2021. The increase in the share capital was registered in the Register of Enterprises in January 2022. As at 31 December 2021 the cash received was classified as non-current liabilities "Financial injections from the shareholders (with the intention to capitalise)" and reclassified to share capital on 17 January 2022.

All contributions to the share capital of the Company were made by the Republic of Latvia in the amount of EUR 45 million in the form of additional cash injection in December 2021 in accordance with Decree No. 588 of the Cabinet of Ministers dated 23 August 2021, by which the Cabinet of Ministers approved the participation in the share capital increase of the Company. The share capital increase was completed also in accordance with the decision of the European Commission in case SA.101032.

Other contributions

According to the agreement signed on 27 October 1997, the former shareholders (e.g., private founders of the Parent company) paid in cash, in proportion to each shareholder's shareholding in the Parent company, as conditional contribution to the Parent company of USD 2.8 million (EUR 2.5 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 repayable to the former shareholders as soon as airBaltic has distributable earnings subject to the approval of the shareholders. The contribution referred to above is repayable only if and when airBaltic has distributable earnings. According to the Commercial Law distributable earnings can only be defined by the shareholders (e.g. by current shareholders meeting), after they have approved the annual report. Distribution of earnings, if any, should be subject to the shareholders' decision only. Due to the above conditions, its substance is considered to be similar to equity, and the contribution is, therefore, recorded as a part of the Parent company's equity. No shareholders' decisions have been taken until authorization of these financial statements that would indicate that the contribution would have to be classified differently.

Reorganisation reserve

In October 2015 the Parent company completed the reorganization by merging two fully owned subsidiaries and the second reorganisation by spin-off, where it's fully owned subsidiary transferred the real estate and related business activities. The fair value of the assets, liabilities and the net assets merged and transferred during the reorganization resulted in the reorganization reserve recognized in the accounts of the Parent company.

27. BORROWINGS AND LEASE LIABILITIES

BORROWINGS	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Non-current				
Eurobond	197 952	197 159	197 952	197 159
Borrowings from the shareholders	36 141	36 141	36 141	36 141
Facility credit agreement	13 674	-	13 674	-
TOTAL	247 767	233 300	247 767	233 300
Current				
Eurobond	5 696	5 696	5 696	5 696
Bank borrowings	-	-	2 176	2 588
Facility credit agreement	1 959	-	1 959	-
Borrowings from the shareholders	84	58	84	58
TOTAL	7 739	5 754	9 915	8 342

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. The annual interest charge is EUR 13.5 million payable on July each year. The unpaid amount of interest charge at the end of each year is accrued and classified within current borrowing.

Borrowings from the shareholders

The loan is repayable on 31 December 2026 and is issued on market terms. The calculated and unpaid interest expense is accrued and classified within current borrowing.

Borrowings from A/S Swedbank

In 2018 a subsidiary of the Group received a loan for the total initial amount of EUR 3 266 thousand with an original maturity of 3 years. Since then a loan has been partially repaid and the initial term of repayment has been prolonged based on the basis of the agreement with the bank.

Facility credit agreement

The loan is repayable on the airline industry leasing terms over 8 years. The calculated and unpaid interest expense is accrued and classified within current borrowing.

LEASE LIABILITIES	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Non-current	602 083	500 052	602 083	500 052
Current	77 329	60 690	77 329	60 690

NOTES

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

AIR BALTIC

	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Total TEUR
01.01.2020	582 169	36 188	202 061	820 418
New lease contracts	72 743	-	-	72 743
Repayment, excluding interest payments	(60 394)	-	-	(60 394)
Interest paid	(33 943)	(562)	(13 500)	(48 005)
Interest calculated	33 645	573	13 500	47 718
Currency translation difference	(24 392)	-	-	(24 392)
Set-off transactions with counterparties	(9 371)	-	-	(9 371)
Amortisation of transaction costs and similar expenses	285	-	794	1 079
31.12.2020	560 742	36 199	202 855	799 796
New lease contracts	158 779	-	-	158 779
New contracts	-	-	15 959	15 959
Repayment, excluding interest payments	(66 453)	-	(240)	(66 693)
Interest paid	(32 133)	(952)	(13 514)	(46 599)
Interest calculated	35 593	978	13 529	50 100
Currency translation difference	26 054	-	-	26 054
Amortisation of transaction costs and similar expenses	284	-	793	1 077
Set-off transactions with counterparties	(3 454)	-	-	(3 454)
Transaction costs and similar expenses	-	-	(101)	(101)
31.12.2021	679 412	36 225	219 281	934 918

GROUP

	Lease liabilities TEUR	Borrowings from the shareholder TEUR	Other borrowings TEUR	Loan from bank TEUR	Total TEUR
01.01.2020	582 169	36 188	202 061	2 806	823 224
New lease contracts	72 743	-	-	-	72 743
Interest calculated	33 645	573	13 500	137	47 855
Amortisation of transaction costs and similar expenses	285	-	794	15	1 094
Repayment, excluding interest payments	(60 394)	-	-	(233)	(60 627)
Interest paid	(33 943)	(562)	(13 500)	(137)	(48 142)
Currency translation difference	(24 392)	-	-	-	(24 392)
Set-off transactions with counterparties	(9 371)	-	-	-	(9 371)
31.12.2020	560 742	36 199	202 855	2 588	802 384
New lease contracts	158 779	-	-	-	158 779
New contracts	-	-	15 959	-	15 959
Interest calculated	35 593	978	13 529	123	50 223
Currency translation difference	26 054	-	-	-	26 054
Amortisation of transaction costs and similar expenses	284	-	793	1	1 078
Repayment, excluding interest payments	(66 453)	-	(240)	(415)	(67 108)
Interest paid	(32 133)	(952)	(13 514)	(121)	(46 720)
Set-off transactions with counterparties	(3 454)	-	-	-	(3 454)
Transaction costs and similar expenses	-	-	(101)	-	(101)
31.12.2021	679 412	36 225	219 281	2 176	937 094

NOTES

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	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Less than 1 year	85 067	66 444	87 244	69 032
Later than 1 year but not later than 5 years	504 090	412 323	504 089	412 323
Later than 5 years	345 761	321 029	345 761	321 029
TOTAL	934 918	799 796	937 094	802 384

Leases are payable as follows:

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Within one year	114 271	93 043	114 271	93 043
Later than 1 year but not later than 5 years	369 639	310 126	369 639	310 126
Later than 5 years	386 714	328 464	386 714	328 464
MINIMUM LEASE PAYMENTS	870 624	731 633	870 624	731 633
Future finance charges	(191 212)	(170 891)	(191 212)	(170 891)
RECOGNISED AS A LIABILITY	679 412	560 742	679 412	560 742

The present value of lease liabilities is as follows:

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Within one year	77 329	60 690	77 329	60 690
Later than 1 year but not later than 5 years	261 764	215 164	261 764	215 164
Later than 5 years	340 319	284 888	340 319	284 888
MINIMUM LEASE PAYMENTS	679 412	560 742	679 412	560 742

During 2021 and 2020 the Group has complied with the financial covenants of its borrowing facilities. Please see Note 2 b) for more on the Group's expectations on meeting the financial covenants for next 12 month.

Information on pledged assets is disclosed in the Note 33 (a).

NOTES

28. PROVISIONS

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Non-current				
Provision for onerous contracts	9 474	32 822	9 474	32 822
Aircraft redelivery provision	14 527	10 381	14 527	10 381
Provision for legal disputes (see Note 33 (b))	11 813	11 500	11 813	11 500
	35 814	54 703	35 814	54 703
Current				
Provision for carbon emissions	11 287	5 586	11 287	5 586
Provision for onerous contracts	23 512	-	23 512	-
	34 799	5 586	34 799	5 586
TOTAL	70 613	60 289	70 613	60 289

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

AIR BALTIC AND THE GROUP	Provision for onerous contracts TEUR	Aircraft redelivery provision TEUR	Provision for legal disputes TEUR	Provision for carbon emissions TEUR	Other TEUR	Total TEUR
01.01.2020	-	19 752	-	4 605	255	24 612
Charged to Income statement – additional provisions recognised	22 725	-	11 500	5 501	-	39 726
Reclassification	10 097	(10 097)	-	-	-	-
Additional provision charged to PPE	-	1 748	-	-	-	1 748
Amounts used during the year	-	(1 022)	-	(4 520)	(255)	(5 797)
31.12.2020	32 822	10 381	11 500	5 586	-	60 289
Additional provision charged to PPE	-	4 146	-	-	-	4 146
Charged to Income statement – additional provisions recognised	3 715	-	313	5 786	-	9 814
Free allowance of CO2 emissions	-	-	-	7 256	-	7 256
Amounts used during the year	(3 551)	-	-	(7 341)	-	(10 892)
31.12.2021	32 986	14 527	11 813	11 287	-	70 613

Provision for onerous contracts

Following the Management decision of phasing out the Bombardier Q400 aircraft the provision for onerous lease contracts was established. The provision is made by discounting the unavoidable costs related to the lease contracts, such as redelivery costs, maintenance costs and other. The balance of the provision previously recognised for the aircraft maintenance was reclassified to the provision for onerous contracts after the Management decision in 2020.

Aircraft redelivery provision

Long-term aircraft redelivery provisions are expected to be settled in 2030 – 2033.

Provision for legal disputes

The Parent company has created a provision for historic claims

related to ex-shareholders and their creditors about their obligations towards the Parent company and the Republic of Latvia back in 2011 and 2012. These provisions have been made due to prolonged procedural complexities triggering restart one of the cases. Legal advisors are of the opinion that there are strong grounds that the airline can successfully defend its position.

The airline has also created a provision for potential loss from the settlement with some of its suppliers.

Current financial statements fairly reflect the potential outcome of the litigation and to the extent necessary the Management has made the provision.

Provision for carbon emissions

The provision represents the costs of the industry carbon dioxide (CO2) emissions scheme.

NOTES

29. TRADE AND OTHER PAYABLES

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Accrued liabilities	22 002	19 569	24 924	20 025
Trade payables	17 000	11 024	12 976	7 247
Other payables	54	430	64	73
TOTAL	39 056	31 023	37 964	27 345

30. TAX LIABILITIES

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Non-current				
Social insurance contributions	4 488	3 225	4 616	3 385
Personal income tax	2 083	1 402	2 150	1 452
TOTAL	6 571	4 627	6 766	4 837
Current				
Social insurance contributions	4 050	1 534	4 489	1 660
Personal income tax	2 376	30	2 638	392
Other	1	-	5	43
TOTAL	6 427	1 564	7 132	2 095

The Group companies have used the tax relieves related to the mitigation of the COVID-19 crisis by deferring the tax payments. Non-current tax liabilities are payable by April 2024.

31. CONTRACT LIABILITIES AND AIRPORT TAXES

	AIR BALTIC		GROUP	
	31.12.2021 TEUR	31.12.2020 TEUR	31.12.2021 TEUR	31.12.2020 TEUR
Contract liabilities (unearned revenue) from ticket revenue and travel vouchers	32 771	20 830	32 771	20 830
The amount of airport taxes collected	5 346	5 122	5 346	5 122
Deferred income from loyalty program revenue	825	-	825	606
Other	-	-	42	14
TOTAL	38 942	25 952	38 984	26 572

Contract liabilities represent the value of tickets and airport taxes paid by passengers for which the flight service is yet to be performed. It also includes the value of loyalty program points sold, but not yet redeemed and the value of travel vouchers (see Note 2 f).

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

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Passenger revenue	2 046	15 222	2 046	15 222
Revenue from loyalty program	222	-	48	220

NOTES

32. RELATED PARTY AND GOVERNMENT RELATED PARTY TRANSACTIONS

The Parent company has received a loan from its shareholders. Please see Note 27.

During 2021 the Parent company has performed the following transactions with its 100% owned subsidiaries:

Related party		Services provided TEUR	Services received TEUR	Amounts owed by related parties TEUR	Amounts owed to related parties TEUR
Aviation Crew Resources AS	2021 /31.12.2021	43	20 186	228	6 214
	2020 /31.12.2020	43	26 827	238	5 098
Baltijas Kravu Centrs SIA	2021 /31.12.2021	149	483	479	177
	2020 /31.12.2020	135	135	300	26
Air Baltic Training SIA	2021 /31.12.2021	487	478	2 455	-
	2020 /31.12.2020	667	302	2 266	-
Loyalty Services SIA	2021 /31.12.2021	75	500	-	-
	2020 /31.12.2020	187	1 101	31	1 285
TOTAL	2021 /31.12.2021	754	21 647	3 162	6 391
TOTAL	2020 /31.12.2020	1 032	28 365	2 835	6 409

The following table provides the information on dividends received and receivable:

		Dividends received TEUR	Amounts owed by related parties TEUR
Aviation Crew Resources AS	2021 /31.12.2021	219	-
	2020 /31.12.2020	18	18
Baltijas Kravu Centrs SIA	2021 /31.12.2021	-	284
	2020 /31.12.2020	-	284
TOTAL	2021 /31.12.2021	219	284
TOTAL	2020 /31.12.2020	18	302

The Parent company has entered into transactions with Ministry of Transport of the Republic of Latvia (the holder of 94.14% of the Parent company's shares) and with other state-owned companies. The major transactions were carried out with RIGA International airport (purchase of airport infrastructure capacity and collection of passenger duty payments) amounting to EUR 7 million (2020: EUR 7.1 million) and VAS Latvijas Gaisa Satiksme (purchase of navigation service) amounting to EUR 1.4 million (2020: EUR 1.1

million). The agreements with both companies for the services described were effective at the end of each reporting year. The nature of transactions with other government related entities are related to the operating activities of the Group companies, e.g. sale of ticket, purchase of electricity, etc.

The following balances are outstanding at the end of the reporting years in relation to transactions with the Government related parties:

	AIR BALTIC		GROUP	
	2021 TEUR	2020 TEUR	2021 TEUR	2020 TEUR
Payables to RIGA International airport	1 422	1 025	1 424	1 026
Payables to VAS Latvijas Gaisa Satiksme	161	93	161	93

The Group applies IAS 24 exemption and discloses only the material transactions with the Government related parties.

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

33. COMMITMENTS AND CONTINGENCIES

(a) Guarantees and pledges

The Parent company has pledged its current and future trademarks, its current and future rights for claims to the Ministry of Finance as security for the loans received (see Note 27). The book value of assets pledged as at 31 December 2021 was EUR 35.5 million (31 December 2020: EUR 25.5 million). Additionally, the Parent company has registered a mortgage on its aircraft maintenance hangar in favour of the Ministry of Finance. The book value of the maintenance hangar as at 31 December 2021 was EUR 5 million (31 December 2020: EUR 5.1 million). The Parent company has also established a financial collateral for the benefit of the Ministry of Finance - 3-year deposit with a bank incorporated in Latvia in the amount of EUR 16.5 million.

The Parent company has pledged the shares of its subsidiary Baltijas Kravu Centrs SIA, the real estate (except aircraft maintenance hangar) and other assets of the Parent company (except trademarks and current and future rights for claims) to a bank incorporated in Latvia. The book value of the pledge as at 31 December 2021 was EUR 36.6 million (31 December 2020: EUR 38 million). The bank operated as a credit card acquirer for the Parent company's e-commerce transactions by 31 December 2019. Although the agreement ended 31 December 2019, due to COVID-19 pandemic many customers who bought their tickets before 31 December 2019 and whose flights were cancelled selected travel vouchers instead of monetary refund. It is expected that the travel vouchers will be used beyond 2021, hence pledges will be gradually released during the coming years.

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 2021 was EUR 685 million (31 December 2020: 585 million).

A Group company has pledged its Property, plant and equipment and intangible assets for the total amount of EUR 5 225 thousand to a bank incorporated in Latvia as security for the loan received (see Note 27). The pledge agreement is effective until complete fulfilment of the loan agreement. The Parent company has issued a guarantee for the full amount of the loan.

(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.

AB flyLAL-Lithuanian Airlines

In 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. 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 2021 the Court of Appeal passed a judgment rejecting all claims against the Parent company. The court decision is not yet final and binding as it has been appealed by FlyLAL and its shareholders.

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 2019. At the beginning of 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, was related to former shareholders of the Parent company and had provided funding to the Parent company of EUR 5 million in 2011. Taurus lost any claims, including specifically EUR 5 million claim, against the Parent company when it and other former shareholders and creditors failed to honour the agreement with the Government of Latvia under the agreement dated 3 October 2011 on restructuring and financing of the Parent company. The courts have ruled in favour of the Parent company and the Latvian Government in an equivalent case arising from the agreement dated 3 October 2011 on restructuring and financing of the Parent company against one of the creditors.

SIA Eurobalt Junipro (“Eurobalt”) claims that it has taken over claims from Taurus and 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 Parent company and the Latvian Government 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.

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. The next court hearing is scheduled in September 2022 at the court of appeals.

Ryanair v. European Commission

In response to the COVID-19 pandemic, many European governments supported airlines with state aid through recapitalizations, loans, loan guarantees and other measures. The support has been provided in line with Temporary Framework on State aid measures to support the economy during the COVID-19 outbreak adopted by the European Commission (“Temporary Framework”) and in line with Article 107(2)b of the Treaty on the Function of the European Union

On 3 July 2020 the European Commission approved a EUR 250 million Latvian measure to recapitalize airBaltic in the context of the coronavirus outbreak. The aid was approved under the Temporary Framework. The Commission concluded that the recapitalisation measure will contribute to managing the economic impact of the coronavirus outbreak in Latvia, that it is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the conditions set out in the Temporary Framework. On 16 December 2020, Ryanair brought an action for annulment of that decision

before the General Court of the European Union (case T-337/2). The action was published on 29 January 2021 in the Official Journal of the European Union. The Latvian government and airBaltic intervened in that action to support the Commission’s decision. This case is one of a series of cases lodged with the General Court by Ryanair, challenging public support granted to its competitors. Out of about ten cases already judged, the General Court annulled three Commission decisions for failure to state reasons (T-665/20, T-643/20 and T-465/20). In these cases, the General Court has suspended the effect of the annulment, until the Commission takes a new decision, “correcting” its first decisions. The other cases have been dismissed and are now in appeal before the European Court of Justice.

On 21 December 2021, the European Commission approved a EUR 45 million Latvian measure to compensate for the damage incurred by Air Baltic AS between 16 March and 15 June 2020 due to the coronavirus outbreak. The measure took the form of a capital injection. The European Commission found that the measure notified by Latvia is in line with the conditions set out in Article 107(2)(b) of the Treaty on the Functioning of the European Union which enables the European Commission to approve State aid measures granted by Member States to compensate specific companies or sectors for the damage directly caused by exceptional occurrences, such as the coronavirus outbreak. It is not excluded that Ryanair would challenge that decision before the General Court of the European Union, as it did against the decision of the Commission of 3 July 2020 approving a EUR 250 million recapitalization aid as well as against other decisions approving COVID-19 support to its competitors in various countries.

34. COMMITMENTS

In May 2018, airBaltic ordered 30 firm deliveries for Airbus A220-300. The aggregate list price for the aircraft to be delivered in 2022 and future years is above EUR 1.4 billion.

As at 31 December 2021 Air Baltic Training SIA had a contractual liabilities relating to the acquisition of 1 Diamond DA40NG aircraft. The aggregate list price for the aircraft around EUR 0.5 million.

35. IMPACT OF COVID-19

The Company and the Group are continuously monitoring COVID-19 pandemic developments and amending where necessary their short term operating plans accordingly. Impact of COVID-19 has been significant on the Company and the Group and the impact has been disclosed Note 2 b) Going concern and Note 16. The Company’s and the Group’s performance will depend, largely, on the continued duration and spread of the pandemic and ultimately on the extent of the current and future travel advisories and restrictions (see Note 2b). It is not possible to reliably estimate the full future impact of COVID-19 due to the uncertainties described in these Financial statements.

36. SUBSEQUENT EVENTS

In February of 2022, with Russia's military invasion of Ukraine and subsequent closure of both Russian and Ukrainian airspace, the airline had to discontinue its operations to both of these countries. Approximately 10% of the passengers were expected to come from these two markets in 2022, and therefore, the war in Ukraine has material impact on the airline's expected performance. To adjust the airline's management has decided to reallocate its capacity to other destination and ACMI operations. The impact of the war in Ukraine is difficult to assess due to the potential second order effects such as impact on the jet fuel price and the demand for travel to the Baltic states due to potential security concerns. Further analysis of the scenarios and the impact of the Ukraine war is included in the Note 2 (b). The Parent company and the Group

considers that these are non-adjusting subsequent events, which are not considered for valuation of assets and liabilities as at 31 December 2021. However, the Parent company and the Group took into account these events for assessment of the application of the going concern principle on preparation of these financial statements.

The increase in the share capital of the Parent company was registered in the Register of Enterprises in January 2022, as a result the Government increased its stake up to 97.03%.

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 2021 and should be reflected in this report.

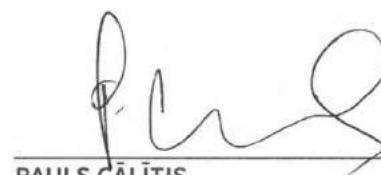
The financial statements set out on pages 100 to 150 were signed on 4 April 2022 by:



MARTIN ALEXANDER GAUSS
Chairman of the Executive Board



VITOLDS JAKOVĻEVS
Member of the Executive Board



PAULS ČALĪTIS
Member of the Executive Board

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



ANDA LĪCE
Chief Accountant